

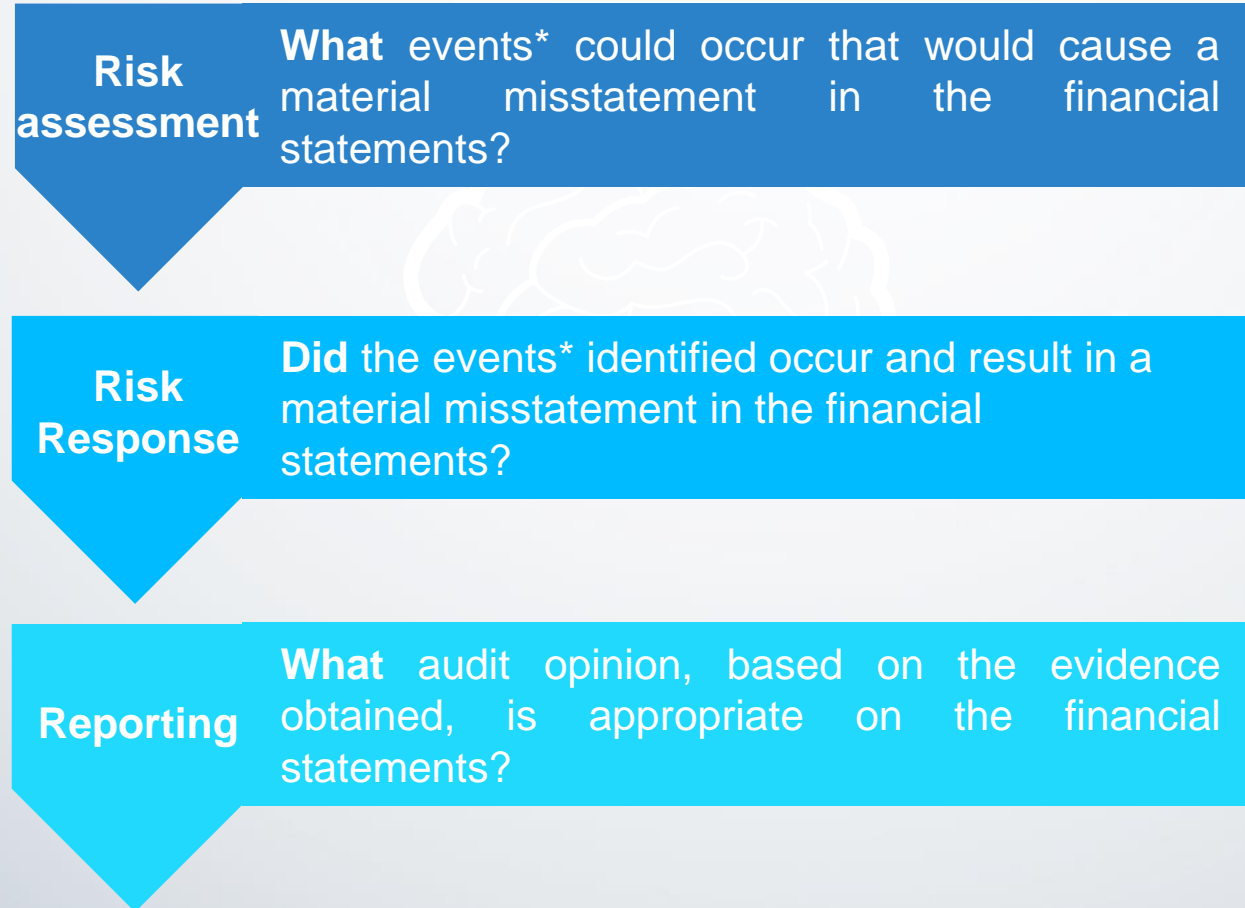
WIRC of ICAI

**Virtual CPE Meeting on Standards on Auditing
SA 240; SA 250; SA 501**

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Risk based Audit approach

Three distinct phases



*an event is simply a business or fraud risk factor. This would also include risks resulting from the absence of internal control to mitigate the potential for material misstatements in the financial statements.

