

Audit & Assurance Alert

CAS 250

MARCH 2017

Responding to Non-Compliance with Laws and Regulations

This Audit & Assurance Alert is being issued to raise awareness of revisions to the Canadian Auditing Standard (CAS) 250, *Consideration of Laws and Regulations in an Audit of Financial Statements* and certain other Canadian standards pertaining to instances of identified or suspected non-compliance with laws and regulations (herein NOCLAR). These revisions are effective for audits of financial statements for periods ending on or after December 15, 2018.

This Alert does not address all aspects of CAS 250 and other CASs containing additional requirements with which auditors must comply. Additional Canadian standards have been amended to align with the changes to CAS 250. Conforming amendments are included on [page 3](#) of this Alert.

Background

International Standards

The International Auditing and Assurance Standards Board (IAASB) has revised the International Standard on Auditing (ISA) 250, *Consideration of Laws and Regulations in an Audit of Financial Statements* and certain other International standards. The revisions to ISA 250 are in response to changes the International Ethics Standards Board for Accountants (IESBA) made to their Code of Ethics for Professional Accountants (IESBA Code). The revised IESBA Code sets out a framework for the response of professional accountants to identified or suspected NOCLAR, including whether identified or suspected NOCLAR should be disclosed to the

appropriate authority. The IAASB considered the IESBA's NOCLAR changes and concluded that ISA 250 and certain International Standards should be enhanced to give more attention to the additional responsibilities of the auditor or practitioner under the revised IESBA Code when NOCLAR is identified or suspected.

Canadian Standards

The Auditing and Assurance Standards Board (AASB) adopted the revisions to ISA 250 as CAS 250, consistent with its policy to adopt ISAs as CASs.

While the IESBA Code has not been adopted in Canada, the provincial rules of professional conduct must be as stringent unless there is a legal, regulatory or public interest reason. The CPA profession's Public Trust Committee is currently considering the NOCLAR changes to the IESBA Code in relation to the CPA profession's existing ethical standards and within the context of Canadian laws, regulations and the public interest. Notwithstanding this on-going review, the IESBA Code amendments to ISA 250 allows for flexibility when ethical codes other than the IESBA Code are applied. The revisions to CAS 250 alert the Canadian auditor or practitioner to the additional responsibilities that may exist under the rules of professional conduct in Canada. For more information on the implications of the IESBA Code for Canadian auditors, see the Audit Quality Blog post "[Implications of non-compliance with laws and regulations \(NOCLAR\) for Canadian auditors](#)" and the member news article "[New international ethics standard will have implications for all professional accountants](#)".

What Is NOCLAR and How Is the Auditor Expected to Address it?

During the course of providing professional services to an entity, the auditor may become aware of an act or suspected act of NOCLAR committed (or about to be committed) by the entity, those charged with governance, management or other individuals working for or under the direction of the entity.

CAS 250 deals with the auditor's responsibility to consider laws and regulations in an audit of financial statements. If the auditor becomes aware or suspects NOCLAR, CAS 250 explains the audit procedures required to be performed, which include:

- obtaining an understanding of the nature of the act and the circumstances in which it has occurred and obtaining any additional information necessary to evaluate the possible effect of the act on the financial statements
- discussing the matter with management and those charged with governance
- obtaining legal advice in certain circumstances
- evaluating the implications of NOCLAR in relation to other aspects of the audit
- evaluating the impact of NOCLAR on the audit opinion
- determining whether to report NOCLAR to an appropriate authority outside the entity.

What Are the Key Changes to CAS 250?

The amendments to CAS 250 have not changed the work effort of the auditor. The amendments are either clarifications to existing guidance or additional application guidance that highlights possible scenarios that may exist under law, regulation or relevant ethical requirements in relation to reporting to an appropriate authority.

The key changes to CAS 250 are intended to:

- help the auditor decide whether to report identified or suspected NOCLAR to an appropriate authority outside the entity
- clarify the auditor's duty of confidentiality according to the relevant laws, regulations, or ethical requirements
- highlight any additional responsibilities the auditor may have under law, regulation or relevant ethical requirements, including possible requirements for documentation and communication with other auditors
- enhance consideration of the implications of NOCLAR on the audit, (e.g., the reliability of management's representations, the implications for the auditor's report, and the consideration of whether to withdraw from the engagement)
- emphasize the fact that, in certain cases, communication with management or those charged with governance may be restricted or prohibited by law or regulation (e.g., tipping-off provisions that might prejudice an investigation by an appropriate authority into an actual or suspected illegal act).

Which Other Canadian Standards Issued by the AASB Are Affected by the Revision to CAS 250?

Efforts made to identify actual or suspected acts of NOCLAR are specific to the circumstances of the engagement. The changes to other Canadian standards issued by the AASB with respect to engagements other than audits focus on highlighting what may be expected of the professional accountant under law, regulation or relevant ethical requirements when NOCLAR is identified or suspected.

While minor conforming amendments were made to a number of Canadian standards, the more pertinent amendments were as follows:

Assurance Standard	Conforming Amendment
CAS 210, <i>Agreeing the Terms of Audit Engagements</i>	application material to emphasize that the auditor may consider including in the audit engagement letter the auditor's responsibilities under law, regulation or relevant ethical requirements regarding reporting of NOCLAR to an appropriate authority
CAS 220, <i>Quality Control for an Audit of Financial Statements</i>	application material to explain the communication between a predecessor and successor auditor, including with respect to NOCLAR
CAS 240, <i>The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements</i>	amendments to address the additional responsibilities under law, regulation or relevant ethical requirements, the communication with management and those charged with governance, and reporting fraud to an appropriate authority outside the entity
CSAE 3000, <i>Attestation Engagements Other than Audits or Reviews of Historical Financial Information</i> AND CSAE 3001, <i>Direct Engagements</i>	amendments to address the additional responsibilities under law, regulation or relevant ethical requirements, the communication with management and those charged with governance and reporting NOCLAR to an appropriate authority outside the entity; amendments also made to address the practitioner's expected level of understanding of laws and regulations beyond the scope of the standard
CSRE 2400, <i>Engagements to Review Historical Financial Statements</i>	amendments to address the additional responsibilities under law, regulation or relevant ethical requirements, the communication with management and those charged with governance and reporting NOCLAR to an appropriate authority outside the entity

Other Resources

1. *CPA Canada Handbook – Assurance*, Canadian Auditing Standard (CAS) 250, *Consideration of Laws and Regulations in an Audit of Financial Statements*
2. [Basis for Conclusions: Canadian Auditing Standard \(CAS\) 250, Consideration of Laws and Regulations in an Audit of Financial Statements](#)
3. [Basis for Conclusions: International Standard on Auditing \(ISA\) 250, Consideration of Laws and Regulations in an Audit of Financial Statements](#)
4. [Basis for Conclusions: International Ethics Standards Board for Accountants, Responding to Non-Compliance with Laws and Regulations](#)

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Comments

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