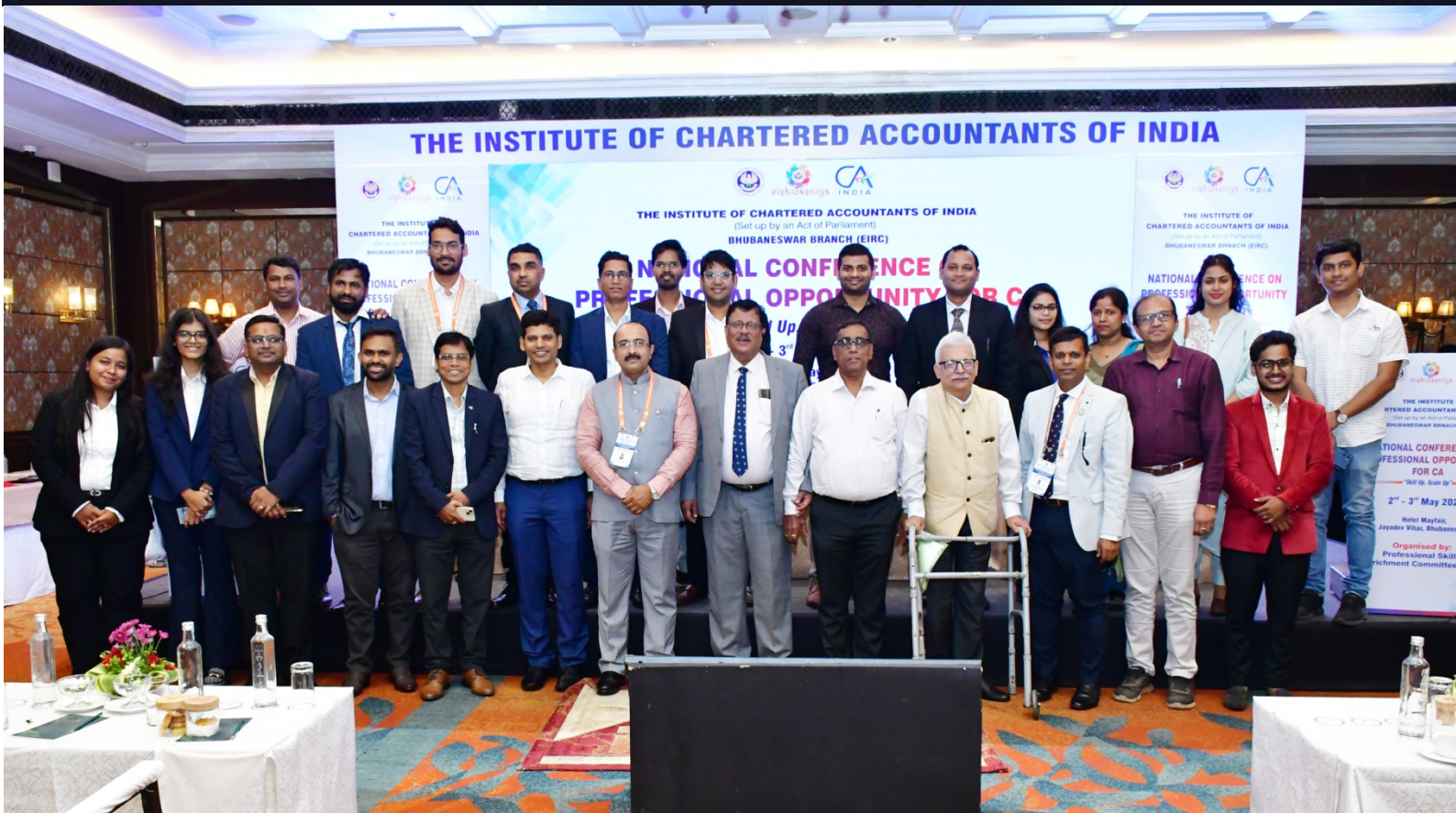


**BHUBANESWAR BRANCH OF EASTERN INDIA REGIONAL COUNCIL OF  
THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA**  
e-newsletter/02/2025-26



**May 25**  
**ICAI**  
**E-NEWSLETTER**



## Editorial



**Dear Esteemed Members,**

As we step into May 2025, we embrace a new month- an ideal opportunity to reflect on our past accomplishments, set renewed goals, and seize emerging possibilities. The steadfast support and active involvement of our members remain the bedrock of ICAI Bhubaneswar's continued growth and meaningful impact.

