



## COMPARISON OF NEW PROPOSED STANDARD AS 2405 AND ISA 250 AND AU-C SECTION 250

On June 6, 2023, the Public Company Accounting Oversight Board proposed amendments to its standards, as reflected in *Proposing Release – Amendments to PCAOB Auditing Standards related to a Company’s Noncompliance with Laws and Regulations And Other Related Amendments* (“Proposed AS 2405”), PCAOB Release No. 2023-003.

This comparison document was prepared by staff of the Office of the Chief Auditor as a reference tool for the proposed amendments to AS 2405, *Illegal Acts by Clients*, presented in Appendix 1 of the PCAOB release. This document represents the views of PCAOB staff and not necessarily those of the Board. It is not a rule, policy, or statement of the Board. The table below maps the proposed text of AS 2405 against the requirements of the analogous standards:<sup>1</sup>

- The International Auditing and Assurance Standards Board (“IAASB”) – International Standard on Auditing 250 (Revised), *Consideration of Laws and Regulations in an Audit of Financial Statements* (“ISA 250 (Revised)”); and
- The Auditing Standards Board (“ASB”) of the American Institute of Certified Public Accountants (“AICPA”) – AU-C Section 250, *Consideration of Laws and Regulations in an Audit of Financial Statements* (“AU-C 250”).

The comparison may not represent the views of the IAASB or ASB regarding the interpretation of their standards. Additionally, the IAASB and ASB requirements are accompanied by application and other explanatory materials that provide further guidance on those standards. Because these materials are not part of the requirements,<sup>2</sup> they are not included in the comparison. Where a paragraph from ISA 250 (Revised) or AU-C 250 corresponds to more than one paragraph of the new proposed standard, the

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<sup>1</sup> The comparison does not include reference to paragraphs 3, 10, 17, 18 and 30 of ISA 250 (Revised) as the new proposed standard does not include analogous paragraphs. In addition, this comparison does not include reference to AU-C 250.03, .09, .16, and .28 as the new proposed standard does not include analogous paragraphs.

<sup>2</sup> Paragraph .A61 of ISA 200 and paragraph A64. Of AU-C state that, although application and other explanatory material does not, in itself, impose a requirement, it is relevant to the proper application of the requirements.

paragraph from ISA 250 (Revised) or AU-C 250 has been included, in full, once within the comparison with further references to the applicable paragraph included by notation only (e.g., “[See *above* paragraph 7 of ISA 250 (Revised)]”).

## INTRODUCTION

Proposed AS 2405	ISA 250 (Revised)	AU-C 250
<p>.01 Auditors have a fundamental obligation to protect investors through the preparation and issuance of informative, accurate, and independent auditor’s reports, and that obligation governs this standard to identify and evaluate information indicating that <b>noncompliance with laws and regulations</b><sup>1</sup>, including fraud<sup>2</sup>, has or may have occurred and make appropriate communications to management and the audit committee about such information.<sup>3</sup></p> <p><sup>1</sup>The term defined in Appendix A, Definitions, is set in <b>boldface type</b> the first time it appears.</p> <p><sup>2</sup> The term “fraud” has the same meaning as in paragraph .05 of AS 2401, <i>Consideration of Fraud in a Financial Statement Audit</i> (i.e., an intentional act that results in a material misstatement in financial statements that are the subject of an audit).</p> <p><sup>3</sup> See also Section 10A(a)(1), (b), and (f) of the Securities Exchange Act of 1934, 15 U.S.C. § 78j 1(a)(1), (b), (f). These provisions require auditors of issuers to: (1) include audit procedures “designed to provide reasonable assurance of detecting illegal acts that would have a direct and material effect on the determination of financial statement amounts”; and (2) take certain action in response to information indicating that illegal acts have or may have occurred, including determining whether the acts likely occurred, evaluating the possible effects of such acts on the financial statements, informing appropriate</p>	<p>1. This International Standard on Auditing (ISA) deals with the auditor’s responsibility to consider laws and regulations in an audit of financial statements. This ISA does not apply to other assurance engagements in which the auditor is specifically engaged to test and report separately on compliance with specific laws or regulations.</p>	<p>.01 This section addresses the auditor's responsibility to consider laws and regulations in an audit of financial statements. This section does not apply to other assurance engagements in which the auditor is specifically engaged to test and report separately on compliance with specific laws or regulations.<sup>1</sup></p> <p><sup>1</sup> Section 935, <i>Compliance Audits</i>, addresses compliance audits performed in accordance with generally accepted auditing standards, the standards for financial audits under <i>Government Auditing Standards</i>, and government audit requirements.</p>

