

SA 240– THE AUDITOR’S RESPONSIBILITIES RELATING TO FRAUD IN AN AUDIT OF FINANCIAL STATEMENTS

Why Management do Fraud

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Incentive – Bonus to employees for more sales

Ability of people – If you will not achieve this target, Bonus will not be paid

Opportunity to commit Fraud – Weak Internal control (Issue Procedure)

SITUATION	MANAGEMENT	AUDITOR
Responsibility for the Prevention and Detection of Fraud	Primary Responsibility – Management & TCWG Management and those charged with governance, should place a strong emphasis on fraud prevention, detection and correction.	An auditor is responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement. Link With – <ul style="list-style-type: none"> • SA 200 INHERENT LIMITATION • RISK OF FRAUD IS HIGHER THAN ERROR • INTENTIONAL FRAUD • AUDITOR SHOULD MAINTAIN PROFESSIONAL SKEPTICISM

AUDIT PROCEDURE

RISK ASSESSMENT PROCEDURE	IDENTIFICATION & ASSESSMENT OF ROMM	RESPONSE TO ROMM DUE TO FRAUD
Enquiring Management and Others within the Entity The auditor shall make inquiries of management regarding: <ol style="list-style-type: none"> i. Management’s assessment of the risk of material misstatement due to fraud; ii. Management’s process for identifying & responding to the risks of fraud in the entity, including any specific risks of fraud; iii. Management’s communication, if any, to those charged with governance; and iv. Management’s communication, if any, to employees regarding its views on business 	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. The auditor shall obtain an understanding of the entity’s related controls, including control activities, relevant to such risks.	Overall Responses SA 330 The auditor shall: <ul style="list-style-type: none"> • Assign and supervise personnel as per their capability; • Evaluate whether accounting policies adopted by the entity indicate fraudulent reporting resulting from management’s effort to manage earnings; and • Incorporate surprise element in the selection of the NTE of audit procedures.

<p>practices and ethical behaviour.</p> <p>For those entities that have an internal audit function, the auditor shall make inquiries of internal auditor.</p> <p>2. Enquiring Those Charged with Governance</p> <p>i. He shall obtain an understanding of how TCWG supervise management's processes.</p> <p>ii. The auditor shall ask TCWG whether they have knowledge of any fraud affecting the entity.</p>		<p>Response to Assessed Risks of Material Misstatement Due to Fraud at the Assertion Level</p> <ul style="list-style-type: none"> • Perform further audit procedure • If Auditor identify misstatement than consider whether such a misstatement is indicative of fraud • Re-evaluate the assessment of the risks of material misstatement due to fraud and its resulting impact on the nature, timing and extent of audit procedures. • Evaluate the implications for the audit
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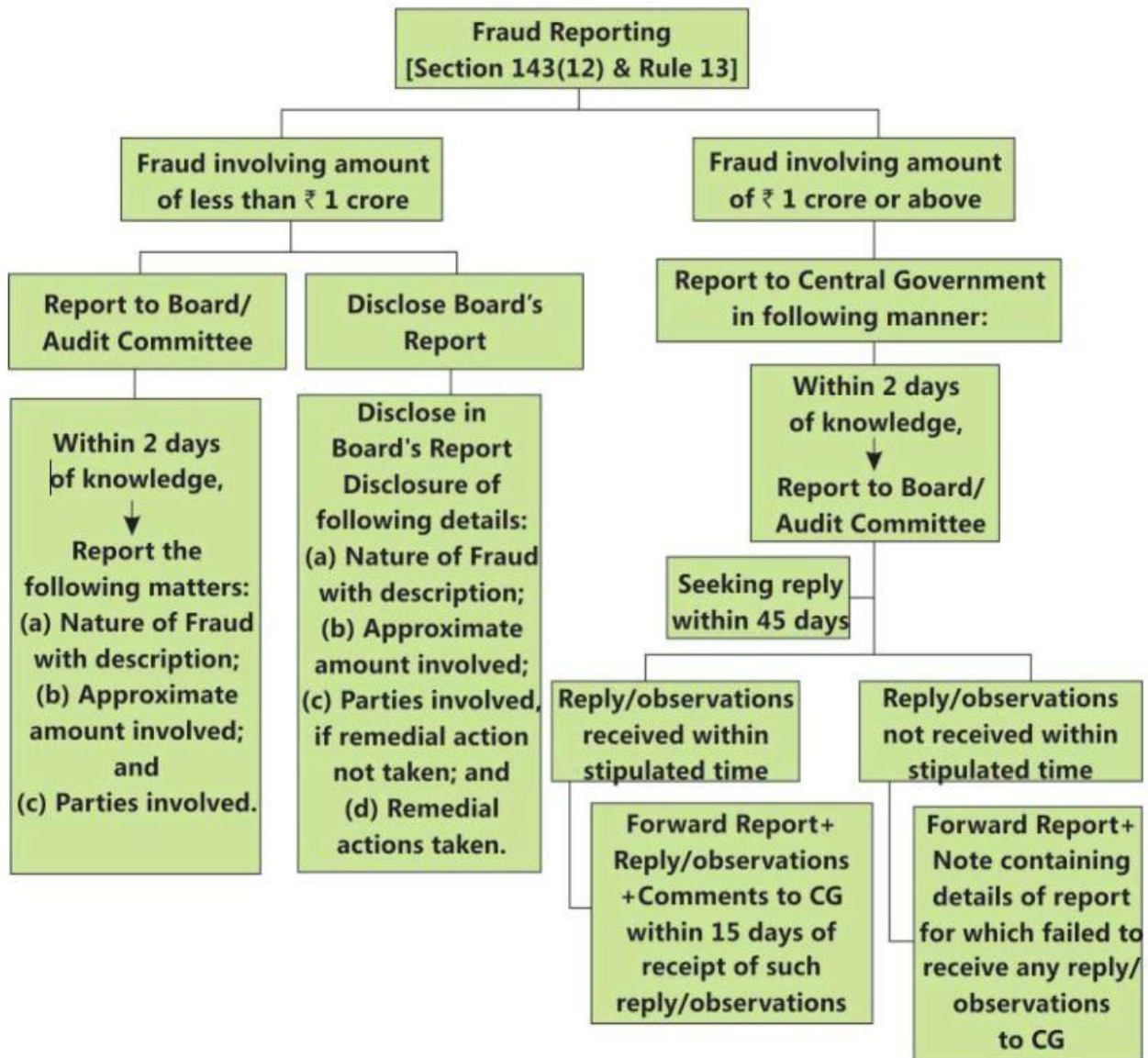
OBTAIN MRL FOR

