

## **EXPOSURE DRAFT**

# **Proposed Changes to EP 100 Responding to Non-Compliance with Laws and Regulations**

Comments are requested by 24 May 2019.

Once issued, the proposed changes are effective as of January 1, 2020.

## **REQUEST FOR COMMENTS**

This Exposure Draft of ISCA was approved for publication in April 2019. This Exposure Draft may be modified in light of comments received before being issued in its final form. Comments should be submitted so as to be received by 24 May 2019, preferably by e-mail in PDF file. All comments will be considered a matter of public record. Email responses should be sent to [technical@isca.org.sg](mailto:technical@isca.org.sg)

# Proposed Changes to EP 100 Responding to Non-Compliance with Laws and Regulations

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# **Explanatory Memorandum**

## **Introduction**

1. All members of the Institute of Singapore Chartered Accountants (ISCA) must adhere to EP 100 *Code of Professional Conduct and Ethics*. EP 100 is modelled after the *Code of Ethics for Professional Accountants* issued by the International Ethics Standards Board for Accountants (IESBA) of the International Federation of Accountants (IFAC).
2. EP 100 also encompasses the SG provisions included in the *Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities* issued by the Accounting and Corporate Regulatory Authority (ACRA). SG provisions are local adaptations to serve the public interest in Singapore and to conform to Singapore's regulatory environment and statutory requirements.
3. This memorandum provides background to, and an explanation of ISCA's proposed pronouncement addressing professional accountants' (PAs') response to non-compliance or suspected non-compliance with laws and regulations (NOCLAR).
4. The proposed pronouncement in this ISCA Exposure Draft (ED) relates to the final pronouncement of Responding to NOCLAR issued by IESBA in July 2016.
5. The proposed pronouncement in the ED (the NOCLAR Pronouncement) comprises the following:
  - Section 225, Responding to NOCLAR, concerning PAs in public practice;
  - Section 360, Responding to NOCLAR, concerning PAs in business; and
  - Consequential and conforming amendments to Sections 100, 140, 150, 210 and 270 of EP 100.
6. If adopted, the EP 100 would contain new sections 225 and 360 addressing PAs' responsibilities when they become aware of NOCLAR committed by a client or employer. Consequential and conforming changes would be made to other sections of EP 100.

## **Background**

7. A PA may encounter or is made aware of an act or suspected act of NOCLAR when providing professional services to a client or carrying out professional activities for an employer. It would often be a difficult and stressful situation for PAs when they are dealing with such situation. NOCLAR comprises acts of omission or commission, intentional or unintentional, committed by a client or by those charged with governance (TCWG), by management or by other individuals working for or under the direction of a client, which are contrary to the prevailing laws or regulations. In 2010, IESBA approved the NOCLAR project to develop the NOCLAR Pronouncement to help guide PAs in dealing with the situation and in deciding how best to act in the public interest in these circumstances.
8. Over more than six years, IESBA's deliberations on the development of the NOCLAR Pronouncement were communicated to the public via research, two exposure drafts, three global roundtables in Hong Kong, Brussels, and Washington DC and extensive stakeholder outreach, including discussion with the IESBA Consultative Advisory Group.
9. In August 2012, IESBA issued an ED titled [Responding to a Suspected Illegal Act](#). (Please click on the link to access the document.) Comments were requested to be submitted to IESBA by 15 December 2012.
10. In light of the consideration of responses received for the first ED issued in August 2012 and other extensive consultations with stakeholders, IESBA issued the second ED titled [Responding to Non-Compliance with Laws and Regulations](#). (Please click on the link to access the document.) in May 2015. Comments were requested to be submitted to IESBA by 4 September 2015.
11. In July 2016, IESBA issued the final pronouncement on NOCLAR and the pronouncement was

effective as of 15 July 2017. The objective of the pronouncement is to develop a framework to guide PAs, given their responsibility to act in the public interest, in assessing the implications of the matters and the possible courses of actions, when responding to NOCLAR or suspected NOCLAR with:

- (a) Laws and regulations generally recognized to have a direct effect on the determination of material amounts and disclosures in the client's financial statements; and
- (b) Other laws and regulations that do not have a direct effect on the determination of the amounts and disclosures in the client's financial statements, but compliance with which may be fundamental to the operating aspects of the client's business, to its ability to continue its business, or to avoid material penalties.

## **Consultation**

12. In May 2015, ISCA sought feedback on the IESBA's second ED. The consultation period was from 11 May 2015 to 8 June 2015.
13. The current consultation is to seek feedback on the proposed NOCLAR Pronouncement in this ISCA ED based on IESBA's final pronouncement. The key elements of the proposed NOCLAR Pronouncement are highlighted in the section that follows below.

## **Key Elements of the Proposed NOCLAR Pronouncement**

14. PAs are expected to meet their responsibilities to act in the public interest when PAs fulfill the following objectives in relation to NOCLAR:
  - (a) To comply with the principles of integrity and professional behavior when responding to NOCLAR or suspected NOCLAR.
  - (b) By alerting management or, where appropriate, TCWG, to seek to:
    - (i) Enable them to rectify, remediate or mitigate the consequences of the NOCLAR or suspected NOCLAR; or
    - (ii) Deter the commission of the NOCLAR where it has not yet occurred.
  - (c) Take further action as appropriate in the public interest.
15. The NOCLAR Pronouncement does not address:
  - (a) Matters that are clearly inconsequential;
  - (b) Personal misconduct unrelated to the business activities of the client or employer;
  - (c) Non-compliance other than by the client or employer, or TCWG, management or other individuals working for or under the direction of the client or employer.
16. In responding to NOCLAR, the NOCLAR Pronouncement requires PAs to perform the following steps:
  - (a) Obtaining an understanding of the matter;
  - (b) Addressing the matter;
  - (c) Determine if further action is needed.
17. The NOCLAR Pronouncement develops a differential approach for the following four categories of PAs to respond to identified or suspected NOCLAR. Under this approach, different levels of requirements are imposed on the different categories of PAs. Considering the nature of auditors' remit and higher public expectations of them, more stringent requirements are imposed on auditors as compared to PAs in public practice providing services other than audits of financial statements. For PAs in business, senior accountants would be subject to more stringent requirements as compared to other accountants.
  - (a) PAs in public practice providing audit services (Auditors);
  - (b) Senior PAs in business (Senior PAIBs);
  - (c) PAs in public practice providing professional services other than audits; and
  - (d) Other PAs in business.
18. Senior PAIBs are directors, officers or senior employees who are able to exert significant influence over, and make decisions regarding, the acquisition, deployment and control of the employing

organization's human, financial, technological, physical and intangible resources. They are expected to and have the responsibilities in setting the right tone at the top and in establishing the appropriate policies and procedures within their entities to prevent or deter NOCLAR.

#### Obtaining an understanding of the matter

19. Upon becoming aware of identified or suspected NOCLAR, PAs are required to understand the matter and comply with the applicable laws and regulations, including requirements regarding reporting to an appropriate authority and prohibitions on alerting the relevant party. Depending on the nature and significance of the matter, they may consult on a confidential basis with others within the employing organization or a professional body, or with legal counsel.
20. Senior PAIBs are required to obtain an understanding of the potential consequences of the NOCLAR matter to the employing organizations and its stakeholders with their greater responsibilities within their organizations.
21. PAs shall raise the identified or suspected NOCLAR with the appropriate level of management and, where applicable, those charged with governance (TCWG) and this would allow them to clarify and substantiate their understanding of the matter, including the nature of the NOCLAR and the circumstances in which it has occurred, or might occur.

#### Addressing the matter

22. PAs in business are required to first inform their immediate superior on the NOCLAR and proceed to discuss with the next higher level of authority within the employing organization if their immediate superiors appear to be involved in the matter to address it.
23. In discussing the NOCLAR matter with the management or TCWG, auditors and senior PAIBs shall advise them to address the consequences, deter the commission of non-compliance where it has not yet occurred or disclose the matter to an appropriate authority where required by law or regulation or where considered necessary in the public interest. Senior PAIBs are also required to reduce the risk of re-occurrence of NOCLAR and determine whether there is a need to disclose such matter to the external auditor pursuant to their obligations to furnish all the necessary information for the audit.
24. Auditors and senior PAIBs are required to comply with all applicable legal or regulatory requirements when addressing the matter. In addition, auditors are required to comply with applicable requirements under auditing standards. In the context of group audit, unless prohibited by law or regulation, auditors shall communicate the matter appropriately to the group engagement partner and vice versa.
25. PAs in public practice providing professional services other than audits to an audit client (or a component thereof) of the firm, unless prohibited by the law, shall communicate the NOCLAR matter within the firm. Otherwise, the communication shall be made directly to the audit engagement partner. The same requirements apply when professional services other than audits is provided to an audit client or component of an audit client of a network firm. If the client is not an audit client, they shall consider informing the NOCLAR to the client's external auditor.

#### Determine if further action is needed

26. Auditors and senior PAIBs are required to assess the appropriateness of the response of management, if any, and TCWG in determining if further action is needed in the public interest. They are also required to apply third party test to conclude that they have acted appropriately in the public interest. PAs in public practice providing professional services other than audits are also required to consider if further action is needed in the public interest.
27. Some factors to be considered when determining whether the need for further action, and nature and extent of it will include factors such as legal and regulatory framework, urgency and pervasiveness of the matter, involvement and integrity of management or TCWG, likelihood of recurrence for NOCLAR, credible evidence of actual or potential substantial harm to entity or stakeholders.
28. Further actions by PAs in public practice and senior PAIBs may include disclosing the matter to an

appropriate authority even when there is no legal or regulatory requirement to report, withdraw from the engagement and the professional relationship and resigning from the employing organization. However, withdrawal from the engagement or the professional relationship or resigning from the employing organization is not a substitute for taking other appropriate actions. If the auditor withdraws from the engagement, he or she is required to inform the proposed successor auditor of the NOCLAR matter without the need to obtain client consent. The auditor shall do so unless prohibited by law or regulation. The proposed auditor is required to obtain information about the circumstances of the change of appointment by other means if he is unable to communicate with the predecessor auditor.

