



Professional Ethics Division

New interpretations and related revisions

Responding to Noncompliance With Laws and Regulations

ET sec. 1.180.010, 2.180.010, 1.000.020, and 2.000.020

Effective June 30, 2023

Standards-setting

March 2022

Ethics interpretations and other guidance are promulgated by the executive committee of the Professional Ethics Division to provide guidelines about the scope and application of the rules, but are not intended to limit such scope or application. Publication in the *Journal of Accountancy* constitutes notice to members.

The Professional Ethics Executive Committee adopted the following at its February 2022 meeting:

- New interpretations “Responding to Noncompliance With Laws and Regulations” (ET sec. 1.180.010 and 2.180.010) under the “Integrity and Objectivity Rule” (ET sec. 1.100.001 and 2.100.001)
- Revised sections “Ethical Conflicts” (ET sec. 1.000.020 and 2.000.020)

Notice of the revisions will appear in the *Journal of Accountancy* online in June 2022. The new interpretations and revisions are effective June 30, 2023, and early implementation is allowed.

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1.180.010 Responding to Noncompliance With Laws and Regulations

Introduction

- .01 When a *member* encounters or is made aware of noncompliance or suspected noncompliance with laws and regulations in the course of providing a *professional service* to a *client*, *threats* to compliance with the “[Integrity and Objectivity Rule](#)” [1.100.001] may exist. The purpose of this interpretation is to set out the *member’s* responsibilities when encountering such noncompliance or suspected noncompliance and guide the *member* in evaluating the implications of the matter and the possible courses of action when responding to it. The *member’s* responsibilities in this interpretation are owed to a person or entity that engages the *member* or *member’s firm* to perform professional services (engaging entity). Therefore, when the engaging entity and subject entity are different, the term client refers to the engaging entity.
- .02 Noncompliance with laws and regulations (noncompliance) comprises acts of omission or commission, intentional or unintentional, that are contrary to the prevailing laws or regulations and are committed by a client or by *those charged with governance*, by management, or by other individuals working for or under the direction of a client.
- .03 When responding to noncompliance or suspected noncompliance in the course of providing a *professional service* to a client, the *member* should consider the *member’s* obligations under the “[Confidential Client Information Rule](#)” [1.700.001]. For example, a *member* should not disclose the noncompliance or suspected noncompliance to a third party without the client’s consent unless expressly permitted under the “Confidential Client Information Rule,” such as when reporting the noncompliance or suspected noncompliance to a regulatory authority in order to comply with applicable laws and regulations or the “[Compliance With Standards Rule](#)” [1.310.001], as discussed in paragraphs .04 and .05*d.*, respectively.
- .04 Some regulators, such as the SEC or state boards of accountancy, may have regulatory provisions governing how a *member* should address noncompliance or suspected noncompliance which may differ from or go beyond this interpretation. In some circumstances, state and federal civil and criminal laws may also impose additional requirements. When encountering noncompliance or suspected noncompliance, a *member* has a responsibility to obtain an understanding of those legal or regulatory provisions and comply with them, including any requirement to

report the matter to an appropriate authority and any prohibition on alerting the client prior to making any disclosure.

- .05 A distinguishing mark of the accounting profession is its acceptance of the responsibility to act in the public interest. When responding to noncompliance or suspected noncompliance, the objectives of a [member](#) are as follows:
- a. To comply with the [“Integrity and Objectivity Rule”](#) [1.100.001]
 - b. To alert management or, when appropriate, [those charged with governance](#) of the client, to enable them to
 - i. rectify, remediate, or mitigate the consequences of the identified or suspected noncompliance or
 - ii. deter the commission of the noncompliance when it has not yet occurred
 - c. To determine whether withdrawal from the engagement and the professional relationship is necessary, when permitted by law and regulation
 - d. To take such further action as appropriate in the public interest
 - e. To comply with applicable laws, regulations, and the [“Compliance With Standards Rule”](#) [1.310.001]

Applicability

- .06 This interpretation does not apply to the following:
- a. Personal misconduct unrelated to the business activities of the client
 - b. Noncompliance by parties other than
 - i. the client,
 - ii. [those charged with governance](#),
 - iii. management, or
 - iv. other individuals working for or under the direction of the client.

This includes, for example, circumstances in which a [member](#) has been engaged by a client to perform a due diligence assignment on a third-

party entity (that is, subject entity) and the identified or suspected noncompliance has been committed by that third party.

