

PROPOSED REDRAFTED ISA 250
THE AUDITOR'S RESPONSIBILITIES RELATING TO LAWS AND REGULATIONS
IN AN AUDIT OF FINANCIAL STATEMENTS
(mark-up)

Legend:

Shaded text	indicates Elevations and Deletions
Bolded borders	indicates text that has been introduced into the Redrafted ISA 250 to align it with recently redrafted ISAs and Exposure Drafts issued in the Clarity Format

Paragraph in Extant ISA 250	Redrafted ISA 250
	<p style="text-align: center;">CONSIDERATION OF LAWS AND REGULATIONS IN AN AUDIT OF FINANCIAL STATEMENTS</p> <p style="text-align: center;"><u>INTERNATIONAL STANDARD ON AUDITING 250</u></p> <p style="text-align: center;"><u>THE AUDITOR'S RESPONSIBILITIES RELATING TO LAWS AND REGULATIONS IN AN AUDIT OF FINANCIAL STATEMENTS</u></p>
	Introduction
	<u>Scope of this ISA</u>
1 & 7	<p>1. This The purpose of this International Standard on Auditing (ISA) deals with is to establish standards and provide guidance on the auditor's responsibilities relating to to consider laws and regulations <u>when performing in</u> an audit of financial statements. <u>This ISA does not apply to other engagements in which the auditor is specifically engaged to test and report separately on compliance with specific laws or regulations.</u></p> <p>(7) This ISA applies to audits of financial statements and does not apply to other engagements in which the auditor is specifically engaged to test and report separately on compliance with specific laws or regulations.</p>
	<u>Nature of Laws and Regulations</u>

5	<p>2 <u>The impact on financial statements of laws</u> Laws and regulations <u>varies</u> vary considerably. in their relation to the financial statements Some laws or regulations determine the form or content of an entity's financial statements <u>such as</u> or the amounts to be recorded or <u>the</u> disclosures to be made in financial statements. Other laws or regulations are to be complied with by management or set the <u>provisions legal and regulatory framework</u> under which the entity is allowed to conduct its business. Some entities operate in heavily regulated industries (such as banks and chemical companies). Others are only subject to the many laws and regulations that generally relate <u>generally</u> to the operating aspects of the business (such as those related to occupational safety and health and equal employment <u>opportunity</u>). Non-compliance with laws and regulations <u>may</u> could result in financial consequences for the entity such as fines, <u>and</u> litigation, <u>etc.</u> Generally, the further removed non-compliance is from the events and transactions, ordinarily reflected in <u>the</u> financial statements, the less likely the auditor is to become aware of it or to recognize its possible non-compliance.</p>
	<p><u>Responsibility for Compliance with Laws and Regulations</u></p>
9	<p>3. <u>It is the responsibility of management, with the oversight of those charged with governance, to:</u></p> <p>(a) <u>E</u>nsure that the entity's operations are conducted in accordance with <u>laws and regulations, including compliance with laws and regulations that determine the form or content of the entity's financial statements; and</u></p> <p>(b) <u>P</u>revent and detect non-compliance with <u>laws and regulations</u> (Ref: <u>Para. A1</u>)</p> <p>It is management's responsibility to ensure that the entity's operations are conducted in accordance with laws and regulations. The responsibility for the prevention and detection of noncompliance rests with management.</p>
	<p><u>Responsibilities of the Auditor</u></p>
12 & 13	<p>4. <u>An auditor conducting an audit in accordance with ISAs is responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. Owing to the inherent limitations of an audit, as described in ISA 200, "Objective and General Principles Governing an Audit of Financial Statements", there is an unavoidable risk that some material misstatements of the financial statements will not be detected, even though the audit is properly planned and performed in accordance with the ISAs. This unavoidable risk may be higher, with regard to material misstatements resulting from non-compliance with laws and regulations, due to factors such as the following:</u></p>

