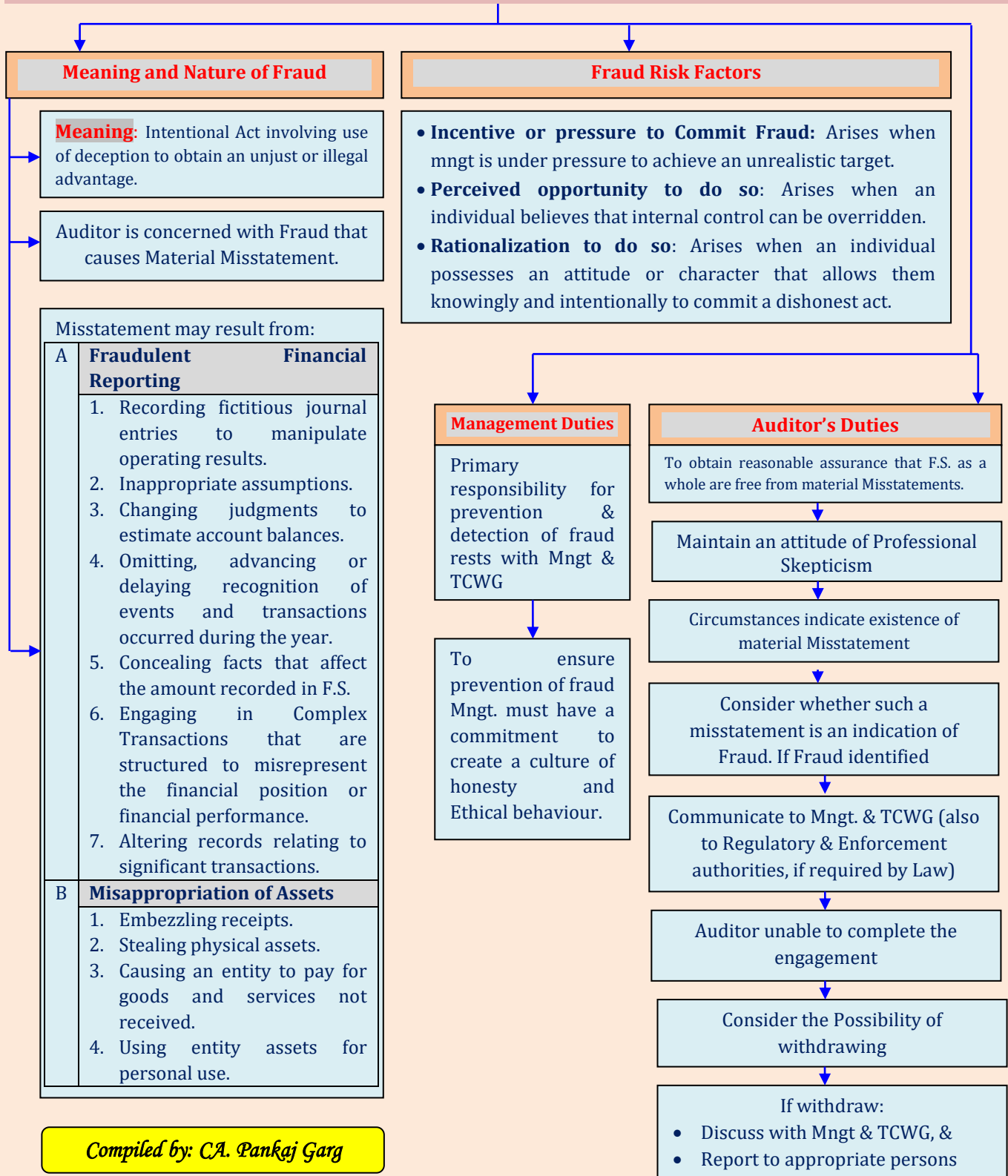


SA - 240 "The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements"



Compiled by: CA. Pankaj Garg

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Risk Assessment Procedures and Responses to Assessed Risks

Risk Assessment Procedures

Enquiring Mngt and Others within the Entity

Auditor shall make inquiries of management regarding:

- Assessment of RMM due to fraud;
- Process for identifying & responding to risks of fraud, including any specific risks of fraud;
- Communication, if any, to TCWG; and
- Communication, if any, to employees regarding its views on business practices and ethical behaviour.

Appropriateness of making inquiries of mngt.

- Mngt. is responsible for the entity's IC and for the preparation of the F.S. It is appropriate for the auditor to make inquiries of mngt regarding their assessment of the risk of fraud and the controls in place to prevent and detect it.
- Nature, extent & frequency of mngt assessment of such risk and controls may vary from entity to entity. In some entities, mngt may make detailed assessments on an annual basis or as part of continuous monitoring. In other entities, it may be less structured and less frequent.
- Nature, extent and frequency of mngt assessment are relevant to the auditor's understanding of the entity's control environment.

