SA 250 : Consideration of Laws & Regulations (L/R)

in an Audit of FS.

Q Who has the responsibility to ensure Entity complies with L/R ?

Mgt ~~Auditor~~

+ TCWG.

Q What are policies & procedures entity implements

↓

comply with L&Rs ?

a) Monitor legal requirements & ensure operating procedures designed to meet these requirements

eg TDS deposit / Advance Tax + GST

↓ ?

b) Instituting [Design] & Operating appl. system of Internal Control.

↓ (general)

c) Develop, publicise & follow [Emp. ko samjhana] a Code of conduct [specific] [COC]

d) Ensure employees are trained & understand COC.

↓

e) Monitor compliance with CoC.

↓

f) Engaging legal advisors to assist in monitoring L/R requirements.

↓ [L/R applicable ?]

g) 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.

↓ (L/R)

Auditor considers applicable Legal / Regulatory framework of entity.

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

For L/Rs ⇒ ILA to detect M.M. are greater because:

① There are many laws & regulations relating to operating aspects of entity that don't affect FS.

② Non-compliance may involve conduct designed to conceal it. eg collusion, forgery etc.

③ Whether Act is a non-compliance ↓ is decided by court of law.

∴ Not captured by A/c system. [2 mPn]

Audit Procedures

eg listed ↓ SEBI

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

1. Understand
   - legal & regulatory framework of Entity / Industry
   - How entity complies with framework.

2 Types of Laws

- Direct affect on FS. [Material amts / disclosures] → ② Obtain $\boxed{\text{SAAE}}$
  - eg Tax laws / Labour (EP.F. + Gratuity)
  - eg Challan testing (TDS/GST/EPF)
- Other L/R [operating aspects of Business] → ③ Specific Audit Procedures to Identify non-compliance
  - eg Environment, child labour, Prevention of Money Laundering Act etc.
  - [∵ It leads to fines & penalties (provision / Disclosure)]

⇓

- Inquiry of mgt (+)
- 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 NOCLAR(s) disclosed to auditor.

Summary: ① Understand → L/R applicable + comply?

- ② Direct effect FS [Material amt & Disclosure]
  ↓
  SAAE
- ③ Other L/R → operating aspects (NOCLAR)
  ↓
  Specific Pro.
  - Inquiry +
  - Inspection
  ↓
  ④ Alert!
  ↓
  ⑤ W.R [All NOCLAR → Auditor disclosed]

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

{ eg Insurance Co. → fake invoices → DGGI [GST] Notice + office search }

feel of NOCLAR

1. obtain understanding of
   - [kya hua?] Nature of Activity
   - &
   - [kinn haalaton?] circumstances in which it has occured. [Mgt fraud] ↳ NOCLAR

&

2. Further info. to evaluate "possible" effect on FS.
   ↓
   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 SAAE 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.
   ROMM ↑ Reps

Summary
1. Understand – Activity / Circumstances → 2. Possible effect on FS → mgt + TCWG
   ↓
3. sufficient info ✗ / maybe material ✓ ⇒ legal Advice
   ↓
4. SAAE ✗ ⇒ effect on audit opinion
   ←
5. other aspects → ROMM + Reliability of WR.