

ISA 250	Proposed SAS	Extant AU 317	Comments
Introduction	Introduction		
Scope of this ISA	Scope of this SAS		
1. This International Standard on Auditing (ISA) deals with the auditor's responsibility to consider laws and regulations when performing 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.	1. This <u>Statement on Auditing Standards (SAS)</u> addresses the auditor's responsibility to consider laws and regulations when performing an audit of financial statements. This <u>SAS</u> 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.	.01 This section prescribes the nature and extent of the consideration an independent auditor should give to the possibility of illegal acts by a client in an audit of financial statements in accordance with generally accepted auditing standards. The section also provides guidance on the auditor's responsibilities when a possible illegal act is detected.	
<i>Effect of Laws and Regulations</i>	<i>Effect of Laws and Regulations</i>		
2. The effect on financial statements of laws and regulations varies considerably. Those laws and regulations to which an entity is subject 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	2. The effect on financial statements of laws and regulations varies considerably. Those laws and regulations to which an entity is subject 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		

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<p>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>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><i>Responsibility of Management for Compliance with Laws and Regulations</i></p>	<p><i>Responsibility of Management for Compliance with Laws and Regulations</i></p>		
<p>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</p>	<p>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</p>		

<p>with the provisions of laws and regulations that determine the reported amounts and disclosures in an entity's financial statements. (Ref: Para. A1-A2)</p>	<p>with the provisions of laws and regulations that determine the reported amounts and disclosures in an entity's financial statements. (Ref. par. A1-A2)</p>		
<p><i>Responsibility of the Auditor</i> (Ref: Para. A3-A6)</p>	<p><i>Responsibility of the Auditor</i> (Ref. par. A3-A6)</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>4. The requirements in this <u>SAS</u> 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>.06 (<i>partial and repeated elsewhere</i>) An auditor ordinarily does not have sufficient basis for recognizing possible violations of such laws and regulations.</p> <p>.06 (<i>partial and repeated elsewhere</i>) Even when violations of such laws and regulations can have consequences material to the financial statements, the auditor may not become aware of the existence of the illegal act unless he is informed by the client, or there is evidence of a governmental agency investigation or enforcement proceeding in the records, documents, or other information normally inspected in an audit</p>	<p>Deleted: ISA</p> <p>Deleted:</p>

		of financial statements.	
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. ¹ In conducting an audit of financial statements, the auditor takes into account the applicable legal and regulatory 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. ² In the context of laws and regulations, the potential effects of inherent limitations on the auditor's ability	5. The auditor is responsible for obtaining reasonable assurance that the financial statements, as a whole, are free from material misstatement, whether caused by fraud or error. ³ In conducting an audit of financial statements, the auditor takes into account the applicable legal and regulatory 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 <u>generally accepted auditing standards</u> . ⁴ In the context of laws and regulations, the potential effects of inherent	.07 (<i>partial and repeated elsewhere</i>) However, because of the characteristics of illegal acts explained above, an audit made in accordance with generally accepted auditing standards provides no assurance that illegal acts will be detected or that any contingent liabilities that may result will be disclosed.	Deleted the word "taken" as the phrase "taken as a whole" is not used in GAAS.

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1 [Proposed] ISA 200 (Revised and Redrafted), *Overall Objective of the Independent Auditor, and the Conduct of an Audit in Accordance with International Standards on Auditing*, par. 13.

2 [Proposed] ISA 200 (Revised and Redrafted), par. A37.

3 [Proposed] ISA 200 (Revised and Redrafted), par. 13.

4 [Proposed] ISA 200 (Revised and Redrafted), par. A37.

<p>to detect material misstatements are greater for such reasons as the following:</p>	<p>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. 	<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. 		
<ul style="list-style-type: none"> • 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. 	<ul style="list-style-type: none"> • 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. 		
<ul style="list-style-type: none"> • Whether an act constitutes non-compliance is ultimately a matter for legal determination by a court of law. 	<ul style="list-style-type: none"> • Whether an act constitutes non-compliance is ultimately a matter for legal determination by a court of law. 	<p>.03 (<i>partial</i>) However, the determination as to whether a particular act is illegal would generally be based on the advice of an informed expert qualified</p>	

		to practice law or may have to await final determination by a court of law.	
Ordinarily, the further removed non-compliance is from the events and transactions reflected in the financial statements, the less likely the auditor is to become aware of it or to recognize the non-compliance.	Ordinarily, the further removed non-compliance is from the events and transactions reflected in the financial statements, the less likely the auditor is to become aware of it or to recognize the non-compliance.	.04 Illegal acts vary considerably in their relation to the financial statements. Generally, the further removed an illegal act is from the events and transactions ordinarily reflected in financial statements, the less likely the auditor is to become aware of the act or to recognize its possible illegality.	
6. This ISA distinguishes the auditor's responsibilities in relation to compliance with two different categories of laws and regulations as follows:	6. This <u>SAS</u> distinguishes the auditor's responsibilities in relation to compliance with two different categories of laws and regulations as follows:		
(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	(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		

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<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>(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>7. In this ISA, differing requirements are specified for each of the above categories of</p>	<p>7. In this SAS, differing requirements are specified for each of the above categories of</p>	<p>.07 As explained in paragraph .05, certain illegal acts have a direct and material effect on the</p>	<p>Changed the phrase "compliance with" to address the ASB's concerns that the</p>

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<p>laws and regulations. For the category referred to in paragraph 6(a), the auditor’s responsibility is to obtain sufficient appropriate audit evidence about 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.</p>	<p>laws and regulations. For the category referred to in paragraph 6(a), the auditor’s responsibility is to obtain sufficient appropriate audit evidence about <u>material amounts and disclosures in the financial statements that are determined by</u> 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 <u>that may</u> identify non-compliance with those laws and regulations that may have a material effect on the financial statements.</p>	<p>determination of financial statement amounts. Other illegal acts, such as those described in paragraph .06, may, in particular circumstances, be regarded as having material but indirect effects on financial statements. The auditor's responsibility with respect to detecting, considering the financial statement effects of, and reporting these other illegal acts is described in this section. These other illegal acts are hereinafter referred to simply as <i>illegal acts</i>. The auditor should be aware of the possibility that such illegal acts may have occurred. If specific information comes to the auditor's attention that provides evidence concerning the existence of possible illegal acts that could have a material indirect effect on the financial statements, the auditor should apply audit procedures specifically directed to ascertaining whether an illegal act has occurred. However, because of the characteristics of illegal acts explained above, an audit made in accordance with generally</p>	<p>ISA language expanded the auditor’s responsibility to encompass all aspects of those laws and regulations in described in paragraph 6(a) of the proposed standard, as opposed to focusing on the amounts and disclosures included in the financial statements. Discussed this issue with the IAASB, and the IAASB acknowledged that the wording in the proposed SAS reflects the intent of the IAASB. The IAASB plans to make a conforming change to ISA 250 to be similar to the proposed SAS.</p> <p>Changed the phrase “to help identify” to “that may identify.” The ASB does not believe that this will result in a difference in practice from the ISA.</p>
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		accepted auditing standards provides no assurance that illegal acts will be detected or that any contingent liabilities that may result will be disclosed.	
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 an attitude of professional skepticism throughout the audit, as required by [proposed] ISA 200 (Revised and Redrafted) ⁵ , is important in this context, given the extent of laws and regulations that affect the entity.	8. The auditor is required by this <u>SAS</u> 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 <u>with laws and regulations</u> to the auditor's attention. Maintaining an attitude of professional skepticism throughout the audit, as required by [proposed] <u>SAS</u> , <u>Overall Objective of the Independent Auditor and the Conduct of an Audit in Accordance with Generally Accepted Auditing Standards</u> ⁶ , is important in this context,	.08 (partial – “however” sentence repeated elsewhere) Normally, an audit in accordance with generally accepted auditing standards does not include audit procedures specifically designed to detect illegal acts. However, procedures applied for the purpose of forming an opinion on the financial statements may bring possible illegal acts to the auditor's attention.	Inserted “with laws and regulations” is editorial.