- c. A litigation or investigation engagement as defined in AICPA Statement on Standards for Forensic Services No. 1
- d. An engagement where the primary purpose is to identify, reach a conclusion regarding, or otherwise respond to a known or potential noncompliance with laws and regulations (NOCLAR)
- e. An engagement pursuant to which the protections set forth in Internal Revenue Code Section 7525 or any comparable state or local statutes apply
- f. An engagement where compliance with this interpretation would cause a violation of law or regulation

A *member* may nevertheless find the guidance in this interpretation helpful in considering how to respond in these situations.

Scope

.07 This interpretation sets out the approach to be taken by a [member](#) who encounters or is made aware of noncompliance or suspected noncompliance with the following:

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

.08 Examples of laws and regulations which this interpretation addresses may include those that deal with the following:

- a. Fraud, corruption, and bribery
- b. Money laundering
- c. Securities markets and trading

- d. Banking and other financial products and services
 - e. Data protection
 - f. Tax and pension liabilities and payments
 - g. Environmental protection
 - h. Public health and safety
- .09 Noncompliance may result in fines, litigation, or other consequences for the client that may have a material effect on its financial statements. Importantly, such noncompliance may have wider public interest implications in terms of potentially substantial harm to investors, creditors, employees, or the general public. For the purposes of this interpretation, an act that causes substantial harm is one that results in serious adverse consequences to any of these parties in financial or nonfinancial terms.
- .10 A member who encounters or is made aware of matters that are clearly inconsequential is not required to comply with this interpretation with respect to such matters.

Responsibilities of the Client's Management and Those Charged With Governance

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

Responsibilities of Members in Public Practice

- .12 When a member becomes aware of a matter to which this interpretation applies, the *member* should take timely steps to comply with this interpretation, taking into account the *member's* understanding of the nature of the matter and the potential harm to the interests of the entity, investors, creditors, employees, or the general public.

Members Providing Financial Statement Audit or Review Services

Obtaining an Understanding of the Matter

- .13 If a member engaged to perform financial statement audit or review services becomes aware of credible information concerning an instance of noncompliance or suspected noncompliance, whether in the course of performing the engagement or through information provided by other parties, the *member* should obtain an understanding of the matter, including the nature of the act and the circumstances in which it has occurred or is likely to occur.
- .14 A member is expected to apply knowledge, professional judgment, and expertise but is not expected to have a level of knowledge of laws and regulations greater than that required to undertake the engagement. Whether an act constitutes noncompliance is ultimately a matter to be determined by a court or other appropriate adjudicative body.
- .15 If the member identifies or suspects that noncompliance has occurred or is likely to occur, the *member* should discuss the matter with the appropriate level of management and, when appropriate, those charged with governance.
- .16 Such discussion may serve to clarify the member's understanding of the facts and circumstances relevant to the matter and its potential consequences.
- .17 The appropriate level of management with whom to discuss the matter is a question of professional judgment. Relevant factors to consider may include these:
 - a. The nature and circumstances of the matter
 - b. The individuals actually or potentially involved
 - c. The likelihood of collusion
 - d. The potential consequences of the matter

- e. Whether that level of management is able to investigate the matter and take appropriate action

.18 The appropriate level of management is generally at least one level above the person or persons involved or potentially involved in the matter. If a member believes that management is involved in the noncompliance or suspected noncompliance, the *member* should discuss the matter with those charged with governance. The *member* may also consider discussing the matter with internal auditors, when applicable. In the context of a group audit engagement, the appropriate level may be management at an entity that controls the client.

Addressing the Matter

.19 In discussing the noncompliance or suspected noncompliance with management and, when appropriate, those charged with governance, the member should advise them to take appropriate and timely actions, if they have not already done so, which may include the following:

- a. Rectifying, remediating, or mitigating the consequences of the noncompliance
- b. Deterring the commission of the noncompliance if it has not yet occurred
- c. Disclosing the matter to an appropriate authority where required by law or regulation or when otherwise considered necessary

.20 The member should consider whether the client's management and, if applicable, those charged with governance understand their legal or regulatory responsibilities with respect to the noncompliance or suspected noncompliance. If not, the *member* may want to suggest appropriate sources of information or recommend that they obtain legal advice.

.21 The member should comply with the following:

- a. Applicable laws and regulations, including legal or regulatory provisions governing the reporting of noncompliance or suspected noncompliance to an appropriate authority. In this regard, some laws and regulations may stipulate a period within which reports are to be made.
- b. Applicable requirements under professional standards, including those relating to
 - i. identifying and responding to noncompliance, including fraud;

- ii. communicating with [*those charged with governance*](#);
- iii. considering the implications of the noncompliance or suspected noncompliance on the audit, review, or compilation report for the current or prior engagements; and
- iv. communicating a former client's noncompliance to the successor auditor to the extent required under professional standards.