	<ul style="list-style-type: none"> • <u>Non-compliance may not be captured by the entity's information systems relevant to financial reporting.</u> • <u>Non-compliance may involve conduct designed to conceal it, such as collusion, forgery, deliberate failure to record transactions, management override of controls or intentional misrepresentations being made to the auditor.</u> <p>(13) In accordance with ISA 200, "Objective and General Principles Governing an Audit of Financial Statements" the auditor should plan and perform the audit with an attitude of professional skepticism recognizing that the audit may reveal conditions or events that would lead to questioning whether an entity is complying with relevant laws and regulations. (Ref: Para. A4-A5)</p> <p>(12) An audit is subject to the unavoidable risk that some material misstatements of the financial statements will not be detected, even though the audit is properly planned and performed in accordance with ISAs. This risk is higher with regard to material misstatements resulting from noncompliance with laws and regulations due to factors such as the following:</p> <ul style="list-style-type: none"> • There are many laws and regulations, relating principally to the operating aspects of the entity, that typically do not have a material effect on the financial statements and are not captured by the entity's information systems relevant to financial reporting. • The effectiveness of audit procedures is affected by the inherent limitations of internal control and by the use of testing. • Much of the audit evidence obtained by the auditor is persuasive rather than conclusive in nature. • Noncompliance may involve conduct designed to conceal it, such as collusion, forgery, deliberate failure to record transactions, senior management override of controls or intentional misrepresentations being made to the auditor.
8	<p>(8) Guidance on the auditor's responsibility to consider fraud and error in an audit of financial statements is provided in ISA 240, "The Auditor's Responsibility to Consider Fraud in an Audit of Financial Statements."</p>
11 & 13	<p><u>5 When obtaining reasonable assurance, the auditor is responsible for maintaining an attitude of professional skepticism throughout the audit. The requirements in this ISA are designed to assist the auditor in identifying and assessing the risks of material misstatement arising from non-compliance with laws and regulations that may have a material effect on the financial statements and responding appropriately to identified or suspected non-compliance with laws and regulations. The auditor is</u></p>

	<p>not, and cannot be, held responsible for preventing non-compliance. <u>However, the</u> The fact that an annual audit is carried out may, however, act as a deterrent. (Ref: Para. A2-A4)</p> <p>(13) In accordance with ISA 200, "Objective and General Principles Governing an Audit of Financial Statements" the auditor should plan and perform the audit with an attitude of professional skepticism recognizing that the audit may reveal conditions or events that would lead to questioning whether an entity is complying with relevant laws and regulations. (Ref: Para. A4-A5)</p>
	Effective Date
	<p>6. <u>This ISA is effective for audits of financial statements for periods beginning on or after Insert date.</u>¹</p>
	Objective
<p>Clarity Objective & extant para.2</p>	<p>7 <u>The objectives of the auditor are :</u></p> <p>(a) <u>To obtain sufficient appropriate audit evidence about whether the entity is in compliance with laws and regulations that may have a material effect on the financial statements; and</u></p> <p>(b) <u>To respond appropriately to identified or suspected non-compliance with laws and regulations.</u></p> <p>(2) When designing and performing audit procedures and in evaluating and reporting the results thereof, the auditor should recognize that noncompliance by the entity with laws and regulations may materially affect the financial statements.</p>
	Definition
3	<p>8. <u>For the purposes of this ISA, The the term 'non-compliance' as used in this ISA</u> refers to acts of omission or commission by the entity being audited, either intentional or unintentional, which are contrary to the prevailing laws or regulations. Such acts, include transactions entered into by, or in the name of, the entity or on its behalf by <u>its those charged with governance,</u> management or employees. For the purpose of this ISA, Non-compliance does not include personal misconduct (unrelated to the business activities of the entity) by <u>those charged with governance, the entity's</u> management or employees <u>of the entity.</u></p>

¹ This date will not be earlier than December 15, 2008.

