

**BHUBANESWAR BRANCH OF EASTERN INDIA REGIONAL COUNCIL OF  
THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA**  
**e-newsletter/01/2025-26**



**April 25**  
**ICAI**  
**E-NEWSLETTER**



## Editorial

## EDITORIAL BOARD



## Dear Esteemed Members,

As we step into April 2025, we welcome a new financial year an opportune moment to reflect on past achievements, set fresh objectives, and embrace emerging opportunities. The unwavering support and active engagement of our members continue to be the cornerstone of ICAI Bhubaneswar's growth and impact.

With the closing of the previous fiscal year, we remain focused on our commitment to professional excellence. ICAI Bhubaneswar is dedicated to empowering members through knowledge-enhancing initiatives, promotion of best practices, and the continuous pursuit of quality in the profession.

This month, we are pleased to present a thoughtfully curated lineup of programs aimed at fostering learning, collaboration, and professional development. I encourage all members to actively participate in these initiatives and stay connected through our official website: [www.bhubaneswar-icai.org](http://www.bhubaneswar-icai.org).

Let us continue working together to shape a vibrant future for the CA profession grounded in integrity, driven by innovation, and defined by excellence.

Wishing you all a successful and fulfilling month ahead.

Warm regards,

CA. Mahendra Kumar Sahoo

Chairman, ICAI Bhubaneswar Branch

*Editor-in-Chief***CA. Mahendra Kumar Sahoo***Editor:***CA (Dr.) Prithvi Ranjan Parhi***Members:***CA (Dr.) Goutam Lenka****CA. Soumya Sunil Sahoo**

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*Published by***CA. Mahendra Kumar Sahoo**

Chairman

Bhubaneswar Branch of EIRC of ICAI at  
A-122/1, Nayapalli, Bhubaneswar – 751012

Phone: 91-674-2392391, 2390773

E-Mail: [bhubaneswar@icai.org](mailto:bhubaneswar@icai.org)Visit us @ [www.bbsricai.org](http://www.bbsricai.org)

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**Members area of Interest****Observations related to SA 240, The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements****Observation 2:**

The firm did not document identification and assessment of risk of material misstatements due to fraud in the financial statements and did not document the relevant audit procedures in response to the assessed risk of material misstatement due to fraud at the assertion level.

| What is the issue?                                                                                                                 | AASB Suggested Guidance                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | Technical Literature                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
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| What audit procedures are required to be performed for identifying and assessing the risks of material misstatements due to fraud? | <p>Implementation Guide to Risk-based Audit of Financial Statements</p> <p><b>Para 2.30:</b></p> <p>Documentation will, normally, include:</p> <ul style="list-style-type: none"> <li>• Discussions among the audit team regarding the susceptibility of the entity's financial statements to material misstatement due to error or fraud and the significant decisions reached.</li> <li>• Key elements of the understanding of the entity obtained regarding: <ul style="list-style-type: none"> <li>○ Each of the aspects of the entity and its environment outlined above;</li> <li>○ Each of the internal control components;</li> <li>○ Sources of information from which the understanding was obtained; and</li> <li>○ The risk assessment procedures performed.</li> </ul> </li> <li>• The identified and assessed risks of material misstatement at the financial statement level and assertion level.</li> <li>• Significant risks identified and evaluation of related controls.</li> </ul> | <p><b>Para 25 of SA 240:</b></p> <p>In accordance with SA 315, the auditor shall identify and assess the risks of material misstatement due to fraud at the financial statement level, and at the assertion level for classes of transactions, account balances and disclosures.</p> <p><b>Para 26 of SA 240:</b></p> <p>When identifying and assessing the risks of material misstatement due to fraud, the auditor shall, based on a presumption that there are risks of fraud in revenue recognition, evaluate which types of revenue, revenue transactions or assertions give rise to such risks. Paragraph 47 specifies the documentation required when the auditor concludes that the presumption is not applicable in the circumstances of the engagement and, accordingly, has not identified revenue recognition as a risk of material misstatement due to fraud. (Ref: Para. A28-A30)</p> <p><b>Para 27 of SA 240:</b></p> <p>The auditor shall treat those assessed risks of material misstatement due to fraud as significant risks and accordingly, to the extent not already done so, the auditor shall obtain an understanding of the entity's related controls, including control activities,</p> |



