SA-250 Consideration of Laws & Regulations In an Audit of Fin. Statements

Management Responsibility for Compliance with Laws & Regulation (with Oversight of TCWG)

(a.) Monitoring Legal Requirements
(b.) Ensure Operating Procedures are designed to meet these requirements.
(c.) Internal Control System (DOT)
(d.) Code of Conduct
(e.) Ensuring Employees → trained → understand COC
(f.) Monitoring Compliance with COC and acting appropriately to discipline Employees who fail to Comply with it.
(g.) Engaging Legal Advisors for assisting
(h.) Maintaining Register of Significant laws & Regulations with which Entity has to Comply.

Auditor's Responsibility

This SA distinguishes the Auditor's Responsibilities in two different Categories:-

Having Direct Effect on determination of Material Amounts, Disclosures in FS such as Tax & Labour laws
⇓
Obtain Sufficient Appropriate Audit Evidence about Compliance

Do Not have Direct Effect But Compliance with which may be fundamental to operating aspects of Business
⇓
Identify Non-Compliance which may have material effect on F.St.

Auditor's Consideration of Compliance with Laws & Regulations

- General Understanding
  - Legal & Regulatory framework applicable to:- . Entity . Industry
  - How Entity is Complying with that framework
- Obtain SAAE regarding Compliance
- A. Procedures to identify Non-Compliances that may have material effect
  - → Inquiring of Mgt.
  - → Inspecting Correspond. with Relevant Licensing / Regulatory Authorities
- Remain Alert
- Obtain WR

Audit Procedures when Non-Compliance Identified or Suspected

- Obtain an understanding of Nature of act & Circumstances in which it has occured & further Info. to evaluate possible effect on F.S.
- Suspect → Discuss with Mgt. & TCWG
- If they do not provide Sufficient Info → Consider need to obtain Legal Advise
- Effect On Auditor's Opinion

⇒ **Indicators for Verifying Compliance**

1. Investigation, fine payments/add. taxes.
2. payment for unspecified Services/loans to consultants R. Party, Employees (Govt.)
3. Excessive Sales Commission/Agent fees
4. High price purchases
5. Unusual payments towards legal & Retainership fees.
6. Unusual trans. with cos. registered in Tax Havens.
7. Payments without proper Exchange Control Documentation.

Reporting of Identified or Suspected Non-Compliance

To TCWG

- If TCWG not part of mgt.
- It is Intentional & Material
- If TCWG/Mgt. are INVOLVED in Non-Compliance
  ⇓
  To Next higher level of Authority at the Entity (Audit Committee or Supervisory Board)
  → If No higher Authority exists
  ↓
  Obtain legal Advice (or when Communication will not be acted upon)

In Auditor's Report on Fin. Statements

- If having Material effect & not been Reflected in F.S. → Express a Qualified or Adverse Opinion on F.St.
- Precluded from obtaining SAAE
  ↓
  Express Qualified / Disclaim an Opinion
- Limitations Imposed by Circumstances rather than by mgt. or TCWG and he is UNABLE to determine whether Non-Compliance has occured or Not
  ↓
  Evaluate Effect on Auditor's Opinion

Regulatory & Enforcement Authorities

Determine whether he has responsibility to report to parties outside the Entity.