As the previous month draws to a close, our focus remains unwavering on upholding the highest standards of professional excellence. ICAI Bhubaneswar is committed to empowering our members through knowledge-enriching programs, the promotion of best practices, and a relentless pursuit of quality within the profession.

This month, we are delighted to offer a carefully curated array of initiatives aimed at inspiring continuous learning, promoting meaningful collaboration, and advancing professional growth. We warmly encourage all members to participate actively and stay updated through our official website: [www.bhubaneswar-icai.org](http://www.bhubaneswar-icai.org).

Let us continue to work together to shape a dynamic future for the CA profession rooted in integrity, propelled by innovation, and distinguished by excellence.

Wishing each of you a productive, enriching, and fulfilling month ahead.

**Warm regards,**

**CA. Mahendra Kumar Sahoo**

Chairman, ICAI Bhubaneswar Branch

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*Published by*

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## Members area of Interest

# Observations related to SA240, The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements

### Observation 3:

It was observed that the audit firm has not documented below mentioned procedures and documentation prescribed under relevant SAs:

- Minutes of engagement team discussions did not include discussion over identifying and performing procedures on fraud risk factors applicable to the entity.
- Documentation in respect of discussion with management in terms of enquiries over fraud risks factors and control implemented by the company to mitigate the same risk.
- In the overall audit strategy, consideration of fraud and identification of fraud risk factors was not documented. Also, test of control related to fraud risk were not specifically documented.

What is the issue?	AASB Suggested Guidance	Technical Literature
What is the importance of discussion among the engagement team about the risks of material misstatements due to fraud?	<p>As per SA 240, the engagement team should discuss the potential for material misstatement due to fraud. This discussion is crucial for identifying and assessing the risks of material misstatement due to fraud and for determining the nature, timing, and extent of audit procedures necessary to address these risks. Here are some key points that the engagement team might discuss regarding fraud risk factors as per SA 240:</p> <ul style="list-style-type: none"> <li>• <b>Understanding the entity and its environment:</b> The engagement team should discuss the entity's industry, regulatory environment, operations, and other factors that might make it susceptible to fraud.</li> <li>• <b>Management's assessment of fraud risk:</b> The engagement team should consider management's assessment of fraud risk and how they address it, including any known instances of fraud.</li> <li>• <b>Fraud risk factors:</b> The engagement team should discuss fraud risk factors, which are events or conditions that</li> </ul>	<p><b>Para 15 of SA 240:</b></p> <p>SA 315 requires a discussion among the engagement team members and a determination by the engagement partner of matters which are to be communicated to those team members not involved in the discussion. This discussion shall place particular emphasis on how and where the entity's financial statements may be susceptible to material misstatement due to fraud, including how fraud might occur. The discussion shall occur notwithstanding the engagement team members' beliefs that management and those charged with governance are honest and have integrity. (Ref: Para. A10-A11).</p>



indicate an incentive or pressure to commit fraud, an opportunity to do so, or an attitude or rationalization that justifies a fraudulent action. These factors are often categorized into three groups:

- Management's characteristics and influence over the control environment.
- Industry conditions that provide opportunities for fraud.
- Operating characteristics and financial stability that may motivate fraud.

● **Fraud triangle:**

The discussion should include the elements of the fraud triangle: incentive/pressure, opportunity, and rationalization/attitude. Each element should be considered in the context of the entity being audited.

● **Types of fraud:**

The engagement team should discuss the potential for both fraudulent financial reporting and misappropriation of assets. Each type of fraud has different characteristics and may require different audit approaches.

● **Past experience:**

The engagement team should consider any past experience with the entity that might indicate areas where there is a higher risk of fraud.

● **Analytical procedures:**

The use of analytical procedures to identify unusual transactions or events that might indicate fraud should be discussed.

● **Internal controls:**

The engagement team should discuss the adequacy of the entity's internal controls in preventing and detecting fraud, including any known weaknesses or deficiencies.

● **Communication:**

The importance of communication among the team members throughout the audit regarding any fraud risks or actual fraud identified should be emphasized.