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|  | <p><b>Para 2.31:</b></p> <p>In the documentation, it is important to obtain, in writing, management's acceptance of responsibility for the design and implementation of internal control. Refer Appendix 4 and Appendix 5 to the Guide for a template for understanding the entity and information systems.</p> <p><b>Extract from Para 2.83</b></p> <p>Because materiality amounts are based on the auditor's professional judgment, it is important that the factors and amounts involved in determining materiality at the various levels be properly documented. This would typically occur during the planning phase and then later in the audit should revisions be required. Documentation would address:</p> <ul style="list-style-type: none"> <li>• The users of the financial statements;</li> <li>• Determination of overall materiality relating to the financial statements as a whole;</li> <li>• Performance materiality indicating any specific considerations relating to particular classes of transactions, account balances or disclosures and any revisions made to performance materiality during the audit; and</li> <li>• Nature of revisions (if any) made to the overall or performance materiality amounts.</li> </ul> <p><b>Para 2.130:</b></p> <p>SA 300 states:</p> <p>"11. The auditor shall document:</p> <ol style="list-style-type: none"> <li>(a) The overall audit strategy;</li> <li>(b) The audit plan; and</li> <li>(c) Any significant changes made during the audit engagement to</li> </ol> | <p>relevant to such risks. (Ref: Para. A31-A32)</p> <p><b>Para 28 of SA 240:</b></p> <p>In accordance with SA 330, the auditor shall determine overall responses to address the assessed risks of material misstatement due to fraud at the financial statement level. (Ref: Para. A33)</p> <p><b>Para 30 of SA 240:</b></p> <p>In accordance with SA 330, the auditor shall design and perform further audit procedures whose nature, timing and extent are responsive to the assessed risks of material misstatement due to fraud at the assertion level. (Ref: Para. A37-A40)</p> <p><b>Para 31 of SA 240:</b></p> <p>Management is in a unique position to perpetrate fraud because of management's ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Although the level of risk of management override of controls will vary from entity to entity, the risk is nevertheless present in all entities.</p> <p>Due to the unpredictable way in which such override could occur, it is a risk of material misstatement due to fraud and thus a significant risk.</p> <p><b>Para 32 of SA 240:</b></p> <p>Irrespective of the auditor's assessment of the risks of management override of controls, the auditor shall design and perform audit procedures to:</p> <ol style="list-style-type: none"> <li>(a) Test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements. In designing and performing audit procedures for such tests, the auditor shall: <ol style="list-style-type: none"> <li>i. Make inquiries of</li> </ol> </li> </ol> |
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|  | <p>the overall audit strategy or the audit plan, and the reasons for such changes. (Ref: Para. A17-A20)”</p> <p>The overall audit strategy and detailed audit plan, including details of any significant changes made during the audit engagement, should be documented.</p> <p><b>Extract from Para 2.131:</b></p> <p>The form and extent of documentation will depend on such matters as the size and complexity of the entity, materiality, the extent of other documentation, and the circumstances of the specific audit engagement. It may take the form of a memorandum or a standard planning checklist.</p> | <p>individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments;</p> <p>ii. Select journal entries and other adjustments made at the end of a reporting period and</p> <p>iii. Consider the need to test journal entries and other adjustments throughout the period. (Ref: Para. A41-A44)</p> <p>b) Review accounting estimates for biases and evaluate whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud. In performing this review, the auditor shall:</p> <p>i. Evaluate whether the judgments and decisions made by management in making the accounting estimates included in the financial statements, even if they are individually reasonable, indicate a possible bias on the part of the entity's management that may represent a risk of material misstatement due to fraud. If so, the auditor shall re-evaluate the accounting estimates taken as a whole; and</p> <p>ii. Perform a retrospective review of management judgments and assumptions related to significant accounting estimates reflected in the financial statements of the prior year. (Ref: Para. A45-A46)</p> <p>c) For significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual given the auditor's understanding of the entity and its environment and other information obtained during the audit, the auditor shall evaluate whether the business rationale (or the lack thereof) of the transactions suggests that they may have been entered into to engage in fraudulent financial reporting or to conceal misappropriation of assets.</p> |
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(Ref: Para. A47)

**Para 33 of SA 240:**

The auditor shall determine whether, in order to respond to the identified risks of management override of controls, the auditor needs to perform other audit procedures in addition to those specifically referred to above (i.e., when there are specific additional risks of management override that are not covered as part of the procedures performed to address the requirements in paragraph 32).

**Para 44 of SA 240:**

The auditor's documentation of the understanding of the entity and its environment and the assessment of the risks of material misstatement required by SA 315 shall include:

- a) The significant decisions reached during the discussion among the engagement team regarding the susceptibility of the entity's financial statements to material misstatement due to fraud; and
- b) The identified and assessed risks of material misstatement due to fraud at the financial statement level and at the assertion level.

**Para 45 of SA 240:**

- a) The auditor's documentation of the responses to the assessed risks of material misstatement required by SA 330 shall include:
- b) The overall responses to the assessed risks of material misstatement due to fraud at the financial statement level and the nature, timing and extent of audit procedures, and the linkage of those procedures with the assessed risks of material misstatement due to fraud at the assertion level; and
- c) The results of the audit procedures, including those designed to address the risk of management override of controls.



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|  |  | <p><b>Para 46 of SA 240:</b></p> <p>The auditor shall document communications about fraud made to management, those charged with governance, regulators and others.</p> |
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## ON THE LIGHTER SIDE OF LIFE

**Now have a laugh at our expense...**

### **The Life of a Chartered Accountant in One Line**

*"Behind every balance sheet, there's a story. And you are the storyteller."*

*Source: Anonymous*



**Glimpses of Events**

**Seminar on Awareness Program on Financial Reporting Practices "Shaping the Future of Audit Excellence"**









## CA Students National Talent Search 2025

