



International Standard on Auditing (Ireland) 250

**Section A – Consideration of Laws and Regulations in an
Audit of Financial Statements**

MISSION

To contribute to Ireland having a strong regulatory environment in which to do business by supervising and promoting high quality financial reporting, auditing and effective regulation of the accounting profession in the public interest

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INTERNATIONAL STANDARD ON AUDITING (IRELAND) 250

SECTION A—CONSIDERATION OF LAWS AND REGULATIONS IN AN AUDIT OF FINANCIAL STATEMENTS

(Effective for the audits of financial statements for periods commencing on or after 17 June 2016,
for which opinions are issued on or after 1 February 2017)

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International Standard on Auditing (Ireland) (ISA (Ireland)) 250, *Consideration of Laws and Regulations in an Audit of Financial Statements* should be read in conjunction with ISA (Ireland) 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (Ireland)*.

Introduction

Scope of this ISA (Ireland)

1. This International Standard on Auditing (Ireland) (ISA (Ireland)) deals with the auditor's responsibility to consider laws and regulations in an audit of financial statements. This ISA (Ireland) 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.
- 1-1. Guidance on the auditor's responsibility to report direct to financial regulators is provided in Section B of this ISA (Ireland).

Effect of Laws and Regulations

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). Non-compliance 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.

Responsibility for Compliance with Laws and Regulations (Ref: Para. A1-A6)

3. It is the responsibility of management, with the oversight of those charged with governance, to ensure that the entity's operations are conducted in accordance with the provisions of laws and regulations, including compliance with the provisions of laws and regulations that determine the reported amounts and disclosures in an entity's financial statements.^{1a}

Responsibility of the Auditor

4. The requirements in this ISA (Ireland) 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.
5. The auditor is responsible for obtaining reasonable assurance that the financial statements, taken as a whole, are free from material misstatement, whether caused by fraud or error.¹ In conducting an audit of financial statements, the auditor takes into

^{1a} Those charged with governance are responsible for the preparation of the financial statements.

¹ ISA (Ireland) 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (Ireland)*, paragraph 5.

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 may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (Ireland).² 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:

- 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.
- 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.
- Whether an act constitutes non-compliance is ultimately a matter for legal determination by a court of law.

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.

6. This ISA (Ireland) distinguishes the auditor's responsibilities in relation to compliance with two different categories of laws and regulations as follows:
 - (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); and
 - (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 (for example, 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 14).
7. In this ISA (Ireland), 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 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.
8. The auditor is required by this ISA (Ireland) to remain alert to the possibility that other audit procedures applied for the purpose of forming an opinion on financial statements

² ISA (Ireland) 200, paragraph A51.

may bring instances of identified or suspected non-compliance to the auditor's attention. Maintaining professional skepticism throughout the audit, as required by ISA (Ireland) 200,³ is important in this context, given the extent of laws and regulations that affect the entity.

Effective Date

9. This ISA (Ireland) is effective for the audits of financial statements for periods commencing on or after 17 June 2016, for which opinions are issued on or after 1 February 2017.

Objectives

10. The objectives of the auditor are:

- (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;
- (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
- (c) To respond appropriately to non-compliance or suspected non-compliance with laws and regulations identified during the audit.

Definition

11. For the purposes of this ISA (Ireland), the following term has the meaning attributed below:

Non-compliance – 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. Non-compliance does not include personal misconduct (unrelated to the business activities of the entity) by those charged with governance, management or employees of the entity.

11-1. This ISA (Ireland) also refers to 'money laundering'. 'Money laundering' is defined in legislation^{3a} and in general terms involves an act which conceals, disguises, converts, transfers, removes, uses, acquires or possesses property resulting from criminal conduct.

³ ISA (Ireland) 200, paragraph 15.

^{3a}

Section 25 of the Criminal Justice (Money Laundering and Terrorist Financing) Act 2010 designates external accountants, auditors, and tax advisors and others for the purposes of the anti-money laundering provisions of the Act.