Communication With Respect to Group Audit Engagements

.22 A [*member*](#) may, for purposes of a group audit engagement, be requested by the group engagement team to perform work on financial or other information related to a component of the group.

If the [*member*](#) becomes aware of noncompliance or suspected noncompliance, the [*member*](#) should, in addition to responding to the matter in accordance with the provisions of this section, communicate the noncompliance or suspected noncompliance to the group audit engagement partner in accordance with AU-C section 600, *Special Considerations — Audits of Group Financial Statements (Including the Work of Component Auditors)*, unless prohibited from doing so by law or regulation.

.23 If the group audit engagement [*partner*](#) becomes aware of noncompliance or suspected noncompliance in the course of a group audit engagement, including as a result of being informed of such a matter in accordance with paragraph .22, the group audit engagement [*partner*](#) should, in addition to responding to the matter in the context of the group audit engagement in accordance with the provisions of this section, consider whether the matter may be relevant to one or more components whose financial or other information is subject to procedures performed for purposes of the group audit engagement.

In these circumstances, the group audit engagement [*partner*](#) should take steps to have the noncompliance or suspected noncompliance communicated to those performing work at components where the matter may be relevant, unless prohibited from doing so by law or regulation.

Determining Whether Withdrawal From the Engagement Is Necessary

.24 The [*member*](#) should evaluate the appropriateness of the response of management and, if applicable, [*those charged with governance*](#).

.25 Relevant factors to consider when evaluating the appropriateness of the response of management and, where applicable, those charged with governance, may include whether

- a. the response is timely.
- b. the noncompliance or suspected noncompliance has been adequately investigated.
- c. action has been, or is being, taken to rectify, remediate, or mitigate the consequences of any noncompliance.
- d. action has been or is being taken to deter the commission of any noncompliance if it has not yet occurred.
- e. appropriate steps have been, or are being, taken to reduce the risk of recurrence; for example, additional controls or training.
- f. the noncompliance or suspected noncompliance has been disclosed to an appropriate authority when appropriate and, if so, whether the disclosure appears adequate.

.26 In light of the response of management and, if applicable, those charged with governance, the member should determine whether withdrawing from the engagement and the professional relationship is necessary, where permitted by law and regulation.

.27 The determination of whether withdrawing from the engagement and the professional relationship is necessary may depend on various factors, including these:

- a. The legal and regulatory framework
- b. The urgency of the matter
- c. The pervasiveness of the matter throughout the client
- d. Whether the member continues to have confidence in the integrity of management and, if applicable, those charged with governance
- e. Whether the noncompliance or suspected noncompliance is likely to reoccur

- f. Whether there is credible evidence of actual or potential substantial harm to the interests of the entity, investors, creditors, employees, or the general public

.28 Examples of circumstances that may cause a member no longer to have confidence in the integrity of management and, where applicable, those charged with governance include situations such as the following:

- a. The *member* suspects or has evidence of management's involvement or intended involvement in any noncompliance.
- b. The *member* is aware that management has knowledge of such noncompliance and, contrary to legal or regulatory requirements, has not reported, or authorized the reporting of, the matter to an appropriate authority within a reasonable period.

.29 As consideration of the matter may involve complex analysis and judgments, a member may want to consider consulting internally or externally, including obtaining legal or other advice to understand the *member's* options and the implications of taking any particular course of action.

Documentation

.30 In relation to an identified or suspected act of noncompliance that falls within the scope of this section, the member should, in addition to complying with the documentation requirements under applicable professional standards, document the following:

- a. The matter
- b. The results of discussion with management and, where applicable, those charged with governance and other parties
- c. How management and, where applicable, *those charged with governance*, have responded to the matter
- d. The judgments made and the courses of action the *member* took

Members Providing Services Other Than a Financial Statement Audit or Review Service

Obtaining an Understanding of the Matter and Addressing the Matter

.31 If a member engaged to perform professional services other than a financial statement audit or review service becomes aware of credible information concerning an instance of noncompliance or suspected noncompliance, whether in the course of performing the engagement or through information provided by

other parties, the *member* should seek to obtain an understanding of the matter, including the nature of the act and the circumstances in which it has occurred or is likely to occur.