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

1



Scope of SA 240:
Expand on how SA 315 and SA 330 are to be applied

2



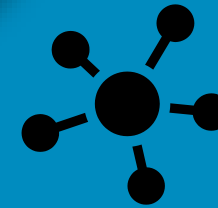
Meaning and Characteristics of Fraud

3



Responsibility for prevention and detection of fraud

4



Responsibilities of Auditor

5



Inherent limitations of audit

Risk Assessment

Fraudulent Financial Reporting

Reporting a higher/lower level of earnings than actually occurred

	Owners and Management	Employees
Why?	<p>Personal benefit (save taxes, sell business at inflated price, pay bonus)</p> <p>Justify an end (stay in business, save jobs, maintain funding)</p>	<p>Personal benefit (obtain a performance-based bonus, conceal losses or cover up stolen assets)</p>
How?	<p>Override of internal controls,</p> <p>False/incorrect transactions,</p> <p>Collusion,</p> <p>Manipulation of accounting policies,</p> <p>Exploiting weaknesses in internal control</p>	<p>Falsely or incorrectly recorded transactions,</p> <p>Collusion,</p> <p>Manipulation of accounting policies,</p> <p>Exploiting weaknesses in internal controls</p>
How much?	<p>Often large due to position of management in entity and their knowledge of internal controls</p>	<p>Often smaller in size but can accumulate significantly over time if not detected</p>

Risk Assessment

Misappropriation of Assets

Converting assets to personal use

	Owners and Management	Employees
Why?	Personal benefit or to help someone else in need	Personal benefit or to help someone else in need
How?	Override internal controls, Theft of inventory/assets, Collusion, Exploiting weakness in internal controls	Theft of inventory/assets, Collusion, Exploiting weakness in internal controls
How much?	Often based on a particular need. Even if starts small, will likely get bigger if not quickly detected	Often based on a particular need. Could be small but likely will get bigger if not quickly detected.

Risk Assessment

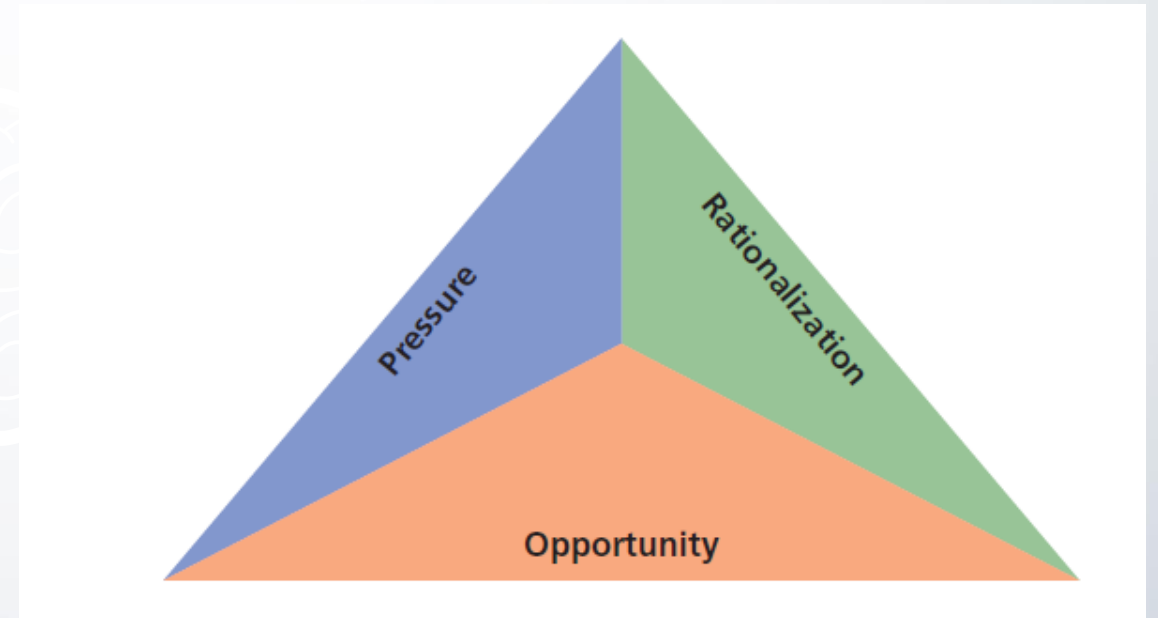
Fraud Triangle

Audit team members need to consider the existence of the 3 conditions that often provide clues to the existence of fraud.