	Requirements
	<u>The Auditor's Consideration of Compliance with Laws and Regulations</u>
15	9. <u>When obtaining an understanding of the entity, in accordance with ISA 315 "Identifying and Assessing the Risks of Material Misstatements Through Understanding the Entity and its Environment", in order to plan the audit,</u> the auditor shall <u>should</u> obtain a general understanding of: <ul style="list-style-type: none"> (a) The legal and regulatory framework applicable to the entity and the industry <u>or sector</u> in which the entity operates; and (b) How the entity is complying with that framework. (Ref: Para. A5-A6)
18	10. After obtaining the <u>above</u> general understanding, the auditor shall <u>should</u> perform further audit procedures to help identify instances of non-compliance with those laws and regulations where non-compliance should <u>may have a material effect on the be considered when preparing</u> financial statements, specifically: <ul style="list-style-type: none"> (a) iInquiring of management <u>and, where appropriate, those charged with governance,</u> as to whether the entity is in compliance with such laws and regulations; and (b) Examining <u>Inspecting</u> correspondence with the relevant licensing or regulatory authorities.
19	11. Further, The the auditor should <u>shall</u> obtain sufficient appropriate audit evidence about compliance with those laws and regulations generally recognized by the auditor to have an effect on the determination of material amounts and disclosures in financial statements. The auditor shall <u>should</u> have a sufficient understanding of these laws and regulations in order to consider them when auditing the assertions related to the determination of the amounts to be recorded and the disclosures to be made <u>in the financial statements.</u> (Ref: Para. A7 and A11)
22	7.12. The auditor should <u>shall</u> be alert to the <u>possibility</u> fact that audit procedures applied for the purpose of forming an opinion on the financial statements <u>may</u> bring instances of possible non-compliance with <u>relevant</u> laws and regulations to the auditor's attention. (Ref: Para. A 8)
23	8.13. The auditor shall <u>should</u> <u>request management, and where appropriate, those charged with governance, to provide</u> obtain written representations that management has disclosed to the auditor all known, actual or possible non-compliance with laws and regulations whose effects <u>are to</u> should be considered when preparing financial statements. (Ref: Para. A9 - A10).

	Audit Procedures when Non-compliance is <u>Identified or Suspected</u> Discovered	
26	14.	When the auditor becomes aware of information concerning a possible instance of non-compliance, the auditor <u>shall</u> should obtain: (a) An understanding of the nature of the act and the circumstances in which it has occurred; and (b) sufficient <u>Further</u> other information to evaluate the possible effect on the financial statements. (Ref: Para. A12).
27	15.	When evaluating the potential effect on the financial statements <u>of possible non-compliance with laws and regulations</u> , the auditor <u>shall</u> consider <u>the following matters</u> : (a) The potential financial consequences; such as fines, penalties, damages, threat of expropriation of assets, enforced discontinuation of operations and litigation. (b) Whether the potential financial consequences require disclosure; <u>and</u> (c) Whether the potential financial consequences are so serious as to call into question the true and fair view (or fair presentation in all material respects) given by the financial statements. (Ref: Para. A13)
28	16.	When the auditor believes there may be non-compliance, the auditor <u>shall</u> should <u>discuss</u> document the findings and discuss them with management, <u>and where appropriate, those charged with governance</u> . (Ref: Para. A14).
29	17.	<u>When satisfactory information about the entity's compliance with laws and regulations is not provided by management or, as appropriate, those charged with governance, the auditor shall assess the need to obtain legal advice concerning possible non-compliance.</u> If management does not provide satisfactory information that it is in fact in compliance, the auditor would consult with the entity's lawyer about the application of the laws and regulations to the circumstances and the possible effects on the financial statements. When it is not considered appropriate to consult with the entity's lawyer or when the auditor is not satisfied with the opinion, the auditor would consider consulting the auditor's own lawyer as to whether a violation of a law or regulation is involved, the possible legal consequences and what further action, if any, the auditor would take.
30	18.	When <u>sufficient</u> adequate information about the suspected noncompliance <u>non-compliance</u> cannot be obtained, the auditor <u>shall</u> should <u>evaluate</u> consider the effect of the lack of sufficient appropriate audit evidence on the auditor's report.