29. If the reporting of the NOCLAR to an appropriate authority is an appropriate course of action, it would not be considered as a breach of the duty of confidentiality under Section 140 of EP 100. The determination to make such disclosure would depend on, in particular, the nature and extent of the actual or potential harm to stakeholders. Some other factors to be considered when making such disclosure also include whether there is an appropriate authority to intake and follow up on the information, the availability of legal protection and the existence of actual or potential threats to the physical safety of the PA or others. The PA shall act in good faith and exercise caution when making such disclosure.
30. The NOCLAR Pronouncement permits PAs to immediately disclose the matter to an appropriate authority only where, in their professional judgement, the matter would constitute an imminent breach of a law or regulation that causes substantial harm to stakeholders without immediate disclosure to the authority.

#### Documentation

31. If the NOCLAR matter falls within the scope of the NOCLAR Pronouncement, auditors are required to document the following:
- (a) How management or TCWG have responded to the matter;
  - (b) The courses of action considered, the judgements made, and the decisions taken, having regard to the reasonable and informed third party perspective;
  - (c) How responsibility to act in public interest has been met.

The other categories of PAs are encouraged to practise the same documentation requirements in relation to NOCLAR matter.

#### Effective Date

32. The proposed NOCLAR Pronouncement in this ISCA ED is effective as of January 1, 2020.

#### Useful Resource

33. The Staff of IESBA has issued the Staff Questions and Answers - Responding to NOCLAR (Staff Q&A on NOCLAR) for PAs in public practice and PAs in business, which are designed to highlight, illustrate or explain aspects of the NOCLAR-related provisions in the IESBA Code.
34. While both Staff Q&A on NOCLAR for PAs in public practice and PAs in business do not constitute an authoritative or official pronouncement of IESBA and are not meant to be an exhaustive list of questions and answers, they provide useful guidance to assist the PAs in their application.
35. The Staff Q&A on NOCLAR may be downloaded from the IESBA website using this [link](#).
36. The Staff of ISCA has included Appendix 1 Frequently Asked Questions in this ED to illustrate or explain certain aspects of the adoption of IESBA's NOCLAR Pronouncement in Singapore.

# **Proposed Changes to EP 100**

## **SECTION 225**

### **Responding to Non-Compliance with Laws and Regulations**

#### **Purpose**

- 225.1 A professional accountant in public practice may encounter or be made aware of non-compliance or suspected non-compliance with laws and regulations in the course of providing a professional service to a client. The purpose of this section is to set out the professional accountant's responsibilities when encountering such non-compliance or suspected non-compliance, and guide the professional accountant in assessing the implications of the matter and the possible courses of action when responding to it. This section applies regardless of the nature of the client, including whether or not it is a public interest entity.
- 225.2 Non-compliance with laws and regulations ("non-compliance") comprises acts of omission or commission, intentional or unintentional, committed by a client, or by those charged with governance, by management or by other individuals working for or under the direction of a client which are contrary to the prevailing laws or regulations.
- 225.3 In some jurisdictions, there are legal or regulatory provisions governing how professional accountants should address non-compliance or suspected non-compliance which may differ from or go beyond this section. When encountering such non-compliance or suspected non-compliance, the professional accountant has a responsibility to obtain an understanding of those provisions and comply with them, including any requirement to report the matter to an appropriate authority and any prohibition on alerting the client prior to making any disclosure, for example, pursuant to anti-money laundering legislation.
- 225.4 A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest. When responding to non-compliance or suspected non-compliance, the objectives of the professional accountant are:
- (a) To comply with the fundamental principles of integrity and professional behavior;
  - (b) By alerting management or, where appropriate, those charged with governance of the client, to seek to:
    - (i) Enable them to rectify, remediate or mitigate the consequences of the identified or suspected non-compliance; or
    - (ii) Deter the commission of the non-compliance where it has not yet occurred; and
  - (c) To take such further action as appropriate in the public interest.

#### **Scope**

- 225.5 This section sets out the approach to be taken by a professional accountant who encounters or is made aware of non-compliance or suspected non-compliance with:
- (a) Laws and regulations generally recognized to have a direct effect on the determination of material amounts and disclosures in the client's financial statements; and
  - (b) Other laws and regulations that do not have a direct effect on the determination of the amounts and disclosures in the client's financial statements, but compliance with which may be fundamental to the operating aspects of the client's business, to its ability to continue its business, or to avoid material penalties.



225.6 Examples of laws and regulations which this section addresses include those that deal with:

- Fraud, corruption and bribery.
- Money laundering, terrorist financing and proceeds of crime.
- Securities markets and trading.
- Banking and other financial products and services.
- Data protection.
- Tax and pension liabilities and payments.
- Environmental protection.
- Public health and safety.

225.7 Non-compliance may result in fines, litigation or other consequences for the client that may have a material effect on its financial statements. Importantly, such non-compliance may have wider public interest implications in terms of potentially substantial harm to investors, creditors, employees or the general public. For the purposes of this section, an act that causes substantial harm is one that results in serious adverse consequences to any of these parties in financial or non-financial terms. Examples include the perpetration of a fraud resulting in significant financial losses to investors, and breaches of environmental laws and regulations endangering the health or safety of employees or the public.

225.8 A professional accountant who encounters or is made aware of matters that are clearly inconsequential, judged by their nature and their impact, financial or otherwise, on the client, its stakeholders and the general public, is not required to comply with this section with respect to such matters.

225.9 This section does not address:

- (a) Personal misconduct unrelated to the business activities of the client; and
- (b) Non-compliance other than by the client or those charged with governance, management or other individuals working for or under the direction of the client. This includes, for example, circumstances where a professional accountant has been engaged by a client to perform a due diligence assignment on a third party entity and the identified or suspected non-compliance has been committed by that third party.

The professional accountant may nevertheless find the guidance in this section helpful in considering how to respond in these situations.

### **Responsibilities of the Client's Management and Those Charged with Governance**

225.10 It is the responsibility of the client's management, with the oversight of those charged with governance, to ensure that the client's business activities are conducted in accordance with laws and regulations. It is also the responsibility of management and those charged with governance to identify and address any non-compliance by the client, by an individual charged with governance of the entity, by a member of management, or by other individuals working for or under the direction of the client.

### **Responsibilities of Professional Accountants in Public Practice**

225.11 Where a professional accountant becomes aware of a matter to which this section applies, the steps that the professional accountant takes to comply with this section shall be taken on a timely basis, having regard to the professional accountant's understanding of the nature of

the matter and the potential harm to the interests of the entity, investors, creditors, employees or the general public.

## **Audits of Financial Statements**

### *Obtaining an Understanding of the Matter*

- 225.12 If a professional accountant engaged to perform an audit of financial statements becomes aware of information concerning an instance of non-compliance or suspected non-compliance, whether in the course of performing the engagement or through information provided by other parties, the professional accountant shall obtain an understanding of the matter, including the nature of the act and the circumstances in which it has occurred or may occur.
- 225.13 The professional accountant is expected to apply knowledge, professional judgment and expertise, but is not expected to have a level of knowledge of laws and regulations that is greater than that which is required to undertake the engagement. Whether an act constitutes non-compliance is ultimately a matter to be determined by a court or other appropriate adjudicative body. Depending on the nature and significance of the matter, the professional accountant may consult on a confidential basis with others within the firm, a network firm or a professional body, or with legal counsel.
- 225.14 If the professional accountant identifies or suspects that non-compliance has occurred or may occur, the professional accountant shall discuss the matter with the appropriate level of management and, where appropriate, those charged with governance.
- 225.15 Such discussion serves to clarify the professional accountant's understanding of the facts and circumstances relevant to the matter and its potential consequences. The discussion also may prompt management or those charged with governance to investigate the matter.
- 225.16 The appropriate level of management with whom to discuss the matter is a question of professional judgment. Relevant factors to consider include:
- The nature and circumstances of the matter.
  - The individuals actually or potentially involved.
  - The likelihood of collusion.
  - The potential consequences of the matter.
  - Whether that level of management is able to investigate the matter and take appropriate action.
- 225.17 The appropriate level of management is generally at least one level above the person or persons involved or potentially involved in the matter. If the professional accountant believes that management is involved in the non-compliance or suspected non-compliance, the professional accountant shall discuss the matter with those charged with governance. The professional accountant may also consider discussing the matter with internal auditors, where applicable. In the context of a group, the appropriate level may be management at an entity that controls the client.

### *Addressing the Matter*

- 225.18 In discussing the non-compliance or suspected non-compliance with management and, where appropriate, those charged with governance, the professional accountant shall advise them to take appropriate and timely actions, if they have not already done so, to:
- (a) Rectify, remediate or mitigate the consequences of the non-compliance;

- (b) Deter the commission of the non-compliance where it has not yet occurred; or
- (c) Disclose the matter to an appropriate authority where required by law or regulation or where considered necessary in the public interest.

225.19 The professional accountant shall consider whether the client's management and those charged with governance understand their legal or regulatory responsibilities with respect to the non-compliance or suspected non-compliance. If not, the professional accountant may suggest appropriate sources of information or recommend that they obtain legal advice.

225.20 The professional accountant shall comply with applicable:

- (a) Laws and regulations, including legal or regulatory provisions governing the reporting of non-compliance or suspected non-compliance to an appropriate authority. In this regard, some laws and regulations may stipulate a period within which reports are to be made; and
- (b) Requirements under auditing standards, including those relating to:
  - Identifying and responding to non-compliance, including fraud.
  - Communicating with those charged with governance.
  - Considering the implications of the non-compliance or suspected non-compliance for the auditor's report.

#### Communication with Respect to Groups

225.21 A professional accountant may:

- (a) For purposes of an audit of group financial statements, be requested by the group engagement team to perform work on financial information related to a component of the group; or
- (b) Be engaged to perform an audit of a component's financial statements for purposes other than the group audit, for example, a statutory audit.

Where the professional accountant becomes aware of non-compliance or suspected non-compliance in relation to the component in either situation, the professional accountant shall, in addition to responding to the matter in accordance with the provisions of this section, communicate it to the group engagement partner unless prohibited from doing so by law or regulation. This is to enable the group engagement partner to be informed about the matter and to determine, in the context of the group audit, whether and, if so, how it should be addressed in accordance with the provisions in this section.