When all three conditions are present, it is highly likely that fraud may be occurring.

Example:

- The “**pressure**” on the owner-manager might be to reduce taxes that would otherwise be payable.
- The “**opportunity**” is for the owner-manager to override the internal controls over revenue recognition and not record the revenue.
- The “**rationalization**” could be that the owner-manager is already paying far too much in taxes.



Fraud risk relates to events or conditions that indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud.

Throughout the audit

Engagement team discussion



It is important for the engagement team to continually discuss their findings throughout the engagement.

Throughout the audit

Professional Skepticism

Skepticism Involves	
Recognizing That Management Can Always Commit Fraud	Management is always in a position to override otherwise good internal control . Engagement team members are to set aside any beliefs that management and those charged with governance are honest and have integrity, notwithstanding the auditor's past experience of their honesty and integrity.
A Questioning Mind	Make critical assessments about the validity of audit evidence obtained.
Being Alert	Does audit evidence contradict or bring into question the reliability of: Documents and responses to inquiries? Other information obtained from management and those charged with governance?
Being Careful	Avoid: Overlooking unusual circumstances. Over-generalizing when drawing conclusions from audit observations. Accepting less than persuasive audit evidence in a belief that management and those charged with governance are honest and have integrity. Accepting representations from management as a substitute for obtaining sufficient appropriate audit evidence.

Risk Response

Responses to assessed risk of material misstatement due to fraud

Overall Responses

- Engagement (Assigning supervision) team and
- Evaluating selection of accounting policies of
- Element of unpredictability

Override of Controls

- JV testing
- Review of accounting estimates
- Retrospective review of management judgements



Assertion Level

Changing suitably the nature, timing and extent of audit procedures



Evaluation of Audit Evidence

- Analytical procedures (overall conclusion)
- Identified misstatement
- Re-evaluation of risk, if applicable

Throughout the audit

Other Aspects

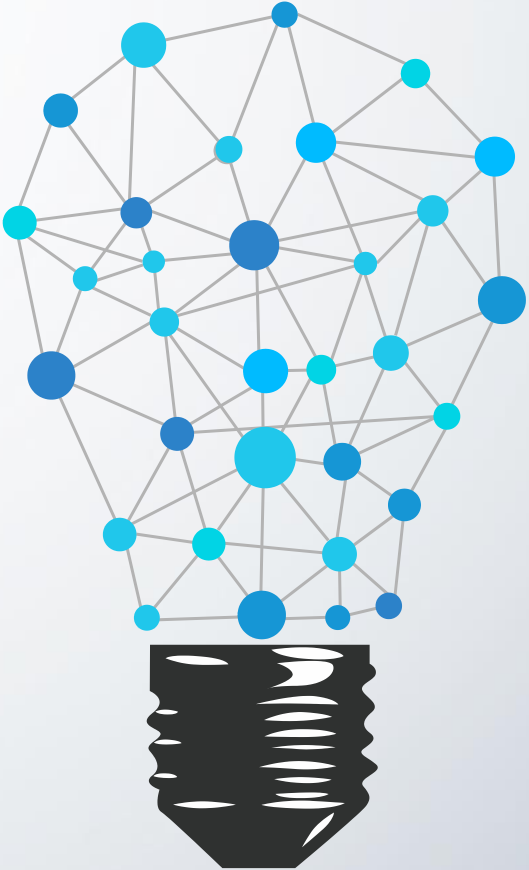
Other aspects to be considered by auditor	
Management representations	Auditor should written representations from management regarding acknowledgement of their responsibilities and regarding adequate disclosure of information and explanations to auditors
Communications to Management and with those charged with governance	Communication on a timely basis about identified or suspected frauds
Communication to Regulatory and Enforcement authorities	For instance, pursuant to requirements of Section 143(12) of Companies Act, 2013
Documentation	Significant discussions reached during engagement team discussion Identified and assessed risk of material misstatement due to fraud Responses to the assessed risk of material misstatement due to fraud
QRB Observations	Not documenting assessed risks of material misstatement and consideration of fraud risk factors at the planning stage. Not including in the management representation:- Results of assessment of the risk that the financial statements may be materially misstated as a result of fraud.

