



**The Institute of
Chartered Accountants
of Pakistan**

HEAD OFFICE

Circular No. 02/2009

February 26, 2009

ALL MEMBERS OF THE INSTITUTE

Dear Member

**ISSUANCE OF AUDITING TECHNICAL RELEASE ATR- 20
"AUDITORS' RESPONSIBILITY IN RESPECT OF NON-COMPLIANCE
WITH LAWS AND REGULATIONS"**

The Council of the Institute in its 204th meeting held on January 23, 2009 has decided to issue the enclosed ATR-20 "*Auditors' Responsibility in respect of Non-Compliance with Laws and Regulations*".

A revised Sectional Index is also enclosed, which is to be filed in Section C of Part II in Members' Handbook Volume II.

Yours truly

Muhammad Asif Iqbal
Director Technical Services

Encl.: ATR – 20 and Revised Sectional Index

(Established under the Chartered Accountants Ordinance, 1961-X of 1961)

AUDITOR'S REPORTING RESPONSIBILITIES IN RESPECT OF NON COMPLIANCES WITH LAWS OR REGULATIONS

1. The statutory audit of financial statements in Pakistan is required to be conducted in accordance with the requirements of the International Standards on Auditing (ISAs) as have been adopted by the Institute of Chartered Accountants of Pakistan. The said standards should, therefore, be the primary basis for determining auditor's reporting responsibilities in case of an entity's non-compliance with the applicable laws or regulations including with respect to the provisions of Section 195 or 208 of the Companies Ordinance, 1984 (the Ordinance).
2. In relation to the above, the ISA 250 – 'Consideration of Laws and Regulations in an Audit of Financial Statements' prescribes as under:
 - "26. When the auditor becomes aware of information concerning a possible instance of noncompliance, the auditor should obtain an understanding of the nature of the act and the circumstances in which it has occurred, and sufficient other information to evaluate the possible effect on the financial statements.***
 - 35. If the auditor concludes that the noncompliance has a material effect on the financial statements, and has not been properly reflected in the financial statements, the auditor should express a qualified or an adverse opinion"(emphasis ours)***
3. It follows from the above that the basic objective of an auditor when confronted with instances of infraction of laws or regulation including with respect to the provisions of Section 195 or 208 of the Ordinance, is to assess the impact of the same on the financial statements in terms of any monetary adjustments or requirements of disclosures
4. It should be noted that the provisions of Section 195 or 208 of the Ordinance do not deal with the determination of amounts that are to be included in the financial statements nor prescribe the form and content of disclosures in a company's financial statements, instead, the said provisions prohibit the Board of Director (BOD) of a company from undertaking certain specified

transactions or require shareholders' approval before making investments in associates. Hence, any contravention of the said provisions of the Ordinance by the BOD of the company, although may be regarded as undertaking of transactions beyond the powers of the BOD, the same cannot be deemed as being beyond the powers of the company. An act which is ultra vires the powers of the BOD would still be valid if it is intra vires the powers of the company having been permitted by its constitution. What is more important is to understand that the such contraventions do not result in a misstatement in the financial statements if the transaction has been properly accounted for and disclosed in the financial statements. Accordingly, in such circumstances, the modification of the auditor's opinion is not mandated by the ISAs.

5. It should also be noted that it is not the purpose of the audit nor the responsibility of the auditor to highlight the contraventions of corporate and other laws.
6. However, notwithstanding the above, in some cases, the transactions subject to non compliance with the provisions of Section 195 or 208 of the Ordinance may be so significant in the context of the overall financial statements, that non disclosure of the matter in the financial statements may impair the users ability to understand the state of affairs of a company. As an additional step, the auditor is not precluded from adding an emphasis of matter paragraph in his report to highlight the non compliance.
7. Additionally, in case of non compliance with laws and regulations, the ISA 250 also requires the auditor to report the same to members of management charged with governance. The standard lays down the following in this respect:

“32. 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. 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.

33. If in the auditor's judgment the noncompliance is believed to be intentional and material, the auditor should communicate the finding without delay.

34. *If the auditor suspects that members of senior management, including members of the board of directors, are involved in noncompliance, the auditor should 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 report may not be acted upon or is unsure as to the person to whom to report, the auditor would consider seeking legal advice.*

8. Hence it is concluded that an infraction of laws or regulations, the financial implication of which is not material to the financial statement do not require the modification of the auditors opinion. The auditor should follow the guidance given in paragraphs 6 and 7 above.

(204th meeting of the Council – January 23, 2009)

SECTIONAL INDEX

PART II

SECTION C TECHNICAL RELEASES

- ATR-1 **Withdrawn** – Only Members to sign audit documents
- ATR-2 **Withdrawn** – (Communication – Statement on the explanation and its clarification of the word)
- ATR-3 **Withdrawn** – (Incoming auditors to help in clearing the professional dues of retiring member)
- ATR-4 **Withdrawn** – (Audit of government corporations)
- ATR-5 **Withdrawn** – (Replying to enquiries for audit jobs)
- ATR-6 **Withdrawn** – (Audit by ex-employees)
- ATR-7 **Withdrawn** – (Some glaring omissions by the auditors pointed out by Corporate Law Authority)
- ATR-8 Preparation of accounts from incomplete records and report thereon as auditors (Reformatted 2002)
- ATR-9 **Withdrawn** – Signing of correspondence and financial statements by Members
- ATR-10 **Withdrawn** – (Communication of consent by incoming auditors)
- ATR-11 Appointment of auditors-I (Reformatted 2002)
- ATR-12 **Withdrawn** – (Appointment of auditors-II)
- ATR-13 Lien on books of accounts due to non-payment of professional dues
- ATR-14 Minimum Hourly Charge Out Rates and Minimum Fee for Audit Work by Practicing Members (Revised 2008)
- ATR-15 **Withdrawn** – (Qualification in auditor's report – going concern assumption for organization formed with a limited life)

- ATR-16 Acceptance of Audit Assignments by New Auditor(s)
when audit fee of existing auditor(s) is outstanding
- ATR-17 Auditors' Report to the Trustees/Board of Governors/
Management Committee (Revised 2004)
- ATR-18 Bank Report for audit purposes
- ATR-19 Identification of Audit Engagement Partner in the
Auditors' Report on Financial Statements (Revised 2008)
- ATR-20 Auditor's Reporting Responsibilities in respect of
Non Compliances with Laws or Regulations