Requirements

The Auditor's Consideration of Compliance with Laws and Regulations

12. As part of obtaining an understanding of the entity and its environment in accordance with ISA (Ireland) 315,⁴ the auditor shall obtain a general understanding of:
 - (a) The legal and regulatory framework applicable to the entity and the industry or sector in which the entity operates; and
 - (b) How the entity is complying with that framework. (Ref: Para. A7)
13. 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. A8 – A8-1)
14. 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. A9 – A10-1)
 - (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
 - (b) Inspecting correspondence, if any, with the relevant licensing or regulatory authorities.
15. 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. A11 – A11-2)
16. The auditor shall request management and, where appropriate, those charged with governance to provide written representations that all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements have been disclosed to the auditor. (Ref: Para. A12)
17. In the absence of identified or suspected non-compliance, the auditor is not required to perform audit procedures regarding the entity's compliance with laws and regulations, other than those set out in paragraphs 12-16.

Audit Procedures When Non-Compliance Is Identified or Suspected

18. 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. A13)
 - (a) An understanding of the nature of the act and the circumstances in which it has occurred; and

⁴ ISA (Ireland) 315, *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*, paragraph 11.

(b) Further information to evaluate the possible effect on the financial statements. (Ref: Para. A14)

19. If the auditor suspects there may be non-compliance, the auditor shall^{4a} discuss the matter with 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. A15-A16)

20. 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.

21. The auditor shall evaluate the implications of 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. A17 – A18-1)

Reporting of Identified or Suspected Non-Compliance

Reporting Non-Compliance to Those Charged with Governance

22. 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,⁵ the auditor shall^{4a} communicate 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.

22R-1. When an auditor or audit firm carrying out the statutory audit of a public-interest entity suspects or has reasonable grounds to suspect that irregularities, including fraud with regard to the financial statements of the audited entity, may occur or have occurred, the auditor shall, unless prohibited by law or regulation, inform the audited entity and invite it to investigate the matter and take appropriate measures to deal with such irregularities and to prevent any recurrence of such irregularities in the future. (Ref: Para. A18-2 – A18-3)

^{4a} Subject to compliance with legislation relating to 'tipping off', that is to say, making a disclosure likely to prejudice an investigation.

Section 49 of the Criminal Justice (Money Laundering and Terrorist Financing) Act 2010 establishes an offence of making a disclosure likely to prejudice an investigation. This relates to when a person who knows or suspects, that a report has been, or is required to be made under the 2010 Act, makes a disclosure that is likely to prejudice an investigation that may be conducted following the making of that report.

⁵ ISA (Ireland) 260, *Communication with Those Charged with Governance*, paragraph 13.

23. If, in the auditor's judgment, the non-compliance referred to in paragraph 22 is believed to be intentional and material, the auditor shall^{4a} communicate the matter to those charged with governance as soon as practicable. (Ref: Para. A18-4)
24. If the auditor suspects that management or those charged with governance are involved in non-compliance, the auditor shall^{4a} communicate the matter to 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. (Ref: Para. A18-5)

Reporting Non-Compliance in the Auditor's Report on the Financial Statements

25. If the auditor concludes that the non-compliance has a material effect on the financial statements, and has not been adequately reflected in the financial statements, the auditor shall, ^{4a} in accordance with ISA (Ireland) 705, express a qualified opinion or an adverse opinion on the financial statements.⁶
26. 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^{4a} 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 (Ireland) 705.
27. 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 (Ireland) 705. (Ref: Para. A18-6)

Reporting Non-Compliance to Regulatory and Enforcement Authorities

28. If the auditor has identified or suspects non-compliance with laws and regulations, the auditor shall determine whether the auditor has a responsibility to report the identified or suspected non-compliance to parties outside the entity. (Ref: Para. A19-A20)
- 28R-1. For audits of financial statements of public interest entities, where the entity does not investigate the matter referred to in paragraph 22R-1, the auditor or the audit firm shall inform the authorities responsible for investigating such irregularities. (Ref: Para. A19-13 – A19-14)

Documentation

29. The auditor shall include in the audit documentation identified or suspected non-compliance with laws and regulations and the results of discussion with management and, where applicable, those charged with governance and other parties outside the entity.⁷ (Ref: Para. A21)

⁶ ISA (Ireland) 705, *Modifications to the Opinion in the Independent Auditor's Report*, paragraphs 7-8.

⁷ ISA (Ireland) 230, *Audit Documentation*, paragraphs 8-11, and paragraph A6.