SA 250: Consideration of Laws and Regulations in an Audit of Financial Statements

Agenda

Consideration of Laws and Regulations in an Audit of Financial Statements

- 1 Overview of SA 250; Definition of Non-Compliance
- 2 Responsibility of Management
- 3 Responsibility of Auditor; Audit Procedures
- 4 Reporting for Identified/Suspected Non-Compliance
- 5 Documentation

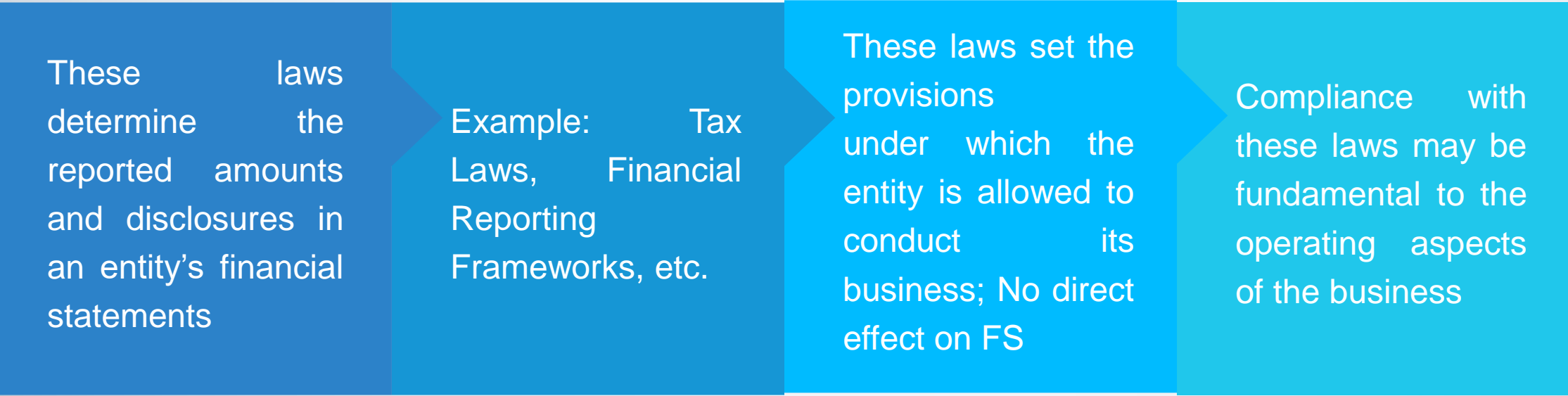


Effect of Laws and Regulations

Overview

Laws having direct effect on FS

Other Laws



Management's Responsibility: To ensure compliance of laws & regulations that determine the reported amounts and disclosures in the financial statements.

Non-compliance with laws and regulations may result in fines, litigation or other consequences for the entity that may have a material effect on the financial statements

Definition

What is non-compliance?

❖ Acts of omission or commission.



❖ Either intention or unintentional.



❖ Which are contrary to the prevailing laws or regulations



❖ Does not include personal misconduct (unrelated to business activities of entity) by those charged with governance, management, employees of the entity.

Such acts include transactions entered into by, or in the name of, the entity, or on its behalf, by those charged with governance, management or employees.

