4.67 **Compliance with Laws and Regulations.**Audit standards distinguish auditors' responsibility for planning procedures for detecting noncompliance with laws and regulations having a direct effect on financial statements versus planning procedures for detecting noncompliance with laws and regulations that do not have a direct effect on financial statements.

**Required:**

a. What are the requirements for auditors to plan procedures to detect direct-effect compliance versus indirect-effect compliance?

b. For each of the following instances of noncompliance, explain why they are either direct-effect (D) or indirect-effect (I) noncompliance:

1. A manufacturer inflates expenses on its corporate tax return.

2. A retailer pays men more than women for performing the same job.

3. A coal mining company fails to place proper ventilation in its mines.

4. A military contractor inflates the overhead applied to a combat vehicle.

5. An insurance company fails to maintain required reserves for losses.

6. An exporter pays a bribe to a foreign government official so that government will buy its products.

7. A company backdates its executive stock options to lower the exercise price.

8. A company fails to fund its pension plan in accordance with ERISA.