31	17.19.	The auditor shall should evaluate consider the implications of non-compliance with laws and regulations in relation to other aspects of the audit and take appropriate action, particularly the reliability of management representations. (Ref: Para. A15 - A17)
		Reporting of Non-compliance
		<i>Reporting Non-compliance to Those Charged with Governance</i>
32	20	<p>Unless all of those charged with governance are involved in management of the entity, ² the auditor shall communicate with those charged with governance:</p> <p>(a) Any significant findings involving non-compliance with laws and regulations arising from the audit, including matters that have a material effect on the financial statements; and</p> <p>(b) Any other findings involving non-compliance with laws and regulations that come to the auditor's attention, unless the auditor has obtained audit evidence that they have been appropriately informed or the matters are clearly inconsequential. (Ref: Para. A18)</p> <p>The auditor should, as soon as practicable, either communicate with those charged with governance, or obtain audit evidence that they are appropriately informed, regarding noncompliance that comes to the auditor's attention.</p>
33	21	If in the auditor's judgment the non-compliance is believed to be significant and intentional, communication of the findings with those charged with governance, shall be as soon as practicable intentional and material, the auditor should communicate the finding without delay.
34	22	If the auditor suspects that members of senior management or, including those charged with governance, members of the board of directors, are involved in noncompliance non-compliance , the auditor shall should communicate report the matter to the next higher level of authority at the entity, if it exists, such as an audit committee or a supervisory board. Where no higher authority exists, or if the auditor believes that the communication report may not be acted upon or is unsure

² In accordance with ISA 260 "Communication with Those Charged with Governance", where all of those charged with governance are also involved in managing the entity, when matters are communicated with person(s) with management responsibilities, and those person(s) also have governance responsibilities, the matter need not be communicated again with those same person(s) in their governance role.

	as to the person to whom to report, the auditor shall-would- <u>assess the need to obtain consider seeking</u> legal advice. (Ref: Para. A16).
	<i>Reporting Non-compliance to the Users of the Auditor's Report on the Financial Statements</i>
35	23. If the auditor concludes that the noncompliance <u>non-compliance</u> has a material effect on the financial statements, and has not been adequately properly reflected in the financial statements, the auditor shall <u>should</u> modify the audit opinion so as to express a qualified or an adverse opinion in accordance with ISA 705, "Modifications to the Opinion in the Independent Auditor's Report <u>express a qualified or an adverse opinion."</u> .
36	24. If the auditor is precluded by the entity from obtaining sufficient appropriate audit evidence to evaluate whether non-compliance that may be material to the financial statements, has, or is likely to have, occurred, the auditor shall <u>should</u> express a qualified opinion or a disclaimer of opinion on the financial statements on the basis of a limitation on the scope of the audit.
37	25. If the auditor is unable to determine whether non-compliance has occurred because of limitations imposed by the circumstances rather than by the entity, <u>in accordance with ISA 705,</u> the auditor shall <u>should</u> evaluate <u>consider</u> the effect on the audit opinion <u>auditor's report</u> .
	<i>Reporting Non-compliance to Regulatory and Enforcement Authorities</i>
ISA 240	<u>26. If the auditor has identified or suspects non-compliance with laws and regulations, the auditor shall determine whether there is a responsibility to report the identified or suspected non-compliance to a party outside the entity. Although the auditor's professional duty to maintain the confidentiality of client information may preclude such reporting, the auditor's legal responsibilities may override the duty of confidentiality in some circumstances. (Ref: Para. A19-A21)</u>
	<u>Documentation</u>
ISA 230 & extant para.28	<u>27. The auditor shall document instances of identified or suspected non-compliance with laws and regulations and discussions about such matters with management, and where applicable, those charged with governance and parties outside the entity. The auditor shall also document when and with whom the discussions took place. (Ref: Para. A22).</u>