225.22 Where the group engagement partner becomes aware of non-compliance or suspected non-compliance in the course of an audit of group financial statements, including as a result of being informed of such a matter in accordance with paragraph 225.21, the group engagement partner shall, in addition to responding to the matter in the context of the group audit in accordance with the provisions of this section, consider whether the matter may be relevant to one or more components:

- (a) Whose financial information is subject to work for purposes of the audit of the group financial statements; or
- (b) Whose financial statements are subject to audit for purposes other than the group audit, for example, a statutory audit.

If so, the group engagement partner shall take steps to have the non-compliance or suspected

non-compliance communicated to those performing work at components where the matter may be relevant, unless prohibited from doing so by law or regulation. If necessary in relation to subparagraph (b), appropriate inquiries shall be made (either of management or from publicly available information) as to whether the relevant component(s) is subject to audit and, if so, to ascertain to the extent practicable the identity of the auditor. The communication is to enable those responsible for work at such components to be informed about the matter and to determine whether and, if so, how it should be addressed in accordance with the provisions in this section.

#### *Determining Whether Further Action Is Needed*

225.23 The professional accountant shall assess the appropriateness of the response of management and, where applicable, those charged with governance.

225.24 Relevant factors to consider in assessing the appropriateness of the response of management and, where applicable, those charged with governance include whether:

- The response is timely.
- The non-compliance or suspected non-compliance has been adequately investigated.
- Action has been, or is being, taken to rectify, remediate or mitigate the consequences of any non-compliance.
- Action has been, or is being, taken to deter the commission of any non-compliance where it has not yet occurred.
- Appropriate steps have been, or are being, taken to reduce the risk of re-occurrence, for example, additional controls or training.
- The non-compliance or suspected non-compliance has been disclosed to an appropriate authority where appropriate and, if so, whether the disclosure appears adequate.

225.25 In light of the response of management and, where applicable, those charged with governance, the professional accountant shall determine if further action is needed in the public interest.

225.26 The determination of whether further action is needed, and the nature and extent of it, will depend on various factors, including:

- The legal and regulatory framework.
- The urgency of the matter.
- The pervasiveness of the matter throughout the client.
- Whether the professional accountant continues to have confidence in the integrity of management and, where applicable, those charged with governance.
- Whether the non-compliance or suspected non-compliance is likely to recur.
- Whether there is credible evidence of actual or potential substantial harm to the interests of the entity, investors, creditors, employees or the general public.

225.27 Examples of circumstances that may cause the professional accountant no longer to have confidence in the integrity of management and, where applicable, those charged with governance include situations where:

- The professional accountant suspects or has evidence of their involvement or intended involvement in any non-compliance.

- The professional accountant is aware that they have knowledge of such non-compliance and, contrary to legal or regulatory requirements, have not reported, or authorized the reporting of, the matter to an appropriate authority within a reasonable period.

225.28 In determining the need for, and nature and extent of, further action, the professional accountant shall exercise professional judgment and take into account whether a reasonable and informed third party, weighing all the specific facts and circumstances available to the professional accountant at the time, would be likely to conclude that the professional accountant has acted appropriately in the public interest.

225.29 Further action by the professional accountant may include:

- Disclosing the matter to an appropriate authority even when there is no legal or regulatory requirement to do so.
- Withdrawing from the engagement and the professional relationship where permitted by law or regulation.

225.30 Where the professional accountant determines that withdrawing from the engagement and the professional relationship would be appropriate, doing so would not be a substitute for taking other actions that may be needed to achieve the professional accountant's objectives under this section. In some jurisdictions, however, there may be limitations as to the further actions available to the professional accountant and withdrawal may be the only available course of action.

225.31 Where the professional accountant has withdrawn from the professional relationship pursuant to paragraphs 225.25 and 225.29, the professional accountant shall, on request by the proposed successor accountant, provide all such facts and other information concerning the identified or suspected non-compliance that, in the predecessor accountant's opinion, the proposed successor accountant needs to be aware of before deciding whether to accept the audit appointment. The predecessor accountant shall do so despite paragraph 210.14, unless prohibited by law or regulation. If the proposed successor accountant is unable to communicate with the predecessor accountant, the proposed successor accountant shall take reasonable steps to obtain information about the circumstances of the change of appointment by other means, such as through inquiries of third parties or background investigations of management or those charged with governance.

225.32 As consideration of the matter may involve complex analysis and judgments, the professional accountant may consider consulting internally, obtaining legal advice to understand the professional accountant's options and the professional or legal implications of taking any particular course of action, or consulting on a confidential basis with a regulator or professional body.

#### Determining Whether to Disclose the Matter to an Appropriate Authority

225.33 Disclosure of the matter to an appropriate authority would be precluded if doing so would be contrary to law or regulation. Otherwise, the purpose of making disclosure is to enable an appropriate authority to cause the matter to be investigated and action to be taken in the public interest.

225.34 The determination of whether to make such a disclosure depends in particular on the nature and extent of the actual or potential harm that is or may be caused by the matter to investors, creditors, employees or the general public. For example, the professional accountant may determine that disclosure of the matter to an appropriate authority is an appropriate course of

action if:

- The entity is engaged in bribery (for example, of local or foreign government officials for purposes of securing large contracts).
- The entity is regulated and the matter is of such significance as to threaten its license to operate.
- The entity is listed on a securities exchange and the matter could result in adverse consequences to the fair and orderly market in the entity's securities or pose a systemic risk to the financial markets.
- Products that are harmful to public health or safety would likely be sold by the entity.
- The entity is promoting a scheme to its clients to assist them in evading taxes.

The determination of whether to make such a disclosure will also depend on external factors such as:

- Whether there is an appropriate authority that is able to receive the information, and cause the matter to be investigated and action to be taken. The appropriate authority will depend on the nature of the matter, for example, a securities regulator in the case of fraudulent financial reporting or an environmental protection agency in the case of a breach of environmental laws and regulations.
- Whether there exists robust and credible protection from civil, criminal or professional liability or retaliation afforded by legislation or regulation, such as under whistle-blowing legislation or regulation.
- Whether there are actual or potential threats to the physical safety of the professional accountant or other individuals.

225.35 If the professional accountant determines that disclosure of the non-compliance or suspected non-compliance to an appropriate authority is an appropriate course of action in the circumstances, this will not be considered a breach of the duty of confidentiality under Section 140 of this Code. When making such disclosure, the professional accountant shall act in good faith and exercise caution when making statements and assertions. The professional accountant shall also consider whether it is appropriate to inform the client of the professional accountant's intentions before disclosing the matter.

225.36 In exceptional circumstances, the professional accountant may become aware of actual or intended conduct that the professional accountant has reason to believe would constitute an imminent breach of a law or regulation that would cause substantial harm to investors, creditors, employees or the general public. Having considered whether it would be appropriate to discuss the matter with management or those charged with governance of the entity, the professional accountant shall exercise professional judgment and may immediately disclose the matter to an appropriate authority in order to prevent or mitigate the consequences of such imminent breach of law or regulation. Such disclosure will not be considered a breach of the duty of confidentiality under Section 140 of this Code.

#### *Documentation*

225.37 In relation to an identified or suspected act of non-compliance that falls within the scope of this section, the professional accountant shall, in addition to complying with the documentation requirements under applicable auditing standards, document:

- How management and, where applicable, those charged with governance have responded to the matter.
- The courses of action the professional accountant considered, the judgments made and the decisions that were taken, having regard to the reasonable and informed third party perspective.
- How the professional accountant is satisfied that the professional accountant has fulfilled the responsibility set out in paragraph 225.25.

225.38 *International Standards on Auditing (ISAs)*, for example, require a professional accountant performing an audit of financial statements to:

- Prepare documentation sufficient to enable an understanding of significant matters arising during the audit, the conclusions reached, and significant professional judgments made in reaching those conclusions;
- Document discussions of significant matters with management, those charged with governance, and others, including the nature of the significant matters discussed and when and with whom the discussions took place; and
- Document identified or suspected non-compliance, and the results of discussion with management and, where applicable, those charged with governance and other parties outside the entity.

### **Professional Services Other than Audits of Financial Statements**

#### *Obtaining an Understanding of the Matter and Addressing It with Management and Those Charged with Governance*

225.39 If a professional accountant engaged to provide a professional service other than an audit of financial statements becomes aware of information concerning an instance of non-compliance or suspected non-compliance, the professional accountant shall seek to obtain an understanding of the matter, including the nature of the act and the circumstances in which it has occurred or may be about to occur.

225.40 The professional accountant is expected to apply knowledge, professional judgment and expertise, but is not expected to have a level of understanding of laws and regulations beyond that which is required for the professional service for which the accountant was engaged. Whether an act constitutes actual non-compliance is ultimately a matter to be determined by a court or other appropriate adjudicative body. Depending on the nature and significance of the matter, the professional accountant may consult on a confidential basis with others within the firm, a network firm or a professional body, or with legal counsel.

225.41 If the professional accountant identifies or suspects that non-compliance has occurred or may occur, the professional accountant shall discuss the matter with the appropriate level of management and, if the professional accountant has access to them and where appropriate, those charged with governance.

225.42 Such discussion serves to clarify the professional accountant's understanding of the facts and circumstances relevant to the matter and its potential consequences. The discussion also may prompt management or those charged with governance to investigate the matter.

225.43 The appropriate level of management with whom to discuss the matter is a question of professional judgment. Relevant factors to consider include:

- The nature and circumstances of the matter.

- The individuals actually or potentially involved.
- The likelihood of collusion.
- The potential consequences of the matter.
- Whether that level of management is able to investigate the matter and take appropriate action.

*Communicating the Matter to the Entity's External Auditor*

225.44 If the professional accountant is performing a non-audit service for an audit client of the firm, or a component of an audit client of the firm, the professional accountant shall communicate the non-compliance or suspected non-compliance within the firm, unless prohibited from doing so by law or regulation. The communication shall be made in accordance with the firm's protocols or procedures or, in the absence of such protocols and procedures, directly to the audit engagement partner.