Responsibility of Management

To be exercised with the oversight of those charged with governance

It is the responsibility of the management, with the oversight of those charged with governance, to ensure that the entity's operations are conducted in accordance with provisions of laws and regulations

The following procedures maybe implemented

Monitoring legal requirements & ensuring that operating procedures are designed to meet these requirements

Instituting and operating systems of internal control

Developing, publicising and following a code of conduct

Ensuring employees are properly trained and understand the code of conduct

Monitoring compliance with the code of conduct and acting appropriately to discipline employees who fail to comply with it

Engaging legal advisors to assist in monitoring legal requirements

Maintaining a register of significant laws and regulations with which the entity has to comply within its particular industry and a record of complaints.

Auditor's Responsibility

SA 240, 250, 501

Laws and Regulations

Those laws and regulations that have a direct effect on the determination of material amounts and disclosures in the financial statements

Other laws and regulations that do not have a direct effect on the determination of the amounts and disclosures in the FS but compliance with which may be fundamental to the operating aspects of the business

Tax Laws, Financial Reporting Frameworks, etc.

Shop and Establishment Act Licences, Safety permits

Obtain Sufficient and Appropriate Audit Evidence about compliance with the provisions of those laws and regulations

Undertake specified audit procedures to help identify non-compliance with those laws and regulations that may have a material effect on the financial statements



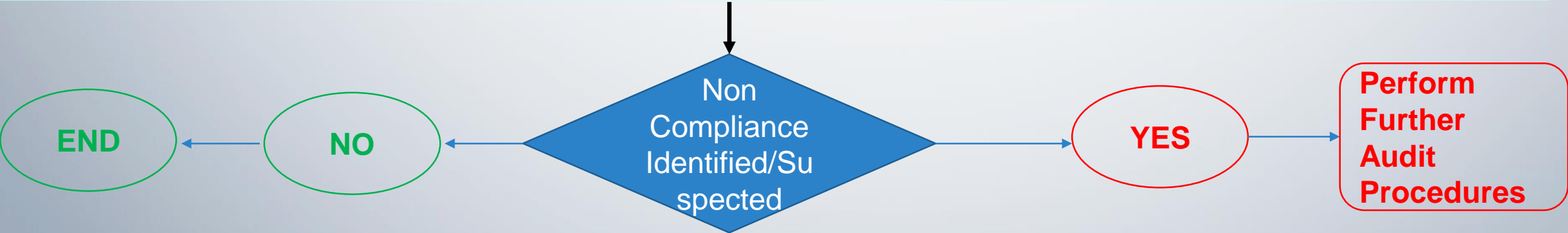
Aspects to be considered by Auditor

Obtain a general understanding of laws and regulation framework and compliance with that framework.

Obtain Sufficient and appropriate audit evidence for laws and regulations that have a direct effect on the determination of material amounts and disclosures in the financial statements

Perform audit procedures for those laws and regulations that do not have a direct effect on the determination of the amounts and disclosures in the financial statements but compliance with which may be fundamental to the operating aspects of the business

Request Management /those charged with governance for written representation



Obtain:

- ✓ An understanding of the nature of the act and the circumstances in which non-compliance has occurred
- ✓ Further information to evaluate the possible effects on the financial statements



If the auditor suspects there is non-compliance, the auditor shall discuss the matter with Management and those charged with governance



If Management / those charged with governance do not provide sufficient information the auditor shall consider the need to obtain legal advice