Application and Other Explanatory Material

Responsibility for Compliance with Laws and Regulations (Ref: Para. 3-8)

A1. It is the responsibility of management, with the oversight of those charged with governance, to ensure that the entity's operations are conducted in accordance with laws and regulations. Laws and regulations may affect an entity's financial statements in different ways: for example, most directly, they may affect specific disclosures required of the entity in the financial statements or they may prescribe the applicable financial reporting framework. They may also establish certain legal rights and obligations of the entity, some of which will be recognized in the entity's financial statements. In addition, laws and regulations may impose penalties in cases of non-compliance.

A2. The following are examples of the types of policies and procedures an entity may implement to assist in the prevention and detection of non-compliance with laws and regulations:

- Monitoring legal requirements and ensuring that operating procedures are designed to meet these requirements.
- Instituting and operating appropriate systems of internal control.
- Developing, publicizing and following a code of conduct.
- Ensuring employees are properly trained and understand the code of conduct.
- Monitoring compliance with the code of conduct and acting appropriately to discipline employees who fail to comply with it.
- Engaging legal advisors to assist in monitoring legal requirements.
- Maintaining a register of significant laws and regulations with which the entity has to comply within its particular industry and a record of complaints.

In larger entities, these policies and procedures may be supplemented by assigning appropriate responsibilities to the following:

- An internal audit function.
- An audit committee.
- A compliance function.

A2-1. In certain sectors or activities (for example financial services), there are detailed laws and regulations that specifically require directors to have systems to ensure compliance. Breaches of these laws and regulations could have a material effect on the financial statements.

A2-2. It is the directors' responsibility to prepare financial statements that give a true and fair view of the state of affairs of a company or group and of its profit or loss for the financial year. Accordingly it is necessary, where possible non-compliance with law or regulations has occurred which may result in a material misstatement in the financial statements, for

them to ensure that the matter is appropriately reflected and/or disclosed in the financial statements.

A2-3. Directors and officers of companies have responsibility to provide information required by the auditor, to which they have a legal right of access.^{7a} Such legislation also provides that it is a criminal offence to give to the auditor information or explanations which are misleading, false or deceptive.

Responsibility of the Auditor

A3. Non-compliance by the entity with laws and regulations may result in a material misstatement of the financial statements. Detection of non-compliance, regardless of materiality, may affect other aspects of the audit including, for example, the auditor's consideration of the integrity of management or employees.

A4. Whether an act constitutes non-compliance with laws and regulations is a matter for legal determination, which is ordinarily beyond the auditor's professional competence to determine. Nevertheless, the auditor's training, experience and understanding of the entity and its industry or sector may provide a basis to recognize that some acts, coming to the auditor's attention, may constitute non-compliance with laws and regulations.

A5. In accordance with specific statutory requirements, the auditor may be specifically required to report, as part of the audit of the financial statements, on whether the entity complies with certain provisions of laws or regulations. In these circumstances, ISA (Ireland) 700⁸ deal with how these audit responsibilities are addressed in the auditor's report. Furthermore, where there are specific statutory reporting requirements, it may be necessary for the audit plan to include appropriate tests for compliance with these provisions of the laws and regulations.

Considerations Specific to Public Sector Entities

A6. In the public sector, there may be additional audit responsibilities with respect to the consideration of laws and regulations which may relate to the audit of financial statements or may extend to other aspects of the entity's operations.

The Auditor's Consideration of Compliance with Laws and Regulations

Obtaining an Understanding of the Legal and Regulatory Framework (Ref: Para. 12)

A7. To obtain a general understanding of the legal and regulatory framework, and how the entity complies with that framework, the auditor may, for example:

- Use the auditor's existing understanding of the entity's industry, regulatory and other external factors;
- Update the understanding of those laws and regulations that directly determine the reported amounts and disclosures in the financial statements;

^{7a} Sections 386, 387 and 388 of the Companies Act 2014.

⁸ ISA (Ireland) 700, *Forming an Opinion and Reporting on Financial Statements*, paragraph 38.

- Inquire of management as to other laws or regulations that may be expected to have a fundamental effect on the operations of the entity;
- Inquire of management concerning the entity's policies and procedures regarding compliance with laws and regulations; and
- Inquire of management regarding the policies or procedures adopted for identifying, evaluating and accounting for litigation claims.