225.45 If the professional accountant is performing a non-audit service for an audit client of a network firm, or a component of an audit client of a network firm, the professional accountant shall consider whether to communicate the non-compliance or suspected non-compliance to the network firm. Where the communication is made, it shall be made in accordance with the network's protocols or procedures or, in the absence of such protocols and procedures, directly to the audit engagement partner.

225.46 If the professional accountant is performing a non-audit service for a client that is not:

- (a) An audit client of the firm or a network firm; or
- (b) A component of an audit client of the firm or a network firm,

the professional accountant shall consider whether to communicate the non-compliance or suspected non-compliance to the firm that is the client's external auditor, if any.

225.47 Factors relevant to considering the communication in accordance with paragraphs 225.45 and 225.46 include:

- Whether doing so would be contrary to law or regulation.
- Whether there are restrictions about disclosure imposed by a regulatory agency or prosecutor in an ongoing investigation into the non-compliance or suspected non-compliance.
- Whether the purpose of the engagement is to investigate potential non-compliance within the entity to enable it to take appropriate action.
- Whether management or those charged with governance have already informed the entity's external auditor about the matter.
- The likely materiality of the matter to the audit of the client's financial statements or, where the matter relates to a component of a group, its likely materiality to the audit of the group financial statements.

225.48 In all cases, the communication is to enable the audit engagement partner to be informed about the non-compliance or suspected non-compliance and to determine whether and, if so, how it



should be addressed in accordance with the provisions of this section.

*Considering Whether Further Action Is Needed*

- 225.49 The professional accountant shall also consider whether further action is needed in the public interest.
- 225.50 Whether further action is needed, and the nature and extent of it, will depend on factors such as:
- The legal and regulatory framework.
  - The appropriateness and timeliness of the response of management and, where applicable, those charged with governance.
  - The urgency of the matter.
  - The involvement of management or those charged with governance in the matter.
  - The likelihood of substantial harm to the interests of the client, investors, creditors, employees or the general public.
- 225.51 Further action by the professional accountant may include:
- Disclosing the matter to an appropriate authority even when there is no legal or regulatory requirement to do so.
  - Withdrawing from the engagement and the professional relationship where permitted by law or regulation.
- 225.52 In considering whether to disclose to an appropriate authority, relevant factors to take into account include:
- Whether doing so would be contrary to law or regulation.
  - Whether there are restrictions about disclosure imposed by a regulatory agency or prosecutor in an ongoing investigation into the non-compliance or suspected non-compliance.
  - Whether the purpose of the engagement is to investigate potential non-compliance within the entity to enable it to take appropriate action.
- 225.53 If the professional accountant determines that disclosure of the non-compliance or suspected non-compliance to an appropriate authority is an appropriate course of action in the circumstances, this will not be considered a breach of the duty of confidentiality under Section 140 of this Code. When making such disclosure, the professional accountant shall act in good faith and exercise caution when making statements and assertions. The professional accountant shall also consider whether it is appropriate to inform the client of the professional accountant's intentions before disclosing the matter.
- 225.54 In exceptional circumstances, the professional accountant may become aware of actual or intended conduct that the professional accountant has reason to believe would constitute an imminent breach of a law or regulation that would cause substantial harm to investors, creditors, employees or the general public. Having considered whether it would be appropriate to discuss the matter with management or those charged with governance of the entity, the professional accountant shall exercise professional judgment and may immediately disclose the matter to an appropriate authority in order to prevent or mitigate the consequences of such imminent breach of law or regulation. Such disclosure will not be considered a breach of the duty of confidentiality under Section 140 of this Code.

225.55 The professional accountant may consider consulting internally, obtaining legal advice to understand the professional or legal implications of taking any particular course of action, or consulting on a confidential basis with a regulator or professional body.

*Documentation*

225.56 In relation to an identified or suspected act of non-compliance that falls within the scope of this section, the professional accountant is encouraged to document:

- The matter.
- The results of discussion with management and, where applicable, those charged with governance and other parties.
- How management and, where applicable, those charged with governance have responded to the matter.
- The courses of action the professional accountant considered, the judgments made and the decisions that were taken.
- How the professional accountant is satisfied that the professional accountant has fulfilled the responsibility set out in paragraph 225.49.

## **SECTION 360**

### **Responding to Non-Compliance with Laws and Regulations**

#### **Purpose**

- 360.1 A professional accountant in business may encounter or be made aware of non-compliance or suspected non-compliance with laws and regulations in the course of carrying out professional activities. The purpose of this section is to set out the professional accountant's responsibilities when encountering such non-compliance or suspected non-compliance, and guide the professional accountant in assessing the implications of the matter and the possible courses of action when responding to it. This section applies regardless of the nature of the employing organization, including whether or not it is a public interest entity.
- 360.2 Non-compliance with laws and regulations ("non-compliance") comprises acts of omission or commission, intentional or unintentional, committed by the professional accountant's employing organization or by those charged with governance, by management, or by other individuals working for or under the direction of the employing organization which are contrary to the prevailing laws or regulations.
- 360.3 In some jurisdictions, there are legal or regulatory provisions governing how professional accountants should address non-compliance or suspected non-compliance which may differ from or go beyond this section. When encountering such non-compliance or suspected non-compliance, the professional accountant has a responsibility to obtain an understanding of those provisions and comply with them, including any requirement to report the matter to an appropriate authority and any prohibition on alerting the relevant party prior to making any disclosure, for example, pursuant to anti-money laundering legislation.
- 360.4 A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest. When responding to non-compliance or suspected non-compliance, the objectives of the professional accountant are:
- (a) To comply with the fundamental principles of integrity and professional behavior;
  - (b) By alerting management or, where appropriate, those charged with governance of the employing organization, to seek to:
    - (i) Enable them to rectify, remediate or mitigate the consequences of the identified or suspected non-compliance; or
    - (ii) Deter the commission of the non-compliance where it has not yet occurred; and
  - (c) To take such further action as appropriate in the public interest.

#### **Scope**

- 360.5 This section sets out the approach to be taken by a professional accountant who encounters or is made aware of non-compliance or suspected non-compliance with:
- (a) Laws and regulations generally recognized to have a direct effect on the determination of material amounts and disclosures in the employing organization's financial statements; and
  - (b) Other laws and regulations that do not have a direct effect on the determination of the amounts and disclosures in the employing organization's financial statements, but compliance with which may be fundamental to the operating aspects of the employing organization's business, to its ability to continue its business, or to avoid material penalties.

360.6 Examples of laws and regulations which this section addresses include those that deal with:

- Fraud, corruption and bribery.
- Money laundering, terrorist financing and proceeds of crime.
- Securities markets and trading.
- Banking and other financial products and services.
- Data protection.
- Tax and pension liabilities and payments.
- Environmental protection.
- Public health and safety.

360.7 Non-compliance may result in fines, litigation or other consequences for the employing organization that may have a material effect on its financial statements. Importantly, such non-compliance may have wider public interest implications in terms of potentially substantial harm to investors, creditors, employees or the general public. For the purposes of this section, an act that causes substantial harm is one that results in serious adverse consequences to any of these parties in financial or non-financial terms. Examples include the perpetration of a fraud resulting in significant financial losses to investors, and breaches of environmental laws and regulations endangering the health or safety of employees or the public.

360.8 A professional accountant who encounters or is made aware of matters that are clearly inconsequential, judged by their nature and their impact, financial or otherwise, on the employing organization, its stakeholders and the general public, is not required to comply with this section with respect to such matters.

360.9 This section does not address:

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

The professional accountant may nevertheless find the guidance in this section helpful in considering how to respond in these situations.

### **Responsibilities of the Employing Organization's Management and Those Charged with Governance**

360.10 It is the responsibility of the employing organization's management, with the oversight of those charged with governance, to ensure that the employing organization's business activities are conducted in accordance with laws and regulations. It is also the responsibility of management and those charged with governance to identify and address any non-compliance by the employing organization or by an individual charged with governance of the entity, by a member of management, or by other individuals working for or under the direction of the employing organization.

### **Responsibilities of Professional Accountants in Business**

360.11 Many employing organizations have established protocols and procedures (for example, an ethics policy or internal whistle-blowing mechanism) regarding how non-compliance or

suspected non-compliance by the employing organization should be raised internally. Such protocols and procedures may allow for matters to be reported anonymously through designated channels. If these protocols and procedures exist within the professional accountant's employing organization, the professional accountant shall consider them in determining how to respond to such non-compliance.

- 360.12 Where a professional accountant becomes aware of a matter to which this section applies, the steps that the professional accountant takes to comply with this section shall be taken on a timely basis, having regard to the professional accountant's understanding of the nature of the matter and the potential harm to the interests of the employing organization, investors, creditors, employees or the general public.

### **Responsibilities of Senior Professional Accountants in Business**

- 360.13 Senior professional accountants in business ("senior professional accountants") are directors, officers or senior employees able to exert significant influence over, and make decisions regarding, the acquisition, deployment and control of the employing organization's human, financial, technological, physical and intangible resources. Because of their roles, positions and spheres of influence within the employing organization, there is a greater expectation for them to take whatever action is appropriate in the public interest to respond to non-compliance or suspected non-compliance than other professional accountants within the employing organization.

#### *Obtaining an Understanding of the Matter*

- 360.14 If, in the course of carrying out professional activities, a senior professional accountant becomes aware of information concerning an instance of non-compliance or suspected non-compliance, the professional accountant shall obtain an understanding of the matter, including:

- (a) The nature of the act and the circumstances in which it has occurred or may occur;
- (b) The application of the relevant laws and regulations to the circumstances; and
- (c) The potential consequences to the employing organization, investors, creditors, employees or the wider public.

- 360.15 A senior professional accountant is expected to apply knowledge, professional judgment and expertise, but is not expected to have a level of understanding of laws and regulations beyond that which is required for the professional accountant's role within the employing organization. Whether an act constitutes non-compliance is ultimately a matter to be determined by a court or other appropriate adjudicative body. Depending on the nature and significance of the matter, the professional accountant may cause, or take appropriate steps to cause, the matter to be investigated internally. The professional accountant may also consult on a confidential basis with others within the employing organization or a professional body, or with legal counsel.

