

**ASA 250**  
(October 2009)

# **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**

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**Auditing and Assurance Standards Board**

## **Obtaining a Copy of this Explanatory Statement**

This Explanatory Statement is available on the Auditing and Assurance Standards Board (AUASB) website: [www.auasb.gov.au](http://www.auasb.gov.au)

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

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**Reasons for Issuing Auditing Standard 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* pursuant to the requirements of the legislative provisions and the Strategic Direction explained below.

The AUASB is as an independent statutory board of the Australian Government established under section 227A of the *Australian Securities and Investments Commission Act 2001*, as amended (ASIC Act). Under section 336 of the *Corporations Act 2001* (the Act), 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*.

Under the Strategic Direction given to the AUASB by the Financial Reporting Council (FRC), the AUASB is required to have regard to any programme initiated by the International Auditing and Assurance Standards Board (IAASB) for the revision and enhancement of the International Standards on Auditing (ISAs) and to make appropriate consequential amendments to the Australian Auditing Standards. The IAASB has undertaken a programme to redraft, and in some cases, revise, in “clarity” format, the entire suite of ISAs. Accordingly, the AUASB has decided to revise and redraft the Australian Auditing Standards using the equivalent redrafted ISAs.

The Auditing Standard conforms with ISA 250 *Consideration of Laws and Regulations in an Audit of Financial Statements*.

**Operative Date**

ASA 250 *Consideration of Laws and Regulations in an Audit of a Financial Report* is operative for financial reporting periods commencing on or after 1 January 2010.

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

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

The purpose of the Auditing Standard is to establish requirements and to provide application and other explanatory material to auditors regarding the auditor's responsibility to consider laws and regulations in an audit of a financial report.

**Main Features**

The Auditing Standard:

- (a) requires the auditor to obtain audit evidence regarding compliance with those laws and regulations that have a direct effect on the financial report;
- (b) requires the auditor to perform audit procedures to help identify non-compliance with other laws and regulations that may have a material effect on the financial report;
- (c) requires the auditor to respond appropriately to identified and suspected non-compliance with laws and regulations;
- (d) includes specific requirements regarding the auditor's consideration of laws and regulations; and
- (e) describes the reporting procedures when non-compliance is discovered or suspected.

**Preamble and Overall Objectives**

ASA 250 is to be read in conjunction with ASA 101 *Preamble to Australian Auditing Standards*, which sets out the intentions of the AUASB on how the Australian Auditing Standards, operative for financial reporting periods commencing on or after 1 January 2010, are to be understood, interpreted and applied. ASA 250 is to be read also in conjunction with ASA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards*.

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

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## **Process of making Australian Auditing Standards**

The AUASB's Strategic Direction, *inter alia*, provides that the AUASB develop Australian Auditing Standards that:

- 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 the underlying standards;
- conform with the Australian regulatory environment; and
- are capable of enforcement.

In implementing the FRC's Strategic Direction, the AUASB has undertaken a process of revising and redrafting the Australian Auditing Standards that has:

- updated the form, layout and content of the Australian Auditing Standards;
- addressed the legal enforceability of mandatory obligations;
- maintained clarity of the auditor's obligations;
- incorporated appropriate references to Australian laws and regulations;
- clearly identified, by use of the prefix "Aus", AUASB additions to paragraphs in the requirements or the application and other explanatory material; and
- included other amendments as necessary.

## **Consultation Process prior to issuing the Auditing Standard**

The AUASB has consulted publicly as part of its due process in developing the Auditing Standard. Exposure Draft ED 16/08 *Proposed Auditing Standard: Consideration of Laws and Regulations in an Audit of a Financial Report* (Re-issuance of ASA 250), was issued on 10 November 2008 with a 30 day comment period.

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

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As an integral part of its consultation with the public, the AUASB sought comments on specific questions including:

- the completeness and accuracy of references in the Auditing Standard to relevant laws and regulations;
- the significant costs, if any, and benefits, of compliance with any additional requirements under the Auditing Standard; and
- whether or not there exist any matters of public interest affecting the issuance of the Auditing Standard.

Submissions were received by the AUASB and these were considered as part of the development and finalisation of the Auditing Standard.

### **Regulation Impact Statement**

A *Regulation Impact Statement* (RIS) has been prepared in connection with the redrafting of Australian Auditing Standards in “clarity” format, including *ASA 250 Consideration of Laws and Regulations in an Audit of a Financial Report*.

The RIS has considered both the expected benefits and expected costs of the introduction of clarified auditing standards, including comments provided by stakeholders during the redrafting process. It concluded that expected benefits to users of audit services, users of audit reports, auditors and the Australian economy in general are, on balance, likely to outweigh expected costs.

### **Main Differences from ASA 250 *Consideration of Laws and Regulations in an Audit of a Financial Report* (April 2006)**

The main differences between the Auditing Standard and the Auditing Standard that it supersedes, *ASA 250 Consideration of Laws and Regulations in an Audit of a Financial Report* (April 2006), are:

1. Auditing Standard ASA 250 is written in the “clarity” format using the equivalent International Standard on Auditing (ISA 250 *Consideration of Laws and Regulations in an Audit of Financial Statements*) as the underlying Auditing Standard. Consequently, the format, layout, and paragraph numbering styles are different from the extant Auditing Standard.

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

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2. To improve clarity, certain requirements and guidance in the extant Auditing Standard have been re-written, however, the equivalent meaning has been retained.
3. Certain guidance material in the extant Auditing Standard has been elevated to requirements.
4. Certain mandatory obligations in the extant Auditing Standard are now dealt with in other Auditing Standards. Such re-location does not result in a diminution of the auditor's obligations under the Australian Auditing Standards.