Laws and Regulations Generally Recognized to Have a Direct Effect on the Determination of Material Amounts and Disclosures in the Financial Statements (Ref: Para. 13)

A8. Certain laws and regulations are well-established, known to the entity and within the entity's industry or sector, and relevant to the entity's financial statements (as described in paragraph 6(a)). They could include those that relate to, for example:

- The form and content of financial statements;^{9a}
- Industry-specific financial reporting issues;
- Accounting for transactions under government contracts; or
- The accrual or recognition of expenses for income tax or pension costs.

These laws and regulations include:

- Those which determine the circumstances under which a company is prohibited from making a distribution except out of profits available for the purpose.^{9b}
- Those laws which require auditors expressly to report non-compliance, such as the requirements relating to the maintenance of adequate accounting records^{9c} or the disclosure of particulars of directors' remuneration in a company's financial statements.^{9d}

Some provisions in those laws and regulations may be directly relevant to specific assertions in the financial statements (for example, the completeness of income tax provisions), while others may be directly relevant to the financial statements as a whole (for example, the required statements constituting a complete set of financial statements). The aim of the requirement in paragraph 13 is for the auditor to obtain sufficient appropriate audit evidence regarding the determination of amounts and disclosures in the financial statements in compliance with the relevant provisions of those laws and regulations.

Non-compliance with other provisions of such laws and regulations and other laws and regulations may result in fines, litigation or other consequences for the entity, the costs

^{9a} Schedule 3 of the Companies Act 2014, the European Union (Credit Institutions: Financial Statements) Regulations 2015 (SI No 266/2015) and the European Union (Insurance Undertakings: Financial Statements) Regulations 2015 refers.

^{9b} Section 117 of the Companies Act 2014.

^{9c} Section 336(4) of the Companies Act 2014.

^{9d} Section 336(8) of the Companies Act 2014 "...so far as they are reasonably able to do so..."

of which may need to be provided for in the financial statements, but are not considered to have a direct effect on the financial statements as described in paragraph 6(a).

A8-1. The auditor's responsibility to express an opinion on an entity's financial statements does not extend to determining whether the entity has complied in every respect with applicable tax legislation. The auditor needs to obtain sufficient appropriate evidence to give reasonable assurance that the amounts included in the financial statements in respect of taxation are not materially misstated. This will usually include making appropriate enquiries of those advising the entity on taxation matters (whether within the audit firm or elsewhere). If the auditor becomes aware that the entity has failed to comply with the requirements of tax legislation, the auditor considers whether to report the matter to parties outside the entity.

Procedures to Identify Instances of Non-Compliance – Other Laws and Regulations (Ref: Para. 14)

A9. Certain other laws and regulations may need particular attention by the auditor because they have a fundamental effect on the operations of the entity (as described in paragraph 6(b)). Non-compliance with laws and regulations that have a fundamental effect on the operations of the entity may cause the entity to cease operations, or call into question the entity's continuance as a going concern. For example, non-compliance with the requirements of the entity's license or other entitlement to perform its operations could have such an impact (for example, for a bank, non-compliance with capital or investment requirements).^{9e} There are also many laws and regulations relating principally to the operating aspects of the entity that typically do not affect the financial statements and are not captured by the entity's information systems relevant to financial reporting.

A10. As the financial reporting consequences of other laws and regulations can vary depending on the entity's operations, the audit procedures required by paragraph 14 are directed to bringing to the auditor's attention instances of non-compliance with laws and regulations that may have a material effect on the financial statements.

A10-1. When determining the type of procedures necessary in a particular instance the auditor takes account of the particular entity concerned and the complexity of the regulations with which it is required to comply. In general, a small company which does not operate in a regulated area will require few specific procedures compared with a large multinational corporation carrying on complex, regulated business.

Non-Compliance Brought to the Auditor's Attention by Other Audit Procedures (Ref: Para. 15)

A11. Audit procedures applied to form an opinion on the financial statements may bring instances of non-compliance or suspected non-compliance with laws and regulations to the auditor's attention. For example, such audit procedures may include:

- Reading minutes;

^{9e} Such requirements exist in Ireland under the Investment Intermediaries Act 1995, the Central Bank Acts 1942 to 2015 and the Credit Union Acts 1997 to 2012.