#### *Addressing the Matter*

- 360.16 If the senior professional accountant identifies or suspects that non-compliance has occurred or may occur, the professional accountant shall, subject to paragraph 360.11, discuss the matter with the professional accountant's immediate superior, if any, to enable a determination to be made as to how the matter should be addressed. If the professional accountant's immediate superior appears to be involved in the matter, the professional accountant shall discuss the matter with the next higher level of authority within the employing organization.
- 360.17 The senior professional accountant shall also take appropriate steps to:

- (a) Have the matter communicated to those charged with governance to obtain their concurrence regarding appropriate actions to take to respond to the matter and to enable them to fulfill their responsibilities;
- (b) Comply with applicable laws and regulations, including legal or regulatory provisions governing the reporting of non-compliance or suspected non-compliance to an appropriate authority;
- (c) Have the consequences of the non-compliance or suspected non-compliance rectified, remediated or mitigated;
- (d) Reduce the risk of re-occurrence; and
- (e) Seek to deter the commission of the non-compliance if it has not yet occurred.

360.18 In addition to responding to the matter in accordance with the provisions of this section, the senior professional accountant shall determine whether disclosure of the matter to the employing organization's external auditor, if any, is needed pursuant to the professional accountant's duty or legal obligation to provide all information necessary to enable the auditor to perform the audit.

*Determining Whether Further Action Is Needed*

360.19 The senior professional accountant shall assess the appropriateness of the response of the professional accountant's superiors, if any, and those charged with governance.

360.20 Relevant factors to consider in assessing the appropriateness of the response of the senior professional accountant's superiors, if any, and those charged with governance include whether:

- The response is timely.
- They have taken or authorized appropriate action to seek to rectify, remediate or mitigate the consequences of the non-compliance, or to avert the non-compliance if it has not yet occurred.
- The matter has been disclosed to an appropriate authority where appropriate and, if so, whether the disclosure appears adequate.

360.21 In light of the response of the senior professional accountant's superiors, if any, and those charged with governance, the professional accountant shall determine if further action is needed in the public interest.

360.22 The determination of whether further action is needed, and the nature and extent of it, will depend on various factors, including:

- The legal and regulatory framework.
- The urgency of the matter.
- The pervasiveness of the matter throughout the employing organization.
- Whether the senior professional accountant continues to have confidence in the integrity of the professional accountant's superiors and those charged with governance.
- Whether the non-compliance or suspected non-compliance is likely to recur.
- Whether there is credible evidence of actual or potential substantial harm to the interests of the employing organization, investors, creditors, employees or the general public.

- 360.23 Examples of circumstances that may cause the senior professional accountant no longer to have confidence in the integrity of the professional accountant's superiors and those charged with governance include situations where:
- The professional accountant suspects or has evidence of their involvement or intended involvement in any non-compliance.
  - Contrary to legal or regulatory requirements, they have not reported the matter, or authorized the matter to be reported, to an appropriate authority within a reasonable period.
- 360.24 In determining the need for, and nature and extent of any further action needed, the senior professional accountant shall exercise professional judgment and take into account whether a reasonable and informed third party, weighing all the specific facts and circumstances available to the professional accountant at the time, would be likely to conclude that the professional accountant has acted appropriately in the public interest.
- 360.25 Further action by the professional accountant may include:
- Informing the management of the parent entity of the matter if the employing organization is a member of a group.
  - Disclosing the matter to an appropriate authority even when there is no legal or regulatory requirement to do so.
  - Resigning from the employing organization.
- 360.26 Where the senior professional accountant determines that resigning from the employing organization would be appropriate, doing so would not be a substitute for taking other actions that may be needed to achieve the professional accountant's objectives under this section. In some jurisdictions, however, there may be limitations as to the further actions available to the professional accountant and resignation may be the only available course of action.
- 360.27 As consideration of the matter may involve complex analysis and judgments, the senior professional accountant may consider consulting internally, obtaining legal advice to understand the professional accountant's options and the professional or legal implications of taking any particular course of action, or consulting on a confidential basis with a regulator or professional body.

#### Determining Whether to Disclose the Matter to an Appropriate Authority

- 360.28 Disclosure of the matter to an appropriate authority would be precluded if doing so would be contrary to law or regulation. Otherwise, the purpose of making disclosure is to enable an appropriate authority to cause the matter to be investigated and action to be taken in the public interest.
- 360.29 The determination of whether to make such a disclosure depends in particular on the nature and extent of the actual or potential harm that is or may be caused by the matter to investors, creditors, employees or the general public. For example, the senior professional accountant may determine that disclosure of the matter to an appropriate authority is an appropriate course of action if:
- The employing organization is engaged in bribery (for example, of local or foreign government officials for purposes of securing large contracts).
  - The employing organization is a regulated entity and the matter is of such significance as to threaten its license to operate.

- The employing organization is listed on a securities exchange and the matter could result in adverse consequences to the fair and orderly market in the employing organization's securities or pose a systemic risk to the financial markets.
- Products that are harmful to public health or safety would likely be sold by the employing organization.
- The employing organization is promoting a scheme to its clients to assist them in evading taxes.

The determination of whether to make such a disclosure will also depend on external factors such as:

- Whether there is an appropriate authority that is able to receive the information, and cause the matter to be investigated and action to be taken. The appropriate authority will depend upon the nature of the matter, for example, a securities regulator in the case of fraudulent financial reporting or an environmental protection agency in the case of a breach of environmental laws and regulations.
- Whether there exists robust and credible protection from civil, criminal or professional liability or retaliation afforded by legislation or regulation, such as under whistle-blowing legislation or regulation.
- Whether there are actual or potential threats to the physical safety of the professional accountant or other individuals.

360.30 If the senior professional accountant determines that disclosure of the matter to an appropriate authority is an appropriate course of action in the circumstances, this will not be considered a breach of the duty of confidentiality under Section 140 of this Code. When making such disclosure, the professional accountant shall act in good faith and exercise caution when making statements and assertions.

360.31 In exceptional circumstances, the senior professional accountant may become aware of actual or intended conduct that the professional accountant has reason to believe would constitute an imminent breach of a law or regulation that would cause substantial harm to investors, creditors, employees or the general public. Having considered whether it would be appropriate to discuss the matter with management or those charged with governance of the entity, the professional accountant shall exercise professional judgment and may immediately disclose the matter to an appropriate authority in order to prevent or mitigate the consequences of such imminent breach of law or regulation. Such disclosure will not be considered a breach of the duty of confidentiality under Section 140 of this Code.

#### *Documentation*

360.32 In relation to an identified or suspected act of non-compliance that falls within the scope of this section, the senior professional accountant is encouraged to have the following matters documented:

- The matter.
- The results of discussions with the professional accountant's superiors, if any, and those charged with governance and other parties.
- How the professional accountant's superiors, if any, and those charged with governance have responded to the matter.



- The courses of action the professional accountant considered, the judgments made and the decisions that were taken.
- How the professional accountant is satisfied that the professional accountant has fulfilled the responsibility set out in paragraph 360.21.

### **Responsibilities of Professional Accountants Other than Senior Professional Accountants in Business**

- 360.33 If, in the course of carrying out professional activities, a professional accountant becomes aware of information concerning an instance of non-compliance or suspected non-compliance, the professional accountant shall seek to obtain an understanding of the matter, including the nature of the act and the circumstances in which it has occurred or may occur.
- 360.34 The professional accountant is expected to apply knowledge, professional judgment and expertise, but is not expected to have a level of understanding of laws and regulations beyond that which is required for the professional accountant's role within the employing organization. Whether an act constitutes non-compliance is ultimately a matter to be determined by a court or other appropriate adjudicative body. Depending on the nature and significance of the matter, the professional accountant may consult on a confidential basis with others within the employing organization or a professional body, or with legal counsel.
- 360.35 If the professional accountant identifies or suspects that non-compliance has occurred or may occur, the professional accountant shall, subject to paragraph 360.11, inform an immediate superior to enable the superior to take appropriate action. If the professional accountant's immediate superior appears to be involved in the matter, the professional accountant shall inform the next higher level of authority within the employing organization.
- 360.36 In exceptional circumstances, the professional accountant may decide that disclosure of the matter to an appropriate authority is an appropriate course of action. If the professional accountant does so pursuant to paragraph 360.29, this will not be considered a breach of the duty of confidentiality under Section 140 of this Code. When making such disclosure, the professional accountant shall act in good faith and exercise caution when making statements and assertions.

### **Documentation**

- 360.37 In relation to an identified or suspected act of non-compliance that falls within the scope of this section, the professional accountant is encouraged to have the following matters documented:
- The matter.
  - The results of discussions with the professional accountant's superior, management and, where applicable, those charged with governance and other parties.
  - How the professional accountant's superior has responded to the matter.
  - The courses of action the professional accountant considered, the judgments made and the decisions that were taken.

# **Consequential and Conforming Changes to Other Sections**

## **SECTION 100**

### **Introduction and Fundamental Principles**

...

#### *Fundamental Principles*

100.5 A professional accountant shall comply with the following fundamental principles:

...

- (e) Professional Behavior – to comply with relevant laws and regulations and avoid any action-conduct that discredits the profession.

...

#### *Conflicts of Interest*

...

#### *Ethical Conflict Resolution*

...

100.23 If a significant conflict cannot be resolved, a professional accountant may consider obtaining professional advice from the relevant professional body or from legal advisors. The professional accountant generally can obtain guidance on ethical issues without breaching the fundamental principle of confidentiality if the matter is discussed with the relevant professional body on an anonymous basis or with a legal advisor under the protection of legal privilege. Instances in which the professional accountant may consider obtaining legal advice vary. For example, a professional accountant may have encountered a fraud, the reporting of which could breach the professional accountant's responsibility to respect confidentiality. The professional accountant may consider obtaining legal advice in that instance to determine whether there is a requirement to report.