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<p>management of the acts (and assuring that the audit committee is adequately informed), and, in certain circumstances, making additional communications to the board of directors and the Securities and Exchange Commission. <i>See also</i>, [footnote X to proposed AS 1000, <i>General Responsibilities of the Auditor in Conducting an Audit</i>, PCAOB Rel. No. 2023-001 (Mar. 28, 2023) as proposed to be amended].</p>		
<p>.02 Noncompliance with laws and regulations can result in material misstatement of the financial statements. Some laws and regulations relate to the manner in which matters are presented<sup>4</sup> in the financial statements, such as tax and pension laws. Other laws and regulations may relate to operations of a company. With respect to all laws or regulations, misstatements of the financial statements can arise when violations occur and are not properly presented in the financial statements. The auditor is required to design and implement audit responses that address the risks of material misstatement, including the risk of material misstatement of the financial statements resulting from noncompliance with laws and regulations.<sup>5</sup></p> <p><sup>4</sup> See paragraphs .30-.31 of AS 2810, <i>Evaluating Audit Results</i>.</p> <p><sup>5</sup> See generally [proposed AS 1000, <i>General Responsibilities of the Auditor in Conducting an Audit</i>, PCAOB Rel. No. 2023-001 (Mar. 28, 2023)], AS 2110, <i>Identifying and Assessing Risks of Material Misstatement</i>, “Risks of material misstatement can arise from a variety of sources, including external factors, such as conditions in the company’s industry and environment, and company-specific factors, such as the nature of the company, its activities, and internal control over financial reporting;” and AS 2301, <i>The</i></p>	<p>2. The effect on financial statements of laws and regulations varies considerably. Those laws and regulations to which an entity is subject constitute the legal and regulatory framework. The provisions of some laws or regulations have a direct effect on the financial statements in that they determine the reported amounts and disclosures in an entity’s financial statements. Other laws or regulations are to be complied with by management or set the provisions under which the entity is allowed to conduct its business but do not have a direct effect on an entity’s financial statements. Some entities operate in heavily regulated industries (such as banks and chemical companies). Others are subject only to the many laws and regulations that relate generally to the operating aspects of the business (such as those related to occupational safety and health, and equal employment opportunity). Noncompliance with laws and regulations may result in fines, litigation or other consequences for the entity that may have a material effect on the financial statements.</p> <p>5. The auditor is responsible for obtaining reasonable assurance that the financial statements, taken as a whole, are free from material misstatement, whether due to fraud or error.<sup>1</sup> In conducting an audit of financial statements, the auditor takes into account the applicable legal and regulatory framework. Owing to the inherent limitations of an audit, there is an unavoidable risk that some material misstatements in the financial statements</p>	<p>.02 The effect on financial statements of laws and regulations varies considerably. Those laws and regulations to which an entity is subject constitute the legal and regulatory framework. The provisions of some laws or regulations have a direct effect on the financial statements in that they determine the reported amounts and disclosures in an entity’s financial statements. Other laws or regulations are to be complied with by management, or set the provisions under which the entity is allowed to conduct its business, but do not have a direct effect on an entity’s financial statements. Some entities operate in heavily regulated industries (such as banks and chemical companies). Others are subject only to the many laws and regulations that relate generally to the operating aspects of the business (such as those related to occupational safety and health and equal employment opportunity). Noncompliance with laws and regulations may result in fines, litigation, or other consequences for the entity that may have a material effect on the financial statements.</p> <p>05. The auditor is responsible for obtaining reasonable assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.<sup>2</sup> In conducting an audit of financial statements, the auditor takes into account the applicable legal and regulatory framework. Because of the inherent limitations of an audit, an unavoidable risk</p>

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<p><i>Auditor's Responses to the Risks of Material Misstatement.</i></p>	<p>may not be detected, even though the audit is properly planned and performed in accordance with the ISAs.<sup>2</sup> In the context of laws and regulations, the potential effects of inherent limitations on the auditor's ability to detect material misstatements are greater for such reasons as the following:</p> <p>There are many laws and regulations, relating principally to the operating aspects of an entity, that typically do not affect the financial statements and are not captured by the entity's information systems relevant to financial reporting.</p> <ul style="list-style-type: none"> <li>• Non-compliance may involve conduct designed to conceal it, such as collusion, forgery, deliberate failure to record transactions, management override of controls or intentional misrepresentations being made to the auditor.</li> <li>• Whether an act constitutes non-compliance is ultimately a matter to be determined by a court or other appropriate adjudicative body.</li> </ul> <p>Ordinarily, the further removed non-compliance is from the events and transactions reflected in the financial statements, the less likely the auditor is to become aware of it or to recognize the non-compliance.</p> <p><sup>1</sup> ISA 200, <i>Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing</i>, paragraph 5</p> <p><sup>2</sup> ISA 200, paragraphs A51–A52</p>	<p>exists that some material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with generally accepted auditing standards (GAAS).<sup>3</sup> In the context of laws and regulations, the potential effects of inherent limitations on the auditor's ability to detect material misstatements are greater for the following reasons:</p> <ul style="list-style-type: none"> <li>• Many laws and regulations relating principally to the operating aspects of an entity typically do not affect the financial statements and are not captured by the entity's information systems relevant to financial reporting.</li> <li>• Noncompliance may involve conduct designed to conceal it, such as collusion, forgery, deliberate failure to record transactions, management override of controls, or intentional misrepresentations made to the auditor.</li> <li>• Whether an act constitutes noncompliance is ultimately a matter for legal determination, such as by a court of law.</li> </ul> <p>Ordinarily, the further removed noncompliance is from the events and transactions reflected in the financial statements, the less likely the auditor is to become aware of, or recognize, the noncompliance.</p> <p><sup>2</sup> Paragraph .12 of section 200, <i>Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards</i>.</p> <p><sup>3</sup> Paragraph .A49 of section 200.</p>
<p>.03 This standard establishes requirements regarding the auditor's identification of laws and regulations with which noncompliance could reasonably have a material</p>	<p>[See above paragraphs 1 and 5 of ISA 250 (Revised)]</p>	<p>[See above paragraphs .01 and .05 of AU-C 250]</p>

Proposed AS 2405	ISA 250 (Revised)	AU-C 250
<p>effect on the financial statements and information indicating that noncompliance with such laws and regulations, including fraud, has or may have occurred, and the subsequent evaluation and communication when the auditor identifies or otherwise becomes aware of such information.</p>	<p>4. The requirements in this ISA are designed to assist the auditor in identifying material misstatement of the financial statements due to non-compliance with laws and regulations. However, the auditor is not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.</p> <p>6. This ISA distinguishes the auditor’s responsibilities in relation to compliance with two different categories of laws and regulations as follows: (Ref: Para. A6, A12–A13)</p> <p>(a) The provisions of those laws and regulations generally recognized to have a direct effect on the determination of material amounts and disclosures in the financial statements such as tax and pension laws and regulations (see paragraph 14) (Ref: Para. A12); and</p> <p>(b) Other laws and regulations that do not have a direct effect on the determination of the amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operating aspects of the business, to an entity’s ability to continue its business, or to avoid material penalties (e.g., compliance with the terms of an operating license, compliance with regulatory solvency requirements, or compliance with environmental regulations); non-compliance with such laws and regulations may therefore have a material effect on the financial statements (see paragraph 15) (Ref: Para. A13).</p> <p>7. In this ISA, differing requirements are specified for each of the above categories of laws and regulations. For the category referred to in paragraph 6(a), the auditor’s responsibility is to obtain sufficient appropriate audit evidence regarding compliance with the provisions of those laws and regulations. For the category referred to in paragraph 6(b), the auditor’s responsibility is limited</p>	<p>04. The requirements in this section are designed to assist the auditor in identifying material misstatement of the financial statements due to noncompliance with laws and regulations. However, the auditor is not responsible for preventing noncompliance and cannot be expected to detect noncompliance with all laws and regulations.</p> <p>.06 This section distinguishes the auditor’s responsibilities regarding compliance with the following two categories of laws and regulations:</p> <p>a. The provisions of those laws and regulations generally recognized to have a direct effect on the determination of material amounts and disclosures in the financial statements, such as tax and pension laws and regulations (see paragraph .13)</p> <p>b. The provisions of other laws and regulations that do not have a direct effect on the determination of the amounts and disclosures in the financial statements but compliance with which may be</p> <p>i. fundamental to the operating aspects of the business,</p> <p>ii. fundamental to an entity’s ability to continue its business, or</p> <p>iii. necessary for the entity to avoid material penalties</p> <p>(for example, compliance with the terms of an operating license, regulatory solvency requirements, or environmental regulations); therefore, noncompliance with such laws and regulations may have a material effect on the financial statements (see paragraph .14)</p>

