

NOCLAR—Comparative Analysis: Proposed Section 225 vs ISA 250¹

[Note: This comparative analysis has been updated based on the text of proposed Section 225 that IESBA approved for re-exposure at its April 2015 meeting.]

Proposed Section 225 (S225)	ISA 250	Comments
Purpose 225.1 In the course of providing a professional service to a client, a professional accountant in public practice may come across non-compliance or suspected non-compliance with laws and regulations. The purpose of this section is to guide the professional accountant in assessing the implications of such non-compliance and the possible courses of action in responding to it.	Scope of this ISA 1. This International Standard on Auditing (ISA) deals with the auditor's responsibility to consider laws and regulations in an audit of financial statements. This ISA does not apply to other assurance engagements in which the auditor is specifically engaged to test and report separately on compliance with specific laws or regulations.	Differences in introduction reflect the different contexts and objectives of the Code and the ISAs.
225.3 A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest. When responding to non-compliance or suspected non-compliance with laws and regulations, the objectives of the professional accountant are: (a) To comply with the fundamental principles of integrity and professional behavior;	Objectives 10. The objectives of the auditor are: (a) To obtain sufficient appropriate audit evidence regarding compliance with the provisions of those laws and regulations generally recognized to have a direct effect on the determination of material amounts and disclosures in the financial statements;	The different objectives serve the different purposes of the Code and the ISAs.

¹ This is subject to further consideration by the IAASB.

Proposed Section 225 (S225)	ISA 250	Comments
<p>(b) By alerting management or, where appropriate, those charged with governance of the client, to seek to:</p> <p>(i) Enable them to rectify, remediate or mitigate the consequences of the identified or suspected non-compliance; or</p> <p>(ii) Deter the commission of the non-compliance where it has not yet occurred; and</p> <p>(c) To take such further action as may be needed in the public interest.</p>	<p>(b) To perform specified audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial statements; and</p> <p>(c) To respond appropriately to non-compliance or suspected non-compliance with laws and regulations identified during the audit.</p>	
<p>225.4 What constitutes the public interest will depend on:</p> <p>(a) The facts and circumstances of the non-compliance or suspected non-compliance; and</p> <p>(b) The nature and extent of the immediate or ongoing consequences to the client, investors, creditors, employees or the wider public.</p>	<p>–</p>	<p>Specific to proposed S225.</p>
<p>Scope</p> <p>225.5 This section addresses:</p> <p>(a) Laws and regulations generally recognized to have a direct effect on the determination of material amounts and</p>	<p>6. This ISA distinguishes the auditor's responsibilities in relation to compliance with two different categories of laws and regulations as follows:</p>	<p>Same description of the scope of laws and regulations addressed. However, the presentation of the examples of laws and regulations in the ISA 250 scope description has not</p>

Proposed Section 225 (S225)	ISA 250	Comments
<p>disclosures in the client's financial statements; and</p> <p>(b) Other laws and regulations that do not have a direct effect on the determination of the amounts and disclosures in the client's financial statements, but compliance with which may be fundamental to the operating aspects of the client's business, to its ability to continue its business, or to avoid material penalties.</p>	<p>(a) The provisions of those laws and regulations generally recognized to have a direct effect on the determination of material amounts and disclosures in the financial statements such as tax and pension laws and regulations (see paragraph 13); and</p> <p>(b) Other laws and regulations that do not have a direct effect on the determination of the amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operating aspects of the business, to an entity's ability to continue its business, or to avoid material penalties (for example, compliance with the terms of an operating license, compliance with regulatory solvency requirements, or compliance with environmental regulations); non-compliance with such laws and regulations may therefore have a material effect on the financial statements (see paragraph 14).</p>	<p>been replicated in proposed S225 scope description to avoid giving the impression that S225 is focused on audits of financial statements.</p> <p>Paragraph 225.6 provides a more general list of examples of laws and regulations addressed (see below). These laws and regulations will be relevant where they meet the description under 225(a) or (b).</p>
<p>225.6 Examples of laws and regulations which this section addresses include those that deal with:</p> <ul style="list-style-type: none"> • Fraud, corruption and bribery. • Money laundering, terrorist financing and proceeds of crime. 	<p>A8. Certain laws and regulations are well-established, known to the entity and within the entity's industry or sector, and relevant to the entity's financial statements (as described in paragraph 6(a)). They could include those that relate to, for example:</p>	<p>See comment above.</p>

Proposed Section 225 (S225)	ISA 250	Comments
<ul style="list-style-type: none"> • Securities markets and trading. • Banking and other financial products and services. • Tax and pension liabilities and payments. • Environmental protection. • Public health and safety. 	<ul style="list-style-type: none"> • The form and content of financial statements; • Industry-specific financial reporting issues; • Accounting for transactions under government contracts; or • The accrual or recognition of expenses for income tax or pension costs. <p>Some provisions in those laws and regulations may be directly relevant to specific assertions in the financial statements (for example, the completeness of income tax provisions), while others may be directly relevant to the financial statements as a whole (for example, the required statements constituting a complete set of financial statements). The aim of the requirement in paragraph 13 is for the auditor to obtain sufficient appropriate audit evidence regarding the determination of amounts and disclosures in the financial statements in compliance with the relevant provisions of those laws and regulations.</p> <p>Non-compliance with other provisions of such laws and regulations and other laws and regulations may result in fines, litigation or other consequences for the entity, the costs of which may need to be provided for</p>	

Proposed Section 225 (S225)	ISA 250	Comments
	<p>in the financial statements, but are not considered to have a direct effect on the financial statements as described in paragraph 6(a).</p> <p>A9. Certain other laws and regulations may need particular attention by the auditor because they have a fundamental effect on the operations of the entity (as described in paragraph 6(b)). Non-compliance with laws and regulations that have a fundamental effect on the operations of the entity may cause the entity to cease operations, or call into question the entity's continuance as a going concern. For example, non-compliance with the requirements of the entity's license or other entitlement to perform its operations could have such an impact (for example, for a bank, non-compliance with capital or investment requirements). There are also many laws and regulations relating principally to the operating aspects of the entity that typically do not affect the financial statements and are not captured by the entity's information systems relevant to financial reporting.</p>	
<p>225.7 Non-compliance with those laws and regulations may result in fines, litigation or other consequences for the client that may have a material effect on its financial statements.</p>	<p>Effect of Laws and Regulations</p> <p>2. The effect on financial statements of laws and regulations varies considerably. Those laws and regulations to which an entity is subject</p>	<p>ISA 250 focuses on the impact of non-compliance on the financial statements.</p>