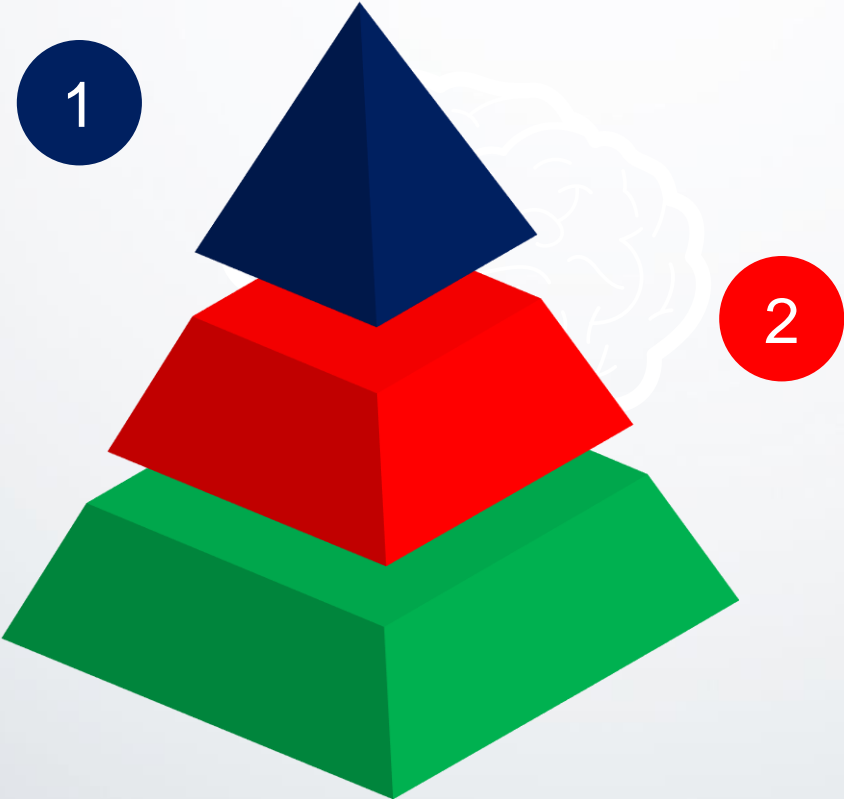
If sufficient information about the suspected non-compliance cannot be obtained, the auditor shall evaluate the effect of the lack of sufficient appropriate audit evidence on the auditor's opinion.

SA 240, 250, 501 Reporting of Identified / Suspected Non-Compliance

Reporting Compliance to those charged with governance

Non-Compliance to those with

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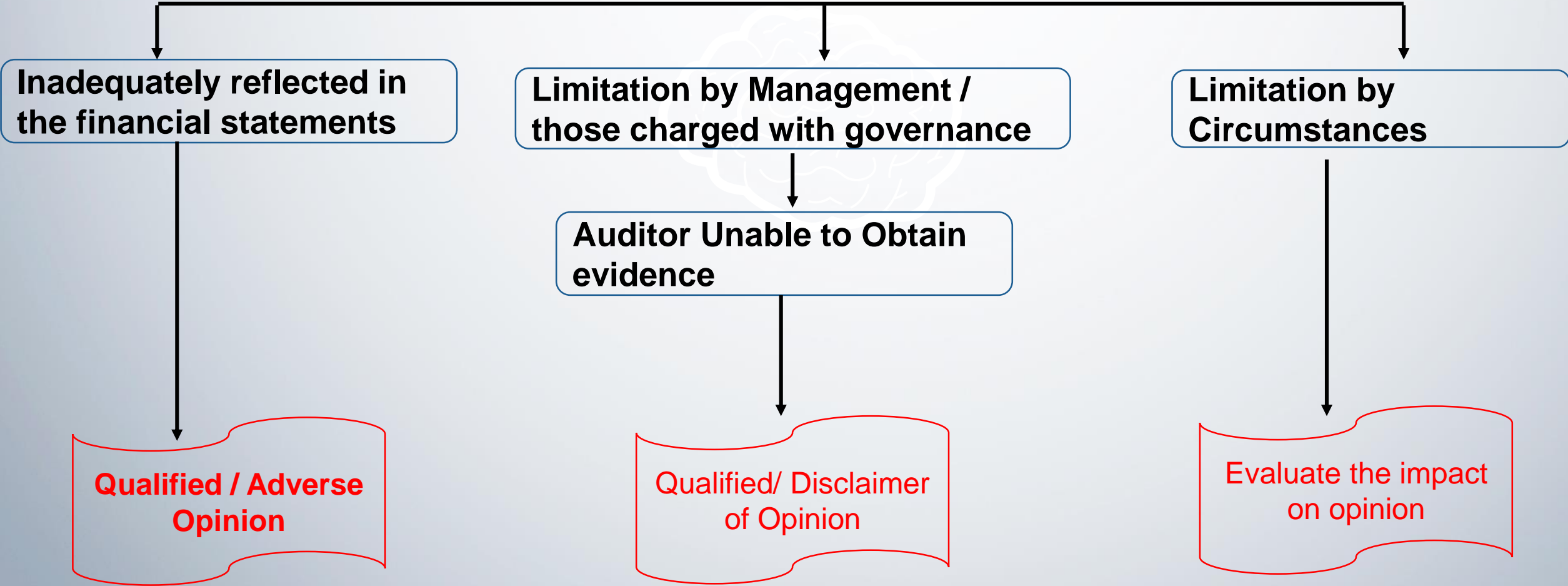
Reporting Non-Compliance in the Auditor's Report on the Financial Statement