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	to undertaking specified audit procedures to help identify non-compliance with those laws and regulations that may have a material effect on the financial statements.	07. In this section, differing requirements are specified for each of the previously mentioned categories of laws and regulations. For the category referred to in paragraph .06a, the auditor's responsibility is to obtain sufficient appropriate audit evidence regarding material amounts and disclosures in the financial statements that are determined by the provisions of those laws and regulations. For the category referred to in paragraph .06b, the auditor's responsibility is limited to performing specified audit procedures that may identify noncompliance with those laws and regulations that may have a material effect on the financial statements.

## OBJECTIVES

Proposed AS 2405	ISA 250 (Revised)	AU-C 250
<p>.04 The objectives of the auditor are to:</p> <ul style="list-style-type: none"> <li>a. Identify laws and regulations with which noncompliance could reasonably have a material effect on the financial statements;</li> <li>b. Based on the laws and regulations identified under paragraph .04a, assess and respond to the risk of material misstatement of the financial statements due to noncompliance with those laws and regulations;</li> <li>c. Identify whether there are instances of noncompliance with laws and regulations that have or may have occurred; and</li> <li>d. When the auditor identifies or otherwise becomes aware of information indicating that instances of noncompliance have or may have occurred, evaluate and communicate such</li> </ul>	<p>[See above paragraphs 4-7 of ISA 250 (Revised)]</p> <p>11. The objectives of the auditor are:</p> <ul style="list-style-type: none"> <li>(a) To obtain sufficient appropriate audit evidence regarding compliance with the provisions of those laws and regulations generally recognized to have a direct effect on the determination of material amounts and disclosures in the financial statements;</li> <li>(b) To perform specified audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial statements; and</li> <li>(c) To respond appropriately to identified or suspected non-compliance with laws and regulations identified during the audit.</li> </ul>	<p>[See above paragraphs .04-.07 of AU-C 250]</p> <p>.10 The objectives of the auditor are to</p> <ul style="list-style-type: none"> <li>a. obtain sufficient appropriate audit evidence regarding material amounts and disclosures in the financial statements that are determined by the provisions of those laws and regulations generally recognized to have a direct effect on their determination (see paragraph .06a),</li> <li>b. perform specified audit procedures that may identify instances of noncompliance with other laws and regulations that may have a material effect on the financial statements (see paragraph .06b), and</li> <li>c. respond appropriately to noncompliance or suspected noncompliance with laws and regulations identified during the audit.</li> </ul>

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instances of noncompliance (regardless of whether the effect of the noncompliance is perceived to be material).		

## PLAN AND PERFORM PROCEDURES RELATED TO NONCOMPLIANCE WITH LAWS AND REGULATIONS

Proposed AS 2405	ISA 250 (Revised)	AU-C 250
<p>.05 The auditor must plan and perform procedures to:</p> <ul style="list-style-type: none"> <li>a. Identify the laws and regulations with which noncompliance could reasonably have a material effect on the financial statements;</li> <li>b. Assess and respond to risks of material misstatement of the financial statements due to noncompliance with those laws and regulations; and</li> <li>c. Identify whether there is information indicating noncompliance with those laws and regulations has or may have occurred.</li> </ul>	<p>[See above paragraph 7 of ISA 250 (Revised)]</p> <p>14. The auditor shall obtain sufficient appropriate audit evidence regarding compliance with the provisions of those laws and regulations generally recognized to have a direct effect on the determination of material amounts and disclosures in the financial statements. (Ref: Para. A12)</p> <p>15. The auditor shall perform the following audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial statements: (Ref: Para. A13–A14)</p> <ul style="list-style-type: none"> <li>(a) Inquiring of management and, where appropriate, those charged with governance, as to whether the entity is in compliance with such laws and regulations; and</li> <li>(b) Inspecting correspondence, if any, with the relevant licensing or regulatory authorities.</li> </ul>	<p>[See above paragraph .07 of AU-C 250]</p> <p>.13 The auditor should obtain sufficient appropriate audit evidence regarding material amounts and disclosures in the financial statements that are determined by the provisions of those laws and regulations generally recognized to have a direct effect on their determination (see paragraph .06a). (Ref: par. .A9—.A11)</p> <p>.14 The auditor should perform the following audit procedures that may identify instances of noncompliance with other laws and regulations that may have a material effect on the financial statements (see paragraph .06b): (Ref: par. .A12—.A15)</p> <ul style="list-style-type: none"> <li>a. Inquiring of management and, when appropriate, those charged with governance about whether the entity is in compliance with such laws and regulations</li> <li>b. Inspecting correspondence, if any, with the relevant licensing or regulatory authorities (Ref: par. .A16)</li> </ul>
<p>.06 As part of planning and performing procedures in accordance with paragraph .05, the auditor must use the information obtained from:</p>	<p>[See above paragraph 15 of ISA 250 (Revised)]</p> <p>13. As part of obtaining an understanding of the entity and its environment in accordance with ISA 315</p>	<p>[See above paragraph .14 of AU-C 250]</p> <p>.12 As part of obtaining an understanding of the entity and its environment, in accordance with section 315A,</p>