Proposed Section 225 (S225)	ISA 250	Comments
<p>Importantly, such non-compliance may have wider public interest implications in terms of potentially substantial harm to the wider public, including investors, creditors or employees. Examples include the perpetration of a fraud resulting in significant financial losses to investors, and breaches of environmental laws and regulations endangering the health or safety of employees or the public.</p>	<p>constitute the legal and regulatory framework. The provisions of some laws or regulations have a direct effect on the financial statements in that they determine the reported amounts and disclosures in an entity's financial statements. Other laws or regulations are to be complied with by management or set the provisions under which the entity is allowed to conduct its business but do not have a direct effect on an entity's financial statements. Some entities operate in heavily regulated industries (such as banks and chemical companies). Others are subject only to the many laws and regulations that relate generally to the operating aspects of the business (such as those related to occupational safety and health, and equal employment opportunity). Non-compliance with laws and regulations may result in fines, litigation or other consequences for the entity that may have a material effect on the financial statements.</p>	<p>This will apply equally for purposes of the Code given the need for auditors to have regard to the consequences for the entity. However, the Code's focus also goes beyond the impact on the financial statements to considerations of the wider public implications of the matter.</p>
<p>225.2 Non-compliance with laws and regulations comprises acts of omission or commission, intentional or unintentional, committed by a client, or by those charged with governance, management or employees of a client which are contrary to the prevailing laws or regulations.</p>	<p>Definition</p> <p>11. For the purposes of this ISA, the following term has the meaning attributed below:</p> <p>Non-compliance – Acts of omission or commission by the entity, either intentional or unintentional, which are contrary to the prevailing laws or regulations. Such acts include transactions entered into by, or in the</p>	<p>The IESBA definition is broader as it addresses personal acts. The ISA definition addresses only acts of omission or commission by the entity.</p> <p>The difference arises because of the different scopes of the Code and the ISAs.</p>

Proposed Section 225 (S225)	ISA 250	Comments
	name of, the entity, or on its behalf, by those charged with governance, management or employees.	
225.8 This section does not address: (a) Matters that are clearly inconsequential, judged by their nature and their impact, financial or otherwise, on the client, its stakeholders or the wider public;	–	Implicit in the ISAs in that they deal only with material matters.
(b) Personal misconduct unrelated to the business activities of the client; and	Non-compliance does not include personal misconduct (unrelated to the business activities of the entity) by those charged with governance, management or employees of the entity.	Equivalent.
(c) Non-compliance with laws and regulations committed by persons other than the client, those charged with governance, management or employees of the client. The professional accountant may nevertheless find the guidance in this section helpful in considering how to respond in these situations.	–	Specific to the Code.
225.14 The professional accountant is expected to apply knowledge, judgment and expertise, but is not expected to have detailed knowledge of laws and regulations beyond that which is required for the audit. Nevertheless, the auditor's training, experience and understanding of the entity and its industry or sector may provide a basis to recognize that some acts, coming to the	The ISA guidance is generally focused on the audit process. It is not repeated in proposed S225.

Proposed Section 225 (S225)	ISA 250	Comments
	auditor's attention, may constitute non-compliance with laws and regulations.	
Whether an act constitutes actual non-compliance is ultimately a matter for determination by an appropriate legal or adjudicative body. ...	<p>5. ... Whether an act constitutes non-compliance is ultimately a matter for legal determination by a court of law.</p> <p>A4. Whether an act constitutes non-compliance with laws and regulations is a matter for legal determination, which is ordinarily beyond the auditor's professional competence to determine. ...</p>	Equivalent.
... Depending on the nature and significance of the matter, the professional accountant may consult on a confidential basis with others within the firm, a network firm, a relevant professional body, or legal counsel.	A16. If management or, as appropriate, those charged with governance do not provide sufficient information to the auditor that the entity is in fact in compliance with laws and regulations, the auditor may consider it appropriate to consult with the entity's in-house legal counsel or external legal counsel about the application of the laws and regulations to the circumstances, including the possibility of fraud, and the possible effects on the financial statements. If it is not considered appropriate to consult with the entity's legal counsel or if the auditor is not satisfied with the legal counsel's opinion, the auditor may consider it appropriate to consult the auditor's own legal counsel as to whether a contravention of a law or regulation is involved, the possible legal consequences,	The ISA guidance is more focused on the audit process and consideration of the impact on the financial statements. It is not repeated in proposed S225.

Proposed Section 225 (S225)	ISA 250	Comments
	including the possibility of fraud, and what further action, if any, the auditor would take.	
Responsibilities of the Client's Management and Those Charged with Governance 225.9 It is the responsibility of the client's management, with the oversight of those charged with governance, to ensure that the client's business activities are conducted in accordance with laws and regulations. ...	Responsibility for Compliance with Laws and Regulations (Ref: Para. A1–A6) 3. It is the responsibility of management, with the oversight of those charged with governance, to ensure that the entity's operations are conducted in accordance with the provisions of laws and regulations, including compliance with the provisions of laws and regulations that determine the reported amounts and disclosures in an entity's financial statements. A1. It is the responsibility of management, with the oversight of those charged with governance, to ensure that the entity's operations are conducted in accordance with laws and regulations. ...	Equivalent. (Note: S225 refers to "client" because the Code deals with clients that are individuals, not only entities.)
... It is also the responsibility of management and those charged with governance to identify and address any non-compliance with laws and regulations by the client or by those charged with governance, management or employees of the client.	–	Serves the specific purposes of the proposed NOCLAR Standard, i.e., to highlight that management/TCWG represent the first line of defense against non-compliance, and that they have first responsibility to deal with it.

Proposed Section 225 (S225)	ISA 250	Comments
	<p>... Laws and regulations may affect an entity's financial statements in different ways: for example, most directly, they may affect specific disclosures required of the entity in the financial statements or they may prescribe the applicable financial reporting framework. They may also establish certain legal rights and obligations of the entity, some of which will be recognized in the entity's financial statements. In addition, laws and regulations may impose penalties in cases of non-compliance.</p>	<p>This guidance is focused on the audit of the financial statements. It is not repeated in proposed S225.</p>
	<p>A2. The following are examples of the types of policies and procedures an entity may implement to assist in the prevention and detection of non-compliance with laws and regulations:</p> <ul style="list-style-type: none"> • Monitoring legal requirements and ensuring that operating procedures are designed to meet these requirements. • Instituting and operating appropriate systems of internal control. • Developing, publicizing and following a code of conduct. • Ensuring employees are properly trained and understand the code of conduct. 	<p>More detailed guidance in the ISA, which is appropriate in a process context. This guidance is not repeated in proposed S225.</p>