- .32 A [member](#) is expected to apply knowledge, professional judgment, and expertise but is not expected to have a level of knowledge of laws and regulations greater than that required to undertake the engagement. Whether an act constitutes noncompliance is ultimately a matter to be determined by a court or other appropriate adjudicative body.
- .33 If the [member](#) identifies or suspects that noncompliance has occurred or is likely to occur the *member* should discuss the matter with the appropriate level of management and, if the *member* has access to them and when appropriate, [those charged with governance](#).
- .34 Such discussion may serve to clarify the [member's](#) understanding of the facts and circumstances relevant to the matter and its potential consequences.
- .35 The appropriate level of management with whom to discuss the matter is a question of professional judgment. Relevant factors to consider may include the following:
 - a. The nature and circumstances of the matter
 - b. The individuals actually or potentially involved
 - c. The likelihood of collusion
 - d. The potential consequences of the matter
 - e. Whether that level of management is able to investigate the matter and take appropriate action

Communicating the Matter to the Client's Financial Statement Audit or Review Services Provider

Members Performing a Service, Other Than a Financial Statement Audit or Review Service, for a Financial Statement Audit or Review Client

- .36 If the [member](#) is performing a service other than a [financial statement](#) audit or review service for a *financial statement* audit or review client of the [firm](#) or a component of a *financial statement* audit or review client of the *firm*, the *member* should communicate the noncompliance or suspected noncompliance within the *firm*. The communication should be made in accordance with the *firm's* protocols or procedures or, in the absence of such protocols and procedures, directly to the *financial statement* audit or review engagement [partner](#).

- .37 If the [member](#) is performing a service for a [financial statement](#) audit or review client of a [network firm](#) or a component of a *financial statement* audit or review client of a *network firm*, the *member* should consider whether to communicate the noncompliance or suspected noncompliance to the *network firm*. If the communication is made, it should be made in accordance with the [network's](#) protocols or procedures or, in the absence of such protocols and procedures, directly to the *financial statement* audit or review engagement [partner](#).
- .38 In all cases, the communication is to enable the [financial statement](#) audit or review engagement [partner](#) to be informed about the noncompliance or suspected noncompliance and to determine whether it should be addressed in accordance with the provisions of this interpretation and, if so, how.

Members Providing Services to a Client That Is Not a Financial Statement Audit or Review Client

- .39 If the [member](#) is performing services for a client that is not a [financial statement](#) audit or review client of the [firm](#), except as required by law or regulation, the *member* is not permitted to communicate the noncompliance or suspected noncompliance to the firm that is the client's external auditor, if one exists. See the ["Confidential Client Information Rule"](#) [1.700.001].

Determining Whether Withdrawal From the Engagement Is Necessary

- .40 The [member](#) should determine whether withdrawal from the engagement and the professional relationship is necessary, where permitted by law and regulation.
- .41 Whether withdrawal from the engagement is necessary may depend on various factors, including the [member's](#) understanding of the following:
- a. The legal and regulatory framework
 - b. The appropriateness and timeliness of the response of management and, where applicable, [those charged with governance](#)
 - c. The urgency of the matter
 - d. Whether the *member* continues to have confidence in the integrity of management and, if applicable, *those charged with governance*
 - e. The likelihood of actual or potential substantial harm to the interests of the entity, investors, creditors, employees, or the general public
 - f. The pervasiveness of the matter throughout the client

g. Whether the noncompliance or suspected noncompliance is likely to reoccur

.42 Examples of circumstances that may cause the member no longer to have confidence in the integrity of management and, where applicable, those charged with governance include such situations as the following:

- a. The *member* suspects or has evidence of management's involvement or intended involvement in any noncompliance.
- b. The *member* is aware that management has knowledge of such noncompliance and, contrary to legal or regulatory requirements, has not reported, or authorized the reporting of, the matter to an appropriate authority within a reasonable period.

.43 As consideration of the matter may involve complex analysis and judgments, a member may want to consider consulting internally or externally, including obtaining legal or other advice to understand the *member's* options and the implications of taking any particular course of action.

Documentation

.44 In relation to an identified or suspected act of noncompliance that falls within the scope of this section, the member is encouraged to document the following, in addition to complying with the documentation requirements under applicable professional standards:

- a. The matter
- b. The results of discussion with management and, where applicable, those charged with governance and other parties
- c. How management and, where applicable, *those charged with governance* have responded to the matter
- d. The judgments made and the courses of action the *member* took

Effective Date

.45 This interpretation is effective June 30, 2023. Early implementation is allowed.