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<p>a. Risk assessment procedures, including:</p> <ol style="list-style-type: none"> <li>1) Obtaining an understanding of the company and its environment, including the regulatory environment (see paragraphs .07-.15 of AS 2110, <i>Identifying and Assessing Risks of Material Misstatement</i> [as proposed to be amended]);</li> <li>2) Obtaining an understanding of management’s processes related to (i) identifying laws and regulations with which noncompliance could reasonably have a material effect on the financial statements; (ii) preventing, identifying, investigating, evaluating, communicating, and remediating instances of noncompliance with laws and regulations; (iii) receiving and responding to tips and complaints from internal and external parties regarding noncompliance with laws and regulations; and (iv) evaluating potential accounting and disclosure implications of noncompliance with laws and regulations, including fraud (see AS 2110.26 [as proposed to be amended]);</li> <li>3) Making inquiries of management, the audit committee,<sup>6</sup> internal audit personnel, and others regarding noncompliance with laws and regulations (see AS 2110.54 and .56-.58 [as proposed to be amended]); and</li> </ol> <p>b. Other procedures performed in the audit of the financial statements, in reviews of interim financial information, and, if applicable, in an</p>	<p>(Revised),<sup>4</sup> the auditor shall obtain a general understanding of:</p> <ol style="list-style-type: none"> <li>(a) The legal and regulatory framework applicable to the entity and the industry or sector in which the entity operates; and</li> <li>(b) How the entity is complying with that framework. (Ref: Para. A11)</li> </ol> <p><sup>4</sup> ISA 315 (Revised), <i>Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment</i>, paragraph 11</p> <p>8. The auditor is required by this ISA to remain alert to the possibility that other audit procedures applied for the purpose of forming an opinion on financial statements may bring instances non-compliance to the auditor’s attention. Maintaining professional skepticism throughout the audit, as required by ISA 200,<sup>3</sup> is important in this context, given the extent of laws and regulations that affect the entity.</p> <p><sup>3</sup> ISA 200, paragraph 15</p> <p>16. During the audit, the auditor shall remain alert to the possibility that other audit procedures applied may bring instances of non-compliance or suspected non-compliance with laws and regulations to the auditor’s attention. (Ref: Para. A15)</p>	<p><i>Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement</i>, the auditor should obtain a general understanding of the following:<sup>5</sup> (Ref: par. .A8)</p> <ol style="list-style-type: none"> <li>a. The legal and regulatory framework applicable to the entity and the industry or sector in which the entity operates</li> <li>b. How the entity is complying with that framework</li> </ol> <p><sup>5</sup> Paragraph .12 of section 315, <i>Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement</i>.</p> <p>.08 The auditor is required by this section to remain alert to the possibility that other audit procedures applied for the purpose of forming an opinion on financial statements may bring instances of identified or suspected noncompliance with laws and regulations to the auditor’s attention. Maintaining professional skepticism throughout the audit, as required by section 200, <i>Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards</i>, is important in this context, given the extent of laws and regulations that affect the entity.<sup>4</sup></p> <p><sup>4</sup> Paragraph .17 of section 200.</p> <p>.15 During the audit, the auditor should remain alert to the possibility that other audit procedures applied may bring instances of noncompliance or suspected noncompliance with laws and regulations to the auditor’s attention. (Ref: par. .A17— .A18)</p>

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<p>audit of internal control over financial reporting that may identify laws and regulations with which noncompliance could reasonably have a material effect on the financial statements or noncompliance with laws and regulations that has or may have occurred.</p> <p>Note: AS 2301, <i>The Auditor’s Responses to the Risks of Material Misstatement</i>, and AS 2401, <i>Consideration of Fraud in a Financial Statement Audit</i>, establish requirements for responding to risks of material misstatement, including identified fraud risks. Procedures performed pursuant to other auditing standards also may assist the auditor in identifying laws and regulations with which noncompliance could reasonably have a material effect on the financial statements or alert the auditor to information indicating that noncompliance with laws and regulations has or may have occurred. These standards include (i) AS 2201, <i>An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements</i>, (ii) AS 2410, <i>Related Parties</i>, (iii) AS 2505, <i>Inquiry of a Client’s Lawyer Concerning Litigation, Claims, and Assessments</i>, (iv) AS 2810, <i>Evaluating Audit Results</i>, and (v) AS 4105, <i>Reviews of Interim Financial Information</i>.</p> <p><sup>6</sup> The term “audit committee” has the same meaning as defined in Appendix A of AS 1301, <i>Communications with Audit Committees</i>.</p>		

## EVALUATING NONCOMPLIANCE WITH LAWS AND REGULATIONS

Proposed AS 2405	ISA 250 (Revised)	AU-C 250
<p>.07 When the auditor identifies or otherwise becomes aware of information indicating that noncompliance with laws or regulations, including fraud, has or may have occurred (regardless of whether the effect of such noncompliance is perceived to be material to the financial statements), the auditor must (1) obtain an understanding of the nature and circumstances of any such noncompliance; and (2) determine whether it is likely that any such noncompliance occurred.<sup>7</sup></p> <p>Note 1: The auditor should consider whether specialized skill or knowledge is needed to assist the auditor in evaluating the noncompliance.<sup>8</sup></p> <p>Note 2: The auditor’s procedures to evaluate information indicating noncompliance with laws and regulations described in this standard involve the application of professional skepticism in gathering and evaluating audit evidence, including information that supports and corroborates management’s assertions and information that contradicts such assertions.<sup>9</sup></p> <p><sup>7</sup> Information from the auditor’s client acceptance and retention evaluation, audit planning activities, past audits, and other engagements may inform and assist the auditor when evaluating information that the auditor has identified or becomes aware of that might indicate that noncompliance with a law or regulation has occurred. See <i>generally</i> AS 2110.41-45.</p> <p><sup>8</sup> If the auditor determines that specialized skill or knowledge outside of accounting and auditing is needed to assist the auditor in evaluating the noncompliance, the auditor should look to the appropriate requirements for using the work of specialists in an audit. See Appendix C of AS 1201,</p>	<p>19. If the auditor becomes aware of information concerning an instance of non-compliance or suspected non-compliance with laws and regulations, the auditor shall obtain: (Ref: Para. A17–A18)</p> <p>(a) An understanding of the nature of the act and the circumstances in which it has occurred; and</p> <p>(b) Further information to evaluate the possible effect on the financial statements. (Ref: Para. A19)</p>	<p>.17 If the auditor becomes aware of information concerning an instance of noncompliance or suspected noncompliance with laws and regulations, the auditor should obtain (Ref: par. .A19—.A20)</p> <p>a. an understanding of the nature of the act and the circumstances in which it has occurred and</p> <p>b. further information to evaluate the possible effect on the financial statements. (Ref: par. .A21)</p>