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5 [Proposed] ISA 200 (Revised and Redrafted), par. 13.

6 [Proposed] ISA 200 (Revised and Redrafted), par. 13.

	given the extent of laws and regulations that affect the entity.		
Effective Date	Effective Date		
9. This ISA is effective for audits of financial statements for periods beginning on or after December 15, 2009.	9. This <u>SAS</u> is effective for audits of financial statements for periods beginning on or after <u>[Date]</u> .	.25 This section is effective for audits of financial statements for periods beginning on or after January 1, 1989. Early application of the provisions of this section is permissible.	
Objectives	Objectives		
10. The objectives of the auditor are:	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;	(a) To obtain sufficient appropriate audit evidence regarding <u>material amounts and disclosures in the financial statements that are determined by the</u> provisions of those laws and regulations generally recognized to have a direct effect on <u>their</u> determination <u>(see paragraphs 6[a])</u> ;		Changed the phrase “compliance with” to address the ASB’s concerns that the ISA language expanded the auditor’s responsibility to encompass all aspects of those laws and regulations in described in paragraph 6(a) of the proposed standard, as opposed to focusing on the amounts and disclosures included in the financial statements. Discussed this issue with the IAASB, and the IAASB acknowledged

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			<p>that the wording in the proposed SAS reflects the intent of the IAASB. The IAASB plans to make a conforming change to ISA 250 to be similar to the proposed SAS.</p> <p>Added reference to paragraph 6(a). This was an attempt to make the association between paragraphs 6, 10, 13, and 14 clearer and more distinct.</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>(b) To perform specified audit procedures <u>that may</u> identify instances of non-compliance with other laws and regulations that may have a material effect on the financial statements (<u>see paragraphs 6(b)</u>); and</p>		<p>Changed the phrase “to help identify” to “that may identify.” The ASB does not believe that this will result in a difference in practice from the ISA.</p> <p>Added reference to paragraph 6(b). This was an attempt to make the association between paragraphs 6, 10, 13, and 14 clearer and more distinct.</p>
<p>(c) To respond appropriately to non-compliance or suspected non-compliance with laws and regulations identified</p>	<p>(c) To respond appropriately to non-compliance or suspected non-compliance with laws and regulations</p>		

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during the audit.	identified during the audit.		
Definition	Definition		
11. For the purposes of this ISA, the following term has the meaning attributed below:	11. For the purposes of this <u>SAS</u> , the following term has the meaning attributed below:		
'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 name of, the entity, or on its behalf, by those charged with governance, management or employees. 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.	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 name of, the entity, or on its behalf, by those charged with governance, management or employees. 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.	.02 The term <i>illegal acts</i> , for purposes of this section, refers to violations of laws or governmental regulations. Illegal acts by clients are acts attributable to the entity whose financial statements are under audit or acts by management or employees acting on behalf of the entity. Illegal acts by clients do not include personal misconduct by the entity's personnel unrelated to their business activities.	
Requirements	Requirements		
The Auditor's Consideration of Compliance with Laws and	The Auditor's Consideration of Compliance with Laws and		

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Regulations	Regulations		
12. As part of obtaining an understanding of the entity and its environment in accordance with ISA 315 (Redrafted), ⁷ the auditor shall obtain a general understanding of:	12. As part of obtaining an understanding of the entity and its environment in accordance with proposed SAS, <i>Understanding the Entity and Its Environment and Assessing the Risk of Material Misstatement</i> , ⁸ the auditor shall obtain a general understanding of:		
(a) The legal and regulatory framework applicable to the entity and the industry or sector in which the entity operates; and	(a) The legal and regulatory framework applicable to the entity and the industry or sector in which the entity operates; and		
(b) How the entity is complying with that framework. (Ref: Para. A7)	(b) How the entity is complying with that framework. (Ref. par. A7)		
13. The auditor shall obtain sufficient appropriate audit evidence regarding compliance with the provisions of those laws and regulations generally recognized to	13. The auditor shall obtain sufficient appropriate audit evidence regarding material amounts and disclosures in the financial statements that are	.05 (partial and repeated elsewhere) The auditor's responsibility to detect and report misstatements resulting from illegal acts having a direct	Changed the phrase "compliance with" to address the ASB's concerns that the ISA language expanded the auditor's responsibility to

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⁷ ISA 315 (Redrafted), *Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environments* par. 11.

⁸ AU section 314, *Understanding the Entity and Its Environments and Assessing the Risks of Material Misstatement* (AICPA, *Professional Standards*, vol. 1), par. 11.

<p>have a direct effect on the determination of material amounts and disclosures in the financial statements. (Ref: Para. A8)</p>	<p><u>determined by</u> the provisions of those laws and regulations generally recognized to have a direct effect on <u>their</u> determination (<u>see paragraph 6[a]</u>). (Ref. par. A8-A10)</p>	<p>and material effect on the determination of financial statement amounts is the same as that for misstatements caused by fraud or error as described in section 110.</p>	<p>encompass all aspects of those laws and regulations in described in paragraph 6(a) of the proposed standard, as opposed to focusing on the amounts and disclosures included in the financial statements. Discussed this issue with the IAASB, and the IAASB acknowledged that the wording in the proposed SAS reflects the intent of the IAASB. The IAASB plans to make a conforming change to ISA 250 to be similar to the proposed SAS.</p> <p>Added reference to paragraph 6(a). This was an attempt to make the association between paragraphs 6, 10, 13, and 14 clearer and more distinct.</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</p>	<p>14. The auditor <u>should</u> perform the following audit procedures <u>that</u> <u>may</u> identify instances of non-compliance with other laws and regulations that may have a material effect on the financial</p>		<p>Changed the phrase “to help identify” to “that may identify.” The ASB does not believe that this will result in a difference in practice from the ISA.</p>

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effect on the financial statements:	statements: (see paragraph 6[b]) (Ref: Par. A11-A14)		Added reference to paragraph 6(b). This was in an attempt to make the association between paragraphs 6, 10 and 13/14 more clear and distinct. In the application material, guidance was added related to this requirement.
(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	(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	.08 (<i>partial</i>) The auditor should make inquiries of management concerning the client's compliance with laws and regulations.	
(b) Inspecting correspondence, if any, with the relevant licensing or regulatory authorities. (Ref: Para. A9-A10)	(b) Inspecting correspondence, if any, with the relevant licensing or regulatory authorities. (Ref. par. A15)		Additional application material was added for this requirement.
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)	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. par. A16)	.08 (<i>partial</i>) However, procedures applied for the purpose of forming an opinion on the financial statements may bring possible illegal acts to the auditor's attention.	