● **Professional skepticism:**

The engagement team should discuss the need to maintain professional skepticism throughout the audit, recognizing the possibility that a material misstatement due to fraud could exist, notwithstanding past experience with the entity or beliefs about management's honesty and





	<p>integrity.</p> <p>• <b>Responses to assessed risks:</b> Finally, the engagement team should discuss how to respond to the assessed risks of material misstatement due to fraud, including the design and implementation of appropriate audit procedures.</p> <p>This discussion is intended to ensure that all engagement team members are aware of the potential for fraud and are actively considering it throughout the audit process. It is a key part of the auditor's overall responsibility to obtain reasonable assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.</p>	
Why auditor's discussion with management regarding enquiries over fraud and detection of fraud is important?	<p>When discussing and making enquiries with management regarding fraud risk factors as per SA 240, the auditor should consider the following steps:</p> <ol style="list-style-type: none"> <li><b>1. Understanding the entity and its environment:</b> Before discussing fraud risks with management, the auditor should have a thorough understanding of the entity and its environment, including the entity's internal control system.</li> <li><b>2. Identifying and assessing risks:</b> The auditor should identify and assess the risks of material misstatement due to fraud at both the financial statement level and the assertion level.</li> <li><b>3. Enquiries of management:</b> The auditor should make enquiries of management, and others within the entity as appropriate, to determine their views on the risks of fraud and how they are addressed. This includes: <ul style="list-style-type: none"> <li>➤ Enquiring about management's process for identifying and responding to the risks of fraud in the entity.</li> <li>➤ Discussing with management whether they have knowledge of any actual, suspected, or alleged fraud affecting the entity.</li> <li>➤ Enquiring about management's assessment of the risk that the financial statements may be materially misstated due to fraud, including any specific fraud risks the entity is facing.</li> </ul> </li> </ol>	<p><b>Para 17 of SA 240:</b></p> <p>The auditor shall make inquiries of management regarding:</p> <ol style="list-style-type: none"> <li>Management's assessment of the risk that the financial statements may be materially misstated due to fraud, including the nature, extent and frequency of such assessments; (Ref: Para. A12-A13)</li> <li>Management's process for identifying and responding to the risks of fraud in the entity, including any specific risks of fraud that management has identified or that have been brought to its attention, or classes of transactions, account balances, or disclosures for which a risk of fraud is likely to exist; (Ref: Para. A14)</li> <li>Management's communication, if any, to those charged with governance regarding its processes for identifying and responding to the risks of fraud in the entity; and</li> <li>Management's communication, if any, to employees regarding its views on business practices and ethical behavior.</li> </ol> <p><b>Para 18 of SA 240:</b></p> <p>The auditor shall make inquiries of management, and others within the entity as appropriate, to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity. (Ref: Para. A15-A17)</p>



	<p><b>4. Consideration of fraud risk factors:</b> The auditor should consider whether any of the information obtained indicates the existence of one or more fraud risk factors. Fraud risk factors include, but are not limited to:</p> <ul style="list-style-type: none"> <li>➤ Incentives/pressures that might lead individuals to commit fraud.</li> <li>➤ Opportunities for fraud to be perpetrated (such as weak internal controls).</li> <li>➤ Attitudes/rationalizations that could allow an individual to commit fraud.</li> </ul> <p><b>5. Communication with those charged with governance:</b> The auditor should communicate with those charged with governance regarding the overall scope and timing of the audit, including an explanation of how the auditor plans to address the risk of fraud in the audit.</p> <p><b>6. Documentation:</b> The auditor should document the discussion with management and others, the procedures performed to identify and assess the risk of material misstatement due to fraud, the results of those procedures, and the conclusions reached.</p> <p><b>7. Ongoing assessment:</b> Throughout the audit, the auditor should maintain an attitude of professional skepticism, considering the potential for management override of controls and reassessing fraud risks as new information comes to light.</p> <p><b>8. Responding to the risks of material misstatement due to fraud:</b> The auditor should design and implement appropriate responses to the assessed risks of material misstatement due to fraud. This may involve modifying the nature, timing, and extent of audit procedures.</p>	<p><b>Para 19 of SA 240:</b> For those entities that have an internal audit function, the auditor shall make inquiries of internal audit to determine whether it has knowledge of any actual, suspected or alleged fraud affecting the entity, and to obtain its views about the risks of fraud. (Ref: Para. A18)</p> <p><b>Para 20 of SA 240:</b> Unless all of those charged with governance are involved in managing the entity, the auditor shall obtain an understanding of how those charged with governance exercise oversight of management's processes for identifying and responding to the risks of fraud in the entity and the internal control that management has established to mitigate these risks. (Ref: Para. A19-A21)</p> <p><b>Para 21 of SA 240:</b> The auditor shall make inquiries of those charged with governance to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity. These inquiries are made in part to corroborate the responses to the inquiries of management.</p>
What is the requirement for overall audit strategy w.r.t. consideration and identification of fraud risk factors and designing of procedures to test controls related to fraud risk factors?	<p>As per SA 240, the overall audit strategy with regard to consideration and identification of fraud risk factors and the design of procedures to test controls related to fraud risk factors includes the following requirements:</p> <p><b>1. Professional skepticism:</b> The auditor should maintain professional skepticism throughout the audit, recognizing the possibility that a material misstatement due to fraud could exist, regardless of past experience with the entity or management's</p>	<p><b>Para 25 of SA 240:</b> 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> When identifying and assessing the risks of material misstatement due to fraud, the auditor</p>