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<p><i>Supervision of the Audit Engagement</i> (procedures to be performed with respect to the supervision of the work of an auditor-employed specialist); and AS 1210, <i>Using the Work of an Auditor-Engaged Specialist</i> (requirements for using the work of an auditor-engaged specialist).</p> <p><sup>9</sup> See paragraphs .10-.11 of [proposed AS 1000, <i>General Responsibilities of the Auditor in Conducting an Audit</i>, PCAOB Rel. No. 2023-001 (Mar. 28, 2023)]. See also paragraph .02 of AS 1105, <i>Audit Evidence</i> (audit evidence consists of both information that supports and corroborates management’s assertions and information that contradicts such assertions).</p>		
<p>.08 Obtaining an understanding about the nature and circumstances of any such noncompliance with laws and regulations and determining whether it is likely that any such noncompliance has occurred may include the following procedures:</p> <ul style="list-style-type: none"> <li>a. Examining supporting documentation about relevant events or transactions;</li> <li>b. Making inquiries of company personnel who are likely to have knowledge of the events or transactions and management at a level above those involved;</li> </ul> <p>Note: Inquiry alone is not sufficient to determine that noncompliance is not likely to have occurred.</p> <ul style="list-style-type: none"> <li>c. Obtaining an understanding of the nature and status of any relevant investigations internal or external to the company;</li> <li>d. Confirming significant information concerning the events or transactions with intermediaries, financial institutions, legal</li> </ul>	<p>20. If the auditor suspects there may be non-compliance, the auditor shall discuss the matter, unless prohibited by law or regulation, with the appropriate level of management and, where appropriate, those charged with governance. If management or, as appropriate, those charged with governance do not provide sufficient information that supports that the entity is in compliance with laws and regulations and, in the auditor’s judgment, the effect of the suspected non-compliance may be material to the financial statements, the auditor shall consider the need to obtain legal advice. (Ref: Para. A20–A22)</p>	<p>.18 If the auditor suspects noncompliance may exist, the auditor should discuss the matter with management (at a level above those involved with the suspected noncompliance, if possible) and, when appropriate, those charged with governance. If management or, as appropriate, those charged with governance do not provide sufficient information that supports that the entity is in compliance with laws and regulations and, in the auditor’s professional judgment, the effect of the suspected noncompliance may be material to the financial statements, the auditor should consider the need to obtain legal advice. (Ref: par. .A22—.A23)</p>

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<p>counsel, or others who may have knowledge of the events, transactions, and applicable legal requirements;</p> <p>e. Determining whether a transaction has been properly authorized by management;</p> <p>f. Determining whether similar transactions or events may have occurred;<sup>10</sup></p> <p>g. Discussing the facts and circumstances with the company’s legal counsel or others with specialized skill or knowledge about the application of relevant laws or regulations to the circumstances and the possible effects on the financial statements; and</p> <p>h. Considering the results of other audit procedures related to the matter.</p> <p>Note: The extent of procedures necessary depends on the nature and circumstances of the matter (i.e., the information indicating that noncompliance with laws or regulations, including fraud, has or may have occurred), including whether the matter could be material, the relevance and reliability of information provided by the company about the matter,<sup>11</sup> and the effectiveness of management’s process for investigating the matter.</p> <p><sup>10</sup> When determining whether similar transactions or events may have occurred, the auditor might determine it is necessary to perform forensic auditing procedures to analyze the company’s transactions.</p> <p><sup>11</sup> See paragraph .10 of AS 1105, <i>Audit Evidence</i>.</p>		
<p>.09 When the auditor determines, based on information obtained, that it is likely that</p>	<p>[See above paragraph 19 of ISA 250 (Revised)]</p>	<p>[See above paragraph .17 of AU-C 250]</p>

Proposed AS 2405	ISA 250 (Revised)	AU-C 250
<p>noncompliance with laws or regulations has occurred, the auditor must:</p> <ul style="list-style-type: none"> <li>a. Determine the possible effect of the likely noncompliance on the financial statements (see paragraph .10 of this standard);<sup>12</sup></li> <li>b. Perform additional procedures as necessary to determine whether the likely noncompliance (1) results in material misstatement of the financial statements (including omitted, incomplete, or inaccurate disclosures) or (2) results in other information in documents containing audited financial statements, or the manner of its presentation, being materially inconsistent with information appearing in the financial statements or containing a material misstatement of fact;<sup>13</sup> and</li> <li>c. Assess the implications of the noncompliance in relation to other aspects of the audit (such as the auditor’s risk assessment; the sufficiency and reliability of audit evidence, including representations of management; and, in an integrated audit, on the effectiveness of internal control over financial reporting) and take appropriate action.<sup>14</sup></li> </ul> <p><sup>12</sup> See also paragraphs .10-.23 of AS 2810, <i>Evaluating Audit Results</i>.</p> <p><sup>13</sup> When it is likely that noncompliance with laws and regulations has occurred and may have an impact on other information accompanying the audited financial statements, the auditor refers to paragraph .04-.05 of AS 2710, <i>Other Information in Documents Containing Audited Financial Statements</i>.</p>	<p>22. The auditor shall evaluate the implications of identified or suspected non-compliance in relation to other aspects of the audit, including the auditor’s risk assessment and the reliability of written representations, and take appropriate action. (Ref: Para. A23–A25)</p>	<p>.20 The auditor should evaluate the implications of noncompliance in relation to other aspects of the audit, including the auditor’s risk assessment and the reliability of written representations,<sup>7</sup> and take appropriate action. (Ref: par. .A24— .A25)</p> <p><sup>7</sup> Paragraphs .22— .26 of section 580.</p>