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<p>16. The auditor shall request management, and where appropriate, those charged with 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>Ref. par.</p>	<p>.08 (partial) The auditor also obtains written representations from management concerning the absence of violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency. (See section 333, <i>Management Representations</i>.)</p>	<p>Deleted this requirement as it relates to the “umbrella” standards on management representations. Will include this requirement in AU 333, <i>Management Representations</i>, paragraph 6.</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>	<p>16. 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 12-15.</p>	<p>.08 (partial) The auditor need perform no further procedures in this area absent specific information concerning possible illegal acts.</p>	
<p>Audit Procedures when Non-compliance is Identified or Suspected</p>	<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>	<p>17. If the auditor becomes aware of information concerning an instance of non-compliance or suspected non-compliance with laws and regulations, the auditor <u>should</u> obtain: (Ref. par. A18)</p>	<p>.10 (partial) When the auditor becomes aware of information concerning a possible illegal act, the auditor should obtain</p>	

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<p>(a) An understanding of the nature of the act and the circumstances in which it has occurred; and</p>	<p>(a) An understanding of the nature of the act and the circumstances in which it has occurred; and (Ref. par <u>A19</u>)</p>	<p>an understanding of the nature of the act, the circumstances in which it occurred, and</p>	
<p>(b) Further information to evaluate the possible effect on the financial statements. (Ref: Para. A14)</p>	<p>(b) Further information to evaluate the possible effect on the financial statements. (Ref. par. <u>A20</u>)</p>	<p>sufficient other information to evaluate the effect on the financial statements.</p>	
<p>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. 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><u>18.</u> If the auditor suspects there may be non-compliance, the auditor <u>should</u> discuss the matter with management <u>(at a level above those involved with the non-compliance, if possible)</u> and, where appropriate, those charged with governance. 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 <u>should</u> consider the need to obtain legal advice. (Ref. par. <u>A21-A22</u>)</p>	<p>.10 (<i>partial</i>) In doing so, the auditor should inquire of management at a level above those involved; if possible. If management does not provide satisfactory information that there has been no illegal act, the auditor should—</p> <p><i>a.</i> Consult with the client's legal counsel or other specialists about the application of relevant laws and regulations to the circumstances and the possible effects on the financial statements. Arrangements for such consultation with client's legal counsel should be made by the client.</p> <p><i>b.</i> Apply additional procedures, if necessary, to</p>	<p>Added the concept of communicating to one level above management involved, which was a requirement in the extant SAS.</p>

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		obtain further understanding of the nature of the acts.	
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<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><u>19.</u> If sufficient information about suspected non-compliance cannot be obtained, the auditor <u>should</u> evaluate the effect of the lack of sufficient appropriate audit evidence on the auditor's opinion.</p>		
<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><u>20.</u> The auditor <u>should</u> 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. par. <u>A23-A24</u>)</p>	<p>.12 When the auditor concludes, based on information obtained and, if necessary, consultation with legal counsel, that an illegal act has or is likely to have occurred, the auditor should consider the effect on the financial statements as well as the implications for other aspects of the audit.</p> <p>.16 The auditor should consider the implications of an illegal act in relation to other aspects of the audit, particularly the reliability of representations of management. The implications of particular illegal acts will depend on the relationship of the perpetration and concealment, if any, of the illegal act to specific control procedures and the level of management or employees</p>	

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Reporting of Identified or Suspected Non-compliance	Reporting of Identified or Suspected Non-Compliance		
<i>Reporting Non-compliance to Those Charged with Governance</i>	<i>Reporting Non-Compliance to Those Charged with Governance</i>		
<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><u>21.</u> Unless all of those charged with governance are involved in management of the entity, and are aware of matters involving identified or suspected non-compliance already communicated by the auditor,¹⁰ the auditor <u>should</u> communicate with those charged with governance matters involving <u>identified or suspected</u> 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. (Ref. par. <u>A27</u>)</p>	<p>.17 (<i>partial</i>) The auditor should assure himself that those charged with governance are adequately informed with respect to illegal acts that come to the auditor's attention.^{fn 1} The auditor need not communicate matters that are clearly inconsequential and may reach agreement in advance with those charged with governance on the nature of such matters to be communicated.</p>	<p>Editorial to delete “therefore” as this is not the construction used in AU 380.</p> <p>Application material added for this requirement to describe items which may be included in the communication.</p> <p>Editorial to clarify that communication can be regard identified or suspected non-compliance.</p>

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⁹ See ISA 260 (Revised and Redrafted), *Communication with Those Charged with Governance*, par. 9.

¹⁰ See ISA 260 (Revised and Redrafted), par. 9.

<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>	<p>22. If, in the auditor's judgment, the non-compliance referred to in paragraph 22 is believed to be intentional and material, the auditor <u>should</u> communicate the matter to those charged with governance as soon as practicable.</p>			Deleted: 23
<p>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. 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>23. 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. 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 <u>should</u> consider the need to obtain legal advice.</p>	<p>.17 (partial) If senior management is involved in an illegal act, the auditor should communicate directly with those charged with governance.</p>		Deleted: 24
<p><i>Reporting Non-compliance in the Auditor's Report on the Financial Statements</i></p>	<p><i>Reporting Non-compliance in the Auditor's Report on the Financial Statements</i></p>			Deleted: shall
<p>25. If the auditor concludes that the</p>	<p>24. If the auditor concludes that the</p>	<p>.18 If the auditor concludes that</p>	<p>In the application material,</p>	Deleted: 25

<p>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 [proposed] ISA 705 (Revised and Redrafted), express a qualified or adverse opinion on the financial statements.¹¹</p>	<p>non-compliance has a material effect on the financial statements, and has not been adequately reflected in the financial statements, the auditor <u>should</u>, in accordance with <u>AU section 508</u>, express a qualified or adverse opinion on the financial statements. (Ref. par. <u>A26</u>)¹²</p>	<p>an illegal act has a material effect on the financial statements, and the act has not been properly accounted for or disclosed, the auditor should express a qualified opinion or an adverse opinion on the financial statements taken as a whole, depending on the materiality of the effect on the financial statements.</p>	<p>guidance was added for this requirement regarding considering the financial statement effects of the non-compliance.</p>	<p>Deleted: shall Deleted: [proposed] ISA 705 (Revised and Redrafted)</p>
<p>26. If the auditor is precluded by management or those charged with governance from 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 [proposed] ISA 705 (Revised and Redrafted).</p>	<p><u>25.</u> If the auditor is precluded by management or those charged with governance from 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 <u>should</u> 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 <u>AU section 508</u>. (Ref. par. <u>A26</u>)</p>	<p>.19 If the auditor is precluded by the client from obtaining sufficient appropriate audit evidence to evaluate whether an illegal act that could be material to the financial statements has, or is likely to have, occurred, the auditor generally should disclaim an opinion on the financial statements.</p>	<p>In the application material, guidance was added for this requirement to indicate that withdrawal from the engagement is also an option.</p>	<p>Deleted: 26 Deleted: shall Deleted: [proposed] ISA 705 (Revised and Redrafted)</p>

11 [Proposed] ISA 705 (Revised and Redrafted), *Modifications to the Opinion in the Independent Auditor's Report*, par. 10 and 11.

