

**BHUBANESWAR BRANCH OF EASTERN INDIA REGIONAL COUNCIL OF
THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA**
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AUGUST25
ICAI
E-NEWSLETTER



Editorial

EDITORIAL BOARD



Dear Esteemed Members,

As we step into August 2025, we embrace a new month filled with fresh opportunities- an ideal time to reflect on past accomplishments, set renewed goals, and look ahead with optimism. The unwavering support and active participation of our members continue to be the driving force behind ICAI Bhubaneswar's sustained growth and positive impact.

As we turn the page on the previous month, our focus remains firmly rooted in upholding the highest standards of professional excellence. ICAI Bhubaneswar is committed to empowering its members through knowledge-sharing initiatives, promotion of best practices, and an unwavering dedication to quality in the profession.

This month, we are delighted to present a carefully curated lineup of programs aimed at fostering continuous learning, encouraging meaningful engagement, and driving professional advancement. We warmly invite all our members to participate wholeheartedly and stay connected through our official website: www.bhubaneswar-icai.org for updates and details.

Let us move forward together to shape a vibrant and future-ready CA profession- grounded in integrity, driven by innovation, and defined by excellence.

Wishing you a month filled with growth, purpose, and meaningful achievements.

Warm regards,

CA. Mahendra Kumar Sahoo

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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 6:

Based on the documents available it was observed that the firm did not have any audit program and plan to assess the fraud risk during the audit of the entity's financial statements. During discussion it was noted that fraud identification is sought to be done based on experience of audit of the entity. Audit plan has not adequately documented the evidence that the firm has identified and assessed risks of material misstatements, whether due to error or fraud.

What is the issue?	AASB Suggested Guidance	Technical Literature
Why should an auditor identify fraud risk factors?	The auditor identifies fraud risk factors to assist in identifying risks of material misstatement due to fraud. The auditor should use professional judgment in determining whether a fraud risk factor is present. The auditor determines fraud risk factors in the context of the three conditions generally present when fraud occurs (i.e., incentive/pressure, opportunity and attitude/rationalization).	<p>Para 11(b) of SA 240: Definition Fraud risk factors –</p> <p>Events or conditions that indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud.</p> <p>Para A25 of SA 240:</p> <p>Examples of fraud risk factors related to fraudulent financial reporting and misappropriation of assets are presented in Appendix 1. These illustrative risk factors are classified based on the three conditions that are generally present when fraud exists:</p> <ul style="list-style-type: none"> • An incentive or pressure to commit fraud; • A perceived opportunity to commit fraud; and • An ability to rationalize the fraudulent action. <p>Risk factors reflective of an attitude that permits rationalization of the fraudulent action may not be susceptible to observation by the auditor. Nevertheless, the auditor may become aware of the existence of such information. Although the fraud risk factors described in Appendix 1 cover a broad range of situations that may be faced by auditors, they are only examples and other risk factors may exist.</p>



<p>What are the examples of fraud risk factors?</p>	<p>Examples of fraud risk factors are given in Appendix 1 of SA 240.</p>	<p>Extract from Appendix 1 of SA 240 - Examples of Fraud Risk Factors</p> <p>The fraud risk factors identified in this Appendix are examples of such factors that may be faced by auditors in a broad range of situations. Separately presented are examples relating to the two types of fraud relevant to the auditor's consideration, i.e., fraudulent financial reporting and misappropriation of assets. For each of these types of fraud, the risk factors are further classified based on the three conditions generally present when material misstatements due to fraud occur: (a) incentives/pressures, (b) opportunities, and (c) attitudes/rationalizations. Although the risk factors cover a broad range of situations, they are only examples and, accordingly, the auditor may identify additional or different risk factors. Not all of these examples are relevant in all circumstances, and some may be of greater or lesser significance in entities of different size or with different ownership characteristics or circumstances. Also, the order of the examples of risk factors provided is not intended to reflect their relative importance or frequency of occurrence.</p> <p>Please refer Appendix 1 of SA 240 for examples of fraud risk factors.</p>
<p>How should an auditor respond to the assessed risks of material misstatement due to fraud?</p>	<p>SA 240 provides guidance on overall responses to address risk of material misstatement due to fraud at financial statements level as follows:</p> <ul style="list-style-type: none"> • Assign additional individuals with specialized skill and knowledge, such as forensic and IT experts, or by assigning more experienced individuals to the engagement. • Evaluate the appropriateness of accounting policies relating to subjective measurements and complex transactions. • Incorporate an element of unpredictability in the selection of the nature, timing and extent of audit procedures to be performed as individuals within the entity who are familiar with the audit procedures normally performed on engagements may be more able to conceal fraudulent financial reporting. <p>Further, the auditor is required to design and</p>	<p>Para 28 of SA 240:</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>Para 29 of SA 240:</p> <p>In determining overall responses to address the assessed risks of material misstatement due to fraud at the financial statement level, the auditor shall:</p> <p>(a) Assign and supervise personnel taking account of the knowledge, skill and ability of the individuals to be given significant engagement responsibilities and the auditor's assessment of the risks of material misstatement due to fraud for the engagement; (Ref: Para. A34-A35)</p>



perform audit procedures whose nature, timing and extent are responsive to the assessed risks of material misstatement due to fraud at the assertion level. As per SA 240, the auditor is also required to design and perform audit procedures which are responsive to risks related to management override of controls.

(b) Evaluate whether the selection and application of accounting policies by the entity, particularly those related to subjective measurements and complex transactions, may be indicative of fraudulent financial reporting resulting from management's effort to manage earnings; and

(c) Incorporate an element of unpredictability in the selection of the nature, timing and extent of audit procedures. (Ref: Para. A36)

Para 30 of SA 240:

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)

Para 31 of SA 240:

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. 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.

Para 32 of SA 240:

Irrespective of the auditor's assessment of the risks of management override of controls, the auditor shall design and perform audit procedures to:

(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:

(i) Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments;



- (ii) Select journal entries and other adjustments made at the end of a reporting period; and
 - (iii) Consider the need to test journal entries and other adjustments throughout the period. (Ref: Para. A41-A44)
- (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:
- (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
 - (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)
- (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. (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).
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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

“A Chartered Accountant’s life is a balance sheet- always trying to balance work and life, but ending with adjustments!”

Source: Anonymous

Glimpses of Events

“SESSION ON VITIYA GYAN MELA WEEK 2025”





“SESSION ON CAREER COUNSELLING PROGRAMME”





“SEMINAR ON DIRECT TAX: KEY CHANGES IN ITR FILING & TAX POLICY REFORMS”





“Celebrated Independence Day with patriotic fervor, followed by a thought-enriching seminar”







“Ganesh Puja: A day of faith, festivity, and divine blessings”