Proposed Section 225 (S225)	ISA 250	Comments
	<ul style="list-style-type: none"> Monitoring compliance with the code of conduct and acting appropriately to discipline employees who fail to comply with it. Engaging legal advisors to assist in monitoring legal requirements. Maintaining a register of significant laws and regulations with which the entity has to comply within its particular industry and a record of complaints. <p>In larger entities, these policies and procedures may be supplemented by assigning appropriate responsibilities to the following:</p> <ul style="list-style-type: none"> An internal audit function. An audit committee. A compliance function. 	
<p>Responsibilities of Professional Accountants Performing Audits of Financial Statements</p> <p><i>Complying with Applicable Laws and Regulations</i></p> <p>225.10 In some jurisdictions, there are legal or regulatory provisions governing how professional accountants should address non-compliance or suspected non-compliance with laws and regulations. The professional accountant shall</p>	<p><i>Reporting Non-Compliance to Regulatory and Enforcement Authorities</i></p> <p>28. If the auditor has identified or suspects non-compliance with laws and regulations, the auditor shall determine whether the auditor has a responsibility to report the identified or suspected non-compliance to parties outside the entity. (Ref: Para. A19–A20)</p>	<p>Proposed S225 is focused on requiring the auditor to <i>understand</i> the relevant legal or regulatory requirements and to comply with them. Serves the specific purposes of the proposed NOCLAR standard, i.e., to stimulate increased incidence of compliance by</p>

Proposed Section 225 (S225)	ISA 250	Comments
obtain an understanding of those provisions and comply with them, ...		auditors with legal or regulatory reporting requirements. ISA 250 focused more narrowly on determining whether there is a reporting obligation on the auditor.
... including any prohibitions on alerting (“tipping-off”) the client prior to making any disclosure, for example, pursuant to anti-money laundering legislation.	–	Serves the specific purposes of the proposed NOCLAR standard, i.e., auditor’s compliance with laws and regulations to avoid breaching fundamental principle of professional behavior.
	A19. The auditor’s professional duty to maintain the confidentiality of client information may preclude reporting identified or suspected non-compliance with laws and regulations to a party outside the entity. However, the auditor’s legal responsibilities vary by jurisdiction and, in certain circumstances, the duty of confidentiality may be overridden by statute, the law or courts of law. In some jurisdictions, the auditor of a financial institution has a statutory duty to report the occurrence, or suspected occurrence, of non-compliance with laws and regulations to supervisory authorities. Also, in some jurisdictions, the auditor has a duty to report	Consideration to be given by IAASB as to whether conforming changes are needed to eliminate potential inconsistency with proposed S225 re override of duty of confidentiality under the IESBA Code in certain circumstances.

Proposed Section 225 (S225)	ISA 250	Comments
	<p>misstatements to authorities in those cases where management and, where applicable, those charged with governance fail to take corrective action. The auditor may consider it appropriate to obtain legal advice to determine the appropriate course of action.</p> <p>Considerations Specific to Public Sector Entities</p> <p>A20. A public sector auditor may be obliged to report on instances of non-compliance to the legislature or other governing body or to report them in the auditor's report.</p>	
	<p><i>Responsibility of the Auditor</i></p> <p>4. The requirements in this ISA are designed to assist the auditor in identifying material misstatement of the financial statements due to non-compliance with laws and regulations. However, the auditor is not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.</p> <p>A3. Non-compliance by the entity with laws and regulations may result in a material misstatement of the financial statements. Detection of non-compliance, regardless of materiality, may affect other aspects of the audit including, for example, the auditor's consideration of the integrity of management or employees.</p>	<p>This explanatory material is focused on the audit of the financial statements. It is not repeated in proposed S225.</p>

Proposed Section 225 (S225)	ISA 250	Comments
	<p>A5. In accordance with specific statutory requirements, the auditor may be specifically required to report, as part of the audit of the financial statements, on whether the entity complies with certain provisions of laws or regulations. In these circumstances, ISA 700² or ISA 800³ deal with how these audit responsibilities are addressed in the auditor's report. Furthermore, where there are specific statutory reporting requirements, it may be necessary for the audit plan to include appropriate tests for compliance with these provisions of the laws and regulations.</p> <p>Considerations Specific to Public Sector Entities</p> <p>A6. In the public sector, there may be additional audit responsibilities with respect to the consideration of laws and regulations which may relate to the audit of financial statements or may extend to other aspects of the entity's operations.</p>	
	<p>The Auditor's Consideration of Compliance with Laws and Regulations</p> <p>12. As part of obtaining an understanding of the entity and its environment in accordance with</p>	<p>The requirements and guidance here are focused on the audit of the financial statements. They are not repeated in proposed S225.</p>

² ISA 700, *Forming an Opinion and Reporting on Financial Statements*, paragraph 38

³ ISA 800 *Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*, paragraph 11

Proposed Section 225 (S225)	ISA 250	Comments
	<p>ISA 315,⁴ the auditor shall obtain a general understanding of:</p> <p>(a) The legal and regulatory framework applicable to the entity and the industry or sector in which the entity operates; and</p> <p>(b) How the entity is complying with that framework. (Ref: Para. A7)</p> <p>A7. To obtain a general understanding of the legal and regulatory framework, and how the entity complies with that framework, the auditor may, for example:</p> <ul style="list-style-type: none"> • Use the auditor's existing understanding of the entity's industry, regulatory and other external factors; • Update the understanding of those laws and regulations that directly determine the reported amounts and disclosures in the financial statements; • Inquire of management as to other laws or regulations that may be expected to have a fundamental effect on the operations of the entity; • Inquire of management concerning the entity's policies and procedures 	

⁴ ISA 315, *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*, paragraph 11

Proposed Section 225 (S225)	ISA 250	Comments
	<p>regarding compliance with laws and regulations; and</p> <ul style="list-style-type: none"> • Inquire of management regarding the policies or procedures adopted for identifying, evaluating and accounting for litigation claims. <p>13. The auditor shall obtain sufficient appropriate audit evidence regarding compliance with the provisions of those laws and regulations generally recognized to have a direct effect on the determination of material amounts and disclosures in the financial statements. (Ref: Para. A8)</p> <p>14. The auditor shall perform the following audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial statements: (Ref: Para. A9–A10)</p> <ul style="list-style-type: none"> (a) Inquiring of management and, where appropriate, those charged with governance, as to whether the entity is in compliance with such laws and regulations; and (b) Inspecting correspondence, if any, with the relevant licensing or regulatory authorities. <p>A10. As the financial reporting consequences of other laws and regulations can vary</p>	

