

(April 2006)

Explanatory Statement

***ASA 250 Consideration
of Laws and Regulations
in an Audit of a Financial
Report***

Issued by the **Auditing and Assurance Standards Board**



Australian Government

Auditing and Assurance Standards Board

Explanatory Statement

Reasons for Issuing ASA 250 *Consideration of Laws and Regulations in an Audit of a Financial Report*

The Auditing and Assurance Standards Board (AUASB) issues Auditing Standard ASA 250 *Consideration of Laws and Regulations in an Audit of a Financial Report* due to the requirements of the legislative provisions explained below.

The *Corporate Law Economic Reform Program (Audit Reform and Corporate Disclosure) Act 2004* established the AUASB as an independent statutory body under section 227A of the *Australian Securities and Investments Commission Act 2001*, as from 1 July 2004. Under section 336 of the *Corporations Act 2001*, the AUASB may make Auditing Standards for the purposes of the corporations legislation. These Auditing Standards are legislative instruments under the *Legislative Instruments Act 2003*.

Process of making Auditing Standards

Section 1455 of the *Corporations Act 2001* and *Corporations Regulation 10.5.01* gave interim legal endorsement from 1 July 2004 to the majority of Auditing Standards made by the former Auditing & Assurance Standards Board of the Australian Accounting Research Foundation. The AUASB has reviewed the Auditing Standards and has proceeded to make them as legally enforceable Auditing Standards under the *Corporations Act 2001*.

The Auditing Standards have been made also in accordance with the Financial Reporting Council's Strategic Direction to the AUASB dated 6 April 2005, pursuant to section 225 of the *ASIC Act*.

The Strategic Direction, *inter alia*, provides that the AUASB develops Auditing Standards that:

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- have a clear public interest focus and are of the highest quality;
- use the International Standards on Auditing (ISAs) of the International Auditing and Assurance Standards Board (IAASB) as a base;
- conform with the Australian regulatory environment; and
- are capable of enforcement.

In implementing the Strategic Direction, the AUASB has undertaken a process of thorough review and revision that has:

- addressed the enforceability of mandatory requirements;
- clarified auditors' obligations under the Auditing Standards;
- provided for sector neutrality in the Auditing Standards; and
- included other amendments as necessary.

**Purpose of Auditing Standard ASA 250
*Consideration of Laws and Regulations in an Audit of a Financial Report***

The purpose of Auditing Standard ASA 250 is to establish mandatory requirements and to provide explanatory guidance on the auditor's responsibility to consider laws and regulations in an audit of a financial report.

Auditing Standard ASA 250 is to be read in conjunction with the *Preamble to AUASB Standards*, which sets out the intentions of the AUASB on how the Auditing Standards are to be understood, interpreted and applied.

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Operative Date

This Auditing Standard is operative for financial reporting periods commencing on or after 1 July 2006.

Main changes from Auditing Standard AUS 218 (January 2002) *Consideration of Laws and Regulations in an Audit of a Financial Report*

The main differences between ASA 250 and AUS 218 are that in ASA 250:

1. The word ‘shall’, in the **bold-type** paragraphs, is the terminology used to describe an auditor’s mandatory requirements, whereas an auditor’s degree of responsibility is described in AUS 218 by the word ‘should’.
2. The explanatory guidance paragraphs provide guidance and illustrative examples to assist the auditor in fulfilling the mandatory requirements, in AUS 218 some obligations are implied within certain explanatory paragraphs. Accordingly, these paragraphs have been re-drafted to clarify that the matter forms part of the explanatory guidance.
3. Guidance has not been included on the interpretation of terms used in section 311 of the *Corporations Act 2001* regarding an auditor’s responsibilities to report suspected contraventions of the *Corporations Act 2001* to the Australian Securities and Investments Commission (ASIC), in light of amendments to section 311 and re-issuance of ASIC Practice Note 34 “Auditors’ obligations: reporting to ASIC”.

Consultation prior to issuing this Auditing Standard

The AUASB has consulted publicly as part of its due process in developing this Auditing Standard. Exposure Draft ED 14/05

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Proposed Auditing Standard: Consideration of Laws and Regulations in an Audit of a Financial Report (Re-issuance of AUS 218) was issued on 28 October 2005 with a 45 day comment period. Submissions were received by the AUASB and it has considered these submissions as part of the development and finalisation of this Auditing Standard.