



International Federation of Accountants

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Agenda Item

8

Committee: IAASB

Meeting Location: Sydney

Meeting Date: April 16-20, 2007

The Auditor's Responsibilities Relating to Laws and Regulations in an Audit of Financial Statements

Objective of Agenda Item

1. The objective of this Agenda Item is to consider further and approve for exposure, a revised draft of an Exposure Draft of the proposed redrafted ISA 250 "The Auditor's Responsibilities Relating to Laws and Regulations in an Audit of Financial Statements" ('redrafted ISA 250'), based on the clarity conventions and format adopted by the IAASB.

Task Force Members

2. The Task Force members are:

Ian McPhee IAASB Member /Task Force Chair

Richard Mifsud (Technical Advisor)

The redrafting support was provided by the Australian Auditing and Assurance Standards Board (AUASB) Technical Group, with particular assistance by Chiara Carotenuto on the revised second draft of the proposed ISA.

Background

3. Initial drafts of redrafted ISA 250 were considered at the February 2007 IAASB meeting. At that meeting, the Task Force was requested by the IAASB to further explore whether greater clarity could be introduced into the redrafted ISA 250, in relation to the auditor's responsibilities relating to laws and regulations directly concerned with the applicable financial reporting framework, and other laws and regulations.
4. The IAASB also agreed with the Task Force to elevate to a requirement the need for the auditor to assess the need to obtain legal advice in situations where satisfactory information about the entity's non-compliance with laws and regulations is not provided by the entity, and, in situations when management, or those charged with governance, are involved in non-compliance, and no 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 IAASB also agreed that there was no need to elevate the considerations the auditor would take into account when evaluating the potential effect on the financial statements of possible non-compliance with laws and regulations.

5. The following matters were also noted:
 - The statement that the auditor is entitled to assume the entity is in compliance with laws and regulations in the absence of audit evidence to the contrary should be retained. (Paragraph A12)
 - The proposed documentation requirements should be revised to better align with the extant requirements of ISA 250.
6. In view of the above, the primary focus of the “second read” redrafted ISA 250 is centered around the articulation of the auditor’s responsibilities in relation to laws and regulations that form part of the applicable financial reporting framework, and other laws and regulations that may have a material effect on the financial statements.

Activities since previous IAASB meeting

7. The Task Force has been working over the past month to address significant comments received from the IAASB at the February 2007 meeting, on the initial drafts of the proposed redrafted ISA 250, which were presented at that meeting. Since then, the Task Force has also received a number of valuable suggestions and comments from IAASB Chairman, John Kellas, Diana Hillier and Jon Grant.

MATTERS FOR IAASB CONSIDERATION

Scope of the ISA

Responsibility of the Auditor

[REDRAFTED ISA 250 PARAGRAPHS 4 TO 6]

8. The Task Force has amended paragraph 4 of the redrafted ISA 250 to highlight that: **“In conducting an audit of financial statements, the auditor has regard to the applicable legal and regulatory framework.”** In addition, the paragraph has been enhanced to recognize that: **“Generally, the further removed non-compliance is from the events and transactions reflected in the financial statements, the less likely the auditor is to become aware of it or to recognize the possible non-compliance.”**
9. In addition, the Task Force has inserted a new paragraph 5 to distinguish between the auditor’s responsibility in relation to compliance with different categories of laws and regulations, arising from the difficulties outlined in paragraph 4 of the proposed Redrafted ISA 250.

Requirements

The Auditor’s Consideration of Compliance with Laws and Regulations

[REDRAFTED ISA 250 PARAGRAPHS 10 TO 15]

10. The Task Force has clarified the wording in paragraphs 11 and 12, and inserted a new paragraph 15 which recognizes that: **“In the absence of identified or suspected non-compliance, the auditor is not required to perform audit procedures regarding the entity’s compliance with laws and regulations, other than those set out in paragraphs 10 to 14, since this would be outside the scope of an audit of the financial statements.”**

Audit Procedures when Non-compliance is Identified or Suspected

[REDRAFTED ISA 250 PARAGRAPHS 16 TO 20]

11. Paragraph 18 now better addresses the situation that the auditor shall assess the need to obtain legal advice concerning possible non-compliance with laws and regulations, when management, or, as appropriate, those charged with governance, do not provide information that supports that the entity is in compliance with laws and regulation and, in the auditor judgment the effect of non-compliance may be material for the financial statements.

Reporting of Non-compliance

[REDRAFTED ISA 250 PARAGRAPHS 21 TO 27]

12. Paragraph 21 of the Redrafted ISA has been amended to better address the nature of matters that the auditor shall communicate to those charged with governance

Documentation

[REDRAFTED ISA 250 PARAGRAPH 28]

13. This paragraph now also requires the results of discussion with management, and where appropriate those charged with governance and other parties outside the entity, to be documented in addition to identified or suspected non-compliance with laws and regulations.

Suggested basis for reviewing the accompanying material

The Task Force recommends that the IAASB consider the changes presented in the latest proposed Redrafted ISA 250 against the version of Redrafted ISA 250 presented on the final day of the February 2007 IAASB meeting, which was previously circulated for the IAASB consideration (Attachment #-B). The clean version of the proposed Redrafted ISA 250 is presented as Attachment #-A.

Material Presented (Note: Agenda Items #-A will be used for purposes of the discussion at the meeting.)

Agenda Item 8-A (Pages 1267-1280)	Proposed ISA 250 (Redrafted) (Clean)
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Agenda Item 8-B (Pages 1281-1294)	Proposed ISA 250 (Redrafted) (Marked up to reflect changes since the version presented to the IAASB on 16 February 2007)
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Action Requested

The IAASB is asked to consider the accompanying material and consider whether the accompanying Redrafted ISA 250 may be approved for exposure.

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