

NOCLAR—Comparison Between Exposure Draft and Proposed Framework

1. Objectives

ED	Proposed Framework
<p>Not specified (Focus for all categories of PA is on disclosure of NOCLAR to an appropriate authority)</p>	<p>All categories of PA:</p> <ul style="list-style-type: none"> ➤ Comply with fundamental principles of integrity and professional behavior; ➤ Through alerting management/TCWG, seek to have consequences of identified/suspected NOCLAR rectified, remediated or mitigated, or deter commission of NOCLAR; and ➤ Take such further action as may be needed in the public interest

2. Scope

ED	Proposed Framework
<p>For initial understanding/escalation process:</p> <ul style="list-style-type: none"> ➤ No limitations <p>For reporting to external auditor and/or to appropriate authority:</p> <ul style="list-style-type: none"> ➤ PAs serving audit clients: <ul style="list-style-type: none"> • Matters affecting financial reporting or matters within PA's expertise ➤ PAs serving non-audit clients: <ul style="list-style-type: none"> • Matters relating to subject matter of services provided ➤ PAIBs: <ul style="list-style-type: none"> • Matters affecting financial reporting or matters within PA's expertise 	<p>All categories of PA: same scope as ISA 250</p> <ul style="list-style-type: none"> ➤ Laws and regulations having direct effect on financial statements ➤ Other laws and regulations that may be fundamental to entity's business

3. **Becoming Aware of Suspected NOCLAR**

ED	Proposed Framework
All categories of PA: <ul style="list-style-type: none"> • Obtain an understanding • Substantiate/dispel 	All categories of PA: <ul style="list-style-type: none"> • Obtain an understanding • Substantiate/dispel

4. **Escalation Process vs. Engaging with Management and TCWG**

ED	Proposed Framework
➤ For PAs serving both audit and non-audit clients: <ul style="list-style-type: none"> • Comply with applicable laws and regulations • Discuss with appropriate level of management • Escalate if matter not appropriately addressed, including to TCWG if appropriate • If disclosure to an appropriate authority would be in public interest, must advise the entity to do so • Communicate with TCWG 	➤ For auditors: <ul style="list-style-type: none"> • Discuss with management/TCWG • Prompt management/TCWG to take appropriate actions rectify/remediate/mitigate consequences; deter NOCLAR; or disclose to appropriate authority • Understand and comply with applicable laws and regulations • Comply with professional standards ➤ For PAPPs providing NAS: <ul style="list-style-type: none"> • Discuss with management; or • If have access to them and where appropriate, TCWG
➤ For PAIBs: <ul style="list-style-type: none"> • Comply with applicable laws and regulations • Raise with superior • Escalate if matter not appropriately addressed, including to TCWG if appropriate, or go through internal whistle-blowing (WB) mechanism • If disclosure to an appropriate authority would be in public interest, must advise the employing organization to do so 	➤ For senior PAIBs <ul style="list-style-type: none"> • Raise with superior or go through internal WB mechanism • Rectify/remediate/mitigate consequences; seek to deter NOCLAR; alert external auditor; communicate with TCWG • Understand and comply with applicable laws and regulations ➤ For other PAIBs <ul style="list-style-type: none"> • Raise with superior or next higher level of authority, or go through internal WB mechanism

5. Reporting to External Auditor

ED	Proposed Framework
<ul style="list-style-type: none"> ➤ For PAs serving non-audit clients: <ul style="list-style-type: none"> • Required if entity has not disclosed to an appropriate authority 	<ul style="list-style-type: none"> ➤ For PAPPs providing NAS: <ul style="list-style-type: none"> • If client an audit client of the firm, communicate matter within the firm • If client an audit client of a network firm, consider communicating matter to the network firm • Consider as a possible further action if client not an audit client of the firm or a network firm
<ul style="list-style-type: none"> ➤ For PAIBs: <ul style="list-style-type: none"> • Required if: <ul style="list-style-type: none"> ○ Escalation not possible and no internal WB mechanism; or ○ Employing organization has not disclosed to an appropriate authority 	<ul style="list-style-type: none"> ➤ For senior PAIBs <ul style="list-style-type: none"> • Required to fulfill professional responsibilities ➤ For other PAIBs <ul style="list-style-type: none"> • Not required

6. Reporting to an Appropriate Authority

ED	Proposed Framework
<ul style="list-style-type: none"> ➤ For PAs serving audit clients: <ul style="list-style-type: none"> • Required ➤ For PAs serving non-audit clients: <ul style="list-style-type: none"> • Right and expectation 	<ul style="list-style-type: none"> ➤ For auditors: <ul style="list-style-type: none"> • Determine if needed along with other possible actions – must apply 3rd party test ➤ For PAPPs providing NAS: <ul style="list-style-type: none"> • Consider as a possible further action along with other possible actions
<ul style="list-style-type: none"> ➤ For PAIBs: <ul style="list-style-type: none"> • Right and expectation 	<ul style="list-style-type: none"> ➤ For senior PAIBs <ul style="list-style-type: none"> • Determine if needed along with other possible actions – must apply 3rd party test ➤ For other PAIBs <ul style="list-style-type: none"> • Not required

7. Documentation

ED	Proposed Framework
<ul style="list-style-type: none"> ➤ For PAs serving audit and non-audit clients: <ul style="list-style-type: none"> • Required <ul style="list-style-type: none"> ○ Document steps taken to respond to suspected NOCLAR, including: individuals consulted; responses received; disclosure, if any, made to an appropriate authority ○ If no external disclosure by PA, document: rationale for not disclosing and why PA decided to continue or not with the professional relationship 	<ul style="list-style-type: none"> ➤ For auditors: <ul style="list-style-type: none"> • Required under auditing standards • But also document: how management/TCWG have responded to the matter; courses of action considered, judgments made and decisions taken; and how satisfied that objectives have been met ➤ For PAPPs providing NAS: <ul style="list-style-type: none"> • Encouraged <ul style="list-style-type: none"> ○ Document nature and substance of the matter, discussions held, decisions made
<ul style="list-style-type: none"> ➤ For PAIBs: <ul style="list-style-type: none"> • Required <ul style="list-style-type: none"> ○ Document steps taken to respond to suspected NOCLAR, including: individuals consulted; responses received; disclosure, if any, made to an appropriate authority ○ If no external disclosure by PAIB: rationale for not disclosing, and if PA decided not to resign, why 	<ul style="list-style-type: none"> ➤ For PAIBs: <ul style="list-style-type: none"> • Encouraged <ul style="list-style-type: none"> ○ Document the matter; discussions held; how management/TCWG have responded to the matter; courses of action considered, judgments made and decisions taken; and how satisfied that objectives have been met