Proposed Section 225 (S225)	ISA 250	Comments
	<p>depending on the entity's operations, the audit procedures required by paragraph 14 are directed to bringing to the auditor's attention instances of non-compliance with laws and regulations that may have a material effect on the financial statements.</p>	
	<p>15. During the audit, the auditor shall remain alert to the possibility that other audit procedures applied may bring instances of non-compliance or suspected non-compliance with laws and regulations to the auditor's attention. (Ref: Para. A11)</p> <p>A11. Audit procedures applied to form an opinion on the financial statements may bring instances of non-compliance or suspected non-compliance with laws and regulations to the auditor's attention. For example, such audit procedures may include:</p> <ul style="list-style-type: none"> • Reading minutes; • Inquiring of the entity's management and in-house legal counsel or external legal counsel concerning litigation, claims and assessments; and • Performing substantive tests of details of classes of transactions, account balances or disclosures. <p>16. The auditor shall request management and, where appropriate, those charged with</p>	<p>The requirements and guidance here are focused on the audit of the financial statements. They are not repeated in proposed S225.</p>

Proposed Section 225 (S225)	ISA 250	Comments
	<p>governance, to provide written representations that all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements have been disclosed to the auditor. (Ref: Para. A12)</p> <p>A12. Because the effect on financial statements of laws and regulations can vary considerably, written representations provide necessary audit evidence about management's knowledge of identified or suspected non-compliance with laws and regulations, whose effects may have a material effect on the financial statements. However, written representations do not provide sufficient appropriate audit evidence on their own and, accordingly, do not affect the nature and extent of other audit evidence that is to be obtained by the auditor.⁵</p> <p>17. In the absence of identified or suspected non-compliance, the auditor is not required to perform audit procedures regarding the entity's compliance with laws and regulations, other than those set out in paragraphs 12–16.</p>	

⁵ ISA 580, *Written Representations*, paragraph 4

Proposed Section 225 (S225)	ISA 250	Comments
<p><i>Obtaining an Understanding of the Matter</i></p> <p>225.11 If, in the course of performing an audit of financial statements, the professional accountant becomes aware of information concerning an instance of non-compliance or suspected non-compliance with laws and regulations, the professional accountant shall obtain an understanding of the matter, including:</p> <ul style="list-style-type: none"> • The nature of the act and the circumstances in which it has occurred or may occur; and • The application of the relevant laws and regulations to the circumstances. 	<p>Audit Procedures When Non-Compliance Is Identified or Suspected</p> <p>18. If the auditor becomes aware of information concerning an instance of non-compliance or suspected non-compliance with laws and regulations, the auditor shall obtain: (Ref: Para. A13)</p> <ul style="list-style-type: none"> (a) An understanding of the nature of the act and the circumstances in which it has occurred; and (b) Further information to evaluate the possible effect on the financial statements. (Ref: Para. A14) 	<p>The scope of the understanding is slightly wider in S225 (application of relevant laws and regulations) to serve the particular purposes of the Code, i.e., to understand the potential consequences of the non-compliance in a broad sense and not only with respect to the possible effect on the financial statements.</p>
	<p><i>Matters Relevant to the Auditor's Evaluation</i> (Ref: Para. 18(b))</p> <p>A14. Matters relevant to the auditor's evaluation of the possible effect on the financial statements include:</p> <ul style="list-style-type: none"> • The potential financial consequences of non-compliance with laws and regulations on the financial statements including, for example, the imposition of fines, penalties, damages, threat of expropriation of assets, enforced discontinuation of operations, and litigation. 	<p>This guidance is focused on the audit of the financial statements. It is not repeated in proposed S225.</p>

Proposed Section 225 (S225)	ISA 250	Comments
	<ul style="list-style-type: none"> Whether the potential financial consequences require disclosure. Whether the potential financial consequences are so serious as to call into question the fair presentation of the financial statements, or otherwise make the financial statements misleading. 	
	<p>A13. If the auditor becomes aware of the existence of, or information about, the following matters, it may be an indication of non-compliance with laws and regulations:</p> <ul style="list-style-type: none"> Investigations by regulatory organizations and government departments or payment of fines or penalties. Payments for unspecified services or loans to consultants, related parties, employees or government employees. Sales commissions or agent's fees that appear excessive in relation to those ordinarily paid by the entity or in its industry or to the services actually received. Purchasing at prices significantly above or below market price. 	<p>Guidance focused on the audit process, so appropriate for the ISAs and not repeated in proposed S225.</p>

Proposed Section 225 (S225)	ISA 250	Comments
	<ul style="list-style-type: none"> • Unusual payments in cash, purchases in the form of cashiers' checks payable to bearer or transfers to numbered bank accounts. • Unusual transactions with companies registered in tax havens. • Payments for goods or services made other than to the country from which the goods or services originated. • Payments without proper exchange control documentation. • Existence of an information system which fails, whether by design or by accident, to provide an adequate audit trail or sufficient evidence. • Unauthorized transactions or improperly recorded transactions. • Adverse media comment. 	
	<p>5. The auditor is responsible for obtaining reasonable assurance that the financial statements, taken as a whole, are free from material misstatement, whether caused by fraud or error.⁶ In conducting an audit of financial statements, the auditor takes into account the applicable legal and regulatory</p>	<p>Explanatory material focused on the audit of the financial statements. Not repeated in proposed S225.</p>

⁶ ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*, paragraph 5

Proposed Section 225 (S225)	ISA 250	Comments
	<p>framework. Owing to the inherent limitations of an audit, there is an unavoidable risk that some material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs.⁷ In the context of laws and regulations, the potential effects of inherent limitations on the auditor's ability to detect material misstatements are greater for such reasons as the following:</p> <ul style="list-style-type: none"> • There are many laws and regulations, relating principally to the operating aspects of an entity, that typically do not affect the financial statements and are not captured by the entity's information systems relevant to financial reporting. • Non-compliance may involve conduct designed to conceal it, such as collusion, forgery, deliberate failure to record transactions, management override of controls or intentional misrepresentations being made to the auditor. • ... <p>Ordinarily, the further removed non-compliance is from the events and</p>	

⁷ ISA 200, paragraphs A51-A52

Proposed Section 225 (S225)	ISA 250	Comments
	transactions reflected in the financial statements, the less likely the auditor is to become aware of it or to recognize the non-compliance.	
	7. In this ISA, differing requirements are specified for each of the above categories of laws and regulations. For the category referred to in paragraph 6(a), the auditor's responsibility is to obtain sufficient appropriate audit evidence regarding compliance with the provisions of those laws and regulations. For the category referred to in paragraph 6(b), the auditor's responsibility is limited to undertaking specified audit procedures to help identify non-compliance with those laws and regulations that may have a material effect on the financial statements.	Explanatory material focused on the audit of the financial statements. Not repeated in proposed S225.
	8. The auditor is required by this ISA to remain alert to the possibility that other audit procedures applied for the purpose of forming an opinion on financial statements may bring instances of identified or suspected non-compliance to the auditor's attention. Maintaining professional skepticism throughout the audit, as required by ISA 200, ⁸ is important in this context,	Explanatory material focused on the audit of the financial statements. Not repeated in proposed S225.

