

SA 250: Consideration of laws & Regulations (L&Rs) in an audit of FS.

① Who has the responsibility to ensure that Entity (Client) complies with L&Rs?



② What are the policies & procedures entity implements

prevention/detection of Non-Compliance with Laws & Regulations?
(NOCLAR)

- Monitor legal requirements & ensure operating procedures designed to meet these requirements.
eg. TDS Deposited / C. ST. etc. Advance tax
↓ (Audit?)
- Instituting & operating apt. systems of Internal Control.
(designing) ↓ (specific)
- Develop, publicise & follow a code of conduct (COC)
↓ employees → understand
- Ensure employees are trained & understand COC.
↓
- Monitor compliance with COC
↓ B
- Engaging legal advisors to assist in monitoring L&R requirements.
↓ ? LIR
- Maintain registers of L&Rs applicable to entity & record of compliance.

③ What is auditor's responsibility?

Obtain R.A. that FS are free from M.M. due to fraud or error.
↓ (LIR)

Auditor considers applicable legal & regulatory framework of entity.

* owing to "GLA" there's a unavoidable risk that some M.M. may not be detected even though audit done as per SAs.

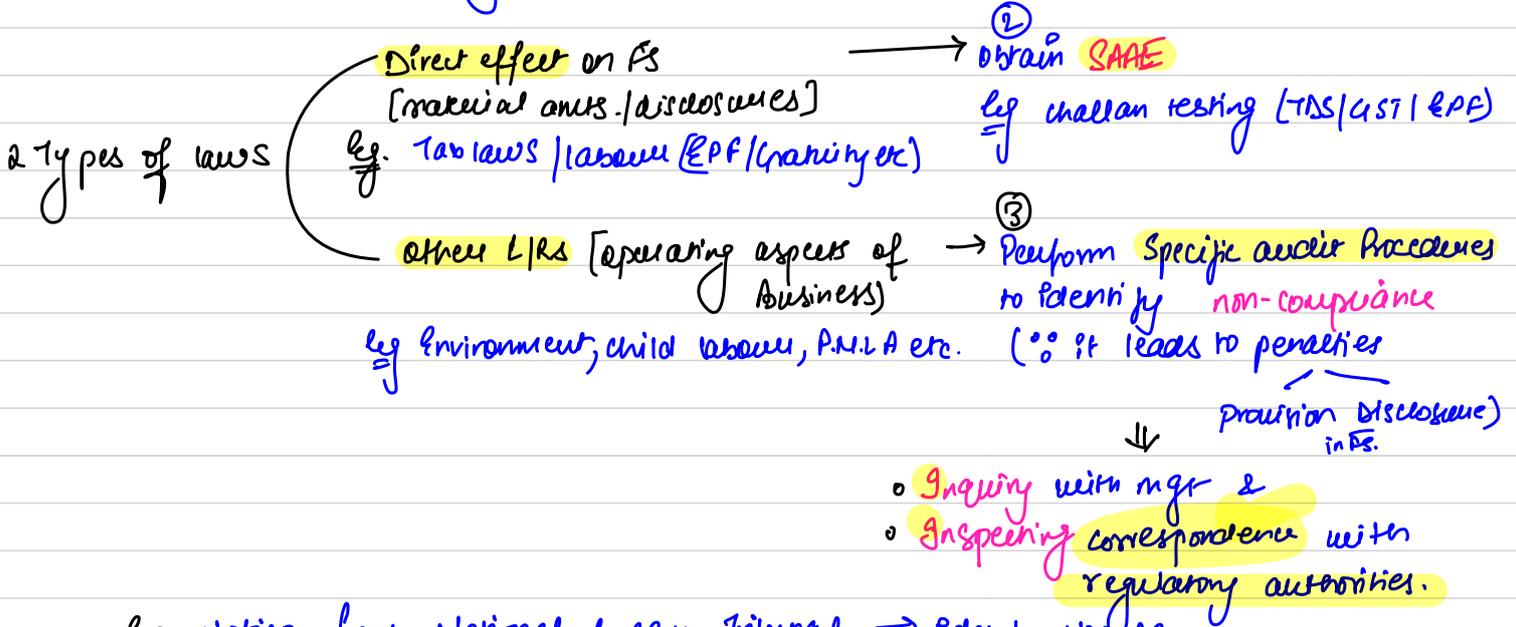
For L&R ⇒ GLA to detect M.M. are greater because:

