

SA 250: Consideration of Laws & Regulations (LIR)

In an Auditor of FS.

Q Who has the responsibility to ensure entity complies with LIR?

mg + TCWG. ~~Auditor~~

Q What are policies & procedures entity implements
↓
comply with L&RS?

- Monitor** legal requirements & ensure **operating procedures** designed to meet these requirements.
eg TDS deposit / + GST Advance Tax
- Designing & Operating** appt. system of **Internal Control**.
(Design) ↓ (general)
- Develop, publicise & follow** a **Code of conduct** [specific]
(Emp. to staff) ↓ [COC]
- Ensure** employees are **trained & understand** COC.
↓
- Monitor** compliance with COC.
↓
- Engaging** **legal advisors** to assist in monitoring LIR requirements.
↓ [LIR applicable?]
- Maintain** **Register** of L&RS applicable to entity & **record of complaints**.

Q What is Auditor's responsibility?

Obtain R.A. that F.S. are free from M.M. due to Fraud or Error.
↓ [LIR]

Auditor considers applicable Legal/Regulatory framework of entity.

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

For LIRs ⇒ JLA to detect M.M. are greater because:

- There are many laws & regulations relating to operating aspects of entity that don't affect FS.
- Non-compliance may involve conduct designed to conceal it.
eg collusion, forgery etc.
- Whether Act is a non-compliance is decided by court of law.

Not captured by AIC system.

[2 min]

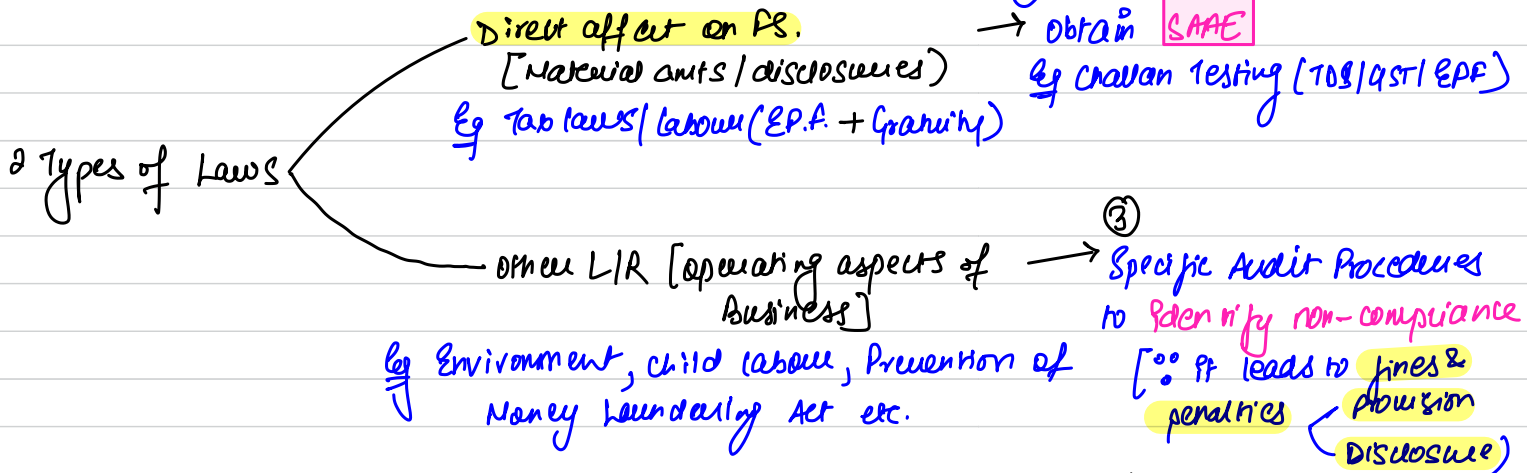
Audit Procedures

① **Understand** • legal & regulatory framework of entity / industry

• how entity complies with framework.

eg listed SEBI

eg Jio/Airtel → Telecom
Indigo/Air India → Airline



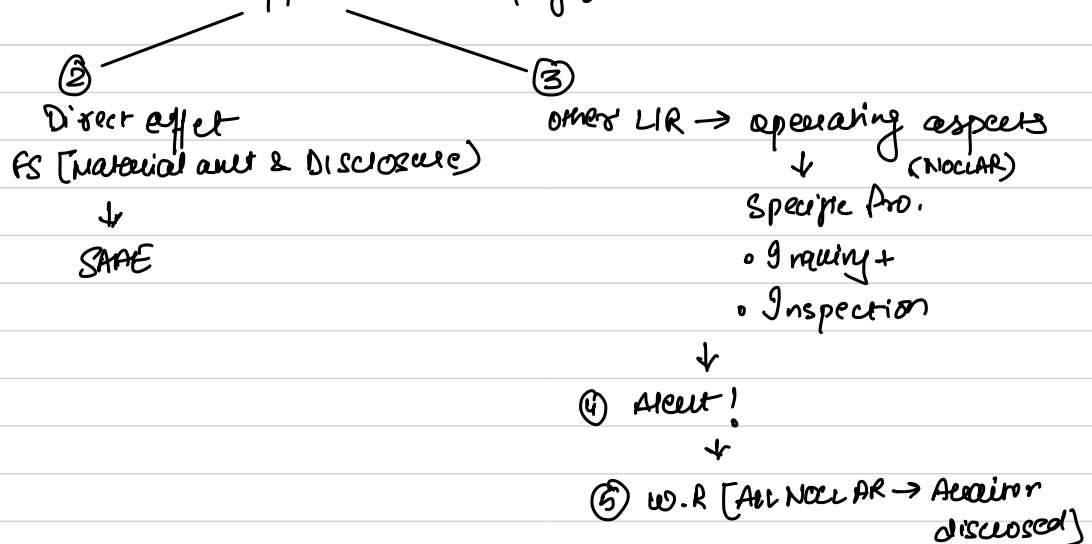
- Inquiry of mgmt (+)
- Inspecting correspondence with regulatory authorities.

eg Notice from National Green Tribunal ⇒ identify non-compliance.

④ Remain **Alert** for instances of NOCLAR. [Prof skepticism]

⑤ obtain **W.R.** that all known NOCLARs disclosed to auditor.

Summary: ① Understand → LIR applicable + comply?



Audit Procedures when Non-Compliance is Identified / Suspected. [5★]

{ leg Insurance Co. → fake invoices → DGCI [GST] Notice + office search }

feel of NOCLAR

① obtain understanding of
 { [kyakusa?] name of activity & [kinn haalaton?] circumstances in which it has occurred. }
 [Mgt fraud] → NOCLAR

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

Discuss with mgt & TCWG ⇒ ③ If they don't provide sufficient info & impact maybe material then, obtain legal advice.

④ If sufficient info. can't be obtained ⇒ ~~modify opinion~~
 evaluate effect of lack of SAE on the audit opinion

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

Risk Assessment & Reliability of W.R. & take appt. action.
 ROM ↑

Summary ① Understand — Activity —> ② possible effect on AS → mgt + TCWG
— Circumstances

③ sufficient info ⇒ legal advice maybe material

⑤ other aspects → ROM + Reliability of W.R. ← ④ SAE ⇒ effect on audit opinion