⁸ ISA 200, paragraph 15

Proposed Section 225 (S225)	ISA 250	Comments
	given the extent of laws and regulations that affect the entity.	
225.12 If the professional accountant suspects that non-compliance with laws and regulations has occurred or may occur, the professional accountant shall discuss the matter with the appropriate level of management and, where appropriate, those charged with governance.	19. If the auditor suspects there may be non-compliance, the auditor shall discuss the matter with management and, where appropriate, those charged with governance. ...	Same, except that proposed S225 also covers potential NOCLAR that may be committed.
225.13 Such discussion serves to clarify the professional accountant's understanding of the facts and circumstances relevant to the matter and its potential consequences. ...	<i>Audit Procedures</i> (Ref: Para. 19) A15. The auditor may discuss the findings with those charged with governance where they may be able to provide additional audit evidence. For example, the auditor may confirm that those charged with governance have the same understanding of the facts and circumstances relevant to transactions or events that have led to the possibility of non-compliance with laws and regulations.	Comparable effects.
... The information conveyed by the professional accountant may prompt management or those charged with governance to investigate the matter.	--	Serves specific purposes of the proposed NOCLAR standard, i.e., to have management address the matter in the first instance.
	<i>Reporting Non-Compliance to Those Charged with Governance</i>	Specific to ISA context re requirement to communicate

Proposed Section 225 (S225)	ISA 250	Comments
	<p>22. Unless all of those charged with governance are involved in management of the entity, and therefore are aware of matters involving identified or suspected non-compliance already communicated by the auditor,⁹ the auditor shall communicate with those charged with governance matters involving non-compliance with laws and regulations that come to the auditor's attention during the course of the audit, other than when the matters are clearly inconsequential.</p> <p>23. If, in the auditor's judgment, the non-compliance referred to in paragraph 22 is believed to be intentional and material, the auditor shall communicate the matter to those charged with governance as soon as practicable.</p>	with TCWG. Not repeated in proposed S225.
<p>225.15 The appropriate level of management with whom to discuss the matter is a question of professional judgment. Relevant factors to consider include:</p> <ul style="list-style-type: none"> • The nature and circumstances of the matter. • The individuals actually or potentially involved. • The likelihood of collusion. 		Serves specific purposes of the proposed NOCLAR standard, i.e., guidance to help the auditor address the NOCLAR from an ethical perspective.

⁹ ISA 260, *Communication with Those Charged with Governance*, paragraph 13

Proposed Section 225 (S225)	ISA 250	Comments
<ul style="list-style-type: none"> The potential consequences of the matter. Whether that level of management is able to investigate the matter and take appropriate action. 		
225.16 The appropriate level of management is generally at least one level above the person or persons involved or potentially involved in the matter. ...		Serves specific purposes of the proposed NOCLAR standard, i.e., guidance to help the auditor address the NOCLAR from an ethical perspective.
... If the professional accountant believes that management is involved in the non-compliance or suspected non-compliance, the professional accountant shall discuss the matter with those charged with governance. ...	24. If the auditor suspects that management or those charged with governance are involved in non-compliance, the auditor shall communicate the matter to the next higher level of authority at the entity, if it exists, such as an audit committee or supervisory board. ...	Equivalent.
... The professional accountant may also consider discussing the matter with internal auditors, where applicable. In the context of a group, the appropriate level may be management at an entity that controls the client.		Serves specific purposes of the proposed NOCLAR standard, i.e., guidance to help the auditor address the NOCLAR from an ethical perspective.
<p><i>Addressing the Matter with Management and Those Charged with Governance</i></p> <p>225.17 If management and, where appropriate, those charged with governance agree that non-compliance has occurred or may occur, the professional accountant shall prompt them to</p>	–	Specific to proposed S225.

Proposed Section 225 (S225)	ISA 250	Comments
<p>take appropriate and timely actions, if they have not already done so, to:</p> <ul style="list-style-type: none"> (a) Rectify, remediate or mitigate the consequences of the non-compliance; (b) Deter the commission of the non-compliance where it has not yet occurred; or (c) Disclose the matter to an appropriate authority where required by law or regulation or where considered necessary in the public interest. 		
<p>225.18 The professional accountant shall consider whether the client's management and those charged with governance understand their legal or regulatory responsibilities with respect to the matter. If not, the professional accountant may suggest appropriate sources of information or recommend that they obtain legal advice.</p>	–	Specific to proposed S225.
<p>225.19 The professional accountant shall comply with applicable:</p> <ul style="list-style-type: none"> (a) Laws and regulations, including legal or regulatory provisions governing the reporting of non-compliance or suspected non-compliance with laws and regulations to an appropriate authority. In this regard, some laws and regulations may stipulate a 	–	Specific to proposed S225.

Proposed Section 225 (S225)	ISA 250	Comments
<p>period within which reports are to be made; and</p> <p>(b) Requirements under professional standards, including those relating to:</p> <ul style="list-style-type: none"> • Communication with those charged with governance. • Communication with the group engagement team in the case of a group audit. • Consideration of the implications of the matter for the auditor's report, including disclosure in the report. 		
<p><i>Determining Whether Further Action is Needed</i></p> <p>225.20 The professional accountant shall determine if further action is needed to achieve the professional accountant's objectives under this section.</p>	–	Specific to proposed S225.
<p>225.21 Whether further action is needed, and the nature and extent of it, will depend on various factors, including:</p> <ul style="list-style-type: none"> • The legal and regulatory framework. • The appropriateness and timeliness of the response of management and, where applicable, those charged with governance. 	<p>A18. In exceptional cases, the auditor may consider whether withdrawal from the engagement, where withdrawal is possible under applicable law or regulation, is necessary when management or those charged with governance do not take the remedial action that the auditor considers appropriate in the circumstances, even when the non-compliance is not material to the financial statements. When deciding whether</p>	<p>Guidance generally specific to proposed S225.</p> <p>There is a presumption in ISA 250.A18 that the auditor will have evaluated the remedial action taken by management or TCWG.</p>