12 AU section 508), *Reports on Audited Financial Statements* (AICPA, *Professional Standards*, vol. 1) par. 20-60.

<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 [proposed] ISA 705 (Revised and Redrafted).</p>	<p><u>26.</u> 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 <u>should</u> evaluate the effect on the auditor's opinion in accordance with <u>AU section 508</u>.</p>	<p>.21 The auditor may be unable to determine whether an act is illegal because of limitations imposed by the circumstances rather than by the client or because of uncertainty associated with interpretation of applicable laws or regulations or surrounding facts. In these circumstances, the auditor should consider the effect on his report.</p>		<p>Deleted: 27</p>
<p><i>Reporting Non-compliance to Regulatory and Enforcement Authorities</i></p>	<p><i>Reporting Non-Compliance to Regulatory and Enforcement Authorities</i></p>			<p>Deleted: shall</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><u>27.</u> If the auditor has identified or suspects non-compliance with laws and regulations, the auditor <u>should</u> determine whether the auditor has a responsibility to report the identified or suspected non-compliance to parties outside the entity. (Ref. par. <u>A27-28</u>)</p>			<p>Deleted: [proposed] ISA 705 (Revised and Redrafted)</p>
<p>Documentation</p>	<p>Documentation</p>			<p>Deleted: 28</p>
				<p>Deleted: shall</p>
				<p>Deleted: A19-A20</p>

<p>29. The auditor shall document 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. (Ref: Para. A21)</p>	<p><u>28.</u> The auditor <u>should</u> document 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 <u>both inside and</u> outside the entity. (Ref. par. <u>A29</u>)</p>		<p>Clarified that there could be discussions about non-compliance both inside and outside the entity.</p>
<p>***</p>	<p>***</p>		
<p>Application and Other Explanatory Material</p>	<p>Application and Other Explanatory Material</p>		
<p>Responsibility for Compliance with Laws and Regulations</p>	<p>Responsibility for Compliance with Laws and Regulations</p>		
<p><i>Responsibility of Management for Compliance with Laws and Regulations</i> (Ref: Para. 3)</p>	<p><i>Responsibility of Management for Compliance with Laws and Regulations</i> (Ref. par. 3)</p>		
<p>A1. Management, with the oversight of those charged with governance, is responsible for ensuring that the entity's operations are conducted in accordance with laws and regulations. Laws and regulations may affect an entity's financial statements in different ways: for example, most directly, they may affect specific disclosures required</p>	<p>A1. Management, with the oversight of those charged with governance, is responsible for ensuring that the entity's operations are conducted in accordance with laws and regulations. Laws and regulations may affect an entity's financial statements in different ways: for example, most directly, they may affect specific disclosures required</p>		<p>Editorial revision.</p>

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<p>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>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 <u>provide for the imposition of</u> penalties in cases of non-compliance.</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>	<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. 	<ul style="list-style-type: none"> Monitoring legal requirements and ensuring that operating procedures are designed to meet these requirements. 		
<ul style="list-style-type: none"> Instituting and operating appropriate systems of internal control. 	<ul style="list-style-type: none"> Instituting and operating appropriate systems of internal control. 		
<ul style="list-style-type: none"> Developing, publicizing and following a code of 	<ul style="list-style-type: none"> Developing, publicizing and following a code of 		

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conduct.	conduct.		
<ul style="list-style-type: none"> Ensuring employees are properly trained and understand the code of conduct. 	<ul style="list-style-type: none"> Ensuring employees are properly trained and understand the code of conduct. 		
<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. 	<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. 		
<ul style="list-style-type: none"> Engaging legal advisors to assist in monitoring legal requirements. 	<ul style="list-style-type: none"> Engaging legal advisors to assist in monitoring legal requirements. 		
<ul style="list-style-type: none"> Maintaining a register of significant laws and regulations with which the entity has to comply within its particular industry and a record of complaints. 	<ul style="list-style-type: none"> Maintaining a register of significant laws and regulations with which the entity has to comply within its particular industry and a record of complaints. 		
In larger entities, these policies and procedures may be supplemented by assigning appropriate responsibilities to the following:	In larger entities, these policies and procedures may be supplemented by assigning appropriate responsibilities to the following:		
<ul style="list-style-type: none"> An internal audit function. 	<ul style="list-style-type: none"> An internal audit function. 		
<ul style="list-style-type: none"> An audit committee. 	<ul style="list-style-type: none"> An audit committee. 		

•	• <u>A legal function.</u>		Additional example provided.
• A compliance function.	• A compliance function.		
<i>Responsibility of the Auditor</i> (Ref. Para. 4-8)	<i>Responsibility of the Auditor</i> (Ref. par. 4-8)		
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.	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.		
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. 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 auditor’s attention, may constitute non-compliance with laws and	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. 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 auditor’s attention, may constitute non-compliance with laws and	.03 (<i>partial</i>) Whether an act is, in fact, illegal is a determination that is normally beyond the auditor's professional competence. An auditor, in reporting on financial statements, presents himself as one who is proficient in accounting and auditing. The auditor's training, experience, and understanding of the client and its industry may provide a basis for recognition that some	

regulations.	regulations.	client acts coming to his attention may be illegal.	
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, [proposed] ISA 700 (Redrafted) ¹³ or [proposed] ISA 800 (Revised and Redrafted) ¹⁴ 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.	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, AU section 508 sets forth 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.	.24 An auditor may accept an engagement that entails a greater responsibility for detecting illegal acts than that specified in this section. For example, a governmental unit may engage an independent auditor to perform an audit in accordance with the Single Audit Act of 1984. In such an engagement, the independent auditor is responsible for testing and reporting on the governmental unit’s compliance with certain laws and regulations applicable to Federal financial assistance programs. Also, an independent auditor may undertake a variety of other special engagements.	Added examples from AU 317.24. Editorial to remove “deals with.”

- Deleted: [proposed] ISA 700 (Redrafted)
- Deleted: ¹⁵ or [proposed] ISA 800 (Revised and Redrafted)¹⁶
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13 Proposed ISA 700 (Redrafted) *The Independent Auditor’s Report on General Purpose Financial Statements*.

14 Proposed ISA 800 (Revised and Redrafted) *Special Considerations-Audits of Special Purpose Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*.

¹⁷ ISA 580 (Revised and Redrafted), *Written Representations*, par. 4.

		For example, a corporation's board of director's or it's audit committee may engage an auditor to apply agreed-upon procedures and report on compliance with the corporation's code of conduct under the attestation standards.	
<i>Considerations Specific to Public Sector Entities</i>	<i>Considerations Specific to <u>Governmental</u> Entities</i>		
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.	A6 <u>For governmental entities</u> , 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.		
The Auditor's Consideration of Compliance with Laws and Regulations	The Auditor's Consideration of Compliance with Laws and Regulations		
<i>Obtaining an Understanding of the Legal and Regulatory Framework</i> (Ref: Para. 12)	<i>Obtaining an Understanding of the Legal and Regulatory Framework</i> (Ref. par. 12)		
A7.To obtain a general understanding of the legal and regulatory framework and how the	A7.To obtain a general understanding of the legal and regulatory framework and how the		