- There are many L&Rs relating to operating aspects of entity that don't affect FS.
↓
not captured by AIC system.
- Non-compliance may involve conduct designed to conceal it.
eg. collusion, forgery etc. (hide)
B^R B
- Whether an Act is a non-compliance is decided by court of law.

Eg Environment, child labour, Prevention of Money Laundering Act etc.

Audit Procedures

- ① **Understand** • legal & regulatory framework of entity & its industry.
 • how entity complies with framework.

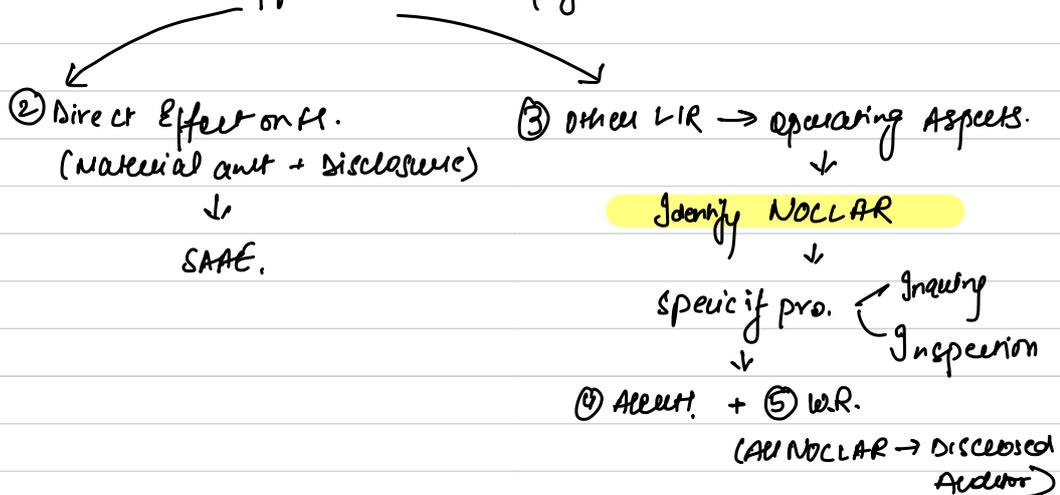


Eg Notice from National Green Tribunal → identify NOCLAR.

④ Remain **Alert** for instances of NOCLAR. Eg Investigation

⑤ obtain **Written Representation** that all NOCLAR(S) disclosed to auditor.

Summary: ① understand → LIR applicable + comply?



Audit Procedures when Non-Compliance is Identified/Suspected (SC)

{ eg Insurance Co. → fake invoices [marketing exp.] → DQCI (GST) Notice + Search in office }

feel of NOCLAR? yes [what to do?]

① obtain understanding of
 Nature of Activity &
 Circumstances in which it has occurred.

② obtain further info. to evaluate "possible" effect on AS.

Discuss with mgr & TCWG → ③ If they don't provide sufficient info. & suspect maybe material then, obtain legal advice.

④ If sufficient info. can't be obtained ⇒ modify opinion.

evaluate effect of lack of SAAC on the audit opinion. (Diplomatic/Safe)

⑤ Evaluate effect of NOCLAR on other aspects of audit i.e.

Risk Assessment
[RMM ↑]

Reliability of W.R. & take
[No] appt. action.

Summary: ① Understand
 Activity &
 Circumstances

→ ② Possible effect on AS. → mgr + TCWG

↓
③ sufficient info. x ⇒ legal advice
maybe material ✓

⑤ other aspects → RMM + Reliability of W.R. ← ④ SAAC x ⇒ effect on audit opinion