Proposed Section 225 (S225)	ISA 250	Comments
<ul style="list-style-type: none"> • The urgency of the matter. • The pervasiveness of the matter throughout the client. • Whether the professional accountant continues to have confidence in the integrity of management and, where applicable, those charged with governance. • Whether the non-compliance or suspected non-compliance is likely to recur. • Whether there is credible evidence of actual or potential substantial harm to the interests of the entity, investors, creditors, employees or the wider public. An act that causes substantial harm is one that results in serious adverse consequences to any of these parties in financial or non-financial terms. 	<p>withdrawal from the engagement is necessary, the auditor may consider seeking legal advice. If withdrawal from the engagement is not possible, the auditor may consider alternative actions, including describing the non-compliance in an Other Matter paragraph in the auditor's report.¹⁰</p>	
	<p>20. If sufficient information about suspected non-compliance cannot be obtained, the auditor shall evaluate the effect of the lack of sufficient appropriate audit evidence on the auditor's opinion.</p>	<p>Requirement specific to an audit of financial statements.</p>

¹⁰ ISA 706, *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*, paragraph 8

Proposed Section 225 (S225)	ISA 250	Comments
	<p>21. The auditor shall evaluate the implications of non-compliance in relation to other aspects of the audit, including the auditor's risk assessment and the reliability of written representations, and take appropriate action. (Ref: Para. A17–A18)</p> <p>A17. As required by paragraph 21, the auditor evaluates the implications of non-compliance in relation to other aspects of the audit, including the auditor's risk assessment and the reliability of written representations. The implications of particular instances of non-compliance identified by the auditor will depend on the relationship of the perpetration and concealment, if any, of the act to specific control activities and the level of management or employees involved, especially implications arising from the involvement of the highest authority within the entity.</p>	<p>Requirement and guidance specific to an audit of financial statements.</p>
<p>225.22 Relevant factors to consider in judging the appropriateness of the response of management and those charged with governance include whether:</p> <ul style="list-style-type: none"> • The non-compliance or suspected non-compliance has been adequately investigated. 		<p>This process aspect more pertinent to proposed S225.</p>

Proposed Section 225 (S225)	ISA 250	Comments
<ul style="list-style-type: none"> • Action has been, or is being, taken to rectify, remediate or mitigate the consequences of any non-compliance. • Action has been, or is being, taken to deter the commission of any non-compliance where it has not yet occurred. • Appropriate steps have been, or are being, taken to reduce the risk of re-occurrence, for example, additional controls or training. • The non-compliance or suspected non-compliance has been disclosed to an appropriate authority where appropriate and, if so, whether the disclosure appears adequate. 		
<p>225.23 Examples of circumstances that may cause the professional accountant no longer to have confidence in the integrity of management and, where applicable, those charged with governance include situations where:</p> <ul style="list-style-type: none"> • The professional accountant suspects or has evidence of their involvement or intended involvement in any non-compliance. • The professional accountant is aware that they have knowledge of such non-compliance and, contrary to legal or regulatory requirements, have not reported, or authorized reporting of, the 	–	<p>Serves specific purposes of the proposed NOCLAR standard, i.e., guidance to help the auditor address the NOCLAR from an ethical perspective.</p>

Proposed Section 225 (S225)	ISA 250	Comments
<p>matter to an appropriate authority within a reasonable period.</p>		
<p>225.24 Further action may include:</p> <ul style="list-style-type: none"> Disclosing the matter to an appropriate authority notwithstanding that there is no legal or regulatory requirement to do so. 	<p><i>Reporting Non-Compliance to Regulatory and Enforcement Authorities</i></p> <p>28. If the auditor has identified or suspects non-compliance with laws and regulations, the auditor shall determine whether the auditor has a responsibility to report the identified or suspected non-compliance to parties outside the entity. (Ref: Para. A19–A20)</p> <p>A19. The auditor's professional duty to maintain the confidentiality of client information may preclude reporting identified or suspected non-compliance with laws and regulations to a party outside the entity. However, the auditor's legal responsibilities vary by jurisdiction and, in certain circumstances, the duty of confidentiality may be overridden by statute, the law or courts of law. In some jurisdictions, the auditor of a financial institution has a statutory duty to report the occurrence, or suspected occurrence, of non-compliance with laws and regulations to supervisory authorities. Also, in some jurisdictions, the auditor has a duty to report misstatements to authorities in those cases where management and, where applicable, those charged with governance fail to take corrective action. The auditor may consider it</p>	<p>Consideration to be given by IAASB as to whether conforming changes are needed to eliminate any potential inconsistency with proposed S225 re override of duty of confidentiality in certain circumstances.</p>

Proposed Section 225 (S225)	ISA 250	Comments
	<p>appropriate to obtain legal advice to determine the appropriate course of action.</p> <p>Considerations Specific to Public Sector Entities</p> <p>A20. A public sector auditor may be obliged to report on instances of non-compliance to the legislature or other governing body or to report them in the auditor's report.</p>	
<ul style="list-style-type: none"> Withdrawing from the engagement and the professional relationship where permitted by law or regulation. 	<p>A18. In exceptional cases, the auditor may consider whether withdrawal from the engagement, where withdrawal is possible under applicable law or regulation, is necessary when management or those charged with governance do not take the remedial action that the auditor considers appropriate in the circumstances, even when the non-compliance is not material to the financial statements. When deciding whether withdrawal from the engagement is necessary, the auditor may consider seeking legal advice. If withdrawal from the engagement is not possible, the auditor may consider alternative actions, including describing the non-compliance in an Other Matter paragraph in the auditor's report.¹¹</p>	Comparable in effect re withdrawal.
225.25 In determining the nature and extent of further action needed, the professional accountant shall	–	Specific to proposed S225.