Identification & Assessment of RMM Due to Fraud

In accordance with SA 315, auditor shall identify and assess the RMM due to fraud at the F.S. level, and at the assertion level for classes of transactions, account balances and disclosures.



Responses to Assessed Risks

Overall Responses

The auditor shall:

- Assign & supervise personnel as per their capability;
- Evaluate whether a/cing policies adopted by the entity indicate fraudulent financial reporting resulting from management's effort to manage earnings; and
- Incorporate surprise element in selection of the NTE of audit procedures.

Responses at the Assertion Level

Auditor shall design & perform further audit procedures whose NTE are responsive to the assessed risks of material misstatement due to fraud at the assertion level.

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Examples of Fraud Risk Factors arising from misappropriation of Assets

Incentives/ Pressures	Opportunities	Attitudes/ Rationalizations
<p>Personal financial obligations may create pressure on mngt or employees with access to cash or other assets susceptible to theft to misappropriate the assets.</p> <p>Adverse relationships between entity and such employees may motivate those employees to misappropriate the assets. Adverse relationships may be created due to:</p> <ol style="list-style-type: none"> Known or anticipated future employee layoffs. Recent or anticipated changes to employee compensation or benefit plans. Promotions, compensation, or other rewards inconsistent with expectations. 	<ol style="list-style-type: none"> Inadequate segregation of duties. Inadequate oversight of senior mngt expenditures. Inadequate mngt oversight of employees responsible for assets. Inadequate job applicant screening of employees with access to assets. Inadequate system of authorization & approval of transactions. Inadequate physical safeguards over assets. Lack of complete and timely reconciliations of assets. Lack of timely & appropriate documentation of transactions. Lack of mandatory vacations for employees. Inadequate management understanding of IT. 	<ol style="list-style-type: none"> Disregard for the need for monitoring risks related to misappropriations of assets. Disregard for IC over misappropriation of assets by overriding existing controls. Behaviour indicating dissatisfaction with the entity or its treatment of the employee. Changes in lifestyle that may indicate assets have been misappropriated. Tolerance of petty theft.

SA - 250 "Consideration of Laws and Regulation in an Audit of F.S."

Management Responsibilities

Compliance of L&R is duty of Mngt & TCWG and may be performed through:

1. Monitoring legal requirements & ensuring that operating procedures are designed to meet these requirements.
2. Instituting & operating appropriate systems of IC.
3. Developing, publicising and following a code of conduct.
4. Ensuring employees are properly trained & understand the code of conduct.
5. Monitoring compliance with code of conduct & take actions to discipline employees who fail to comply with it.
6. Engaging legal advisors to assist in monitoring legal requirements.
7. Maintaining a register of significant L & R with which the entity has to comply.

Auditor's Responsibilities

Basic Responsibilities

Obtain general understanding of

- Legal & Regulatory Framework applicable
- Compliance by Entity with that Framework.

Specific Responsibilities w.r.t.

L&R having direct effect on determination of material amount and disclosures in F.S.

obtain SAAE
to ensure compliance

Other L&R that do not affect amount and disclosures in F.S. but compliance with which may be fundamental to operating aspects.

Perform limited procedures:
• Inquiring of Mngt; &
• Inspecting Correspondence with relevant Licensing / Regulatory authority

to identify instances of noncompliance.

Obtain **Written Representation** that all instances of non-compliance or suspected non-compliance have been disclosed to auditor.

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Auditor Procedure in case any Non-Compliance is identified / Suspected

1. Obtain understanding of the Act.
2. Circumstances in which it is occurred.
3. Evaluate possible effects on F.S.
4. Discuss with Mngt. & TCWG
5. Obtain legal advice wherever required

Reporting responsibilities

To TCWG

- Matters involving non-compliance.
- If TCWG is involved, communicate to Higher Level, if any
- Otherwise, obtain Legal Advice

Material Effect on F.S.

Q/A

Auditor Report

Unable to conclude due to Limitation imposed by

Mngt.

Q/D

Circumstances

Consider the Effect

Regularity & Enforcement Authorities

If required by Law

Indicators considered by Auditor

1. Investigations by regulatory bodies.
2. Payment of fines or penalties.
3. Payments for unspecified services to consultants, RP etc.
4. Excessive Sales commissions or agent's fees.
5. Purchasing at prices significantly above or below market price.
6. Unusual payments in cash.
7. Unusual payments towards legal and retainership fees.
8. Payments without proper exchange control documentation.
9. Existence of an information system which fails, to provide an adequate audit trail or sufficient evidence.
10. Unauthorised or improperly recorded transactions.
11. Adverse media comment.