

10+ years of experience! Unbeatable Passion for Audit Subject!!! That's CA Pragnesh Kanabar Sir!

Brahmastra Revision CA Final Audit- New Syllabus

Chapter 2 SAs by CA Pragnesh Kanabar

SA 240 SA 250 SA 260 SA 299 SA 402

**Watch Revision Videos on our Youtube Channel- The Audit Academy
to get maximum benefit of these notes**

Visit our website- www.theauditacademy.com to join our Youtube channel, telegram channel and to Download our app.

SA 240- Auditor's responsibilities relating to fraud in an audit of financial statements

- The primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.
- Owing to the inherent limitations of an audit, there is an unavoidable risk that some material misstatements of the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the SAs.

1. Meaning of Fraud

2. Fraud Risk Factors

3. Risk Assessment Procedure

4. Further Audit Procedure

5. Communicating fraud

6. Withdrawal from engagement

1. Meaning of Fraud and Auditor's Concern

Fraud = intentional act

Involving use of deception

To obtain unjust or illegal advantage

Auditor is concerned with fraud that causes a material misstatement in the financial statements

1. Fraudulent Financial Reporting (Mgmt level fraud)
2. Misappropriation of assets (Employee level fraud)

Fraudulent Financial Reporting

Techniques used by mgmt override internal controls
'Complex FERA'
Complexity of transactions is increased.
F- Fictitious entries
E- Estimates recognition
R- Related party transactions
A- Alteration of records

Misappropriation of assets

It is achieved by Employees through
a) Embezzlement of receipts
b) Stealing physical assets
c) Using assets for personal use
d) Causing entity to pay for services not availed or goods not consumed

Auditor does not make legal determination of whether a fraud exists or not

2. Fraud Risk Factors (very very very important)

Fraud	Incentive/Pressure	Opportunity	Attitude/Rationalization
Fraudulent Financial reporting (Mgmt level fraud manipulating the financial statements)	Pg 2.9 to 2.12 of the module Point A	Pg 2.9 to 2.12 of the module Point A	Pg 2.9 to 2.12 of the module Point A
Misappropriation of assets (Employee level fraud misappropriating the cash, inventory etc.)	Pg 2.12 to 2.14 Point B	Pg 2.12 to 2.14 Point B	Pg 2.12 to 2.14 Point B

3. Risk Assessment Procedure



1. Maintain an attitude of professional skepticism throughout the audit.
2. Discussion amongst engagement team members regarding ROMM (Risk of Material Misstatement) due to fraud
3. Inquiries of MOTI- Management, Others within the entity, TCWG and Internal Auditor- whether they have knowledge of any ASA fraud- actual suspected or alleged fraud.
4. Evaluation of unexpected relationships (Analytical procedures)
5. Consider results of RAP (Risk assessment procedure) performed as per other SAs to determine whether fraud risk factors are present or not

4. Further Audit Procedure

Overall Responses at FS level → **PAU**

→ Assign and Supervise **Personnel** of the AUDIT TEAM

→ Selection and application of **ACCOUNTING POLICIES** indicates fraudulent FR

→ Include an element of **Unpredictability** in the NTE of AUDIT PROCEDURES → examples?

Responses at assertion level → **NTE**

→ Nature, timing and extent of audit procedures shall be responsive to the risk assessed
→ For example, if there is a risk of misappropriation of inventory then multiple times physical verification should be done.

Responding to the risk of management override of control → **JEO**

Irrespective of the Assessed RoMM, auditor must perform following procedures:

A) Journal Entries → Test the appropriateness of journal entries by

- (i) Making inquiries of individuals involved in FR process about unusual activity in processing JE
- (ii) Select year end JE and other adjustments
- (iii) Consider need to test JE throughout the accounting period

B) Review accounting estimates

- (i) Evaluate judgments/assumptions
- (ii) Possibility of mgmt bias
- (iii) Retrospective review of significant estimates

C) Check significant transactions outside the normal course of business

- (i) Rationale?
- (ii) Accounting treatment?
- (iii) Who authorised?

Evaluation of Audit Evidence.

→ Evaluate results of analytical procedures (SA 520)
→ Evaluate identified Misstatements indicate possible fraud.
→ Re-evaluate assessed RoMM and consider performing additional procedures

Obtain WR Regarding- 1) Mgmt's responsibilities to implement internal control to detect fraud, 2) Mgmt's assessment of the risk of fraud, 3) Whether there is any ASA (actual, suspected or alleged) fraud involving the entity.

