

## Chapter-2 "General Auditing Principles and Auditor's Responsibilities"

### (1) Auditor's Responsibilities relating to fraud in an audit of financial statement:

#### (i) Meaning, nature and characteristics of fraud:



Intentional act, by one or more individuals among management, TCG, Employees or third person



Using deceptive means to obtain unfair advantage.

Auditor is primarily concerned with fraud that may cause material misstatements in the financial statements. Such fraud may arise due to

✓ (a) Fraudulent financial reporting;

✓ (b) Misappropriation of assets

Example → to be learned from book

#### ✓ Examples of fraudulent financial reporting due to Management Override of Controls:

(Noting - H.W.)

- ✓ Fictitious Journal Entries.
- ✓ Inapp. assumptions
- ✓ Omitting, advancing, delaying.
- ✓ Concealing - facts
- ✓ Complex drawaching
- ✓ Alteration.

Fraud Risk Factors: Events or conditions that are indicative of fraud.

Examples: (i) Incentive / Pressure to commit fraud:

- Bonus on achieving unrealistic targets
- To achieve unexpected earnings targets of Mngt.

(ii) Opportunities to commit frauds:

e.g. Persons having knowledge of weaknesses in Internal Control.

(iii) Attitudinal Rationalisation to do so:

e.g. Intentionally committing a dishonest act by a person that do not have integrity.

Examples of fraud risk factors in case of fraudulent financial reporting and

Misappropriation of Assets:

- Reading from book -

(2) Responsibilities for prevention and detection of fraud:

- Primary responsibility for prevention and detection of fraud is of the management and TCoG.
- For this purpose, they are required to create a culture of honesty and ethical behaviour in the organisation.

(3) Auditor's Responsibilities for prevention and detection of fraud:

(A) To Maintain Professional skepticism: Auditor should recognise the possibility that a material misstatement due to fraud could exist, notwithstanding his past experience of integrity of Mngt. and TCoG.

(B) Discussion among ET: Discussion shall be on particular matters as to how and where the f.s. may be susceptible to material misstatement due to fraud.

(C) Risk Assessment Procedures: Auditor shall perform RAP to obtain information for use in identifying ROMM due to fraud.

- \* - Inquiry of Mngt. and others.
- Evaluation of unexpected relationship identified in performing Analytical procedures.
- Inquiry how TCOG exercise its Oversight function to identify and respond to fraud.

(D) Response to Assessed ROMM:

(i) f.s. level (overall)

- Assigned personnel as per their Capability.
- Evaluate whether Acing policies adopted indicate fraudulent financial reporting.
- Incorporate surprise element in NTF of audit procedures

(ii) Assertion level (Individual transaction, A/c Bal, disclosure)

- Design and perform FAP which are responsive to assessed ROMM.
- Obtain Evidences that are more reliable and relevant.

Imp:

Designing and Performing audit Procedures:

(i) Test the appropriateness of Journal Entries recorded in the General Ledger and other adjustments made in prep<sup>n</sup> of f.s.

- (ii) Review the accounting Estimate.
- (iii) For significant transaction, outside the Ordinary Course of business, evaluate whether business rationale suggest that such transactions have been entered into to engage in fraudulent financial reporting or misappropriation of assets.

(E) Evaluation of audit Evidences: In case, auditor identifies any misstatement, auditor shall evaluate whether such misstatement is indicative of fraud -



If fraud is indicated, evaluate the impact of misstatements over other aspects of audit - (Particularly reliability of WR).



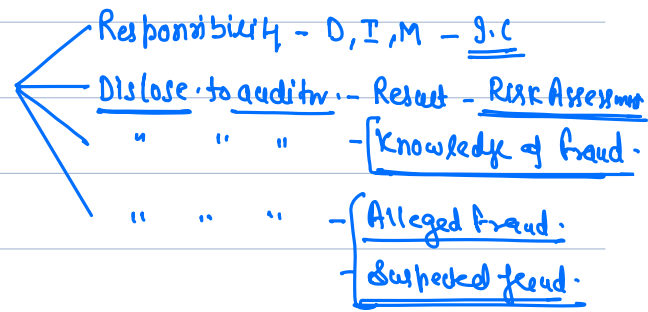
If auditor has a doubt as to mgmt. involvement in fraud, auditor shall re-evaluate ROMM and determine impact on NTE of audit procedure.

(F) Communication Requirements:

- Auditor shall communicate the identified fraud with the mgmt. and TCOG on a timely basis.
- Auditor shall determine whether reporting required to regulatory and enforcement authorities. (When required by law and regulation)  
For Ex: Reporting of fraud to C.G. U/s 143(12) of Companies Act, 2013.

(G) Auditor Unable to Complete the Engagement: ( Noting - H.W. )

(H) Mngt. Representation: ( Noting - H.W. )



(I) Documentation: - reading -