



Circular No.14/2017

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ALL PRACTICING MEMBERS OF THE INSTITUTE

Dear Member

Consideration of Applicable Laws and Regulations

In recent years, both the significance and the responsibilities of the auditing profession have increased because of the enhanced stakeholders' expectations and the large public interest involved. The enhanced auditors' reporting responsibilities, new global ethics requirements relating to Non-Compliance with Laws and Regulations (NOCLAR), increased reportings by the entities and magnified scrutiny by the regulators; signify the enlarged and evolving responsibilities of the profession.

The Institute, being the governing body of audit practice in Pakistan, takes steps to continually update members with the latest developments in ethics, auditing and accounting standards and the local laws and regulations.

The purpose of this communication is to highlight the importance of consideration of laws and regulations during audit and consequent need for the members renewed focus on the laws and regulations applicable to the entities.

The audit engagements conducted in accordance with International Standards on Auditing (ISAs) as applicable in Pakistan, and relevant ethical requirements enable the auditors' to form an opinion, which enhances the degree of confidence that stakeholders' can place in the underlying financial and non-financial information.

The obligation to comply with the laws and regulations, including the new requirements brought forth by the Companies Act, 2017 relating to the statement of compliance and enhanced financial statements disclosures and SECP's special orders requiring comprehensive reporting of compliance with all applicable laws and regulations, affect all members of the Institute whether in public practice providing professional services to clients, or whether in business carrying out professional activities for an employing organisation.

In accordance with the ISAs as applicable in Pakistan it is the responsibility of management, with the oversight of those charged with governance, to ensure that the entity's operations are conducted in accordance with the provisions of laws and regulations, including compliance with the provisions of laws and regulations that determine the reported amounts, disclosures and representations in an entity's financial statements and other reportings.

However, the efficient and effective conduct of audit requires the auditor to have appropriate understanding of the applicable legal and regulatory framework.

The ISA 250 '*Consideration of Laws and Regulations in an Audit of Financial Statements*' addresses the auditor's responsibility 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;



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- 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.

The Institute has also issued the Auditing Technical Release (TR) 20 '*Auditor's Reporting Responsibilities with respect to Non Compliances with Laws or Regulations*' to provide guidance to the members in cases of identified and suspected non-compliances with laws and regulations during the audit of financial statements.

In consideration of the increased laws and regulations (including provincial taxation and other laws) applicable to the entities, enhanced reportings and monitoring by the regulators and revenue authorities, and the requirements of applicable ISAs and ethical standards, members are advised to:

- understand the provisions of laws and regulations applicable to the entity;
- determine their impact on the entity's operations, financial statements and non-financial information;
- ensure the compliance with the applicable provisions of laws and regulations (in management role); and
- evaluate the implications of non-compliances and/or suspected non-compliances, including on the reporting under the audit engagements.

Yours truly

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