	When the auditor believes there may be noncompliance, the auditor should document the findings and discuss them with management.
	Application and Other Explanatory Material
	<u>Responsibility for Compliance with Laws and Regulations</u> (Ref Para-)
	<i><u>Responsibilities of Management and Those Charged with Governance</u></i> (Ref Para 2 - 3)
10	<p>A1. <u>Management, with oversight of those charged with governance, is responsible for ensuring that the entity's operations are conducted in accordance with laws and regulations.</u> The following policies and procedures, among others, may assist <u>those charged with governance and</u> management in discharging <u>their</u>s responsibilities for the prevention and detection of non-compliance:</p> <ul style="list-style-type: none"> • Monitoring legal requirements and ensuring that operating procedures are designed to meet these requirements. • Instituting and operating appropriate internal control. • Developing, publicizing and following a code of conduct. • Ensuring employees are properly trained and understand the code of conduct. • Monitoring compliance with the code of conduct and acting appropriately to discipline employees who fail to comply with it. • Engaging legal advisors to assist in monitoring legal requirements. • Maintaining a register of significant laws with which the entity has to comply within its particular industry and a record of complaints. <p>In larger entities, these policies and procedures may be supplemented by assigning appropriate responsibilities to the following:</p> <ul style="list-style-type: none"> • An internal audit function. • An audit committee.
	<i><u>Responsibilities of the Auditor</u></i> (Ref: Para. 4 - 5)
2	<p>A2. <u>Non compliance by the entity with laws and regulations may materially affect the financial statements.</u> However, an audit cannot be expected to detect non-compliance with all laws and regulations. Detection of non-compliance, regardless of materiality, <u>may affect other aspects of the audit, including for example, the auditor's requires</u> consideration of <u>the implications for</u> the integrity of management or employees and the possible affect on other aspects of the audit.</p>

4	<p>A3. Whether an act constitutes non-compliance is a <u>matter for</u> legal determination, <u>which may be</u>, that is ordinarily beyond the auditor's professional competence <u>to determine</u>. <u>However, the</u> The auditor's training, experience and understanding of the entity and its industry <u>or sector</u> — may provide a basis <u>to</u> for <u>recognize</u> recognition that some acts, coming to the auditor's attention, may constitute non-compliance with <u>relevant</u> laws and regulations. <u>Determining</u> The determination as to whether a particular act constitutes or is likely to constitute non-compliance is generally based on the advice of an informed expert qualified to practice law but ultimately can only be determined by a court of law.</p>
14	<p>A4. In accordance with specific statutory requirements, the auditor may be specifically required to report, as part of the audit of the financial statements, <u>on</u> whether the entity complies with certain provisions of laws or regulations. In these circumstances, <u>it may be necessary for</u> the auditor would <u>audit</u> plan to <u>include</u> to <u>appropriate</u> tests for compliance with these provisions of the laws and regulations.</p>
	<p><u>The Auditor's Consideration of Compliance with Laws and Regulations (Ref: Para 9-13)</u></p>
	<p><u>Obtaining an Understanding of the Legal and Regulatory Framework</u></p>
16	<p>A5. In obtaining <u>a</u> this general understanding <u>of the legal and regulatory framework applicable to the entity and the industry or sector</u>, <u>certain laws and regulations that may give rise to business risks and which have a fundamental effect on the operations of the entity</u>, may need particular <u>attention by</u> the auditor would particularly recognize that some laws and regulations may give rise to business risks that have a fundamental effect on the operations of the entity. That is, Non-compliance noncompliance with certain laws and regulations that have a fundamental effect on the operations of the entity may cause the entity to cease operations, or call into question the entity's continuance as a going concern. For example, non-compliance with the requirements of the entity's license or other title to perform its operations could have such an impact (for example, for a bank, non-compliance with capital or investment requirements).</p>
17	<p>A6. To obtain the general understanding of laws and regulations, the auditor <u>may need</u> <u>to</u> would ordinarily for example:</p> <ul style="list-style-type: none"> • Use the existing understanding of the entity's industry, regulatory and other external factors; • Inquire of management concerning the entity's policies and procedures regarding compliance with laws and regulations; • Inquire of management as to the laws or regulations that may be expected to have a fundamental effect on the operations of the entity; • Discuss with management the policies or procedures adopted for