2.180.010 Responding to Noncompliance With Laws and Regulations

Introduction

- .01 When a [member in business](#) encounters or is made aware of noncompliance or suspected noncompliance with laws and regulations in the course of carrying out [professional services](#), [threats](#) to compliance with the [“Integrity and Objectivity Rule”](#) [2.100.001] may exist. The purpose of this interpretation is to set out the [member’s](#) responsibilities when encountering such noncompliance or suspected noncompliance and guide the [member](#) in evaluating the implications of the matter and the possible courses of action when responding to it. This interpretation applies regardless of the nature of the [employing organization](#).
- .02 Noncompliance with laws and regulations (noncompliance) comprises acts of omission or commission, intentional or unintentional, that are contrary to the prevailing laws or regulations and are committed by the [member’s employing organization](#) or by [those charged with governance](#), by management, or by other individuals working for or under the direction of the [employing organization](#).
- .03 When responding to noncompliance or suspected noncompliance in the course of carrying out [professional services](#), the [member](#) should consider the [member’s](#) obligations under the [“Confidential Information Obtained From Employment or Volunteer Activities”](#) interpretation [2.400.070] of the [“Acts Discreditable Rule”](#) [2.400.001]. For example, a [member](#) should not disclose the noncompliance or suspected noncompliance to a third party without the employer’s consent unless expressly permitted under the [“Confidential Information Obtained From Employment or Volunteer Activities”](#) interpretation [2.400.070], such as when reporting the noncompliance or suspected noncompliance to a regulatory authority in order to comply with applicable laws and regulations, as discussed in paragraph .04.
- .04 Some regulators, for example, the SEC or state boards of accountancy, may have regulatory provisions governing how a [member](#) should address noncompliance or suspected noncompliance which may differ from or go beyond this interpretation. In some circumstances, state and federal civil and criminal laws may also impose additional requirements. When encountering noncompliance or suspected noncompliance, a [member](#) has a responsibility to obtain an understanding of those legal or regulatory provisions and comply with them, including any requirement to report the matter to an appropriate authority and any prohibition on alerting the relevant party prior to making any disclosure.
- .05 A distinguishing mark of the accounting profession is its acceptance of the responsibility to act in the public interest. When responding to noncompliance or suspected noncompliance, the objectives of a [member](#) are as follows:
- a. To comply with the [“Integrity and Objectivity Rule”](#) [2.100.001]

- b. To alert management or, when appropriate, those charged with governance of the employing organization, to enable them to
 - i. rectify, remediate, or mitigate the consequences of the identified or suspected noncompliance or
 - ii. deter the commission of the noncompliance when it has not yet occurred
- c. To take such further action as appropriate in the public interest
- d. To comply with applicable laws, regulations, and the “Compliance With Standards Rule” [2.310.001]

Applicability

.06 This interpretation does not apply to the following:

- a. Personal misconduct unrelated to the business activities of the employing organization
- b. Noncompliance by parties other than
 - i. the *employing organization*,
 - ii. those charged with governance,
 - iii. management, or
 - iv. other individuals working for or under the direction of the *employing organization*.
- c. The provision of professional services by a member in business involving the following:
 - i. A litigation or investigation as defined in AICPA Statement on Standards for Forensic Services No. 1.
 - ii. A matter where the purpose is to identify, reach a conclusion regarding, or otherwise respond to a known or potential NOCLAR.
 - iii. A matter pursuant to which the protections set forth in Internal Revenue Code Section 7525 or any comparable state or local statutes apply.

- iv. A matter where compliance with this interpretation would cause a violation of law or regulation.

A [member](#) may nevertheless find the guidance in this interpretation helpful in considering how to respond in these situations.

Scope

.07 This interpretation sets out the approach to be taken by a [member](#) who encounters or is made aware of noncompliance or suspected noncompliance with the following:

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

.08 Examples of laws and regulations which this interpretation addresses may include those that deal with the following:

- a. Fraud, corruption, and bribery
- b. Money laundering
- c. Securities markets and trading
- d. Banking and other financial products and services
- e. Data protection
- f. Tax and pension liabilities and payments
- g. Environmental protection
- h. Public health and safety

.09 Noncompliance may result in fines, litigation, or other consequences for the [employing organization](#) that may have a material effect on its [financial statements](#). Importantly, such noncompliance may have wider public interest implications in terms of potentially substantial harm to investors, creditors, employees, or the general public. For the purposes of this

interpretation, an act that causes substantial harm is one that results in serious adverse consequences to any of these parties in financial or nonfinancial terms.