- Inquiring of the entity's management and in-house legal counsel or external legal counsel concerning litigation, claims and assessments; and
- Performing substantive tests of details of classes of transactions, account balances or disclosures.

A11-1. The auditor is alert for instances of possible or actual non-compliance with laws and regulations including those that might incur obligations for partners and staff in audit firms to report to a regulatory or other enforcement authority. See paragraphs A11-2 and A19-1 – A19-12.

Money Laundering Offences

A11-2. Anti-money laundering legislation in Ireland imposes a duty on the auditor to report suspected money laundering activity. There are similar laws and regulations relating to financing terrorist offences.^{9f} The impact on the auditor can broadly be summarized as follows:

- Partners and staff in audit firms are required to report suspicions of conduct which would constitute a criminal offence which gives rise to direct or indirect benefit.
- Partners and staff in audit firms need to be alert to the dangers of 'tipping-off', that is to say, making a disclosure likely to prejudice an investigation, as this will constitute a criminal offence under the anti-money laundering legislation.^{4a}

Written Representations (Ref: Para. 16)

A12. Because the effect on financial statements of laws and regulations can vary considerably, written representations provide necessary audit evidence about management's knowledge of identified or suspected non-compliance with laws and regulations, whose effects may have a material effect on the financial statements. However, written representations do not provide sufficient appropriate audit evidence on their own and, accordingly, do not affect the nature and extent of other audit evidence that is to be obtained by the auditor.⁹

Audit Procedures When Non-Compliance Is Identified or Suspected

Indications of Non-Compliance with Laws and Regulations (Ref: Para. 18)

A13. If the auditor becomes aware of the existence of, or information about, the following matters, it may be an indication of non-compliance with laws and regulations:

- Investigations by regulatory organizations and government departments or payment of fines or penalties.

^{9f}

The Criminal Justice (Money Laundering and Terrorist Financing) Act 2010 requires reporting suspicions of terrorist financing to the appropriate authorities.

⁹ ISA (Ireland) 580, *Written Representations*, paragraph 4.

- Payments for unspecified services or loans to consultants, related parties, employees or government employees.
- Sales commissions or agent's fees that appear excessive in relation to those ordinarily paid by the entity or in its industry or to the services actually received.
- Purchasing at prices significantly above or below market price.
- Unusual payments in cash, purchases in the form of cashiers' cheques payable to bearer or transfers to numbered bank accounts.
- Unusual transactions with companies registered in tax havens.
- Payments for goods or services made other than to the country from which the goods or services originated.
- Payments without proper exchange control documentation.
- Existence of an information system which fails, whether by design or by accident, to provide an adequate audit trail or sufficient evidence.
- Unauthorized transactions or improperly recorded transactions.
- Adverse media comment.

Matters Relevant to the Auditor's Evaluation (Ref: Para. 18(b))

A14. Matters relevant to the auditor's evaluation^{10a} of the possible effect on the financial statements include:

- The potential financial consequences of non-compliance with laws and regulations on the financial statements including, for example, the imposition of fines, penalties, damages, threat of expropriation of assets,^{10b} enforced discontinuation of operations, and litigation.
- Whether the potential financial consequences require disclosure.
- Whether the potential financial consequences are so serious as to call into question the fair presentation of the financial statements, or otherwise make the financial statements misleading.

Audit Procedures (Ref: Para. 19)

A15. The auditor may discuss the findings with those charged with governance where they may be able to provide additional audit evidence. For example, the auditor may confirm that those charged with governance have the same understanding of the facts and circumstances relevant to transactions or events that have led to the possibility of non-

^{10a} ISA (Ireland) 620, *Using the Work of an Auditor's Expert* applies if the auditor judges it necessary to obtain appropriate expert advice in connection with the evaluation of the possible effect of legal matters on the financial statements.

^{10b}

The Criminal Assets Bureau is an agency responsible for the confiscation of assets and was established by the Criminal Assets Bureau Act 1996.

compliance with laws and regulations.

A16. If management or, as appropriate, those charged with governance do not provide sufficient information to the auditor that the entity is in fact in compliance with laws and regulations, the auditor may consider it appropriate to consult with the entity's in-house legal counsel or external legal counsel about the application of the laws and regulations to the circumstances, including the possibility of fraud, and the possible effects on the financial statements. If it is not considered appropriate to consult with the entity's legal counsel or if the auditor is not satisfied with the legal counsel's opinion, the auditor may consider it appropriate to consult the auditor's own legal counsel as to whether a contravention of a law or regulation is involved, the possible legal consequences, including the possibility of fraud, and what further action, if any, the auditor would take.