	<p>integrity.</p> <p><b>2. Discussion among the engagement team:</b> The engagement team should discuss the susceptibility of the entity's financial statements to material misstatements due to fraud. This discussion should include an exchange of ideas or brainstorming session about how and where the entity's financial statements might be susceptible to fraud.</p> <p><b>3. Identification and assessment of fraud risks:</b> The auditor should identify and assess the risks of material misstatement due to fraud at the financial statement level and the assertion level. This involves considering various factors such as fraud risk factors, complex transactions, judgments in applying accounting policies, and unusual or unexpected relationships identified through analytical procedures.</p> <p><b>4. Responses to the assessed risks of fraud:</b> Based on the identified fraud risks, the auditor should design and implement appropriate responses. This includes designing audit procedures that are responsive to the assessed fraud risks and modifying the nature, timing, and extent of audit procedures as necessary.</p> <p><b>5. Evaluation of audit evidence:</b> The auditor should evaluate whether the results of audit procedures and other observations affect the assessment of fraud risks and whether the audit procedures need to be modified.</p> <p><b>6. Management representations:</b> The auditor should obtain written representations from management and, where appropriate, those charged with governance, that they acknowledge their responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.</p> <p><b>7. Communication of fraud:</b> The auditor should communicate appropriately to management and those charged with governance about fraud risks and findings. If the auditor has identified a fraud or has obtained information that indicates that a fraud may exist, the auditor should communicate these matters on a timely basis.</p> <p><b>8. Documentation:</b> The auditor should document the discussion</p>	<p>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> 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, relevant to such risks. (Ref: Para. A31-A32)</p> <p><b>Para 28 of SA 240:</b> 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 29 of SA 240:</b> In determining overall responses to address the assessed risks of material misstatement due to fraud at the financial statement level, the auditor shall:</p> <ol style="list-style-type: none"> <li>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)</li> <li>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</li> <li>Incorporate an element of unpredictability in the selection of the nature, timing and extent of audit procedures. (Ref: Para. A36)</li> </ol> <p><b>Para 30 of SA 240:</b> In accordance with SA 330, the auditor shall design and perform further audit procedures</p>
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	<p>among the engagement team, the procedures performed to identify and assess the risks of material misstatement due to fraud, the results of those procedures, and the conclusions reached.</p> <p><b>9. Test of controls:</b> When the auditor has determined that an identified fraud risk could result in a material misstatement, the auditor should evaluate whether the entity's related controls are designed and implemented to prevent or detect and correct such fraud risks and should test the operating effectiveness of such controls when relevant.</p> <p>The auditor's consideration of fraud is a critical aspect of the audit process, and SA 240 provides a framework for auditors to follow in order to fulfil their responsibilities in this area. The standard emphasizes the importance of a thoughtful and thorough approach to assessing fraud risks and designing audit procedures to address those risks.</p>	<p>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>
What are the documentation requirements of SA 240?	<p>Documentation requirements of SA 240 are given in para 44-47 of SA 240.</p>	<p><b>Para 44 of SA 240:</b> 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:</p> <ul style="list-style-type: none"> <li>➤ 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</li> <li>➤ The identified and assessed risks of material misstatement due to fraud at the financial statement level and at the assertion level.</li> </ul> <p><b>Para 45 of SA 240:</b> The auditor's documentation of the responses to the assessed risks of material misstatement required by SA 330 shall include:</p> <p>(a) 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</p>





