

**EXTRACT OF PROPOSED INTERNATIONAL STANDARD ON  
AUDITING 250 (REVISED)  
CONSIDERATION OF LAWS AND REGULATIONS IN AN AUDIT OF  
FINANCIAL STATEMENTS**

(Effective for audits of financial statements for periods  
beginning on or after December 15, 2017)

**[CLEAN]**

---

**Introduction**

...

**Effective Date**

9. This ISA is effective for audits of financial statements for periods beginning on or after December 15, 2017.

...

**Definition**

11. For the purposes of this ISA, the following term has the meaning attributed below:

Non-compliance – Acts of omission or commission, intentional or unintentional, committed by the entity, or by those charged with governance, by management or by other individuals working for or under the direction of the entity, which are contrary to the prevailing laws or regulations. Non-compliance does not include:

- (a) Personal misconduct unrelated to the business activities of the entity; or
- (b) Non-compliance by persons other than those charged with governance, management or other individuals working for or under the direction of the entity.

...

## Requirements

### Reporting of Identified or Suspected Non-Compliance, Including Potential Implications for the Auditor's Report

#### *Reporting Identified or Suspected Non-Compliance to an Appropriate Authority outside the Entity*

28. If the auditor has identified or suspects non-compliance with laws and regulations, the auditor shall determine whether the auditor has a responsibility under law, regulation or relevant ethical requirements in relation to reporting identified or suspected non-compliance to an appropriate authority outside the entity. Although such a responsibility may override the duty of confidentiality in some circumstances, the auditor's duty of confidentiality under law, regulation or relevant ethical requirements may, in other circumstances, preclude such reporting. (Ref: Para. A19–A20)

\*\*\*

## Application and Other Explanatory Material

...

### Definition

- A6a. Acts of non-compliance include transactions entered into by, or in the name of, the entity, or on its behalf, by those charged with governance, management or other individuals working for or under the direction of the entity.

...

### Reporting of Identified or Suspected Non-Compliance, Including Potential Implications for the Auditor's Report

#### *Reporting Identified or Suspected Non-Compliance to an Appropriate Authority outside the Entity* (Ref: Para. 28)

- A19. Obtaining legal advice may assist in making the determination required by paragraph 28. The auditor may also consider consulting, on a confidential basis with others within the firm, a network firm or a professional body, unless doing so is prohibited by law or regulation or would breach the duty of confidentiality.
- A19a. In some circumstances, the reporting of identified or suspected non-compliance with laws and regulations to an appropriate authority outside the entity may be precluded by the auditor's duty of confidentiality under law, regulation or relevant ethical requirements.
- A19b. In some jurisdictions, the auditor may be required by law or regulation to report identified or suspected non-compliance with laws and regulations to an appropriate authority outside the entity. For example, in some jurisdictions, statutory requirements exist for the auditor of a financial institution to report the occurrence, or suspected occurrence, of non-compliance with laws and regulations to supervisory authorities. Also, in some jurisdictions, the auditor may be required to report misstatements that arise from non-compliance with laws or regulations to authorities in cases where management or those charged with governance fail to take corrective action.

A19c. In other jurisdictions or circumstances, law, regulation or the relevant ethical requirements may give the auditor the right to report identified or suspected non-compliance to an appropriate authority outside the entity, even if no legal or ethical requirement exists to do so. For example, when dealing with financial institutions such as banks and insurers, the auditor may have the right under law or regulation to discuss matters, such as identified or suspected non-compliance, with a financial institution's supervisor.

A19d. In other cases, the relevant ethical requirements may establish responsibilities for the auditor in relation to reporting identified or suspected non-compliance with laws and regulations to an appropriate authority outside the entity. For example, the *Code of Ethics for Professional Accountants* issued by the International Ethics Standards Board for Accountants (IESBA Code) requires the professional accountant to take steps to address the matter and determine whether further action is needed, which may include reporting to an appropriate authority outside the entity.<sup>1</sup> The IESBA Code explains that such reporting would not be considered a breach of the duty of confidentiality under the IESBA Code.<sup>2</sup>

---

<sup>1</sup> See, for example, Section 225.29 and Sections 225.33–225.36 of the IESBA Code.

<sup>2</sup> See, for example, Section 140.7 and Section 225.35 of the IESBA Code.