Reporting Non-Compliance to Regulatory and Enforcement Authorities

SA 240, 250, 501 Reporting of Identified / Suspected Non-Compliance

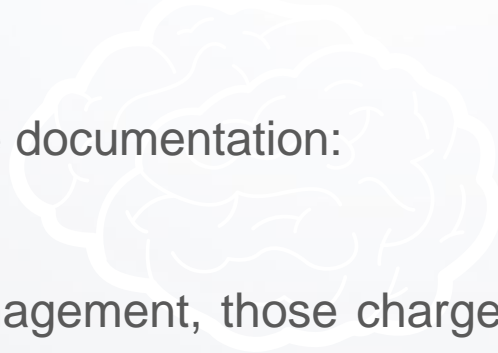
Auditor's Report

Material Non-Compliance



Documentation

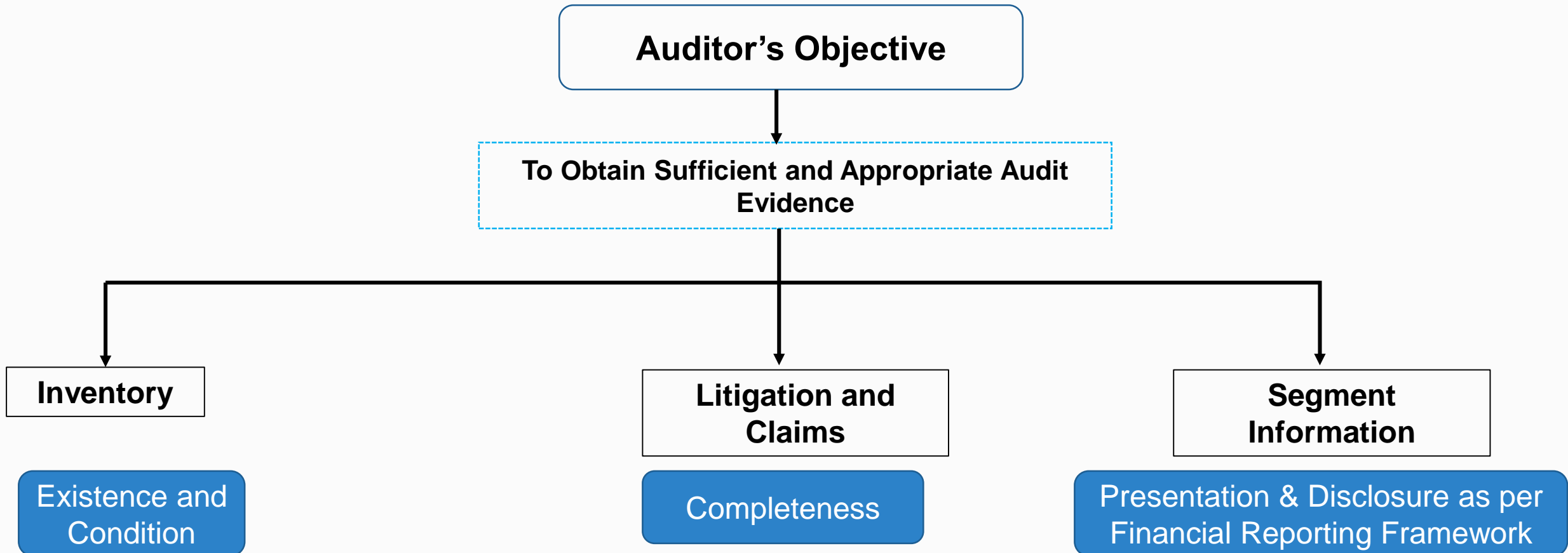
Identified or suspected non-compliance

- The auditor shall document identified or suspected non-compliance with laws and regulations and the results of discussion with management and, where applicable, those charged with governance and other parties outside the entity.
 - Following can be included as part of above documentation:
 - Copies of records or documents.
 - Minutes of discussions held with management, those charged with governance or parties outside the entity.
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SA 501: Audit Evidence : Specific Consideration for Selected Items

Scope and Objectives

SA 501 deals with specific considerations by the auditor in obtaining sufficient and appropriate audit evidence, with respect to certain aspects of inventory, litigation and claims and segment information in an audit of financial statements



Audit Procedures with respect to Inventory

When the Inventory is material to the financial statements, the auditor shall obtain sufficient appropriate audit evidence regarding the **EXISTENCE and CONDITION** of inventory

1. Attendance at physical inventory counting

Evaluate management Instructions and procedures for recording and controlling results



Observe the performance of the management's counting procedures



Inspect the inventory



Perform test counts

2. Performing audit procedures over the entity's final inventory records to determine whether they accurately reflect actual

inventory count results.

Auditor is unable to attend Inventory Count

- The auditor should take or observe some physical counts on an alternative date and perform audit procedures on intervening transactions to assess whether the changes in inventory between the date of physical count and the period end date are correctly recorded.
- The auditor would also verify the procedure adopted , treatment given for the discrepancies noticed during the physical count
- The auditor would also ensure that the appropriate cut-off procedures were followed by the management.