1. Its responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud;
2. It has disclosed to the auditor the results of its assessment of the risk of fraud;
3. It has disclosed to the auditor its knowledge of fraud or suspected fraud affecting the entity involving:
 - a. Management;
 - b. Employees who have significant roles in internal control; or
 - c. Others; and
4. It has disclosed to the auditor its knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements.

REPORTING RESPONSIBILITY

To MANAGEMENT/ TCWG	SEC 143(12)	IN CARO,2016	NOT ABLE TO CONTINUE
REFER CHART	REFER CHART	The auditor is also required to report as per Clause (x) of Paragraph 3 of CARO, 2016, Whether any fraud by the company or any fraud on the company by its officers or employees has been noticed or reported during the year; If yes, the nature and	<p>The auditor shall:</p> <ul style="list-style-type: none"> ❖ Determine the professional and legal responsibilities applicable in the circumstances, including whether there is a requirement for the auditor to report to the person or persons who made the audit appointment or, in some cases, to regulatory authorities; ❖ Consider whether it is appropriate to withdraw from the engagement; and ❖ If the auditor withdraws: <ul style="list-style-type: none"> • Discuss with the appropriate level of management and those charged with governance, the auditor's withdrawal from the

		the amount involved is to be indicated.	<p>engagement and the reasons for the withdrawal; and</p> <ul style="list-style-type: none"> • Determine whether there is a professional or legal requirement to report to the person or persons who made the audit appointment or, in some cases, to regulatory authorities, the auditor's withdrawal from the engagement and the reasons for the withdrawal.
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No liability of auditor [Section 143(13)]

- An auditor shall not be deemed to be guilty for breach of any of his duties by reason of his reporting any matter to the Central Government if such reporting is done in good faith.

Provisions applicable to other auditors [Section 143(14)]

- **The provisions w.r.t. reporting of fraud shall mutatis mutandis apply to -**
 - (a) the cost accountant conducting cost audit under section 148; or
 - (b) the company secretary in practice conducting secretarial audit under section 204.

Punishment for non-compliance [Section 143(15)]

- (a) Minimum Fine: Rs. 1 lakh
- (b) Maximum Fine: Rs. 25 lakh.