Proposed AS 2405	ISA 250 (Revised)	AU-C 250
<p><sup>14</sup> If the auditor has identified misstatements that are or might be intentional, the auditor has additional responsibilities under AS 2810.22. In an audit of internal control over financial reporting, the auditor is required to evaluate the effect of the findings with respect to noncompliance with laws and regulations on the effectiveness of internal control over financial reporting under AS 2201.B8 (as proposed to be amended).</p>		
<p>.10 The auditor should take the following factors into account when determining the possible effect of the likely noncompliance:</p> <ul style="list-style-type: none"> <li>a. The materiality of the likely noncompliance on the financial statements;<sup>15</sup></li> <li>b. The effect on the amounts and disclosures in the financial statements, including potential contingent monetary effects, such as fines, penalties, damages, or provisions for allowances or returns;<sup>16</sup> and</li> <li>c. The adequacy of disclosure in the financial statements of the possible effects of the likely noncompliance on the company's operations.</li> </ul> <p><sup>15</sup> The auditor considers both qualitative and quantitative factors in evaluating materiality. The materiality of likely noncompliance should be evaluated individually and in the aggregate with similar instances. See AS 2105, <i>Consideration of Materiality in Planning and Performing an Audit</i>; see also AS 2810.</p> <p><sup>16</sup> See generally AS 2501, <i>Auditing Accounting Estimates, Including Fair Value Measurements</i>.</p>	<p>[See above paragraph 19 of ISA 250 (Revised)]</p>	<p>[See above paragraph .17 of AU-C 250]</p>
<p>.11 If the auditor determines that the likely noncompliance has a material effect on the financial statements, the auditor should determine whether</p>		

Proposed AS 2405	ISA 250 (Revised)	AU-C 250
<p>senior management has taken timely and appropriate remedial action with respect to the matter.</p> <p>Note: Possible remedial actions may include conducting or cooperating with an appropriate internal investigation into the matter, taking disciplinary action against involved personnel, seeking restitution, adopting preventive or corrective policies, or modifying specific control activities.</p>		

## COMMUNICATING NONCOMPLIANCE WITH LAWS AND REGULATIONS

Proposed AS 2405	ISA 250 (Revised)	AU-C 250
<p>.12 When the auditor identifies or otherwise becomes aware of information indicating that noncompliance with laws and regulations (whether or not perceived to have a material effect on the financial statements), including fraud, has or may have occurred, the auditor must, as soon as practicable<sup>17</sup> and before the issuance of the engagement report,<sup>18</sup> communicate the matter(s) to:</p> <ul style="list-style-type: none"> <li>a. The appropriate level of management;<sup>19</sup> and</li> <li>b. The audit committee, unless the matter is clearly inconsequential<sup>20</sup> or has been communicated as provided for in the note to paragraph .13 below.</li> </ul> <p>Note: The auditor should presume that a matter involving senior management is not clearly inconsequential.</p> <p><sup>17</sup> Making this communication “as soon as practicable” could result in the auditor communicating the matter prior to the completion of the auditor’s evaluation of the information indicating that noncompliance has or</p>	<p>23. Unless all of those charged with governance are involved in management of the entity, and therefore are aware of matters involving identified or suspected non-compliance already communicated by the auditor,<sup>5</sup> the auditor shall communicate, unless prohibited by law or regulation, with those charged with governance matters involving non-compliance with laws and regulations that come to the auditor’s attention during the course of the audit, other than when the matters are clearly inconsequential.</p> <p><sup>5</sup> ISA 260 (Revised), <i>Communication with Those Charged with Governance</i>, paragraph 13.</p> <p>24. If, in the auditor’s judgment, the non-compliance referred to in paragraph 23 is believed to be intentional and material, the auditor shall communicate the matter with those charged with governance as soon as practicable.</p> <p>25. If the auditor suspects that management or those charged with governance are involved in non-compliance, the auditor shall communicate the matter to</p>	<p>.21 Unless all of those charged with governance are involved in management of the entity and aware of matters involving identified or suspected noncompliance already communicated by the auditor,<sup>8</sup> the auditor should communicate with those charged with governance matters involving noncompliance with laws and regulations that come to the auditor’s attention during the course of the audit, other than when the matters are clearly inconsequential. (Ref: par. .A26)</p> <p><sup>8</sup> Paragraph .09 of section 260, <i>The Auditor’s Communication With Those Charged With Governance</i>.</p> <p>.22 If, in the auditor’s professional judgment, the noncompliance referred to in paragraph .21 is believed to be intentional and material, the auditor should communicate the matter to those charged with governance as soon as practicable.</p> <p>.23 If the auditor suspects that management or those charged with governance are involved in noncompliance, the auditor should communicate the</p>

Proposed AS 2405	ISA 250 (Revised)	AU-C 250
<p>may have occurred (see paragraphs .07-.11 of this standard).</p> <p><sup>18</sup> The term “engagement report” has the same meaning as in footnote 1 to AS 1220, <i>Engagement Quality Reviews</i>.</p> <p><sup>19</sup> When making such communications to management, the auditor need not communicate such information to any individuals within management who directly communicated the information to the auditor.</p> <p><sup>20</sup> See [proposed paragraph .12h of AS 1215, <i>Audit Documentation</i>].</p>	<p>the next higher level of authority at the entity, if it exists, such as an audit committee or supervisory board. Where no higher authority exists, or if the auditor believes that the communication may not be acted upon or is unsure as to the person to whom to report, the auditor shall consider the need to obtain legal advice.</p>	<p>matter to the next higher level of authority at the entity, if it exists. When no higher authority exists, or if the auditor believes that the communication may not be acted upon or is unsure about the person to whom to report, the auditor should consider the need to obtain legal advice.</p>
<p>.13 The communication pursuant to paragraph .12 should describe the matter, including:</p> <ul style="list-style-type: none"> <li>a. The auditor’s understanding of the nature of the matter and the circumstances of its occurrence; and</li> <li>b. If the auditor has determined that the matter is likely noncompliance, the possible effect of the noncompliance on the financial statements and other information in documents containing the audited financial statements.</li> </ul> <p>Note: As part of its communications to the audit committee, management might communicate some or all of the information regarding the noncompliance required under paragraphs .12 and .13. The auditor does not need to repeat information about such noncompliance that management previously communicated in writing to the audit committee or if the auditor participated in management’s discussion with the audit committee about the noncompliance. The auditor must communicate any omitted,</p>		