- .10 A member who encounters or is made aware of matters that are clearly inconsequential is not required to comply with this interpretation with respect to such matters.

Responsibilities of the Employing Organization's Management and Those Charged With Governance

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

Responsibilities of Members in Business

- .12 Many employing organizations have established protocols and procedures (for example, an ethics policy or internal whistleblowing mechanism) regarding how noncompliance or suspected noncompliance by the *employing organization* should be raised internally. Such protocols and procedures may allow for matters to be reported anonymously through designated channels. If these protocols and procedures exist within the member's *employing organization*, the *member* should consider them in determining how to respond to such noncompliance.
- .13 When a member becomes aware of a matter to which this interpretation applies, the *member* should take timely steps to comply with this interpretation, taking into account the *member's* understanding of the nature of the matter and the potential harm to the interests of the employing organization, investors, creditors, employees, or the general public.

Responsibilities of Members Who Are Senior Professional Accountants in Business

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

Obtaining an Understanding of the Matter

- .15 If, in the course of carrying out [professional services](#), a [member](#) who is a senior professional accountant becomes aware of credible information concerning an instance of noncompliance or suspected noncompliance, the *member* should obtain an understanding of the matter, including the following:
- a. The nature of the act and the circumstances in which it has occurred or is likely to occur
 - b. The application of the relevant laws and regulations to the circumstances
 - c. The potential consequences to the [employing organization](#), investors, creditors, employees, or the wider public
- .16 A [member](#) who is a senior professional accountant is expected to apply knowledge, professional judgment, and expertise but is not expected to have a level of understanding of laws and regulations beyond that required for the *member's* role within the [employing organization](#). Whether an act constitutes noncompliance is ultimately a matter to be determined by a court or other appropriate adjudicative body.
- .17 Depending on the nature and significance of the matter, the [member](#) may cause, or take appropriate steps to cause, the matter to be investigated internally.

Addressing the Matter

- .18 If the [member](#) who is a senior professional accountant identifies or suspects that noncompliance has occurred or may occur, the *member* should, subject to paragraph .12, discuss the matter with the *member's* immediate superior, if any, to determine how the matter should be addressed. If the *member's* immediate superior appears to be involved in the matter, the *member* should discuss the matter with the next higher level of authority within the [employing organization](#).
- .19 The [member](#) who is a senior professional accountant should take the appropriate steps to
- a. have the matter communicated to [those charged with governance](#) to obtain their concurrence regarding appropriate actions to take to respond to the matter and to enable them to fulfill their responsibilities.
 - b. comply with applicable laws and regulations, including legal or regulatory provisions governing the reporting of noncompliance or suspected noncompliance to an appropriate authority.
 - c. have the consequences of the noncompliance or suspected noncompliance rectified, remediated, or mitigated.

d. reduce the risk of reoccurrence.

e. seek to deter the commission of the noncompliance if it has not yet occurred.

.20 In addition to responding to the matter in accordance with the provisions of this section, the [member](#) who is a senior professional accountant should disclose the matter to the [employing organization's](#) external auditor, if any, if the *member* determines such disclosure is necessary pursuant to the *member's* obligation to provide all information necessary to enable the auditor to perform the audit. See the "[Obligation of a Member to His or Her Employer's External Accountant](#)" interpretation [2.130.030] of the "[Integrity and Objectivity Rule](#)" [2.100.001] for additional guidance.

Determining Whether Further Action Is Necessary

.21 The [member](#) who is a senior professional accountant should evaluate the appropriateness of the response of the *member's* superiors, if any, and [those charged with governance](#).

.22 Relevant factors to consider in evaluating the appropriateness of the response of the [member's](#) superiors, where applicable, and [those charged with governance](#) may include whether

a. the response is timely.

b. they have taken or authorized appropriate action to seek to rectify, remediate, or mitigate the consequences of the noncompliance, or to avert the noncompliance if it has not yet occurred.

c. the matter has been disclosed to an appropriate authority where appropriate and, if so, whether the disclosure appears adequate.