100.24 If, after exhausting all relevant possibilities, the ethical conflict remains unresolved, a professional accountant shall, where possible unless prohibited by law, refuse to remain associated with the matter creating the conflict. The professional accountant shall determine whether, in the circumstances, it is appropriate to withdraw from the engagement team or specific assignment, or to resign altogether from the engagement, the firm or the employing organization.

#### *Communicating with Those Charged with Governance*

100.25 When communicating with those charged with governance in accordance with the provisions of this Code, the professional accountant or firm shall determine, having regard to the nature and importance of the particular circumstances and matter to be communicated, the appropriate person(s) within the entity's governance structure with whom to communicate. If the professional accountant or firm communicates with a subgroup of those charged with governance, for example, an audit committee or an individual, the professional accountant or firm shall determine whether communication with all of those charged with governance is also

necessary so that they are adequately informed.

100.26 In some cases, all of those charged with governance are involved in managing the entity, for example, a small business where a single owner manages the entity and no one else has a governance role. In these cases, if matters are communicated with person(s) with management responsibilities, and those person(s) also have governance responsibilities, the matters need not be communicated again with those same person(s) in their governance role. The professional accountant or firm shall nonetheless be satisfied that communication with person(s) with management responsibilities adequately informs all of those with whom the professional accountant or firm would otherwise communicate in their governance capacity.

## SECTION 140

### Confidentiality

...

140.7 As a fundamental principle, confidentiality serves the public interest because it facilitates the free flow of information from the professional accountant's client or employing organization to the professional accountant. Nevertheless, the following are circumstances where professional accountants are or may be required to disclose confidential information or when such disclosure may be appropriate:

- (a) Disclosure is permitted by law and is authorized by the client or the employer;
- (b) Disclosure is required by law, for example:
  - (i) Production of documents or other provision of evidence in the course of legal proceedings; or
  - (ii) Disclosure to the appropriate public authorities of infringements of the law that come to light; and
- (c) There is a professional duty or right to disclose, when not prohibited by law:
  - (i) To comply with the quality review of a member body or professional body;
  - (ii) To respond to an inquiry or investigation by a member body or regulatory body;
  - (iii) To protect the professional interests of a professional accountant in legal proceedings; or
  - (iv) To comply with technical and professional standards, and including ethical requirements.

## SECTION 150

### Professional Behavior

150.1 The principle of professional behavior imposes an obligation on all professional accountants to comply with relevant laws and regulations and avoid any action-conduct that the professional accountant knows or should know may discredit the profession. This includes actions-conduct that a reasonable and informed third party, weighing all the specific facts and circumstances available to the professional accountant at that time, would be likely to conclude adversely affects the good reputation of the profession....

## SECTION 210

### Professional Appointment

#### *Client Acceptance and Continuance*

210.1 Before accepting a new client relationship, a professional accountant in public practice shall determine whether acceptance would create any threats to compliance with the fundamental principles. Potential threats to integrity or professional behavior may be created from, for example, ~~questionable~~ issues associated with the client (its owners, management or activities). ~~210.2 Client issues~~ that, if known, could threaten compliance with the fundamental principles. These include, for example, client involvement in illegal activities (such as money laundering), dishonesty, ~~or questionable financial reporting practices~~ or other unethical behavior.

210.23 A professional accountant in public practice shall evaluate the significance of any threats and apply safeguards when necessary to eliminate them or reduce them to an acceptable level.

Examples of such safeguards include:

~~(a)~~ Obtaining knowledge and understanding of the client, its owners, managers and those responsible for its governance and business activities; or

~~(b)(a)~~

~~(b)~~ Securing the client's commitment to address the questionable issues, for example, through improveing corporate governance practices or internal controls.

210.34 Where it is not possible to reduce the threats to an acceptable level, the professional accountant in public practice shall decline to enter into the client relationship.

210.45 ~~It is recommended that a professional accountant in public practice periodically review acceptance decisions for recurring client engagements. Potential threats to compliance with the fundamental principles may have been created after acceptance that would have caused the professional accountant to decline the engagement had that information been available earlier. A professional accountant in public practice shall, therefore, periodically review whether to continue with a recurring client engagement. For example, a threat to compliance with the fundamental principles may be created by a client's unethical behavior such as improper earnings management or balance sheet valuations. If a professional accountant in public practice identifies a threat to compliance with the fundamental principles, the professional accountant shall evaluate the significance of the threats and apply safeguards when necessary to eliminate the threat or reduce it to an acceptable level. Where it is not possible to reduce the threat to an acceptable level, the professional accountant in public practice shall consider terminating the client relationship where termination is not prohibited by law or regulation.~~

#### *Engagement Acceptance*

210.56 The fundamental principle of professional competence and due care imposes an obligation on a professional accountant in public practice to provide only those services that the professional accountant in public practice is competent to perform. Before accepting a specific client engagement, a professional accountant in public practice shall determine whether acceptance would create any threats to compliance with the fundamental principles. For example, a self-interest threat to professional competence and due care is created if the engagement team does not possess, or cannot acquire, the competencies necessary to properly carry out the engagement.

210.67 A professional accountant in public practice shall evaluate the significance of threats and apply

safeguards, when necessary, to eliminate them or reduce them to an acceptable level. Examples of such safeguards include:

- (a) Acquiring an appropriate understanding of the nature of the client's business, the complexity of its operations, the specific requirements of the engagement and the purpose, nature and scope of the work to be performed.
- (b) Acquiring knowledge of relevant industries or subject matters.
- (c) Possessing or obtaining experience with relevant regulatory or reporting requirements.
- (d) Assigning sufficient staff with the necessary competencies.
- (e) Using experts where necessary.
- (f) Agreeing on a realistic time frame for the performance of the engagement.
- (g) Complying with quality control policies and procedures designed to provide reasonable assurance that specific engagements are accepted only when they can be performed competently.

210.78 When a professional accountant in public practice intends to rely on the advice or work of an expert, the professional accountant in public practice shall determine whether such reliance is warranted. Factors to consider include: reputation, expertise, resources available and applicable professional and ethical standards. Such information may be gained from prior association with the expert or from consulting others.

#### *Changes in a Professional Appointment*

210.89 A professional accountant in public practice who is asked to replace another professional accountant in public practice, or who is considering tendering for an engagement currently held by another professional accountant in public practice, shall determine whether there are any reasons, professional or otherwise, for not accepting the engagement, such as circumstances that create threats to compliance with the fundamental principles that cannot be eliminated or reduced to an acceptable level by the application of safeguards. For example, there may be a threat to professional competence and due care if a professional accountant in public practice accepts the engagement before knowing all the pertinent facts.

210.940 A professional accountant in public practice shall evaluate the significance of any threats. ~~Depending on the nature of the engagement, this may require direct communication with the existing accountant to establish the facts and circumstances regarding the proposed change so that the professional accountant in public practice can decide whether it would be appropriate to accept the engagement. For example, the apparent reasons for the change in appointment may not fully reflect the facts and may indicate disagreements with the existing accountant that may influence the decision to accept the appointment.~~ 210.11 Safeguards shall be applied when necessary to eliminate any threats or reduce them to an acceptable level. Examples of such safeguards include:

- (a) When replying to requests to submit tenders, stating in the tender that, before accepting the engagement, contact with the existing or predecessor accountant will be requested so that inquiries may be made as to whether there are any professional or other reasons why the appointment should not be accepted;
- (b) Asking the existing predecessor accountant to provide known information on any facts or circumstances that, in the existing predecessor accountant's opinion, the proposed successor accountant needs to be aware of before deciding whether to accept the

engagement. For example, the apparent reasons for the change in appointment may not fully reflect the facts and may indicate disagreements with the existing predecessor accountant that may influence the decision to accept the appointment; or

(c) Obtaining necessary information from other sources.

210.10 When the threats cannot be eliminated or reduced to an acceptable level through the application of safeguards, a professional accountant in public practice shall, unless there is satisfaction as to necessary facts by other means, decline the engagement.

210.11~~2~~ A professional accountant in public practice may be asked to undertake work that is complementary or additional to the work of the existing accountant. Such circumstances may create threats to professional competence and due care resulting from, for example, a lack of or incomplete information. The significance of any threats shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. An example of such a safeguard is notifying the existing accountant of the proposed work, which would give the existing accountant the opportunity to provide any relevant information needed for the proper conduct of the work.

210.12~~3~~ An existing or predecessor accountant is bound by confidentiality. Whether that professional accountant is permitted or required to discuss the affairs of a client with a proposed accountant will depend on the nature of the engagement and on:

(a) Whether the client's permission to do so has been obtained; or

(b) The legal or ethical requirements relating to such communications and disclosure, which may vary by jurisdiction.

Circumstances where the professional accountant is or may be required to disclose confidential information or where such disclosure may otherwise be appropriate are set out in Section 140 of Part A of this Code.

210.13~~4~~ A professional accountant in public practice will generally need to obtain the client's permission, preferably in writing, to initiate discussion with an existing or predecessor accountant. Once that permission is obtained, the existing or predecessor accountant shall comply with relevant ~~legal laws~~ and ~~other~~ regulations governing such requests. Where the existing or predecessor accountant provides information, it shall be provided honestly and unambiguously. If the proposed accountant is unable to communicate with the existing or predecessor accountant, the proposed accountant shall take reasonable steps to obtain information about any possible threats by other means, such as through inquiries of third parties or background investigations of senior management or those charged with governance of the client.

210.14 In the case of an audit of financial statements, a professional accountant shall request the predecessor accountant to provide known information regarding any facts or other information that, in the predecessor accountant's opinion, the proposed successor accountant needs to be aware of before deciding whether to accept the engagement. Except for the circumstances involving identified or suspected non-compliance with laws and regulations set out in paragraph 225.31:

(a) If the client consents to the predecessor accountant disclosing any such facts or other information, the predecessor accountant shall provide the information honestly and unambiguously; and

(b) If the client fails or refuses to grant the predecessor accountant permission to discuss the client's affairs with the proposed successor accountant, the predecessor accountant shall disclose this fact to the proposed successor accountant, who shall carefully consider

such failure or refusal when determining whether or not to accept the appointment.

