

SYNOPSIS

SA 250 — Consideration of Laws and Regulations in an Audit of Financial Statements — Effective since April 1, 2009

The SA deals with the auditor's responsibility to consider laws and regulations when performing an audit of financial statements. The SA is put in place in the backdrop of the position that non-compliance with applicable laws and regulations by an entity may, among others, involve conduct designed to conceal it, such as collusion, forgery, deliberate failure to record transactions or intentional misrepresentations being made to the auditor, that may, in turn, have a material effect on the financial statements. It is pertinent that this SA does apply to other assurance engagements where the auditor is engaged specifically to test and report separately on compliance with any specific law or regulations.

The requirements of the SA are designed to assist the auditor to achieve his objective to —

- (a) obtain sufficient appropriate audit evidence regarding compliance with the provisions of those laws and regulations generally recognized to have a direct effect on the determination of material amounts and disclosures in the financial statements,
- (b) perform specified audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial statements, and
- (c) respond appropriately to non-compliance or suspected non-compliance with laws and regulations identified during the audit.

For the purpose, the SA 250 requires the **auditor** to —

- (a) Obtain general understanding, as part of understanding the entity and its environment, of —
 - the legal and regulatory framework applicable to the entity and the industry or sector in which the entity operates, and
 - how the entity is complying with that framework
- (b) obtain sufficient appropriate audit evidence regarding compliance with the provisions of applicable laws and regulations
- (c) perform audit procedure, to help identify instances of any non-compliance with other laws and regulations, viz.
 - inquiring of management as to whether the entity is in compliance with such laws and regulations, and

- inspecting correspondence, if any, with the relevant licensing or regulatory authorities
- (d) remain alert to the possibility that other audit procedures applied may unfurl instances of any non-compliance or suspected non-compliance
- (e) request management to provide written representations with regard to all known instances of non-compliance or suspected non-compliance and that all such instances have been disclosed to the auditor

The SA requires the auditor, where —

- (i) he becomes aware of information concerning an instance of non-compliance or suspected non-compliance with law and regulations, to—
- obtain an understanding of the nature of the act and the circumstances in which it occurred, and
 - obtain further information to evaluate the possible effect on the financial statements
- (ii) he suspects there may be non-compliance —
- discuss with the management
 - if the management do not provide sufficient information that supports the entity being in compliance with laws and regulations, and in the auditor’s judgment, the effect of suspected non-compliance may be material to the financial statements, to consider the need to obtain legal advice
 - if sufficient information about suspected non-compliance cannot be obtained,

to evaluate the effect of lack of sufficient appropriate audit evidence on the auditor’s opinion.

to evaluate the implications of non-compliance in relation to other aspects of the audit, including the auditor’s risk assessment and the reliability of written representation, and take appropriate action [consider withdrawing, if legally permitted, from the engagement, or, alternatively, describing the non-compliance in his report under the Other Matter(s) paragraph].

The SA also requires the auditor to communicate with those charged with governance [unless they are involved in management of the entity] the matters involving non-compliance that came to his attention during the course of audit, and, in his judgment, are believed to be intentional and material.

Where the auditor suspects that management or those charged with governance are involved in non-compliance, the SA requires the auditor to communicate the matter to the next higher level of authority at the entity, if there exists any, such as audit committee or supervisory board. Where, however, no such higher authority exists, or if the auditor believes that the communication may not be acted upon or is unsure as to the person to whom to report, the auditor is required to consider the need to obtain legal advice.

If the auditor concludes that the non-compliance has a material effect on the financial statements, and that the same has not been adequately reflected in the financial statements, the auditor is required, in accord with SA 705, to express a qualified or adverse opinion on the financial statement. Where he is precluded by the management from obtaining sufficient appropriate audit evidence to evaluate whether non-compliance that may be material to the financial statement has, or is likely to have, occurred, the auditor shall express a qualified opinion or disclaim an opinion on the basis of a limitation on the scope of the audit in accord with SA 705. On the other hand, where the auditor is unable to determine whether non-compliance has occurred because of limitations imposed by the circumstances rather than by management, the auditor shall evaluate the effect on the auditor's opinion in accord with SA 705.

Where the auditor identified or suspected non-compliance, he is required to determine whether he has a responsibility to report such non-compliance to parties outside the entity.

Further, the auditor is required to document identified or suspected non-compliance and the result of discussion with management, and, where applicable, those charged with governance and other parties outside the entity.

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