	<p>identifying, evaluating and accounting for litigation claims; and</p> <ul style="list-style-type: none"> Discuss the legal and regulatory framework with auditors of subsidiaries in other countries (for example, if the subsidiary is required to adhere to the securities regulations of the parent company).
	<i><u>Laws and Regulations Considered on a Recurring Basis</u></i>
20	<p>A7 Certain well established Such laws and regulations, would be well established and known to the entity and within the industry or sector, ; they may need to would be considered on a recurring basis each time financial statements are issued: such, These laws and regulations could, may include those that relate to, for example:</p> <ul style="list-style-type: none"> The form and content of financial statements, including industry specific requirements; Accounting for transactions under government contracts; or The accrual or recognition of expenses for income taxes or pension costs.
22	<p>A8. <u>Audit procedures applied to form an opinion on the financial statements, may bring instances of possible non-compliance with relevant laws and regulations to the auditor's attention. For example, such audit procedures may include:</u></p> <ul style="list-style-type: none"> <u>R</u>reading minutes; <u>I</u>nquiring of the entity's management and legal counsel concerning litigation, claims and assessments; and <u>P</u>performing substantive tests of details of classes of transactions, account balances, or disclosures. <p>For example, such audit procedures include reading minutes; inquiring of the entity's management and legal counsel concerning litigation, claims and assessments; and performing substantive tests of details of classes of transactions, account balances, or disclosures.</p>
	<i><u>Written Representations</u></i>
ISA 580 & extant para.9	<p>A9 <u>ISA 580, "Written Representations" establishes requirements and provides guidance on obtaining appropriate representations from management. In addition to acknowledging its responsibility for the financial statements, it is important that, irrespective of the size of the entity, management acknowledge its responsibility for internal control designed, implemented and maintained to:</u></p> <p>(a) <u>Ensure the entity's operations are conducted in compliance with laws and regulations, including those that have a material effect on the financial statements.</u></p>

		<p><u>(b) Prevent and detect non-compliance with laws and regulations.</u></p> <p>It is management's responsibility to ensure that the entity's operations are conducted in accordance with laws and regulations. The responsibility for the prevention and detection of noncompliance rests with management.</p>
ISA 580 & extant para.6	A10	<p><u>Because the impact on financial statements of laws and regulations can vary considerably and there are risks to the detection of non-compliance, written representations provide audit evidence about management's knowledge of actual or suspected non-compliance with laws and regulations, whose effects may have a material effect on the financial statements. However, by themselves, written representations do not provide sufficient appropriate audit evidence and, accordingly, do not relieve the auditor of the responsibility to obtain other audit evidence.</u></p> <p>(6) Laws and regulations vary from country to country. National accounting and auditing standards are therefore likely to be more specific as to the relevance of laws and regulations to an audit.</p>
		<p><u>Limit on Extent of Audit Procedures to be Undertaken)</u></p>
21 & 24	A11	<p>Other than <u>the audit procedures, set out as described</u> in paragraphs <u>9 to 13</u>11, 8-12 <u>20</u>, the auditor does not need <u>need not perform other audit procedures regarding the entity's compliance with laws and regulations, -other audit procedures on the entity's compliance with laws and regulations-</u> since this would be outside the scope of an audit of <u>the</u> financial statements. <u>However, depending on the result of the audit procedures performed, the auditor may need to undertake additional audit procedures as required by this ISA.</u></p> <p>(24) In the absence of audit evidence to the contrary, the entity's compliance with relevant laws and regulations can be assumed. the auditor is entitled to assume the entity is in compliance with these laws and regulations</p>
		<p>Audit Procedures when Non-compliance is <u>Identified Discovered</u> or <u>Suspected</u> (Ref: <u>Para. 14 - 19</u>).</p>