¹¹ ISA 706, *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*, paragraph 8

Proposed Section 225 (S225)	ISA 250	Comments
<p>exercise professional judgment and take into account whether a reasonable and informed third party, weighing all the specific facts and circumstances available to the professional accountant at the time, would be likely to conclude that the professional accountant has acted appropriately in the public interest.</p>		
<p>225.26 As consideration of the matter may involve complex analysis and judgments, the professional accountant may consider obtaining legal advice to understand the professional accountant's options and the professional or legal implications of taking any particular course of action. The professional accountant may also consider consulting on a confidential basis with a regulator or relevant professional body.</p>	<p>24. ... Where no higher authority exists, or if the auditor believes that the communication may not be acted upon or is unsure as to the person to whom to report, the auditor shall consider the need to obtain legal advice.</p> <p>19. ... If management or, as appropriate, those charged with governance do not provide sufficient information that supports that the entity is in compliance with laws and regulations and, in the auditor's judgment, the effect of the suspected non-compliance may be material to the financial statements, the auditor shall consider the need to obtain legal advice. (Ref: Para. A15–A16)</p>	<p>Broadly similar guidance.</p>
<p>Determining Whether to Disclose the Matter to an Appropriate Authority</p> <p>225.27 The purpose of disclosing the matter to an appropriate authority is to enable that authority to cause the matter to be investigated and action to be taken in the public interest. The determination of whether to make such a disclosure depends in</p>	<p>–</p>	<p>Specific to proposed S225.</p>

Proposed Section 225 (S225)	ISA 250	Comments
<p>particular on the nature and extent of the actual or potential harm from the matter to the wider public, including the investing public, creditors or employees. For example, the professional accountant may determine that disclosure of the matter to an appropriate authority is an appropriate course of action if:</p> <ul style="list-style-type: none"> • The client is a regulated entity and the matter is of such significance as to threaten its license to operate. • The client is listed on a securities exchange and the matter could result in adverse consequences to the fair and orderly market in the client's securities or pose a systemic risk to the financial markets. • Products harmful to public health or safety would be likely to be sold by the entity. <p>The determination of whether to make such a disclosure will also depend on external factors such as:</p> <ul style="list-style-type: none"> • Whether there is an appropriate authority that is able to receive the information, and cause the matter to be investigated and action to be taken. • Whether there exists robust and credible protection from civil, criminal or professional liability or retaliation afforded by legislation or regulation, such as under whistle-blowing legislation or regulation. 		

Proposed Section 225 (S225)	ISA 250	Comments
<ul style="list-style-type: none"> Whether there are actual or potential threats to the physical safety of the professional accountant or other individuals. <p>Disclosure would be precluded if it would be contrary to law or regulation.</p>		
225.28 The appropriate authority will depend on the nature of the matter, for example, a securities regulator in the case of fraudulent financial reporting or an environmental protection agency in the case of a breach of environmental laws and regulations.	–	Specific to proposed S225.
225.29 If the professional accountant determines that disclosure of the matter to an appropriate authority is an appropriate course of action in the circumstances, this will not be considered a breach of the duty of confidentiality under Section 140 of this Code. When making such disclosure, the professional accountant shall act in good faith and exercise caution when making statements and assertions. The professional accountant shall also consider whether it is appropriate to inform the client of the professional accountant's intentions before disclosing the matter.	–	Specific to proposed S225.
<i>Withdrawal from the Engagement and the Professional Relationship</i>	–	Not in the ISA.

Proposed Section 225 (S225)	ISA 250	Comments
225.30 Where the professional accountant determines that withdrawing from the engagement and the professional relationship would be appropriate, doing so would not be a substitute for taking other actions that may be needed to achieve the professional accountant's objectives under this section. In some jurisdictions, however, there may be limitations as to the further actions available to the professional accountant and withdrawal may be the only available course of action. ...		
... When withdrawing from the professional relationship, the professional accountant shall comply with the requirements of section 210.	–	Specific to proposed S225.
	<p><i>Reporting Non-Compliance in the Auditor's Report on the Financial Statements</i></p> <p>25. If the auditor concludes that the non-compliance has a material effect on the financial statements, and has not been adequately reflected in the financial statements, the auditor shall, in accordance with ISA 705, express a qualified opinion or an adverse opinion on the financial statements.¹²</p> <p>26. If the auditor is precluded by management or those charged with governance from</p>	Requirements specific to an audit of financial statements.

¹² ISA 705, *Modifications to the Opinion in the Independent Auditor's Report*, paragraphs 7–8

Proposed Section 225 (S225)	ISA 250	Comments
	<p>obtaining sufficient appropriate audit evidence to evaluate whether non-compliance that may be material to the financial statements has, or is likely to have, occurred, the auditor shall express a qualified opinion or disclaim an opinion on the financial statements on the basis of a limitation on the scope of the audit in accordance with ISA 705.</p> <p>27. If the auditor is unable to determine whether non-compliance has occurred because of limitations imposed by the circumstances rather than by management or those charged with governance, the auditor shall evaluate the effect on the auditor's opinion in accordance with ISA 705.</p>	
<p>Documentation</p> <p>225.31 <i>International Standards on Auditing</i> (ISAs) require a professional accountant performing an audit of financial statements to:</p> <ul style="list-style-type: none"> • Prepare documentation sufficient to enable an understanding of significant matters arising during the audit, the conclusions reached thereon, and significant 	<p>Documentation</p> <p>29. The auditor shall include in the audit documentation identified or suspected non-compliance with laws and regulations and the results of discussion with management and, where applicable, those charged with governance and other parties outside the entity.¹³ (Ref: Para. A21)</p>	<p>Proposed S225 refers to the documentation requirements in both ISAs 230 and 250.¹⁴</p>

¹³ ISA 230, *Audit Documentation*, paragraphs 8–11, and A6

¹⁴ ISA 250.29: The auditor shall include in the audit documentation identified or suspected non-compliance with laws and regulations and the results of discussion with management and, where applicable, those charged with governance and other parties outside the entity.

Proposed Section 225 (S225)	ISA 250	Comments
<p>professional judgments made in reaching those conclusions;</p> <ul style="list-style-type: none"> • Document discussions of significant matters with management, those charged with governance, and others, including the nature of the significant matters discussed and when and with whom the discussions took place; and • Include in the documentation identified or suspected non-compliance with laws and regulations, and the results of discussion with management and, where applicable, those charged with governance and other parties outside the entity. 		
<p>225.32 Where the professional accountant concludes that an identified or suspected non-compliance with laws and regulations is a significant matter, the professional accountant shall, in addition to complying with the documentation requirements under the ISAs, document:</p> <ul style="list-style-type: none"> • How management and, where applicable, those charged with governance have responded to the matter. • The courses of action the professional accountant considered, the judgments made and the decisions that were taken, having regard to the reasonable and informed third party perspective. 		<p>Serves specific purposes of the proposed NOCLAR standard, i.e., documentation of how the auditor has responded to identified or suspected NOCLAR pursuant to the objectives of proposed S225.</p>