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entity complies with that framework, the auditor may, for example:	entity complies with that framework, the auditor may, for example:		
<ul style="list-style-type: none"> • Use the auditor’s existing understanding of the entity’s industry, regulatory and other external factors; 	<ul style="list-style-type: none"> • Use the auditor’s existing understanding of the entity’s industry, regulatory and other external factors; 		
<ul style="list-style-type: none"> • Update the understanding of those laws and regulations that directly determine the reported amounts and disclosures in the financial statements. 	<ul style="list-style-type: none"> • Update the understanding of those laws and regulations that directly determine the reported amounts and disclosures in the financial statements. 		
<ul style="list-style-type: none"> • Inquire of management as to other laws or regulations that may be expected to have a fundamental effect on the operations of the entity; 	<ul style="list-style-type: none"> • Inquire of management as to other laws or regulations that may be expected to have a fundamental effect on the operations of the entity; 		
<ul style="list-style-type: none"> • Inquire of management concerning the entity’s policies and procedures regarding compliance with laws and regulations; and 	<ul style="list-style-type: none"> • Inquire of management concerning the entity’s policies and procedures regarding compliance with laws and regulations <u>(including the prevention of non-compliance), if appropriate;</u> 	<p>.08 (<i>partial</i>) Where applicable, the auditor should also inquire of management concerning—</p> <ul style="list-style-type: none"> • The client’s policies relative to the prevention of illegal 	<p>Revised application material to add “(including the prevention of non-compliance)” to more clearly reflect requirement in AU 317.08.</p>

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<ul style="list-style-type: none"> Inquire of management regarding the policies or procedures adopted for identifying, evaluating and accounting for litigation claims. 	<ul style="list-style-type: none"> Inquire of management regarding the policies or procedures adopted for identifying, evaluating and accounting for litigation claims; <u>and</u> 		
	<ul style="list-style-type: none"> <u>Inquire of management regarding the use of directives issued by the entity and periodic representations obtained by the entity from management at appropriate levels of authority concerning compliance with laws and regulations.</u> 	<p>.08 (<i>partial</i>)</p> <ul style="list-style-type: none"> The use of directives issued by the client and periodic representations obtained by the client from management at appropriate levels of authority concerning compliance with laws and regulations. 	<p>Added requirement from AU 317.08 to the application material.</p>
<p><i>Laws and Regulations Generally Recognized to Have a Direct Effect on the Determination of Material Amounts and Disclosures in the Financial Statements</i> (Ref: Para. 13)</p>	<p><i>Laws and Regulations Generally Recognized to Have a Direct Effect on the Determination of Material Amounts and Disclosures in the Financial Statements</i> (Ref. par. 13)</p>		
<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</p>	<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)). <u>These</u></p>	<p>.05 (<i>partial</i>) The auditor considers laws and regulations that are generally recognized by auditors to have a direct and material effect on the determination of financial</p>	<p>Added application material to further distinguish the two types of laws and regulations.</p>

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could include those that relate to, for example:	<u>laws and regulations generally are (1) directly relevant to the determination of material amounts and disclosures in the financial statements and readily evident as such, and (2) limited in number.</u> They could include those that relate to, for example:	statement amounts.	
<ul style="list-style-type: none"> The form and content of financial statements; 	<ul style="list-style-type: none"> The form and content of financial statements <u>(for example, statutorily-mandated requirements);</u> 		Added language to insert the associated law or regulation.
<ul style="list-style-type: none"> Industry-specific financial reporting issues; 	<ul style="list-style-type: none"> Industry-specific financial reporting issues; 		
<ul style="list-style-type: none"> Accounting for transactions under government contracts; or 	<ul style="list-style-type: none"> Accounting for transactions under government contracts <u>(for example, laws and regulations that may affect the amount of revenue to be accrued);</u> or 	.05 (partial) applicable laws and regulations may affect the amount of revenue accrued under government contracts.	Added language to insert the associated law or regulation.
<ul style="list-style-type: none"> The accrual or recognition of expenses for income tax or pensions costs. 	<ul style="list-style-type: none"> The accrual or recognition of expenses for income tax or pensions costs. 	.05 (partial) For example, tax laws affect accruals and the amount recognized as expense in the accounting period;	
Some matters may be relevant to specific assertions (for example, the	<u>A9.</u> Some matters may be relevant to specific assertions (for example,	.05 (partial) However, the auditor considers such laws or	In A9, included material from

<p>completeness of income tax provisions), while others may be relevant to the financial statements as a whole (for example, the required statements constituting a complete set of financial statements). Non-compliance with 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 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>the completeness of income tax provisions), while others may be relevant to the financial statements as a whole, <u>The auditor's responsibility to detect and report misstatements resulting from non-compliance with laws and regulations having a direct effect on the determination of material amounts and disclosures in the financial statements is the same as that for misstatements caused by error or fraud as described in [proposed] SAS, Overall Objective of the Independent Auditor and the Conduct of an Audit in Accordance with Generally Accepted Auditing Standards.</u></p> <p><u>A10.</u> Non-compliance with other laws and regulations (those described in paragraph 6(b)) may result in fines, litigation or other consequences for the entity, the costs of which may need to be provided for or disclosed 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>regulations from the perspective of their known relation to audit objectives derived from financial statements assertions rather than from the perspective of legality <i>per se</i>. The auditor's responsibility to detect and report misstatements resulting from illegal acts having a direct and material effect on the determination of financial statement amounts is the same as that for misstatements caused by error or fraud as described in section 110.</p>	<p>extant 317.05.</p> <p>In A10, made reference back to paragraph 6(b) for clarity.</p>
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Comment [GW1]: Repetitive

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<p><i>Procedures to Identify Instances of Non-compliance – Other Laws and Regulations</i> (Ref: Para. 14)</p>	<p><i>Procedures to Identify Instances of Non-Compliance – Other Laws and Regulations</i> (Ref. par. 14)</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><u>A11.</u> 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).</p> <p><u>A12.</u> There are also many laws and regulations relating principally to the operating aspects of the entity that typically do not affect the financial statements <u>(their financial</u></p>	<p>.06 Entities may be affected by many other laws or regulations, including those related to securities trading, occupational safety and health, food and drug administration, environmental protection, equal employment, and price-fixing or other antitrust violations. Generally, these laws and regulations relate more to an entity’s operating aspects than to its financial and accounting aspects, and their financial statement effect is indirect. An auditor ordinarily does not have sufficient basis for recognizing possible violations of such laws and regulations. Their indirect effect is normally the result of the need to disclose a contingent liability because of the allegation or determination of illegality. For example, securities may be purchased or sold based on inside information. While the direct effects of the purchase or sale</p>	<p>Added language from AU 317.06 to provide more guidance on those laws and regulations described in paragraph 6(b) of the proposed SAS, and limitations to identifying non-compliance with such.</p>