25 & Appendix	<p>A12. Example of the type of information that may come to the auditor's attention that may indicate that non-compliance with laws or regulations has occurred are listed below: <u>When the auditor becomes aware of either the existence of, or information about, the following matters, it may be an indication of non-compliance with relevant laws and regulations:</u></p> <ul style="list-style-type: none"> • Investigation by regulatory organisations and government departments or payment of fines or penalties. • Payments for unspecified services or loans to consultants, related parties, employees or government employees. • Sales commissions or agent's fees that appear excessive in relation to those ordinarily paid by the entity or in its industry or to the services actually received. • Purchasing at prices significantly above or below market price. • Unusual payments in cash, purchases in the form of cashiers' cheques payable to bearer or transfers to numbered bank accounts. • Unusual transactions with companies registered in tax havens. • Payments for goods or services made other than to the country from which the goods or services originated. • Payments without proper exchange control documentation. • Existence of an accounting system which fails, whether by design or by accident, to provide an adequate audit trail or sufficient evidence. • Unauthorised transactions or improperly recorded transactions. • Media comment. <p>(25) The Appendix to this ISA sets out examples of the type of information that might come to the auditor's attention that may indicate non-compliance.</p>
27	<p>A13. When evaluating the possible effect The potential financial consequences <u>of a possible instance of non-compliance with laws and regulations,</u> on the financial statements, the auditor considers might include the imposition of fines, penalties, damages, threat of expropriation of assets, enforced discontinuation of operations and litigation.</p> <ul style="list-style-type: none"> • The potential financial consequences, such as fines, penalties, damages, threat of expropriation of assets, enforced discontinuation of operations and litigation. • Whether the potential financial consequences require disclosure and. • Whether the potential financial consequences are so serious as to call into question the true and fair view (fair presentation) given by the financial statements.

ISA 260	A14. <u>The auditor may discuss the findings with those charged with governance where they may be able to provide additional audit evidence. For example, the auditor may confirm that those charged with governance have the same understanding of the facts and circumstances relevant to transactions or events that have led to the possibility of non-compliance with laws and regulations.</u>
31	A15. <u>In this regard, the auditor reconsiders the risk assessment and the validity of management representations.</u> When in case of non-compliance has not been detected by the entity's internal controls or not included in written management representations, the auditor's risk assessment and the validity of written management representations may need reconsideration by the auditor.
31, 39, 40 & ISA 580	<p>A16 The implications of particular instances of non-compliance identified discovered by the auditor will depend on the relationship of the perpetration and concealment, if any, of the act to specific control activities and the level of management or employees involved, <u>especially implications arising from the involvement of the highest authority within the entity. In exceptional cases, the auditor may need to consider whether withdrawal from the engagement is necessary when:</u></p> <ul style="list-style-type: none"> <u>(a) The entity does not take the remedial action that the auditor considers necessary in the circumstances, even when the non-compliance is not material to the financial statements;</u> <u>(b) The auditor has identified issues relating to management's commitment to competence, communication and enforcement of integrity and ethical values, or diligence; or</u> <u>(c) The auditor believes continuing association with the entity affects the auditor.</u> <p><u>In deciding whether withdrawal from the engagement is necessary, the auditor may need to obtain legal advice.</u></p> <p>(39) The auditor may conclude that withdrawal from the engagement is necessary when the entity does not take the remedial action that the auditor considers necessary in the circumstances, even when the non-compliance is not material to the financial statements. Factors that could affect the auditor's conclusion include the implications of the involvement of the highest authority within the entity which may affect the reliability of management representations, and the effects on the auditor of continuing association with the entity. In deciding whether to withdraw from the engagement, the auditor may consider seeking legal advice.</p> <p><u>(40) As stated in the Code of Ethics for Professional Accountants issued by the International Federation of Accountants, on receipt of an inquiry from the</u></p>