Evaluating the Implications of Non-Compliance (Ref: Para. 21)

A17. As required by paragraph 21, the auditor evaluates the implications of non-compliance in relation to other aspects of the audit, including the auditor's risk assessment and the reliability of written representations. The implications of particular instances of non-compliance identified by the auditor will depend on the relationship of the perpetration and concealment, if any, of the act to specific control activities and the level of management or employees involved, especially implications arising from the involvement of the highest authority within the entity.

A18. In exceptional cases, the auditor may consider whether withdrawal from the engagement, where withdrawal is possible under applicable law or regulation, is necessary when management or those charged with governance do not take the remedial action that the auditor considers appropriate in the circumstances, even when the non-compliance is not material to the financial statements. When deciding whether withdrawal from the engagement is necessary, the auditor may consider seeking legal advice. If withdrawal from the engagement is not possible, the auditor may consider alternative actions, including describing the non-compliance in an Other Matter(s) paragraph in the auditor's report.¹⁰

A18-1. Withdrawal from the engagement by the auditor is a step of last resort. It is normally preferable for the auditor to remain in office to fulfil the auditor's statutory duties, particularly where minority interests are involved. However, there are circumstances where there may be no alternative to withdrawal, for example where the directors of a company refuse to issue its financial statements or the auditor wishes to inform the shareholders or creditors of the company of the auditor's concerns and there is no immediate occasion to do so.

¹⁰ ISA (Ireland) 706, *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*, paragraph 8.

In Ireland, if the auditor concludes that the view given by the financial statements could be affected by a level of uncertainty concerning the consequences of a suspected or actual non-compliance which, in the auditor's opinion, is significant, the auditor, subject to a consideration of 'tipping off' or 'prejudicing an investigation' (see footnote 4a), includes an explanatory paragraph referring to the matter in the auditor's report.

Reporting of Identified or Suspected Non-Compliance

Reporting Non-Compliance to Those Charged with Governance (Ref: Para. 22R-1-23)

A18-2. For audits of financial statements of public interest entities, ISA (Ireland) 260^{11a} requires the auditor to communicate in the additional report to the audit committee any significant matters involving actual or suspected non-compliance with laws and regulations or articles of association which were identified in the course of the audit.

A18-3. In Ireland, laws or regulations may prohibit alerting (“tipping off”) the entity when, for example, the auditor is required to report the non-compliance to an appropriate authority pursuant to anti-money laundering legislation.

A18-4. If a non-compliance is intentional but not material the auditor considers whether the nature and circumstances make it appropriate to communicate to those charged with governance as soon as practicable.

Suspicion that Management or Those Charged with Governance are Involved in Non-Compliance (Ref: Para. 24)

A18-5. In the case of suspected Money Laundering it may be appropriate to report the matter direct to the appropriate authority.

Reporting Non-Compliance in the Auditor’s Report on the Financial Statements (Ref: Para. 27)

A18-6. In Ireland, when considering whether the financial statements reflect the possible consequences of any suspected or actual non-compliance, the auditor has regard to the requirements of applicable accounting standards. Suspected or actual non-compliance with laws or regulations may require disclosure in the financial statements because, although the immediate financial effect on the entity may not be material,^{11b} there could be future material consequences such as fines or litigation. For example, an illegal payment may not itself be material but may result in criminal proceedings against the entity or loss of business which could have a material effect on the true and fair view given by the financial statements.

Reporting Non-Compliance to Regulatory and Enforcement Authorities (Ref: Para. 28)

A19. The auditor’s professional duty to maintain the confidentiality of client information may preclude reporting identified or suspected non-compliance with laws and regulations to a party outside the entity. However, the auditor’s legal responsibilities vary by jurisdiction and, in certain circumstances, the duty of confidentiality may be overridden by statute, the law or courts of law. In some jurisdictions, the auditor of a financial institution has a statutory duty to report the occurrence, or suspected occurrence, of non-compliance with laws and regulations to supervisory authorities. Also, in some jurisdictions, the auditor has a duty to report misstatements to authorities in those cases where management and, where applicable, those charged with governance fail to take corrective action. The

^{11a} ISA (Ireland) 260, *Communication with Those Charged with Governance*, paragraph 16R-2(k).

