

**Responding to Non-compliance with Laws and Regulations is an international ethics standard for auditors and other professional accountants. It sets out a first-of-its-kind framework to guide professional accountants in what actions to take in the public interest when they become aware of a potential illegal act, known as non-compliance with laws and regulations, or NOCLAR, committed by a client or employer.**

### **To whom does the standard apply?**

The standard applies to all categories of professional accountants, including auditors, other professional accountants in public practice, and professional accountants in organizations, including those in businesses, government, education, and the not-for-profit sector. It addresses breaches of laws and regulations that deal with matters such as fraud, corruption and bribery, money laundering, tax payments, financial products and services, environmental protection, and public health and safety.

### **What is NOCLAR under the proposed framework?**

Any act of omission or commission, intentional or unintentional, committed by a client or employer, or by those charged with governance, management or employees of a client or employer which is contrary to the prevailing laws and regulations.

### **What is included in the scope of laws and regulations?**

- Laws and regulations that have a direct effect on the determination of material amounts and disclosures in the financial statements
- Other laws and regulations, compliance with which may be fundamental to the entity's business and operations, or to avoid material penalties.

### **What is not in the scope?**

- Matters that are clearly inconsequential
- Personal misconduct unrelated to the business activities of the client or employer
- NOCLAR acts committed by persons other than the client or employer, or those charged with governance, management or employees of the client or employer.

### **What is required of Auditors under the proposed Framework?**

Raising the identified or suspected NOCLAR with management or those charged with governance

- To clarify their understanding of the matter and substantiate or dispel their concerns
- To prompt management or those charged with governance to:
  - Investigate the matter and rectify or mitigate consequences for stakeholders
  - Prevent the act of NOCLAR where it is yet to occur
  - Report the matter to the appropriate authority if required by law or regulation or disclose the matter if necessary in the public interest.

Fulfilling professional responsibilities by understanding and complying with applicable laws and regulations and professional standards.

Considering if further action is needed to achieve the objectives by determining

- The appropriate timelines for management or those charged with governance's response
- Evidence of actual or potential substantial harm to the entity or stakeholders
- Disclosing the matter to the appropriate authority
- Withdrawing from the engagement

Documenting, among other matters, how they are satisfied that the objectives have been met.

The IESBA believes that the proposed framework focusses on the desired outcomes in the public interest i.e., that professional accountants do not turn a blind eye to the matter, that NOCLAR consequences are addressed or that NOCLAR be deterred, and that further appropriate action be taken as needed in the public interest.

### **Completion date:**

**The IESBA is targeting December 2017 for completion of this work to restructure and strengthen the Code. The restructured Code, which will be renamed *International Code of Ethics for Professional Accountants (including International Independence Standards)*, and will contain significant new requirements and revised provisions that the IESBA has already finalized.**