~~SG210.11A Before accepting a nomination as auditor in a financial statement audit engagement, the proposed professional accountant in public practice who is a public accountant shall, in every case, enquire from the existing accountant, if any, as to whether there is any professional or other reason for the proposed change of auditor of which the proposed accountant should be aware before deciding whether or not to accept the appointment and, if there are such matters, request that the existing accountant provide the proposed accountant with all the details necessary to enable the proposed accountant to come to a decision.~~

~~SG210.141BA The existing-predecessor accountant shall, on receipt of any enquiry referred request referred to in paragraph ~~SG210.11A~~210.14, reply to the proposed successor professional accountant ~~in public practice who is a public accountant~~ in writing within a reasonable time,<sup>7</sup> ~~advising the proposed accountant on whether there is any professional or other reason as to why the proposed accountant should not accept the appointment;~~~~

~~If there is any such reason or other matter which should be disclosed to the proposed accountant, the existing accountant shall ensure that he or she has the permission of the client to give details of this information to the proposed accountant. If-~~

~~(d) — permission is not given by the client to the existing accountant, the existing accountant shall convey this fact to the proposed accountant; or~~

~~(e) — permission is given by the client to the existing accountant, the existing accountant shall-~~

~~a. disclose all information needed by the proposed accountant to enable the proposed accountant to decide whether or not to accept the appointment; and~~

~~b. discuss freely with the proposed accountant all matters relevant to the appointment of which the proposed accountant should be aware.~~

~~SG210.141CB~~ If the proposed professional-successor accountant ~~in public practice who is a public accountant~~ does not receive a reply from the existing-predecessor accountant to his or her enquiry-request within a reasonable time and the proposed successor accountant has no reason to believe that there are any exceptional circumstances surrounding the proposed change, the proposed successor accountant shall use such other reasonable means to communicate with the existing-predecessor accountant.

~~SG210.141DC~~ If the proposed professional-successor accountant ~~in public practice who is a public accountant~~ is unable to obtain a satisfactory outcome pursuant to paragraph ~~SG210.14C~~14B, the proposed accountant shall send a final letter by registered post to the existing-predecessor accountant, stating that he assumes there is no professional or other reason why he should not accept the appointment and that he intends to do so. The proposed successor accountant may accept the engagement if he is satisfied that there are no professional or other reasons for the proposed change after taking into account guidance set out in 210.~~9-8~~8 to 210.14.

## SECTION 270

### Custody of Client Assets

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270.3 As part of client and engagement acceptance procedures for services that may involve the holding of client assets, a professional accountant in public practice shall make appropriate inquiries about the source of such assets and consider legal and regulatory obligations. For

example, if the assets were derived from illegal activities, such as money laundering, a threat to compliance with the fundamental principles would be created. In such situations, the professional accountant ~~may consider seeking legal advice~~ shall comply with the provisions of section 225.

## **Effective Date**

This pronouncement is effective as of January 1, 2020. Early adoption is permitted.



**Permission for Republication**

This ISCA Exposure Draft *Responding to Non-Compliance with Laws and Regulations*, is based on the IESBA *Final Pronouncement Responding to Non-Compliance with Laws and Regulations*, published by the International Federation of Accountants (IFAC) in July 2016 and is used with the permission of IFAC.

## **Appendix 1 Frequently Asked Questions**

### **1 Laws and regulations**

#### **1.1 If there are conflicts between the requirements in the NOCLAR Pronouncement and existing legal or regulatory provisions governing how the professional accountant should address the non-compliance or suspected non-compliance, which one should the professional accountant comply with?**

A precondition to complying with the NOCLAR Pronouncement is that professional accountants first observe and comply with all applicable laws and regulations, including any requirement to report the matter to an appropriate authority and any prohibition on alerting the client prior to making any disclosure, for example, pursuant to anti-money laundering legislation.

### **2 Clearly inconsequential matters**

#### **2.1 How to define if a matter is “clearly inconsequential”?**

Paragraphs 225.8 and 360.8 state that *“a professional accountant who encounters or is made aware of matters that are clearly inconsequential, judged by their nature and their impact, financial or otherwise, on the client, its stakeholders and the general public, is not required to comply with this section with respect to such matters.”*

As the NOCLAR Pronouncement does not define or provide examples of matters which are “clearly inconsequential”, a professional accountant should exercise professional judgement and take into account whether a reasonable and informed third party, weighing all the specific facts and circumstances available to the professional accountant at the time, would determine if a matter is “clearly inconsequential”.

If a professional accountant is in doubt on whether a matter is “clearly inconsequential”, he or she should consider consulting internally with appropriate persons, for example, the professional firm’s risk management or independence partner, the company’s risk management committee or internal legal department.

If after consulting with the appropriate persons and further clarification is still needed, the professional accountant can write to the ISCA Technical Enquiry Service for clarification and/or seek independent legal advice. Notwithstanding this, given that the consideration of NOCLAR matters would be subject to specific facts and circumstances, the final decision on whether a matter is “clearly inconsequential” and the responsibility of the decision rests with the professional accountant.

A professional accountant is encouraged to document the matter, the results of discussion with appropriate persons and the judgements made when concluding that the matter is clearly inconsequential in their assessment.

### **3 Concept of “public interest”**

#### **3.1 What is the concept of “public interest”?**

The NOCLAR Pronouncement requires professional accountants to act or take further action as appropriate in the “public interest”. While EP 100 and the NOCLAR Pronouncement do not define the concept of “public interest”, reference is drawn from The Institute of Chartered Accountants of Scotland (“ICAS”) Code of Ethics and the Public Interest Oversight Board (PIOB) which clarify the concept of “public interest” as follows:

#### **ICAS**

*“Acting in the public interest involves having regard to the legitimate interests of clients, government,*

*financial institutions, employers, employees, investors, the business and financial community and others who rely upon the objectivity and integrity of the accounting profession to support the propriety and orderly functioning of commerce. This reliance imposes a public interest responsibility on the profession.”*

#### **PIOB**

*“The accountancy profession can best contribute to the public interest by providing account-related information in which the public has confidence. This information will be most helpful if it is relevant to the users and is trusted by them as a faithful representation of the performance of the reported activities. Audits and other assurance services play an important role in meeting these criteria, by providing an objective and professional view in which users may have confidence.”*

Professional accountants can consider applying the above to enhance their understanding of the concept of “public interest”.

## **4 Change of audit appointment**

### **Existing requirements prior to the NOCLAR Pronouncement**

#### **(i) Predecessor auditor**

Upon receipt of any inquiry of the proposed successor auditor as to whether there is any professional or other reason for the proposed change in auditor of which the proposed successor auditor should be aware before deciding whether or not to accept the appointment, the predecessor auditor shall reply in writing, advising on whether there is any professional or other reason as to why the proposed successor auditor should not accept the appointment.

If there is any such reason or other matter which should be disclosed to the proposed successor auditor, the predecessor auditor shall ensure that he or she has the permission of the client to give details of this information to the proposed successor auditor.

If client consent is not given, the predecessor auditor shall convey the fact to the proposed successor auditor.

If client consent is given, the predecessor auditor shall provide facts or other information that the proposed successor auditor needs to be aware of before deciding whether to accept the audit engagement.

In summary, client consent is required for the predecessor auditor to provide facts or other information that the proposed successor auditor needs to be aware of before deciding whether to accept the audit engagement. [paragraph SG210.11B in extant EP 100]

#### **(ii) Proposed successor auditor**

The proposed successor auditor will generally need to obtain the client's permission to initiate discussion with the predecessor auditor. If he or she is unable to communicate with the predecessor auditor, he or she shall take reasonable steps to obtain information about any possible threats by other means. [paragraph 210.14 in extant EP 100]

If the proposed successor auditor does not receive a reply from the predecessor auditor to his or her enquiry within a reasonable time and has no reason to believe there are any exceptional circumstances surrounding the proposed change, he or she shall use other reasonable means to communicate with the predecessor auditor. [paragraph SG210.11C in extant EP 100]

## Post-NOCLAR requirements

### (i) Predecessor auditor

There is no change in the requirements for the predecessor auditor if the change of audit appointment is due to reasons other than NOCLAR matters such as audit tender or mandatory firm rotation. [paragraph 210.14]

If the change of audit appointment is a result of NOCLAR matters, client consent is not required for the predecessor auditor to provide information concerning the NOCLAR with the proposed successor auditor, if the disclosure is not prohibited by law or regulation. [paragraphs 210.14 and 225.31]

Please refer to Diagram 1 for a decision tree on the change of audit appointment from the perspective of predecessor auditor. The decision tree was prepared based on the assumption that the client has given consent to the proposed successor auditor to initiate discussion with the predecessor auditor. [paragraph 210.13]