^{11b} As discussed in ISA (Ireland) 320, *Materiality in Planning and Performing an Audit*, judgments about materiality are made in light of surrounding circumstances and are affected by the size or nature of a matter or a combination of both.

auditor may consider it appropriate to obtain legal advice to determine the appropriate course of action.

A19-1. Legislation in Ireland establishes specific responsibilities for the auditor to report suspicions regarding certain criminal offences (for example, in relation to money laundering offences (see paragraph A11-2) and indictable offences under company law and the Criminal Justice (Theft and Fraud Offences) Act 2001). In addition, the auditor of entities subject to statutory regulation,^{11c} has separate responsibilities to report certain information direct to the relevant regulator. Standards and guidance on these responsibilities is given in Section B of this ISA (Ireland) and relevant Practice Notes.

A19-2. The procedures and guidance in Section B of this ISA (Ireland) can be adapted to circumstances in which the auditor of other types of entity becomes aware of a suspected instance of non-compliance with laws or regulations which the auditor is under a statutory duty to report.

Timing of Reports

A19-3. Some laws and regulations stipulate a period within which reports are to be made. If the auditor becomes aware of a suspected or actual non-compliance with law and regulations which gives rise to a statutory duty to report, the auditor complies with any such stipulated periods for reporting. Ordinarily the auditor makes a report to the appropriate authority as soon as practicable.

Reporting in the Public Interest

A19-4. Where the auditor becomes aware of a suspected or actual instance of non-compliance with law or regulations which does not give rise to a statutory duty to report to an appropriate authority the auditor considers whether the matter may be one that ought to be reported to a proper authority in the public interest and, where this is the case, except in the circumstances covered in paragraph A19-6 below, discusses the matter with those charged with governance, including any audit committee.^{11d}

A19-5. If, having considered any views expressed on behalf of the entity and in the light of any legal advice obtained, the auditor concludes that the matter ought to be reported to an appropriate authority in the public interest, the auditor notifies those charged with governance in writing of the view and, if the entity does not voluntarily do so itself or is unable to provide evidence that the matter has been reported, the auditor reports it.

^{11c} Auditors of public interest entities, financial service entities and pension schemes have a statutory responsibility, subject to compliance with legislation relating to 'tipping off' or 'prejudicing an investigation' (see footnote 4a), to report matters that are likely to be of material significance to the regulator.

^{11d} In rare circumstances, according to common law, disclosure might also be justified in the public interest where there is no instance of non-compliance with law or regulations, e.g. where the public is being misled or their financial interests are being damaged; where a miscarriage of justice has occurred; where the health and safety of members of the public or the environment is being endangered – although such events may well constitute breaches of law or regulation.

A19-6. The auditor reports a matter direct to a proper authority in the public interest and without discussing the matter with the entity if the auditor concludes that the suspected or actual instance of non-compliance has caused the auditor no longer to have confidence in the integrity of those charged with governance.

A19-7. Examples of circumstances which may cause the auditor no longer to have confidence in the integrity of those charged with governance include situations:

- Where the auditor suspects or has evidence of the involvement or intended involvement of those charged with governance in possible non-compliance with law or regulations which could have a material effect on the financial statements; or
- Where the auditor is aware that those charged with governance are aware of such non-compliance and, contrary to regulatory requirements or the public interest, have not reported it to a proper authority within a reasonable period. In such a case, if the auditor determines that continued holding of office is untenable or the auditor is removed from office by the client, the auditor will be mindful of the auditor's reporting duties.^{11e}

A19-8. Determination of where the balance of public interest lies requires careful consideration. An auditor whose suspicions have been aroused uses professional judgment to determine whether the auditor's misgivings justify the auditor in carrying the matter further or are too insubstantial to deserve reporting. The auditor can limit the risk of liability for breach of confidence or defamation provided that:

- In the case of breach of confidence, disclosure is made in the public interest, and such disclosure is made to an appropriate body or person,^{11f} and there is no malice motivating the disclosure; and
- In the case of defamation disclosure is made by the auditor:

- i) to a regulator who had a duty to receive, or interest in receiving, the information contained in the statement; and
- ii) the auditor believed upon reasonable grounds that the regulator had such a duty or interest;
- iii) the auditor had a corresponding duty to communicate, or interest in communicating, the information to the regulator; and
- iv) there was no malice motivating the disclosure."