Proposed Section 225 (S225)	ISA 250	Comments
<ul style="list-style-type: none"> How the professional accountant is satisfied that the professional accountant's objectives under this section have been met. 		
	<p>A21. The auditor's documentation of findings regarding identified or suspected non-compliance with laws and regulations may include, for example:</p> <ul style="list-style-type: none"> Copies of records or documents. Minutes of discussions held with management, those charged with governance or parties outside the entity. 	<p>Not necessary in proposed S225 given cross reference to ISAs.</p>
<p>Responsibilities of Professional Accountants in Public Practice Providing Professional Services Other Than Audits of Financial Statements</p> <p><i>Complying with Applicable Laws and Regulations</i></p> <p>225.33 In some jurisdictions, there are legal or regulatory provisions governing how professional accountants should address non-compliance or suspected non-compliance with laws and regulations. The professional accountant shall obtain an understanding of those provisions and comply with them, including any prohibitions on alerting ("tipping-off") the client prior to making</p>	<p>–</p>	<p>Specific to proposed S225.</p>

Proposed Section 225 (S225)	ISA 250	Comments
any disclosure, for example, pursuant to anti-money laundering legislation.		
<p><i>Obtaining an Understanding of the Matter and Addressing It with Management and Those Charged with Governance</i></p> <p>225.34 If, in the course of providing a professional service to a client, the professional accountant becomes aware of information concerning an instance of non-compliance or suspected non-compliance with laws and regulations, the professional accountant shall seek to obtain an understanding of the matter, including:</p> <ul style="list-style-type: none"> • The nature of the act and the circumstances in which it has occurred or may be about to occur; and • The application of the relevant laws and regulations to the circumstances. 	–	Specific to proposed S225.
225.35 If the professional accountant suspects that non-compliance with laws and regulations has occurred or may occur, the professional accountant shall discuss the matter with the appropriate level of management and, if the professional accountant has access to them and where appropriate, those charged with governance.	–	Specific to proposed S225.
225.36 Such discussion serves to clarify the professional accountant's understanding of the facts and	–	Specific to proposed S225.

Proposed Section 225 (S225)	ISA 250	Comments
circumstances relevant to the matter and its potential consequences. The information conveyed by the professional accountant may prompt management or those charged with governance to investigate the matter.		
225.37 The professional accountant is expected to apply knowledge, judgment and expertise, but is not expected to have detailed knowledge of laws and regulations beyond that which is required for the professional service for which the accountant was engaged. Whether an act constitutes actual non-compliance is ultimately a matter for determination by an appropriate legal or adjudicative body. Depending on the nature and significance of the matter, the professional accountant may consult on a confidential basis with others within the firm, a network firm, a relevant professional body, or legal counsel.	–	Specific to proposed S225.
225.38 The appropriate level of management with whom to discuss the matter is a question of professional judgment. Relevant factors to consider include: <ul style="list-style-type: none"> • The nature and circumstances of the matter. • The individuals actually or potentially involved. • The likelihood of collusion. • The potential consequences of the matter. 	–	Specific to proposed S225.

Proposed Section 225 (S225)	ISA 250	Comments
<ul style="list-style-type: none"> Whether that level of management is able to investigate the matter and take appropriate action. 		
225.39 If the professional accountant is performing a non-audit service for an audit client of the firm, the professional accountant shall communicate the matter within the firm. This is to enable the engagement partner for the audit to be informed about it and to determine how it should be addressed in accordance with the provisions of this section.	–	Specific to proposed S225.
225.40 If the professional accountant is performing a non-audit service for an audit client of a network firm, the professional accountant shall consider whether to communicate the matter to the network firm so as to enable the engagement partner for the audit to be informed about it.	-	Specific to proposed S225.
<i>Determining Whether Further Action is Needed</i> 225.41 The professional accountant shall also consider whether further action is needed to achieve the professional accountant's objectives under this section.	–	Specific to proposed S225.
225.42 Whether further action is needed, and the nature and extent of it, will depend on factors such as: <ul style="list-style-type: none"> The legal and regulatory framework. 	–	Specific to proposed S225.

Proposed Section 225 (S225)	ISA 250	Comments
<ul style="list-style-type: none"> The appropriateness and timeliness of the response of management and, where applicable, those charged with governance. The urgency of the matter. The involvement of management or those charged with governance in the matter. The likelihood of substantial harm to the interests of the client, investors, creditors, employees or the wider public. 		
<p>225.43 Further action may include:</p> <ul style="list-style-type: none"> If the client is not an audit client of the firm or a network firm, disclosing the matter to the external auditor, if any. Disclosing the matter to an appropriate authority notwithstanding that there is no legal or regulatory requirement to do so. 	–	Specific to proposed S225.
<p>225.44 In considering whether to disclose outside the client, relevant factors to take into account include:</p> <ul style="list-style-type: none"> Whether doing so would be contrary to law or regulation. Whether the terms or nature of the engagement precludes disclosure of information about the client to third parties, 	–	Specific to proposed S225.

Proposed Section 225 (S225)	ISA 250	Comments
<p>such as where legal privilege exists which extends to the professional accountant.</p> <ul style="list-style-type: none"> Whether there are restrictions about disclosure imposed by a regulatory agency or prosecutor (for example, to avoid tipping-off) in an ongoing investigation into the non-compliance or suspected non-compliance. 		
<p>225.45 If the professional accountant determines that disclosure of the matter to an appropriate authority is an appropriate course of action in the circumstances, this will not be considered a breach of the duty of confidentiality under Section 140 of this Code. When making such disclosure, the professional accountant shall act in good faith and exercise caution when making statements and assertions. The professional accountant shall also consider whether it is appropriate to inform the client of the professional accountant's intentions before disclosing the matter.</p>	<p>–</p>	<p>Specific to proposed S225.</p>
<p>225.46 The professional accountant may consider obtaining legal advice to understand the professional or legal implications of taking any particular course of action. The professional accountant may also consider consulting on a confidential basis with a regulator or relevant professional body.</p>	<p>–</p>	<p>Specific to proposed S225.</p>

Proposed Section 225 (S225)	ISA 250	Comments
<p><i>Considering Whether to Remain Associated with the Client</i></p> <p>225.47 To comply with the fundamental principles of integrity and professional behavior, the professional accountant shall consider whether the professional accountant can remain associated with the client.</p>	–	Specific to proposed S225.
<p><i>Documentation</i></p> <p>225.48 Where the professional accountant concludes that an identified or suspected non-compliance with laws and regulations is a significant matter, the professional accountant is encouraged to document:</p> <ul style="list-style-type: none"> • The matter. • The results of discussion with management and, where applicable, those charged with governance and other parties. • How management and, where applicable, those charged with governance have responded to the matter. • The courses of action the professional accountant considered, the judgments made and the decisions that were taken. • How the professional accountant is satisfied that the professional accountant's 	–	Specific to proposed S225.

NOCLAR – Comparative Analysis: Proposed Section 225 vs. ISA 250
IESBA Meeting (April 2015)

Proposed Section 225 (S225)	ISA 250	Comments
objectives under this section have been met.		