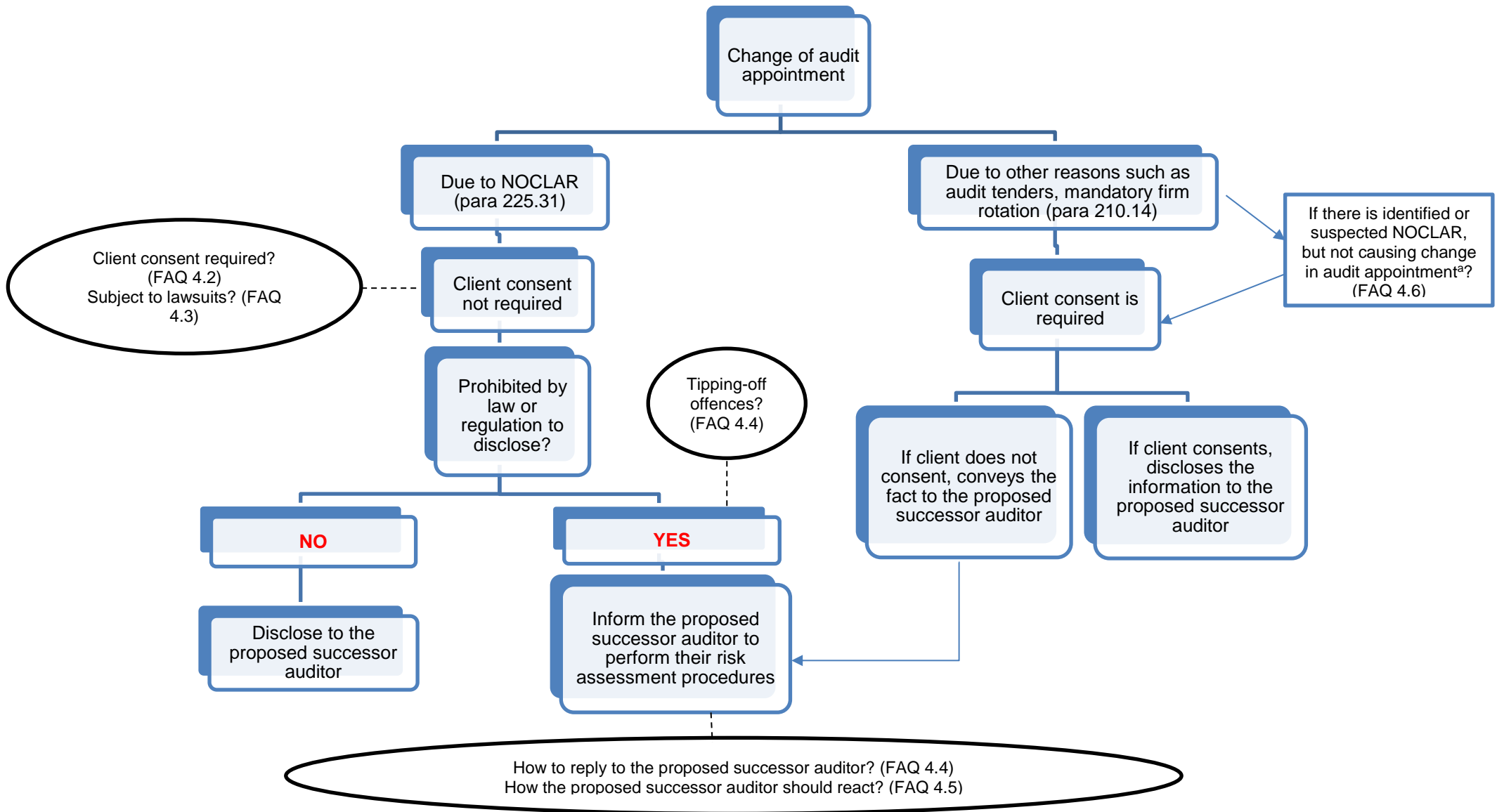
### (ii) Proposed successor auditor

There is no change in the requirements for proposed successor auditor. [paragraphs 225.31 and SG210.14B]

However, the proposed successor auditor is advised not to disclose to the audit client, any information provided by the predecessor auditor in responding to the inquiry of the proposed successor auditor on whether there is any professional or other reason as to why the proposed successor auditor should not accept the appointment.

In addition, the predecessor auditor is advised to stipulate in the professional clearance letter to the proposed successor auditor that the contents of the professional clearance letter are not to be shared with the audit client.

**Diagram 1 Decision tree on the change of audit appointment from the perspective of predecessor auditor**



<sup>a</sup> If disclosure of NOCLAR matters is prohibited by law or regulation, the predecessor auditor would not need to ascertain whether client consent has been obtained as he or she might be subject to tipping-off offences by sharing such information to the proposed successor auditor. Please refer to FAQ 4.4 for more information. In cases of doubts, he or she should seek legal advice before responding to the proposed successor auditor.

**4.1 Is withdrawal from the audit engagement the only available course of action by the auditor if there is an identified or suspected NOCLAR?**

No, the auditor shall exercise professional judgement, weighing all the specific facts and circumstances available to the auditor, to determine whether withdrawal from the audit engagement is an appropriate course of action. Paragraph 225.30 also explains that withdrawal from audit engagement is not a substitute for taking other actions that are needed to achieve the auditor's objectives under the NOCLAR Pronouncement.

**4.2 If the change of audit appointment is a result of an identified or suspected NOCLAR matter, does the NOCLAR Pronouncement require the client consent to be obtained before the predecessor auditor can share information concerning the NOCLAR with a proposed successor auditor?**

No, client consent is not required. Paragraph 225.31 states that the predecessor auditor shall share information concerning the NOCLAR with the proposed successor auditor without the client consent if the disclosure is not prohibited by law or regulation. As consideration of NOCLAR matters would be subject to different facts and circumstances, the predecessor auditor should also consider obtaining legal advice to take the appropriate course of action.

Auditors are advised to communicate their professional obligation to comply with the NOCLAR Pronouncement to their clients. They are also advised to include a clause in the audit engagement letter to make it clear that a confidentiality clause (if included in the engagement letter) would be subject to the auditors' obligation to comply with the NOCLAR Pronouncement from 1 January 2020, regardless of the financial reporting period.

**4.3 If the change of audit appointment is a result of an identified or suspected NOCLAR matter, would the predecessor auditor be subject to any lawsuits if he or she communicates the identified or suspected NOCLAR to the proposed successor auditor even without the client consent?**

No, if the predecessor auditor provides information concerning the NOCLAR to the proposed successor auditor in the absence of malice and the disclosure is not being prohibited by law or regulation. The predecessor auditor is reasonably protected by the statutory defence under section 208(1)<sup>1</sup> of Companies Act and the common law defence of qualified privilege. Accordingly, the predecessor auditor has strong protection from liability in lawsuits if he or she provides relevant information without malice to the proposed successor auditor to comply with paragraph 225.31.

**4.4 How should the predecessor auditor respond to the inquiry of the proposed successor auditor if the change of audit appointment is a result of an identified or suspected NOCLAR matter and the disclosure of such information would result in a tipping-off offence?**

Tipping-off refers to the offence on disclosing any information to any person when doing so is likely to prejudice an investigation or proposed investigation under the Corruption, Drug Trafficking and Other Serious Crimes (Confiscation of Benefits) Act, Cap. 65A ("CDSA") and Terrorism (Suppression of Financing) Act, Cap. 325 ("TSFA"). Accordingly, both the predecessor and proposed auditors should be mindful whenever they are disclosing information to avoid committing any tipping-off offence.

The predecessor auditor should not disclose the identified or suspected money laundering or terrorist activities to the proposed successor auditor or make other disclosures that could amount to tipping-off as the information may be discussed with the client or former client. This is to ensure that the perpetrator does not become aware that the matter has been brought to the attention of the law enforcement agencies.

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<sup>1</sup> Section 208 (1) of Companies Act states that an auditor shall not, in the absence of malice on his part, be liable to any action for defamation at the suit of any person in respect of any statement which he makes in the course of his duties as auditor, whether the statement is made orally or in writing.

As indicated in question 4.1, the predecessor auditor shall share information concerning the NOCLAR matter with the proposed successor auditor if the disclosure is not prohibited by law or regulation, for example, CDSA and TSFA.

If provision of such facts and other information relating to the non-compliance to the proposed successor auditor is prohibited by law or regulation, the predecessor auditor should inform the proposed successor auditor to perform his own risk assessment procedures. In cases of doubt, the predecessor auditor should seek legal advice to understand the professional or legal implications before responding to the proposed successor auditor.

**4.5 What should the proposed successor auditor do if he or she does not receive a reply from predecessor auditor to his inquiry on whether there are any professional reasons why he or she should not accept the appointment?**

The proposed successor auditor must bear in mind that he or she should perform procedures to evaluate and conclude whether the acceptance of the new client relationship and/or audit engagement would create any threats to his or her integrity or professional behavior. As part of the procedures, he or she shall enquire the predecessor auditor whether there are any professional reasons why he or she should not accept the appointment.

As stated in paragraph 225.31, the proposed successor auditor shall perform other procedures to obtain information about the circumstances of the change of appointment if he or she is unable to communicate with the predecessor auditor. Examples of such procedures include inquiries of third parties such as legal counsel or industry peers or background investigations of management or those charged with governance via regulators' website or general internet search.

In addition, the proposed successor auditor should also take into consideration why he or she is unable to obtain a reply from the predecessor auditor or to communicate with the predecessor auditor when determining whether or not to accept the appointment.

Professional judgement is essential as the proposed successor auditor shall ensure that he or she is satisfied that there are no exceptional circumstances surrounding the proposed change in appointment before accepting the appointment.

**4.6 If the change of auditor is a result of an audit tender or mandatory firm rotation and the predecessor auditor is also aware of an act or suspected act of NOCLAR, does the NOCLAR Pronouncement require the predecessor auditor to communicate information concerning the NOCLAR to a proposed auditor?**

In this situation, the predecessor auditor did not withdraw from the client relationship as a result of a NOCLAR matter. Hence, client consent is required to provide facts or other information that the proposed successor auditor needs to be aware of before deciding whether to accept the audit engagement. In a situation where the information to be shared is related to a NOCLAR matter, the predecessor auditor shall share the information to the proposed successor auditor if the disclosure is not prohibited by law or regulation.

## **5 Whistle-blower protection**

**5.1 What are the legislations in Singapore that accord statutory protection to whistle-blowers?**

The current legislations in Singapore should provide adequate protection to whistle-blowers if the professional accountants are to report a NOCLAR.

Section 208 of the Companies Act accords an over-arching protection to professional accountants. In addition, the following legislations in Singapore also offer statutory protections to whistle-blowers if the professional accountants are to whistle-blow on matters specified under the following acts.

- Corruption, Drug Trafficking and Other Serious Crimes (Confiscation of Benefits) Act
- Prevention of Corruption Act
- Workplace Safety and Health Act
- Terrorism (Suppression of Financing) Act
- Competition Act
- Penal Code

As consideration of NOCLAR matters would be subject to different facts and circumstances, the professional accountants should consider obtaining legal advice to understand the professional or legal implications of taking any particular course of action.

In exceptional circumstances where the protection is adjudged not to be the case, the professional accountants should exercise professional judgement to determine if the disclosure of the NOCLAR to an authority is an appropriate course of action.

A professional accountant should also comply with the documentation requirements in accordance with the NOCLAR Pronouncement.

To note that the above whistle-blower protection does not accord protection for tipping-off offence. Please refer to FAQ 1.1 and FAQ 4.4 for guidance on tipping-off offence.