		<p>(b) The results of the audit procedures, including those designed to address the risk of management override of controls.</p> <p><b>Para 46 of SA 240:</b> The auditor shall document communications about fraud made to management, those charged with governance, regulators and others.</p> <p><b>Para 47 of SA 240:</b> When the auditor has concluded that the presumption that there is a risk of material misstatement due to fraud related to revenue recognition is not applicable in the circumstances of the engagement, the auditor shall document the reasons for that conclusion.</p>
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**Basics of Audit:- Frauds and Errors (SA 240)**

**Frauds and Errors explained** – Misstatements in the financial Statements can arise from either fraud or error. Fraud is defined in SA 240 as follows:

**Fraud** - An intentional act by one or more individuals among management, those charged with governance, employees, or third parties, involving the use of deception to obtain an unjust or illegal advantage.

Although fraud is also a legal concept but in accounting we are concerned with misrepresentation in financial statements. Frauds are generally committed in form of either misappropriation of assets which is called “Employee Fraud” and fraud committed by manipulation of accounts that may be referred as “Management Fraud”. The term ‘fraud’ refers to intentional misrepresentation of financial information by one or more individuals among management, employees or third parties.

However error is not defined anywhere but in common parlance term error refers to an unintentional mistake in financial information i.e. Mathematical or clerical mistake, oversight or misinterpretation of facts, or unintentional misapplication of accounting policies.

**Frauds Vs. Error**

<b>Errors</b>	<b>Frauds</b>
Reason of occurrence is ignorance	It is made deliberately
Unplanned Activity	Planned Activity
Generally not considered an offence under law	Considered an offence under law
Can cause undue profit, loss or even no impact	These always result in loss
Very easy to detect	Difficult to identify

**Fraud risk factors** - Events or conditions that indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Fraud risk factors are also defined under SA 240. The auditor shall evaluate whether the information obtained from the other risk assessment procedures and related activities performed indicates that one or more fraud risk factors are present. While fraud risk factors may not necessarily indicate the existence of fraud, they have often been present in circumstances where frauds have occurred and therefore may indicate risks of material misstatement due to fraud.

**Examples** of fraud risk factors:

- The need to meet expectations of third parties to obtain additional equity— financing may create pressure to commit fraud;
- The granting of significant bonuses if unrealistic profit targets are met may create an incentive to commit fraud; and
- A control environment that is not effective may create an opportunity to commit fraud.
- Weakness in the design of internal control system and non compliance with prescribed identified control procedures.
- Doubts regarding integrity or competence of management: If management is dominated by one person, unwanted complex corporate structure, continues failures to correct internal controls, high turnover of accounting and finance professional, not adequate staffing in accounts department, changes in legal counsel or auditors.
- Unusual pressure within an entity (e.g. need for a rising profit trend due to an ensuing public issue): Industry is declining and failures are increasing, inadequate working capital, quality of revenue is declining (Cash sales is reducing and credit



sales is increasing), desperate need of book profit for survival, dependency on single product and customers and pressure to make financial statement in short time.

- Unusual transactions : Specially near the year end, transactions with related party and excessive payment for services
- Problem faced while obtaining sufficient appropriate audit evidence: inadequate record, inadequate documentation of transactions and events, difference from third party confirmation and evasive or unreasonable response to third party inquiry.

Examples of fraud risk factors in EDP environment: Inability to extract information from computer files due to lack of, or noncurrent, documentation of record contents and programs. Large number of program changes which are not documented, approved or tested. Inadequate overall balancing of computer transactions and data bases to financial record.

**Responsibility of Prevention and detection of fraud:** The responsibility of prevention and detection of frauds and errors rests with the management. However an auditor has to obtain a reasonable assurance that financial information is properly stated in all material respects. This implies that auditor seek reasonable assurance that fraud and error which have a material effect on financial statements have not occurred or if, they have occurred, the effect of fraud is properly reflected in the financial information or the error is corrected. This responsibility includes the responsibility to create a culture of honest and ethical behavior.

**Inherent Limitation of Audit:** Since the objective of audit is to establish the true and fair view of the financial statements and not detection of frauds and errors. Further, auditor seeks to obtain persuasive rather than conclusive audit evidence and relies on selective verification (e.g. test checks), there is a possibility that some material misstatement resulting from frauds and errors may not be detected by him. The risk of non detection of misstatements for frauds is greater than risk of non detection of errors. This is because fraud usually involves acts designed to conceal it. An auditor is entitled to accept representation as truthful and records as genuine unless his examination reveals evidence to the contrary. The auditor's ability to detect frauds depends on : 1. Skillfulness of fraudster, 2. Frequency and extent of manipulation involved, degree of collusion involved, the relative size of individual amount manipulated and seniority of person involved. Non detection of management fraud is more likely than non detection of employee fraud.