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	<p><u>statement effect is indirect)</u> and are not captured by the entity's information systems relevant to financial reporting. <u>Those other laws or regulations may include those related to securities trading, occupational safety and health, food and drug administration, environmental protection, equal employment, and price-fixing or other antitrust violations. Their indirect effect is normally the result of the need to disclose a contingent liability because of the allegation or determination of identified or suspected non-compliance.</u></p> <p><u>A13. An auditor ordinarily does not have sufficient basis for recognizing possible non-compliance with such laws and regulations. Even when non-compliance with such laws and regulations can have consequences material to the financial statements, the auditor may not become aware of the existence of the non-compliance unless he or she is informed by management, or there is evidence of a governmental agency investigation or enforcement proceeding in the records, documents, or other</u></p>	<p>may be recorded appropriately, their indirect effect, the possible contingent liability for violating securities laws, may not be appropriately disclosed. Even when violations of such laws and regulations can have consequences material to the financial statements, the auditor may not become aware of the existence of the illegal act unless he is informed by the client, or there is evidence of a governmental agency investigation or enforcement proceeding in the records, documents, or other information normally inspected in an audit of financial statements.</p>	
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	<u>information normally inspected in an audit of financial statements.</u>		
A10. As the financial reporting consequences of other laws and regulations can vary depending on the entity's operations, the audit procedures required by paragraph 14 are directed to bring to the auditor's attention instances of non-compliance with laws and regulations that may have a material effect on the financial statements.	<p><u>A14.</u> As the financial reporting consequences of other laws and regulations can vary depending on the entity's operations, the audit procedures required by paragraph 14 are directed to bring 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><u>A15. In some regulatory environments, the amount of an entity's correspondence with licensing or regulatory authorities is voluminous. In using his or her judgment in such circumstances, the auditor may consider the following to determine the extent of inspection that may identify instances of non-compliance:</u></p> <ul style="list-style-type: none"> • <u>The nature of the entity, and</u> • <u>The nature and type of correspondence.</u> 	<p><i>.08 (partial and repeated elsewhere)</i> Where applicable, the auditor should also inquire of management concerning—</p> <ul style="list-style-type: none"> • The client's policies relative to the prevention of illegal acts. <p>The use of directives issued by the client and periodic representations obtained by the client from management at appropriate levels of authority concerning compliance with laws and regulations.</p>	<p>Added new application material paragraph to attempt to put some fences around the procedures required in paragraph 14(b).</p>
<i>Non-compliance Brought to the Auditor's Attention by Other Audit</i>	<i>Non-Compliance Brought to the Auditor's Attention by Other Audit</i>		

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Comment [GW2]: You could also use confine, curb, constrain, restrict...?

<i>Procedures</i> (Ref: Para. 15)	<i>Procedures</i> (Ref. par. 15)		
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:	A16. 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:	.08 (<i>partial</i>) For example, such procedures include	
<ul style="list-style-type: none"> • Reading minutes; 	<ul style="list-style-type: none"> • Reading minutes; 	reading minutes	
<ul style="list-style-type: none"> • Inquiring of the entity's management and in-house legal counsel or external legal counsel concerning litigation, claims and assessments; and 	<ul style="list-style-type: none"> • Inquiring of the entity's management and in-house legal counsel or external legal counsel concerning litigation, claims and assessments; and 	inquiring of the client's management and legal counsel concerning litigation, claims, and assessments	
<ul style="list-style-type: none"> • Performing substantive tests of details of classes of transactions, account balances or disclosures. 	<ul style="list-style-type: none"> • Performing substantive tests of details of classes of transactions, account balances or disclosures. 	performing substantive tests of details of transactions or balances.	
<i>Written Representations</i> (Ref: Para. 16)	Ref. par.		
A12. Because the effect on financial statements of laws and	A17. Because the effect on financial statements of laws and		Added reference to AU 333, where requirement will be

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<p>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.¹⁷</p>	<p>regulations can vary considerably, written representations <u>as required by AU 333</u> provide necessary audit evidence about management’s knowledge of identified or suspected non-compliance with laws and regulations, <u>the effects of which</u> 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.¹⁸</p>		<p>moved to.</p>
<p>Audit Procedures when Non-compliance is Identified or Suspected</p>	<p>Audit Procedures when Non-compliance is Identified or Suspected</p>		
<p><i>Indications of Non-compliance with Laws and Regulations</i> (Ref: Para. 18)</p>	<p><i>Indications of Non-compliance with Laws and Regulations</i> (Ref. par. <u>17</u>)</p>		
<p>A13. When the auditor becomes aware of the existence of, or information about, the following matters, it may be an indication of</p>	<p><u>A18.</u> When the auditor becomes aware of the existence of, or information about, the following matters, it may be an indication of</p>	<p>.09 In applying audit procedures and evaluating the results of those procedures, the auditor may encounter specific</p>	

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¹⁸ ISA 580 (Revised and Redrafted), par. 4.

non-compliance with laws and regulations:	non-compliance with laws and regulations:	information that may raise a question concerning possible illegal acts, such as the following:	
<ul style="list-style-type: none"> Investigations by regulatory organizations and government departments or payment of fines or penalties. 	<ul style="list-style-type: none"> Investigations by regulatory organizations and government departments or payment of fines or penalties. 	<ul style="list-style-type: none"> Investigation by a governmental agency, an enforcement proceeding, or payment of unusual fines or penalties 	
<ul style="list-style-type: none"> Payments for unspecified services or loans to consultants, related parties, employees or government employees. 	<ul style="list-style-type: none"> Payments for unspecified services or loans to consultants, related parties, employees or government <u>officials or</u> employees. 	<ul style="list-style-type: none"> Large payments for unspecified services to consultants, affiliates, or employees Unexplained payments made to government officials or employees 	Editorial from the SAS.
<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> Sales commissions or agents' fees that appear excessive in relation to those normally paid by the client or to the services actually received 	
<ul style="list-style-type: none"> Purchasing at prices significantly above or 	<ul style="list-style-type: none"> Purchasing at prices significantly above or 		

below market price.	below market price.		
<ul style="list-style-type: none"> Unusual payments in cash, purchases in the form of cashiers' cheques payable to bearer or transfers to numbered bank accounts. 	<ul style="list-style-type: none"> Unusual payments in cash, purchases in the form of cashiers' <u>checks</u> payable to bearer or transfers to numbered bank accounts. 	<ul style="list-style-type: none"> Unusually large payments in cash, purchases of bank cashiers' checks in large amounts payable to bearer, transfers to numbered bank accounts, or similar transactions 	Editorial revisions.
<ul style="list-style-type: none"> Unusual transactions with companies registered in tax havens. 	<ul style="list-style-type: none"> Unusual transactions with companies registered in tax havens. 		
<ul style="list-style-type: none"> Payments for goods or services made other than to the country from which the goods or services originated. 	<ul style="list-style-type: none"> Payments for goods or services made other than to the country from which the goods or services originated. 		
<ul style="list-style-type: none"> Payments without proper exchange control documentation. 	<ul style="list-style-type: none"> Payments without proper exchange control documentation. 		Not applicable in US.
<ul style="list-style-type: none"> Existence of an information system which fails, whether by design or by accident, to provide an adequate audit trail or sufficient evidence. 	<ul style="list-style-type: none"> Existence of an information system which fails, whether by design or by accident, to provide an adequate audit trail or sufficient evidence. 		

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<ul style="list-style-type: none"> Unauthorized transactions or improperly recorded transactions. 	<ul style="list-style-type: none"> Unauthorized transactions or improperly recorded transactions. 	<ul style="list-style-type: none"> Unauthorized transactions, improperly recorded transactions, or transactions not recorded in a complete or timely manner in order to maintain accountability for assets 	
<ul style="list-style-type: none"> Adverse media comment. 	<ul style="list-style-type: none"> Adverse media comment. 		
	<ul style="list-style-type: none"> <u>Non-compliance with laws or regulations cited in reports of examinations by regulatory agencies that have been made available to the auditor.</u> 	<ul style="list-style-type: none"> Violations of laws or regulations cited in reports of examinations by regulatory agencies that have been made available to the auditor 	Added example from AU317.09 which was not in the ISA.
	<ul style="list-style-type: none"> <u>Failure to file tax returns or pay government duties or similar fees that are common to the entity's industry or the nature of its business.</u> 	<ul style="list-style-type: none"> Failure to file tax returns or pay government duties or similar fees that are common to the entity's industry or the nature of its business 	Added example from AU317.09 which was not in the ISA.
		<p>AU Section 9317: Auditing Interpretations of Section 317</p> <p>Question: What course of action should be followed by the</p>	Did not incorporated thoughts in AU <u>section</u> 9317 into ISA because not applicable to non-public companies.

