



## Consideration of Laws and Regulations in an audit of Financial Statements

SLAuS 250

# Introduction

## SLAuS 250 - Consideration of Laws and Regulations in an audit of Financial Statements

1. Responsibility of management
2. Auditor's consideration
3. Reporting of non-compliance
4. Withdrawal from the engagement

**Laws and Regulations have an impact on financial reporting**

- 1. Non compliance by the entity may materially affect the financial statements**
- 2. Auditor should obtain general understanding**
- 3. An audit cannot detect all non-compliance**
- 4. Compliance with laws & regulations is the responsibility of the management**

**When planning an audit, laws and regulations governing the entity should be considered**

- 1. Intentional or unintentional**
- 2. Personal misconduct is excluded**
- 3. Whether an act constitutes non-compliance is a legal determination and may be beyond the auditor's professional competence**

**Non compliance with laws and regulations may be intentional or unintentional**

- 1. Some determine the form or content of an entity's financial statements or the amounts to be recorded or disclosed**
- 2. Some to be complied by management**
- 3. Others set the operating guidelines**

**Type of laws and regulations?**

**The responsibility for the prevention & detection of non-compliance rests with management**

- 1. Comprehensive code of conduct**
- 2. Internal controls**
- 3. A register of laws & regulations**
- 4. Legal advise**
- 5. Audit committee**

**Management is responsible for compliance**



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- 1. The auditor cannot be held responsible for non-compliance**
- 2. The audit is subject to the unavoidable risk that some material mis-statements of the financial statements will not be detected, even though the audit is properly planned and performed in accordance with SLAuS**

**Auditor's consideration**



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- 1. Some laws relate to operating aspects and may not have a material effect on f/s**
- 2. Inherent limitations of internal control**
- 3. Testing procedures**
- 4. Much of the evidence obtained by the auditor is persuasive and not conclusive**
- 5. Intention to conceal by management**

**Why auditor may not detect non-compliance?**

- 1. Use existing understanding**
- 2. Inquire from management**
- 3. Discuss with management procedures for identification and accounting**
- 4. Industry knowledge and expertise**

**Auditor should obtain general understanding of rules and regulations**

- 1. Auditor should perform audit procedures to identify instances of non-compliance with those laws & regulations where non compliance should be considered when preparing f/s**
- 2. The auditor should obtain adequate evidence about compliance with those laws that could have an effect on the determination of material amounts and disclosures in f/s**

**Auditor should obtain general understanding of rules and regulations**

- 1. Obtain an understanding of nature**
- 2. Evaluate possible effect**
  - **Fines, damages, discontinuation**
  - **Impact on financial statements**
  - **Whether true & fair view is in question**
- 3. Document findings and discuss with co**
- 4. Obtain legal assistance**

**What should the auditor do when non compliance is detected?**

**To management**

- 1. Inform ASAP**
- 2. If non-compliance is intentional and material, communicate findings**
- 3. If directors are involved in non-compliance, inform the next level of authority (chairman of the board or audit committee)**

**Reporting non compliance to management**

**To user's of the auditor's report**

1. If non-compliance has material effect, and has not been reflected in f/s, express a qualified or an adverse audit opinion
2. If auditor cannot obtain adequate evidence to evaluate impact on f/s, express a qualified or a disclaimer of opinion on the basis of a limitation of scope

**Reporting non compliance to shareholders**

**When the entity does not take remedial action, the auditor may withdraw from the engagement**

1. Inform in-coming auditor, if client has given permission
2. If not, inform incoming auditor that the client has denied the discussion of its affairs

**Reporting non compliance to incoming auditor**



- 1. Investigations by state institutions**
- 2. Payments for unspecified services**
- 3. Transactions not at arms length**
- 4. Unusual payments**
- 5. Payments without proper documents**
- 6. Media comments**
- 7. Transfer of funds to tax heavens**

**Indications of non compliance**

**Thank you.**