- The auditor should obtain written representation on:
 - a. Completeness of information provided regarding the inventory; &
 - b. Assurance with regard to adherence to laid down procedures for physical inventory count.

Attendance at Inventory Count is Impracticable

- Perform alternative audit procedures to obtain sufficient appropriate audit evidence regarding existence and condition of inventory
- Here the alternative Audit Procedure can be inspection of documentation of the subsequent sale of specific inventory items acquired/ purchased prior to physical inventory counting.
- If not possible to do so, modify the opinion in the auditor's report in accordance to SA 705

Inventory under the custody and control of Third Party

Obtain SAAE by performing the following:

- a) Request confirmation from third party
- b) Perform inspection / other audit procedure

If doubt arises over the integrity / Objectivity of third party, perform the following procedures:

- Attending/arranging for another auditor to attend, the third party's physical counting of inventory
- Obtaining service auditor's report, on the adequacy of the third party's Internal control w.r.t proper count and safeguard of inventory
- Inspecting documentation (for example, warehouse receipts)
- Requesting confirmation from other parties when inventory is pledged as a collateral.

Identification of Litigation and Claims

Methods to Identify Litigation and Claims

Inquiry

Inquiry of Management and others within the entity, including the in-house counsel.

Review

- Minutes of meetings of those charged with governance
- Communication between entity and external legal counsel
- Legal Expense account

Segment Information



Applicability of Segment Information as required in AS and Ind AS ?

Obtain SAAE regarding presentation & disclosure of segment info in accordance with applicable Financial Reporting Framework (FRF):

- ❖ Obtain understanding of methods used by management in determining segment info
- Evaluating whether such methods are likely to result in disclosure in accordance with applicable FRF; and
- Where appropriate, testing the application of such methods.

- ❖ Performing analytical procedures or other audit procedures appropriate in the circumstances.

SA 240, 250, 501

Questions!

SA 240, 250, 501

Thank you