#### **What is required from Auditor in respect of frauds (Requirements):**

**Professional Skepticism:** He must recognize the possibility throughout the audit that a material misstatement fraud could exist. This is notwithstanding his prior experience of honesty and integrity about entity's management. Unless the auditor has "reason to believe" to the contrary he may accept records, documents and representations as genuine. Reason to suspect is subordinate to reason to believe and cannot be equated with reason to believe. The information received is at best allegations only which can raise suspicion in the mind of the auditors. Based on the information and evidence, an enquiry can be triggered to find out whether there is any material leading to formation of reason to believe. The auditor needs to undertake independent inquiry, due diligence to convert the information, allegation or reason to suspect in to reason to believe. The inquiry necessitates analysis of information as well as collection of additional evidences that would make him believe that the information in his possession can lead to reason to believe.

**Discussion among management team:** Discussion shall place particular emphasis on how and where the entity's financial statements may be susceptible to material misstatement due to fraud. This discussion shall be notwithstanding the integrity and honesty of management.

**Risk Assessment Procedure:** Auditor shall make inquiries from management regarding : their assessment of risk, their process of identifying and responding to risk, management's communication in this respect to person charged with governance and employees. Similarly auditor shall also inquire internal auditors about their assessment of risk of current and probable frauds. Those in charge of governance shall also be inquired about their view on risk related with frauds.

**Other requirements:** Unusual or unexpected relationships identified out of analytical procedures employed – auditor shall further evaluate it may indicate fraud or error. **Evaluation of fraud risk factor (Discussed at length earlier).**



**Responses to the assessed risk :**

**A. To the Risk of Material Misstatement due to fraud**

Response to the Assessed Risk of Material Misstatement Due to Fraud Per SA 330, the auditor to determine overall responses to address the assessed risk through:

1. Assign and supervise personnel taking significant engagement responsibilities
2. Evaluate accounting policies to be indicative of fraudulent financial reporting
3. Incorporate audit procedures to be executed to include an element of unpredictability
4. Presume fraud risk in revenue recognition and management override of controls

**B. To the Risk related to Management Overrides of Control**

**Audit Procedure Responsive to Risk Related to Management Overrides of Control:**

In order to mitigate the risk of management override of controls, auditor to design and perform the following Audit procedures:

**Evaluation of Audit Evidence,** Auditor to follow these with respect to audit evidence:

1. Analytical procedure performed indicates a previously unrecognized risk of material misstatement due to fraud
2. On identification of a misstatement, auditor to evaluate whether it is indicative of fraud
3. In case of fraudulent misstatement where auditor believes management is involved, then re-evaluate the response to the assessed risk
4. If unable to conclude if the financials are fraudulently misstated, then the auditor to evaluate the implications for the audit
5. If the fraudulent misstatement encounters auditor from continuing the audit, then the auditor shall withdraw from the audit if appropriate and report to the person who made audit appointment.

**Management Representation: Shall reconsider all the representations made by the management**

**Communication**

1. On identification of fraud or suspecting of fraud existence, then auditor has to communicate to the appropriate level of management on timely basis
2. Communicate as appropriate to those charged with governance if the suspected fraud involves management, employee performing internal control or any others.
3. Determine if the information about the fraud has to be communicated to a party outside the entity. Here the auditor's legal responsibility overrides the duty of confidentiality

**Documentation**

1. Significant decisions taken w.r.t susceptibility of material misstatement in financial due to fraud
2. Identified and assessed risk of material misstatement due to fraud at the financial statements level and at the assertion level
3. Overall responses to the addressed risk mentioned above
4. Audit procedures conclusion including those designed for management override of controls
5. To document communications made about the fraud to the management and others





## ON THE LIGHTER SIDE OF LIFE

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

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

“A CA’s calendar isn’t marked by holidays or birthdays, it’s marked by due dates, deadlines, and extensions that never come soon enough!”

*Source: Anonymous*



Glimpses of Events

National Conference ON PROFESSIONAL  
OPPORTUNITY FOR CA "Skill Up, Scale Up"