^{11e} Chapters 19 to 21, Part 6 of the Companies Act 2014 refer.

^{11f}

In Ireland, proper authorities could include the Garda Bureau of Fraud Investigation, the Revenue Commissioners, the Irish Stock Exchange, the Central Bank of Ireland, the Pensions Authority, the Director of Corporate Enforcement, the Health and Safety Authority, The Charities Regulatory Authority and the Department of Jobs, Enterprise and Innovation.

In addition, the auditor is protected from such risks where the auditor is expressly permitted or required by legislation to disclose information.^{11g}

A19-9. 'Public interest' is a concept that is not capable of general definition. Each situation must be considered individually. Such matters that may be taken into account when considering whether disclosure is justified in the public interest may include:

- The extent to which the suspected or actual non-compliance with law or regulations is likely to affect members of the public;
- The strength of the public interest in maintaining confidentiality;
- Whether those charged with governance have rectified the matter or are taking, or are likely to take, effective corrective action;
- The extent to which non-disclosure is likely to enable the suspected or actual non-compliance with law or regulations to recur with impunity;
- The gravity of the matter;
- Whether there is a general ethos within the entity of disregarding law or regulations; and
- The weight of evidence and the degree of the auditor's suspicion that there has been an instance of non-compliance with law or regulations.

A19-10. An auditor will reduce the risk of being held to be in breach of duty to a client if he or she acts reasonably and in good faith in informing an authority of a breach of law or regulations which the auditor thinks has been committed even if, an investigation or prosecution having occurred, it were found that there had been no offence"

A19-11. The auditor needs to remember that the auditor's decision as to whether to report, and if so to whom, may be called into question at a future date, for example on the basis of:

- What the auditor knew at the time;
- What the auditor ought to have known in the course of the audit;
- What the auditor ought to have concluded; and
- What the auditor ought to have done.

^{11g} The Protected Disclosures Act 2014 in Ireland would give similar protection to an individual member of the audit engagement team who made an appropriate report in the public interest. However, ordinarily a member of the engagement team who believed there was a reportable matter would follow the audit firm's policies and procedures to address such matters. ISA (Ireland) 220, *Quality Control for an Audit of Financial Statements*, paragraph 18(a), requires that the engagement partner shall take responsibility for the engagement team undertaking appropriate consultation on difficult or contentious matters. If differences of opinion arise within the engagement team, ISA (Ireland) 220, paragraph 22, requires that the engagement team shall follow the firm's policies and procedures for dealing with and resolving differences of opinion.

The auditor may also wish to consider the possible consequences if financial loss is occasioned by non-compliance with law or regulations which the auditor suspects (or ought to suspect) has occurred but decided not to report.

A19-12 The auditor needs to remember that a disclosure in the public interest is limited to a disclosure to an appropriate authority, and any wider disclosure will not be covered by the public interest defence.

A19-13. The auditor may need to take legal advice before making a decision on whether the matter needs to be reported to a proper authority in the public interest.

Reporting to Authorities of Public Interest Entities (Ref: Para. 28R-1)

A19-14. The disclosure in good faith to the authorities responsible for investigating such irregularities, by the auditor, of any irregularities referred to in paragraph 28R-1 shall not constitute a breach of any contractual or legal restriction on disclosure of information in accordance with the Audit Regulation.^{11h}

A19-15. The auditor considers whether to take further action when the entity investigates the matter referred to in paragraph 22R-1 but where the measures taken by management or those charged with governance, in the auditor's professional judgement, were not appropriate to deal with the irregularities identified or would fail to prevent future occurrences.

Considerations Specific to Public Sector Entities

A20. A public sector auditor may be obliged to report on instances of non-compliance to the legislature or other governing body or to report them in the auditor's report.

Documentation (Ref: Para. 29)

A21. The auditor's documentation of findings regarding identified or suspected non-compliance with laws and regulations may include, for example:

- Copies of records or documents.
- Minutes of discussions held with management, those charged with governance or parties outside the entity.

^{11h} Article 7 of Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014.