SA-240 Auditor's Responsibilities Relating to Fraud in an Audit of F. statements

Meaning & Nature of Fraud ⇒ Intentional Act involving use ~~of~~ deception to obtain an Unjust / Illegal Advantage.

Two types of Material misstatements (Intentional)

Fraudulent Fin. Reporting

- Manipulation, Falsification of A/cing Records.
- Intentional Ommission
- Intentional Misapplication of A/cing principles.

→ Fictitious Journal Entry
→ Inappropriate Assumptions
→ Events & Transations
  - → Delaying
  - → Omitting
  - → Advancing

→ Concealing facts
→ Engaging in Complex transactions
→ Altering Records

Misappropriation of Assets

- Embezzling Receipts
- Stealing physical assets or Intellectual Property
- Causing Entity to pay for G & services Not Received
- Using Assets for personal use.

Fraud Risk factors / Characteristics of Fraud

- Incentive or Pressure to Commit fraud (theft)
- Perceived Opportunity to do so. (Internal Control)
- Rationalization of the Act.

$\boxed{\text{MT} \Rightarrow \text{PRI of fraud}}$

OBJECTIVES of Auditor

- Identify & Assess ROMM
- Obtain SAAE
- Respond Appropriately

Due to fraud

Responsibility of Prevention & Detection of Fraud

- Primary Responsiblity < TCWG & Management
- Ensure by commiting to create → Culture of Honesty → Ethical Behaviour

Risk Associated for Non-Detection of Material Misstatements

- Inherent limitations of Audit
- ROMM of fraud > ROMM of Error
  - ↳ Involves Sophisticated & Carefully organized Schemes to Conceal it such as forgery.
- Mgt. fraud > Employee fraud.

Auditor's duties for Prevention and Detection of fraud

- Obtaining Reasonable Assurance
- Professional Skepticism
  - Recognize possibility of MM due to fraud could exist. Irrespective of his past Experience of honesty & Integrity of mgt. & TCWG
  - Accept Records & documents as GENUINE unless doubt arises.
  - In case of Modification in Records / Unauthentic
    ⇓
    Investigate further
  - Responses are Inconsistent of mgt./TCWG
    ⇓
    Investigate the Inconsistencies

→ Procedures where Circumstances Indicate a possible Missatement

→ Considering whether identified misstatement may be Indicative of Fraud.

→ Communication (to Regulatory & Enforcement Authorities)

→ Auditor unable to Complete Engagement

i.) Consider requirement for Auditor to Report to
- who made his appointment
- Regulatory Authorities due to professional Responsibilities

ii.) Possibility of withdrawing

iii.) If auditor withdraws
- Discuss with TCWG and Management & Reasons too.
- If professional Responsibility requires → Auditor's withdrawal & Reasons

Documentation

- SA 315
- Responses to Assesed Risks
- Communications with mgt & TCWG
- Reasons for non-applicability of Presumption of ROMM to Revenue Recognition

Management Representation

1. Acknoledges their responsibility for DOT of Internal Controls
2. Disclosed mgt's fraud Risk Assessment wrt the FS.
3. Disclosed their knowledge / suspicion of fraud affecting entity involving:
   - Management
   - Key Employees
   - Others where fraud could have Material effect on FS.
4. Disclosed knowledge of allegations of fraud, Suspected fraud affecting Entity's FS.