Proposed AS 2405	ISA 250 (Revised)	AU-C 250
<p>incomplete, or inadequately described information regarding the noncompliance to the audit committee.</p>		
<p>.14 After the auditor has completed the evaluation of the information indicating that noncompliance has or may have occurred, the auditor should communicate to management and, unless the matter is clearly inconsequential, also to the audit committee the results of the auditor’s evaluation, including:</p> <ul style="list-style-type: none"> <li>a. Which of the matters, if any, communicated pursuant to paragraphs .12-.13 are likely noncompliance; and</li> <li>b. For instances of likely noncompliance, whether there is a material effect on the financial statements.</li> </ul>	<p>[See above paragraphs 24 and 25 of ISA 250 (Revised)]</p>	<p>[See above paragraphs .22 and .23 of AU-C 250]</p>
<p>.15 If after the auditor has communicated noncompliance with laws and regulations in accordance with paragraphs .12-.14 to the audit committee, the auditor concludes that:</p> <ul style="list-style-type: none"> <li>a. Such noncompliance has a material effect on the financial statements;</li> <li>b. Senior management has not taken, and the board of directors has not caused senior management to take, timely and appropriate remedial action with respect to such noncompliance; and</li> <li>c. The failure to take remedial action is reasonably expected to warrant departure</li> </ul>	<p>[See above paragraph 20 of ISA 250 (Revised)]</p> <p>29. If the auditor has identified or suspects non-compliance with laws and regulations, the auditor shall determine whether law, regulation or relevant ethical requirements: (Ref: Para. A28– A34)</p> <ul style="list-style-type: none"> <li>(a) Require the auditor to report to an appropriate authority outside the entity.</li> <li>(b) Establish responsibilities under which reporting to an appropriate authority outside the entity may be appropriate in the circumstances.</li> </ul>	<p>[See above paragraph .18 of AU-C 250]</p> <p>.27 If the auditor has identified or suspects noncompliance with laws and regulations, the auditor should determine whether the auditor has a responsibility to report the identified or suspected noncompliance to parties outside the entity. (Ref: par. .A28—.A29)</p>

Proposed AS 2405	ISA 250 (Revised)	AU-C 250
<p>from an unqualified opinion<sup>21</sup> or warrant resignation from the audit engagement,<sup>22</sup></p> <p>the auditor must directly communicate these conclusions to the board of directors or equivalent, as soon as practicable.<sup>23</sup></p> <p><sup>21</sup> See AS 3105, <i>Departures from Unqualified Opinions and Other Reporting Circumstances</i>.</p> <p><sup>22</sup> See also [Proposed AS 1310, <i>Notification of Termination of the Auditor-Client Relationship</i>, PCAOB Release No. 2022-006 (Nov. 18, 2022)], for the auditor’s responsibilities to notify the SEC upon termination of the auditor-client relationship.</p> <p><sup>23</sup> The auditor may also have reporting or notification obligations regarding noncompliance with laws, rules, and regulations to regulators or other third parties. For example, auditors may be required under certain circumstances to make a report to the SEC relating to an illegal act that has a material effect on an issuer’s financial statements pursuant to Section 10A of the Securities Exchange Act of 1934, 15 U.S.C. § 78j-1.</p>		

## MULTI-LOCATION ENGAGEMENT CONSIDERATIONS

Proposed AS 2405	ISA 250 (Revised)	AU-C 250
<p>.16 If other auditors participate in the audit, the lead auditor should obtain written affirmations from the other auditors that:</p> <p>a. If the other auditor identifies or otherwise becomes aware of information indicating that noncompliance with laws and regulations, including fraud, has or may have occurred, the other auditor will communicate such</p>	<p>9. The auditor may have additional responsibilities under law, regulation or relevant ethical requirements regarding an entity’s non-compliance with laws and regulations, which may differ from or go beyond this ISA, such as: (Ref: Para. A8)</p> <p>(a) Responding to identified or suspected non-compliance with laws and regulations, including requirements in relation to specific communications</p>	

Proposed AS 2405	ISA 250 (Revised)	AU-C 250
<p>information to the lead auditor in accordance with the lead auditor’s instructions;<sup>24</sup> and</p> <p>b. The other auditor has communicated to the lead auditor any instances, or alleged or suspected instances, of fraud or other noncompliance with laws and regulations identified or otherwise become aware of in the course of performing the other auditor’s work.</p> <p><sup>24</sup> The terms “lead auditor” and “other auditor” have the same meanings as defined in Appendix A of AS 2101, <i>Audit Planning</i> [when adopted].</p>	<p>with management and those charged with governance, assessing the appropriateness of their response to non-compliance and determining whether further action is needed;</p> <p>(b) Communicating identified or suspected non-compliance with laws and regulations to other auditors (e.g., in an audit of group financial statements); and</p> <p>(c) Documentation requirements regarding identified or suspected non-compliance with laws and regulations.</p> <p>Complying with any additional responsibilities may provide further information that is relevant to the auditor’s work in accordance with this and other ISAs (e.g., regarding the integrity of management or, where appropriate, those charged with governance).</p>	
<p>.17 If other auditors participate in the audit and the lead auditor identifies or otherwise becomes aware of information indicating that noncompliance with laws and regulations, including fraud, has or may have occurred that may be relevant to the work of an other auditor, the lead auditor should communicate the information to the other auditor as soon as practicable.</p>	<p>[See above paragraph 9 of ISA 250 (Revised)]</p>	
<p>.18 In circumstances described in paragraph .17 or if the other auditor has communicated information indicating noncompliance with laws and regulations has or may have occurred, the lead auditor should establish an understanding with the other auditors regarding (i) the respective responsibilities of the lead auditor and the other auditors for evaluating and communicating the noncompliance with laws and regulations, including fraud; and (ii) any specific procedures to be performed.</p>		