		<p>auditor of entity subject to the internal accounting control provision of the Foreign Corrupt Practices Act of 1977 to comply with <u>AU</u> section 317 when a material weakness in internal control comes to his attention?</p> <p>Interpretation: The standards applied by an auditor in determining a material weakness in internal control may differ from the standards for determining a violation of the Act. <u>Nevertheless</u>, a specific material weakness may ultimately be determined to be a violation and, hence, an illegal act. <u>Therefore</u>, the auditor should inquire of the client's management and consult with the client's legal counsel as to whether the material weakness is a violation of the Act.</p> <p>In consultation with management and legal counsel, consideration should be give to corrective action taken or in process. <u>If</u> management has concluded that corrective action for a material weakness is not</p>	
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		<p>practicable, consideration should be given to the reasons underlying that conclusion, including management's evaluation of the costs of correction in relation to the expected benefit to be derived.</p> <p>¶ If it is determined that there has been a violation of the Act and appropriate consideration is not given to the violation, the auditor should consider withdrawing from the current engagement or dissociating himself from any future relationship with the client (see AU section 317 par. 22).</p> <p>A violation of the internal accounting provisions of the Act would not, in and of itself, have a direct effect on amounts presented in the audited financial statements. ¶</p> <p>However, the contingent monetary effect on an entity ultimately determined to have wilfully violated the internal accounting control provision of the Act could be fines of up to \$10,000 for the violation. ¶ The auditor should consider the materiality of such contingent</p>	
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		monetary effect in relation to the audited financial statements taken as a whole. <u>Other loss contingencies</u> , as defined by FASB Statement No. 5, ordinarily would not result from a weakness in internal control which gives rise to such a violation of the Act.	
	<u>Obtaining an Understanding of an Act of Identified or Suspected Non-Compliance</u> (Ref. par. 17(a))		
	<p><u>A19. Procedures an auditor may perform to obtain an understanding of the nature of an act of identified or suspected non-compliance and the circumstances in which it has occurred include the following:</u></p> <ul style="list-style-type: none"> • <u>Examining supporting documents, such as invoices, cancelled checks, and agreements and comparing with accounting records;</u> • <u>Confirming significant information concerning the matter with the other party to the transaction or with</u> 	<p>.11 The additional procedures considered necessary, if any, might include procedures such as the following:</p> <p>A) Examine supporting documents, such as invoices, cancelled checks, and agreements and compare with accounting records.</p> <p>B) Confirm significant information concerning the matter with the other party to the transaction or with intermediaries, such as banks or lawyers.</p>	<p>Added procedures from AU 317.11 (which related to procedures used to obtain an understanding of the acts) which were not specified in the ISA.</p>

	<p><u>intermediaries, such as banks or lawyers;</u></p> <ul style="list-style-type: none"> • <u>Determining whether the transaction has been properly authorized; and</u> • <u>Considering whether other similar transactions or events may have occurred, and applying procedures to identify them.</u> 	<p>C) Determine whether the transaction has been properly authorized.</p> <p>D) Consider whether other similar transactions or events may have occurred, and apply procedures to identify them.</p>	
<i>Matters Relevant to the Auditor's Evaluation</i> (Ref: Para. 18(b))	<i>Matters Relevant to the Auditor's Evaluation</i> (Ref. par. <u>17</u> (b))		
A14. Matters relevant to the auditor's evaluation of the possible effect on the financial statements include:	<u>A20.</u> Matters relevant to the auditor's evaluation of the possible effect on the financial statements include:		
<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. 	<ul style="list-style-type: none"> • <u>The quantitative and qualitative materiality of the effect of non-compliance.</u> The potential financial consequences of non-compliance with laws and regulations on the financial statements <u>may include</u> the imposition of fines, penalties, damages, threat of expropriation of assets, enforced 	<p>.13 In evaluating the materiality of an illegal act that comes to his attention, the auditor should consider both the quantitative and qualitative materiality of the act. For example, section 312, <i>Audit Risk and Materiality in Conducting an Audit</i>, paragraph .59, states that "an illegal payment of an otherwise immaterial amount could be material if there is a reasonable</p>	<p>Added requirement from AU 317.13 to application material in the form of an example.</p> <p>Included middle sentence in next bullet.</p>

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	<p>discontinuation of operations, and litigation. <u>For example, an illegal payment of an otherwise immaterial amount could be material if there is a reasonable possibility that it could lead to a material contingent liability or a material loss of revenue.</u></p>	<p>possibility that it could lead to a material contingent liability or a material loss of revenue."</p> <p>.14 The auditor should consider the effect of an illegal act on the amounts presented in financial statements including contingent monetary effects, such as fines, penalties and damages. Loss contingencies resulting from illegal acts that may be required to be disclosed should be evaluated in the same manner as other loss contingencies. Examples of loss contingencies that may arise from an illegal act are: threat of expropriation of assets, enforced discontinuance of operations in another country, and litigation.</p>	
<ul style="list-style-type: none"> Whether the potential financial consequences require disclosure. 	<ul style="list-style-type: none"> Whether the potential financial consequences require disclosure. <u>For example, if material revenue or earnings are derived from transactions involving non-compliance, or if non-compliance creates significant risks associated with material revenue or</u> 	<p>.15 The auditor should evaluate the adequacy of disclosure in the financial statements of the potential effects of an illegal act on the entity's operations. If material revenue or earnings are derived from transactions involving illegal acts, or if illegal acts create significant unusual risks associated with material revenue or earnings,</p>	<p>Last sentence is from AU 317.14.</p>

	<p><u>earnings, such as loss of a significant business relationship, that information may require disclosure. Loss contingencies resulting from non-compliance that may be required to be disclosed may be evaluated in the same manner as other loss contingencies under FASB Statement No. 5.</u></p>	<p>such as loss of a significant business relationship, that information should be considered for disclosure.</p>	
<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> 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><i>Audit Procedures</i> (Ref: Para. 19)</p>	<p><i>Audit Procedures</i> (Ref. par. <u>18</u>)</p>		
<p>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</p>	<p><u>A21</u>. 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</p>		

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<p>understanding of the facts and circumstances relevant to transactions or events that have led to the possibility of non-compliance with laws and regulations.</p>	<p>understanding of the facts and circumstances relevant to transactions or events that have led to the possibility of non-compliance with laws and regulations.</p>		
<p>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. When it is not considered appropriate to consult with the entity's legal counsel or when 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, including the</p>	<p><u>A22.</u> 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. <u>The auditor may request management to arrange for such consultation with the entity's legal counsel.</u> When it is not considered appropriate to consult with the entity's legal counsel or when 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</p>	<p><i>.10 (partial and repeated elsewhere)</i> Consult with the client's legal counsel or other specialists about the application of relevant laws and regulations to the circumstances and the possible effects on the financial statements. Arrangements for such consultation with client's legal counsel should be made by the client.</p>	<p>Moved requirement from AU 317.10(a) to application material.</p>