.23 In light of the response of the [member's](#) superiors, if applicable, and [those charged with governance](#), the *member* should determine if further action is necessary in the public interest. The determination of whether further action is necessary, and the nature and extent of it, may depend on various factors, including these:

a. The legal and regulatory framework

b. The urgency of the matter

c. The pervasiveness of the matter throughout the [employing organization](#)

d. Whether the *member* who is a senior professional accountant continues to have confidence in the integrity of the *member's* superiors and, if applicable, *those charged with governance*

- e. Whether the noncompliance or suspected noncompliance is likely to reoccur
- f. Whether there is credible evidence of actual or potential substantial harm to the interests of the *employing organization*, investors, creditors, employees, or the general public

.24 Examples of circumstances that may cause the member who is a senior professional accountant no longer to have confidence in the integrity of the *member's* superiors, if applicable, and those charged with governance include situations such as the following:

- a. The *member* suspects or has evidence of management's involvement or intended involvement in any noncompliance.
- b. Contrary to legal or regulatory requirements, management has not reported the matter, or authorized the matter to be reported, to an appropriate authority within a reasonable period.

.25 Further action by the member who is a senior professional accountant may include the following:

- a. Informing the management of the parent entity of the matter if the employing organization is a member of a group
- b. Resigning from the *employing organization*
- c. Reporting the noncompliance or suspected noncompliance to an appropriate authority unless prohibited by laws or regulations

.26 When the member who is a senior professional accountant determines that resigning from the employing organization would be appropriate, doing so would not be a substitute for taking other actions that may be necessary to achieve the *member's* objectives under this section.

.27 The determination of whether to disclose the matter to an appropriate authority may also depend on external factors such as the following:

- a. Whether there is an appropriate authority that is able to receive the information and cause the matter to be investigated and action to be taken. Identifying an appropriate authority will depend upon the nature of the matter. For example, an appropriate authority could be a securities regulator in the case of fraudulent financial reporting or an environmental protection agency in the case of a breach of environmental laws and regulations.

- b. Whether there exists robust and credible protection from civil, criminal, or professional liability or retaliation afforded by legislation or regulation, such as under whistleblowing legislation or regulation.
- c. Whether there are actual or potential threats to the physical safety of the senior professional accountant or other individuals.

.28 As consideration of the matter may involve complex analysis and judgments, the [member](#) who is a senior professional accountant may want to consider consulting internally or externally, including obtaining legal or other advice to understand the *member's* options and the implications of taking any particular course of action.

Documentation

.29 In relation to an identified or suspected act of noncompliance that falls within the scope of this section, the [member](#) who is a senior professional accountant is encouraged to have the following matters documented:

- a. The matter
- b. The results of discussions with the *member's* superiors, where applicable, and [those charged with governance](#) and other parties
- c. How the *member's* superiors, where applicable, and *those charged with governance* have responded to the matter
- d. The judgments made and the courses of action the *member* took
- e. How the *member* is satisfied that the *member* has fulfilled the responsibility set out in paragraph .23

Responsibilities of Members Other Than Those Who Are Senior Professional Accountants in Business

.30 If, in the course of carrying out [professional services](#), a [member](#) becomes aware of information concerning an instance of noncompliance or suspected noncompliance, the *member* should seek to obtain an understanding of the matter, including the nature of the act and the circumstances in which it has occurred or may occur.

.31 The [member](#) is expected to apply knowledge, professional judgment, and expertise but is not expected to have a level of understanding of laws and regulations beyond that required for the *member's* role within the [employing organization](#). Whether an act constitutes noncompliance is ultimately a matter to be determined by a court or other appropriate adjudicative body.

.32 If the [member](#) identifies or suspects that noncompliance has occurred or may occur, the *member* should, subject to paragraph .12, inform an immediate superior to enable the superior to take appropriate action. If the *member's* immediate superior appears to be involved in the matter, the *member* should inform the next higher level of authority within the [employing organization](#).

.33 In addition to responding to the matter in accordance with the provisions of this section, the [member](#) should disclose the matter to the [employing organization's](#) external auditor, if any, if the *member* determines such disclosure is necessary pursuant to the *member's* obligation to provide all information necessary to enable the auditor to perform the audit. See the ["Obligation of a Member to His or Her Employer's External Accountant"](#) interpretation [2.130.030] for additional guidance.

.34 Further action by the [member](#) may include reporting the noncompliance or suspected noncompliance to an appropriate authority unless prohibited by laws or regulations. In determining whether to disclose the matter to an appropriate authority, the *member* may consider the factors in paragraph .27.

Documentation

.35 In relation to an identified or suspected act of noncompliance that falls within the scope of this section, the [member](#) is encouraged to have the following matters documented:

- a. The matter
- b. The results of discussions with the *member's* superior; management and, where applicable, [those charged with governance](#); and other parties
- c. How the *member's* superior has responded to the matter
- d. The judgments made and the courses of action the *member* took

Effective Date

.36 This interpretation is effective June 30, 2023. Early implementation is allowed.