## EFFECT ON THE ENGAGEMENT REPORT

Proposed AS 2405	ISA 250 (Revised)	AU-C 250
<p>.19 The auditor should determine the effect on the engagement report<sup>25</sup> and on the ongoing relationship with the company,<sup>26</sup> if the auditor:</p> <ul style="list-style-type: none"> <li>a. Is precluded by the company or the circumstances from identifying noncompliance with laws and regulations, including fraud, that has or may have occurred or from obtaining sufficient appropriate audit evidence to evaluate whether it is likely that noncompliance with laws and regulations, including fraud, occurred;</li> <li>b. Is unable to determine whether the likely noncompliance has a material effect on the financial statements; or</li> <li>c. Concludes that the likely noncompliance with laws and regulations (1) has a material effect on the financial statements, (2) has not been properly accounted for or disclosed or (3) results in changes to the auditor's assessment of the effectiveness of internal control over financial reporting.</li> </ul> <p><sup>25</sup> See paragraph .11 of AS 3101, <i>The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion</i>; AS 3105, <i>Departures from Unqualified Opinions and Other Reporting Circumstances</i>; and AS 2201.B8 [as proposed to be amended].</p>	<p>21. If sufficient information about suspected non-compliance cannot be obtained, the auditor shall evaluate the effect of the lack of sufficient appropriate audit evidence on the auditor's opinion.</p> <p>26. If the auditor concludes that the identified or suspected non-compliance has a material effect on the financial statements, and has not been adequately reflected in the financial statements, the auditor shall, in accordance with ISA 705 (Revised), express a qualified opinion or an adverse opinion on the financial statements.<sup>6</sup></p> <p><sup>6</sup> ISA 705 (Revised), <i>Modifications to the Opinion in the Independent Auditor's Report</i>, paragraphs 7–8</p> <p>27. If the auditor is precluded by management or those charged with governance from obtaining sufficient appropriate audit evidence to evaluate whether non-compliance that may be material to the financial statements has, or is likely to have, occurred, the auditor shall express a qualified opinion or disclaim an opinion on the financial statements on the basis of a limitation on the scope of the audit in accordance with ISA 705 (Revised).<sup>7</sup></p> <p><sup>7</sup> ISA 705 (Revised), paragraphs 7 and 9</p> <p>28. If the auditor is unable to determine whether non-compliance has occurred because of limitations imposed by the circumstances rather than by management or those charged with governance, the auditor shall evaluate the effect on the auditor's opinion in accordance with ISA 705 (Revised).</p>	<p>.19 If sufficient information about suspected noncompliance cannot be obtained, the auditor should evaluate the effect of the lack of sufficient appropriate audit evidence on the auditor's opinion.</p> <p>.24 If the auditor concludes that the noncompliance has a material effect on the financial statements, and it has not been adequately reflected in the financial statements, the auditor should, in accordance with section 705, <i>Modifications to the Opinion in the Independent Auditor's Report</i>, express a qualified or adverse opinion on the financial statements.<sup>9</sup> (Ref: par. .A27)</p> <p><sup>9</sup> Paragraphs .08—.09 of section 705, <i>Modifications to the Opinion in the Independent Auditor's Report</i>.</p> <p>.25 If the auditor is precluded by management or those charged with governance from obtaining sufficient appropriate audit evidence to evaluate whether noncompliance that may be material to the financial statements has, or is likely to have, occurred, the auditor should express a qualified opinion or disclaim an opinion on the financial statements on the basis of a limitation on the scope of the audit, in accordance with section 705.<sup>10</sup> (Ref: par. .A27)</p> <p><sup>10</sup> [Footnote deleted, January 2012, to reflect conforming changes necessary due to the issuance of SAS No. 123.]</p> <p>.26 If the auditor is unable to determine whether noncompliance has occurred because of limitations imposed by the circumstances rather than by management or those charged with governance, the</p>

Proposed AS 2405	ISA 250 (Revised)	AU-C 250
<p><sup>26</sup> See [proposed paragraph .41 of QC 1000, <i>A Firm's System of Quality Control</i>, PCAOB Release No. 2022-006 (Nov. 18, 2022)].</p>		<p>auditor should evaluate the effect on the auditor's opinion, in accordance with section 705.<sup>11</sup></p> <p><sup>11</sup> [Footnote deleted, January 2012, to reflect conforming changes necessary due to the issuance of SAS No. 123.]</p>

## APPENDIX A – DEFINITION

Proposed AS 2405	ISA 250 (Revised)	AU-C 250
<p>.A1 For purposes of this standard, the term listed below is defined as follows:</p>		
<p>.A2 Noncompliance with laws and regulations – An act or omission, intentional or unintentional, by the company whose financial statements are under audit, or by the company's management, its employees, or others that act in a company capacity or on the company's behalf, that violates any law, or any rule or regulation having the force of law. Noncompliance with laws and regulations includes fraud as described in paragraph .05 of AS 2401, <i>Consideration of Fraud in a Financial Statement Audit</i>. Noncompliance with laws and regulations does not include personal conduct by the company's personnel unrelated to the business activities of the company.</p>	<p>12. For the purposes of this ISA, the following term has the meaning attributed below:</p> <p>Non-compliance – Acts of omission or commission, either intentional or unintentional, committed by the entity, or by those charged with governance, by management or by other individuals working for or under the direction of the entity, which are contrary to the prevailing laws or regulations. Non-compliance does not include personal misconduct unrelated to the business activities of the entity. (Ref: Para. A9–A10)</p>	<p>.11 For the purposes of this section, the following term has the meaning attributed as follows:</p> <p>Noncompliance. Acts of omission or commission by the entity, either intentional or unintentional, which are contrary to the prevailing laws or regulations. Such acts include transactions entered into by, or in the name of, the entity or on its behalf by those charged with governance, management, or employees. Noncompliance does not include personal misconduct (unrelated to the business activities of the entity) by those charged with governance, management, or employees of the entity.</p>