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<p>possibility of fraud, and what further action, if any, the auditor would take.</p>	<p>contravention of a law or regulation is involved, the possible legal consequences, including the possibility of fraud, and what further action, if any, the auditor would take.</p>		
<p><i>Evaluating the Implications of Non-compliance</i> (Ref: Para. 21)</p>	<p><i>Evaluating the Implications of Non-Compliance</i> (Ref. par. <u>20</u>)</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><u>A24</u>. As required by paragraph <u>20</u>, 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>A18. In exceptional cases the</p>	<p><u>A25</u>. In <u>rare</u> cases the auditor</p>	<p>.22 In addition to the need to</p>	<p>Added factors from</p>

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<p>auditor may consider whether, unless prohibited by law or regulation, withdrawal from the engagement 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 prohibited, the auditor may consider alternative actions, including describing the non-compliance in an Other Matter(s) paragraph in the auditor's report.¹⁹</p>	<p>may consider whether, unless prohibited by law or regulation, withdrawal from the engagement 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. <u>Factors that may affect the auditor's conclusion may include the implications of the failure to take remedial action, which may affect the auditor's ability to rely on management representations, and the effects of continuing association with the entity.</u> If withdrawal from the engagement is prohibited, the auditor may consider alternative actions, including describing the non-compliance in an Other Matter(s) paragraph in the auditor's report.²⁰</p>	<p>withdraw from the engagement, as described in paragraph .20, the auditor may conclude that withdrawal is necessary when the client does not take the remedial action that the auditor considers necessary in the circumstances even when the illegal act is not material to the financial statements. Factors that should affect the auditor's conclusion include the implications of the failure to take remedial action, which may affect the auditor's ability to rely on management representations, and the effects of continuing association with the client. In reaching a conclusion on such matters, the auditor may wish to consult with his own legal counsel.</p>	<p>AU317.22 to consider when determining whether to withdraw from the engagement.</p>
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19 See [proposed] ISA 706 (Revised and Redrafted), *Emphasis of Matter Paragraphs and Other Matter(s) Paragraphs in the Independent Auditor's Report*

20 See [proposed] ISA 706 (Revised and Redrafted)

Reporting of Identified or Suspected Non-compliance	Reporting of Identified or Suspected Non-compliance		
	<p><i><u>Reporting Non-Compliance to Those Charged with Governance</u></i> (Ref. par. 21)</p>		
	<p><u>A25. The communication may describe the act of identified or suspected non-compliance, the circumstances of its occurrence, and the effect on the financial statements. To avoid communicating matters that are clearly inconsequential, the auditor may reach agreement in advance with those charged with governance on the nature of such matters to be communicated. Management may wish to have its remedial actions communicated to those charged with governance simultaneously. Possible remedial actions include disciplinary action against involved personnel, seeking restitution, adoption of preventive or corrective company policies, and modifications of specific control activities, including monitoring controls.</u></p>	<p>.17 (partial) The communication should describe the act, the circumstances of its occurrence, and the effect on the financial statements. Senior management may wish to have its remedial actions communicated to those charged with governance simultaneously. Possible remedial actions include disciplinary action against involved personnel, seeking restitution, adoption of preventive or corrective company policies, and modifications of specific control activities.</p>	<p>Added possible elements of the communication to those charged with governance from AU 317.17. Also inserted “including monitoring controls” at the end, which was not in AU 317.17.</p>
	<p><i><u>Issuance of a Modified Opinion on</u></i></p>		

	<u><i>the Financial Statements</i></u> (Ref. par. 24-25)		
	<u><i>A26. If management or those charged with governance refuses to accept a modified opinion on the financial statements for the circumstances described in paragraphs 24 and 25, the auditor may withdraw from the engagement and indicate the reasons for withdrawal in writing to those charged with governance.</i></u>	.20 If the client refuses to accept the auditor's report as modified for the circumstances described in paragraphs .18 and.19, the auditor should withdraw from the engagement and indicate the reasons for withdrawal in writing to those charged with governance.	Added the option to withdraw from the engagement if management refuses to accept the modified opinion.
<i>Reporting Non-compliance to Regulatory and Enforcement Authorities</i> (Ref: Para. 28)	<i>Reporting Non-compliance to Regulatory and Enforcement Authorities</i> (Ref. par. 27)		

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<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 appropriate</p>	<p><u>A27.</u> 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.</p> <p><u>In the following circumstances a duty to notify parties outside the entity may exist:</u></p> <ul style="list-style-type: none"> • <u>To a successor auditor when the successor makes inquiries in accordance with section 315</u> • <u>In response to a subpoena</u> • <u>To a funding agency or other specified agency in accordance with</u> 	<p>.23 Disclosure of an illegal act to parties other than the client’s senior management and its audit committee or board of directors is not ordinarily part of the auditor’s responsibility, and such disclosure would be precluded by the auditor’s ethical or legal obligation of confidentiality, unless the matter affects his opinion on the financial statements. The auditor should recognize, however, that in the following circumstances a duty to notify parties outside the client may exist:^{fn 3}</p> <p><i>a.</i> When the entity reports an auditor change under the appropriate securities law on Form 8-K^{fn 4}</p> <p><i>b.</i> To a successor auditor when the successor makes inquiries in</p>	<p>Made the guidance more specific to the US by including examples from AU 317.23.</p>
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<p>to obtain legal advice to determine the appropriate course of action.</p>	<p><u>requirements for the audits of entities that receive financial assistance from a government agency</u></p> <p><u>Because potential conflicts with the auditor's ethical and legal obligations for confidentiality may be complex, the auditor may consult with legal counsel before discussing non-compliance with parties outside the entity.</u></p>	<p>accordance with section 315,</p> <p>c. In response to a subpoena</p> <p>d. To a funding agency or other specified agency in accordance with requirements for the audits of entities that receive financial assistance from a government agency</p> <p>Because potential conflicts with the auditor's ethical and legal obligations for confidentiality may be complex, the auditor may wish to consult with legal counsel before discussing illegal acts with parties outside the client.</p>	
<p><i>Considerations Specific to Public Sector Entities</i></p>	<p><i>Considerations Specific to Governmental Entities</i></p>		
<p>A20. A public sector auditor may be obliged to report on instances of non-compliance to governing authorities or to report them in the auditor's report.</p>	<p><u>A28. The auditor of a governmental entity may be required to report on compliance with laws, regulations and provisions of contracts or grant agreements as part of the audit of the governmental entity's financial statements, for example in an audit conducted in accordance with Government Auditing Standards. The auditor may also be required to</u></p>		<p>The task force received a comment from a member to revise this paragraph to make it more US-specific.</p>

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	<u>communicate instances of non-compliance to appropriate oversight bodies and funding agencies.</u>		
Documentation (Ref: Para. 29)	Documentation (Ref. par. <u>28</u>)		
A21. The auditor's documentation of findings regarding identified or suspected non-compliance with laws and regulations may include, for example:	<u>A29.</u> The auditor's documentation of findings regarding identified or suspected non-compliance with laws and regulations may include, for example:		
<ul style="list-style-type: none"> Copies of records or documents. 	<ul style="list-style-type: none"> Copies of records or documents. 		
<ul style="list-style-type: none"> Minutes of discussions held with management, those charged with governance or parties outside the entity. 	<ul style="list-style-type: none"> Minutes of discussions held with management, those charged with governance or <u>other</u> parties <u>inside or</u> outside the entity. 	.17 (<i>partial</i>) The communication may be oral or written. If the communication is oral, the auditor should document it.	

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