Additions appear in ***boldface italic***. Deletions appear in ~~strikethrough~~.

1.000.020 Ethical Conflicts

- .01 An ethical conflict arises when a member encounters one or both of the following:
- a. Obstacles to following an appropriate course of action due to internal or external pressures
 - b. Conflicts in applying relevant professional standards or legal standards
- ~~For example, a *member* suspects a fraud may have occurred, but reporting the suspected fraud would violate the *member's* responsibility to maintain *client* confidentiality.~~
- .02 Once an ethical conflict is encountered, a member may be required to take steps to best achieve compliance with the rules and law. In weighing alternative courses of action, the *member* should consider factors such as the following:
- a. Relevant facts and circumstances, including applicable rules, laws, or regulations
 - b. Ethical issues involved
 - c. Established internal procedures
- .03 The member should also be prepared to justify any departures that the *member* believes were appropriate in applying the relevant rules and law. If the *member* was unable to resolve the conflict in a way that permitted compliance with the applicable rules and law, the *member* may have to address the consequences of any violations.
- .04 Before pursuing a course of action, the member should consider consulting with appropriate persons within the firm or the organization that employs the *member*.
- .05 If a member decides not to consult with appropriate persons within the firm or the organization that employs the *member* and the conflict remains unresolved after pursuing the selected course of action, the *member* should consider either consulting with other individuals for help in reaching a resolution or obtaining advice from an appropriate professional body or legal counsel. The *member* also should consider documenting the substance of the issue, the parties with whom the issue was discussed, details of any discussions held, and any decisions made concerning the issue.
- .06 If the ethical conflict remains unresolved, the member will in all likelihood be in violation of one or more rules if he or she remains associated with the matter creating the conflict. Accordingly,

the *member* should consider his or her continuing relationship with the engagement team, specific assignment, client, [firm](#), or employer. [No prior reference: new content.]

- .07 ~~Effective December 15, 2014.~~ **Refer to the “Responding to Noncompliance With Laws and Regulations” interpretation [1.180.010] of the [“Integrity and Objectivity Rule” \[1.100.001\]](#) for additional guidance.**

Effective Date

- .08 Effective December 15, 2014.

[See [Revision History Table](#).]

Additions appear in ***boldface italic***. Deletions appear in ~~strikethrough~~.

2.000.020 Ethical Conflicts

- .01 An ethical conflict arises when a member encounters one or both of the following:
- a. Obstacles to following an appropriate course of action due to internal or external pressures
 - b. Conflicts in applying relevant professional and legal standards
- ~~For example, a member suspects a fraud may have occurred, but reporting the suspected fraud would violate the member's responsibility to maintain client confidentiality.~~
- .02 Once an ethical conflict is encountered, a member may be required to take steps to best achieve compliance with the rules and law. In weighing alternative courses of action, the *member* should consider factors such as the following:
- a. Relevant facts and circumstances, including applicable rules, laws, or regulations
 - b. Ethical issues involved
 - c. Established internal procedures
- .03 The member should also be prepared to justify any departures that the *member* believes were appropriate in applying the relevant rules and law. If the *member* was unable to resolve the conflict in a way that permitted compliance with the applicable rules and law, the *member* may have to address the consequences of any violations.
- .04 Before pursuing a course of action, the member should consider consulting with appropriate persons within the organization that employs the *member*.
- .05 If a member decides not to consult with appropriate persons within the organization that employs the *member*, and the conflict remains unresolved after pursuing the selected course of action, the *member* should consider either consulting with other individuals for help in reaching a resolution or obtaining advice from an appropriate professional body or legal counsel. The *member* also should consider documenting the substance of the issue, the parties with whom the issue was discussed, details of any discussions held, and any decisions made concerning the issue.
- .06 If the ethical conflict remains unresolved, the member will in all likelihood be in violation of one or more rules if he or she remains associated with the matter creating the conflict. Accordingly,

the *member* should consider his or her continuing relationship with the specific assignment or employer. [No prior reference: new content]

- .07 ~~Effective December 15, 2014.~~ **Refer to the “Responding to Noncompliance With Laws and Regulations” interpretation [2.180.010] of the [“Integrity and Objectivity Rule” \[2.100.001\]](#) for additional guidance.**

Effective Date

- .08 Effective December 15, 2014.

[See [Revision History Table.](#)]



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