	<p>proposed auditor, the existing auditor should advise whether there are any professional reasons why the proposed auditor should not accept the appointment. The extent to which an existing auditor can discuss the affairs of a client with a proposed auditor will depend on whether the client's permission to do so has been obtained and/or the legal or ethical requirements that apply in each country relating to such disclosure. If there are any such reasons or other matters which need to be disclosed, the existing auditor would, taking account of the legal and ethical constraints, including where appropriate permission of the client, give details of the information and discuss freely with the proposed auditor all matters relevant to the appointment. If permission from the client to discuss its affairs with the proposed auditor is denied by the client, that fact should be disclosed to the proposed auditor.</p>
	<i>Considerations Specific to Public Sector Entities</i>
ISA 700	<u>A17 In the public sector, withdrawal from the engagement may not be an option. In such cases, the auditor may, as an alternative action, describe the non-compliance in an "Other Matter(s)" paragraph in the auditor's report</u>
	Reporting of Non-compliance (Ref Para 20 - 26)
	<u>Reporting Non-compliance to Those Charged with Governance</u> To Management (Ref Para 21)
32	<p>A18. <u>The auditor may consider reaching an agreement with those charged with governance and -management, in advance, in advance on the nature and type of such matters to be communicated</u></p> <p>However, the auditor need not do so for matters that are clearly inconsequential or trivial and may reach agreement in advance on the nature of such matters to be communicated.</p>
	<u>Reporting Non-compliance to Regulatory and Enforcement Authorities</u> (Ref Para 26)
ISA 240 & extant para.38	<p>A19. <u>The auditor's professional duty to maintain the confidentiality of client information may preclude reporting identified or suspected non-compliance with laws and regulations to a party outside the client entity. However, the auditor's legal responsibilities vary by country and, in certain circumstances, the duty of confidentiality may be overridden by statute, the law or courts of law. In some countries, the auditor of a financial institution has a statutory duty to report the occurrence, or suspected occurrence, of non-compliance with laws and regulations to supervisory authorities. Also, in some countries the auditor has a duty to report misstatements to authorities in those cases where management and those charged with governance fail to take corrective action.</u></p>

		The auditor's duty of confidentiality would ordinarily preclude reporting Noncompliance to a third party. However, in certain circumstances, that duty of confidentiality is overridden by statute, law or by courts of law (for example, in some countries the auditor is required to report noncompliance by financial institutions to the supervisory authorities). The auditor may need to seek legal advice in such circumstances, giving due consideration to the auditor's responsibility to the public interest.
ISA 240 & extant para.38	A20	<p><u>The auditor may consider it appropriate to obtain legal advice to determine the appropriate course of action in the circumstances, the purpose of which is to ascertain the steps necessary in considering the public interest aspects of identified or suspected non-compliance with laws and regulations.</u></p> <p>The auditor may need to seek legal advice in such circumstances, giving due consideration to the auditor's responsibility to the public interest.</p>
		<u>Considerations Specific to Public Sector Entities</u>
PSP 1	A21.	<p>Many public sector engagements <u>may</u> include additional audit responsibilities with respect to consideration of laws and regulations. Even if the auditor's responsibilities do not extend beyond those of the private sector auditor, reporting responsibilities may be different as the <u>which may relate to the audit of financial statements or extend to other aspects of the entity's operations.</u> A public sector auditor may be obliged to report on instances of non-compliance to governing authorities or to report them in the audit report. <u>In respect to public sector entities, the Public Sector Committee (PSC)³ has supplemented the guidance included in this ISA in its Study 3, "Auditing for Compliance with Authorities – A Public Sector Perspective."</u></p>
		<u>Documentation</u> (Ref Para 27)
28	A22	<p><u>The auditor's documentation of findings regarding identified or suspected non-compliance with laws and regulations may include, for example:</u></p> <ul style="list-style-type: none"> <u>Copies of records or documents; and</u> <u>Minutes of conversations or discussions held with management or those charged with governance or parties outside the entity.</u>

³ In November 2004, the Public Sector Committee's name was changed to the International Public Sector Accounting Standards Board.