5. Communicating fraud

Communicating with appropriate level of management

Communicating with TCWG

Communicating with regulatory authorities

Sr.No	Type of Fraud	Communicate with
1.	Jr. EE- Clearly trivial fraud	Appropriate level of mgmt.
2.	Jr. EE- material fraud	Mgmt and TCWG
3.	Sr. EE- fraud	Mgmt and TCWG
4.	Mgmt fraud	TCWG
5.	Mgmt and TCWG involved in fraud	Obtain legal advice and consider whether there is a requirement to communicate with statutory authorities

It is required to be done in the manner prescribed by applicable law.
E.g. S. 143(12) of Companies Act, 2013

6. Withdrawal from engagement

Auditor unable to continue the audit engagement due to exceptional circumstances encountered***



Consider whether it is appropriate to withdraw from the engagement



If it is appropriate Consider whether it is legally permissible to withdraw from the engagement



IF auditor decides to withdraw from the engagement then:

- A) Discuss the reasons of withdrawal with mgmt and TCWG
- B) Determine whether there is any professional or legal requirement related to withdrawal to report it to third parties including owners, regulators, stake holders etc.

***Examples:

- A) The entity does not take the appropriate action regarding fraud
- B) the results of audit tests indicate a significant risk of material and pervasive fraud
- C) The auditor has significant concern about the competence or integrity of management or TCWG

7. Statutory reporting requirements to report fraud

S. 143(12) of Companies Act, 2013- Duty to report fraud to the central government

Fraud Reporting to CG- Sec 143(12) read with Rule 13 of CAAR, 2014

if an auditor of a company in the course of the performance of his duties as auditor

has reason to believe that an offence of fraud is being or has been committed in the company

by its officers or employees

By 3rd Party

which involves or is expected to involve individually an amount of ` 1 crore or above

which involves or is expected to involve individually an amount of less than 1 crore

the auditor shall report the matter to the Central Government.

Report NAP to the AC, if any otherwise to the BOD within 2 days
(N- Nature of the fraud, Amount Involved and Parties Involved)

BOD need to provide following disclosures in board's report

- A) If remedial (R) action is taken then- NAR
- B) If Remedial action is not taken then- NAP

A) the auditor shall report the matter to the Board or the Audit Committee, as the case may be, immediately but not later than 2 days of his knowledge of the fraud, seeking their reply or observations within 45 days

B) on receipt of such reply or observations, the auditor shall forward his report and the reply or observations of the Board or the Audit Committee along with his comments (on such reply or observations of the Board or the Audit Committee) to the Central Government within 15 days from the date of receipt of such reply or observations;

C) in case the auditor fails to get any reply or observations from the Board or the Audit Committee within the stipulated period of 45 days, he shall forward his report to the Central Government along with a note containing the details of his report that was earlier forwarded to the Board or the Audit Committee for which he has not received any reply or observations;

D) the report shall be sent to the Secretary, Ministry of Corporate Affairs in a sealed cover by Registered Post with Acknowledgement Due (Form ADT-4.)

Clause XI of CARO 2020

Fraud Reporting:

a) whether any fraud by the company or any fraud on the company has been noticed or reported during the year, if yes, the nature and the amount involved is to be indicated;

b) whether any report under subsection (12) of section 143 of the Companies Act has been filed by the auditors in Form ADT-4 as prescribed under rule 13 of Companies (Audit and Auditors) Rules, 2014 with the Central Government

c) whether the auditor has considered whistle-blower complaints, if any, received during the year by the company

10+ years of experience! Unbeatable Passion for Audit Subject!!! That's CA Pragnesh Kanabar Sir!

Brahmastra Revision CA Final Audit- New Syllabus

Chapter 2 SAs by CA Pragnesh Kanabar

SA 250- Consideration of Laws and Regulations in An Audit of FS

**Watch Revision Videos on our Youtube Channel- The Audit Academy
to get maximum benefit of these notes**

Visit our website- www.theauditacademy.com to join our Youtube channel, telegram channel and to Download our app.

SA 250- Consideration of Laws and Regulations in an Audit of FS

1. Scope of SA 250

2. Audit Procedures

3. What if non-compliance is suspected

4. Reporting Responsibilities

1. Applicability of SA 250 and its scope

Classification of Laws and Regulation applicable to the entity from the view point of auditor's responsibility

Applicable Financial Reporting Framework

Laws and Regulations other than AFRF

Laws that can materially impact FS of the entity

Laws which do not impact FS of the entity

Laws having direct effect on the FS

Other Laws indirectly having material effect on the FS

Direct effect on the _____
_____ in the FS E.g. Taxation
Laws

Non-compliance with such laws can lead to significant fines, penalties, revocation of operating license etc.. E.g. _____

2. Audit Procedures

Obtaining an **UNDERSTANDING** of the entity's legal framework and How entity is complying with that framework

Obtain SAAE regarding compliance with those laws that **DETERMINE MATERIAL AMOUNTS** and disclosures in FS

Procedures regarding such laws where **NON-COMPLIANCE CAN LEAD** to material fines, litigation etc.

remain **ALERT TO THE POSSIBILITY** that other audit procedures applied may bring instances of non-compliance or suspected non-compliance with laws

Request mgmt and TCWG to provide **WRITTEN REPRESENTATIONS** that → all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements have been disclosed to the auditor.

Types of policies and procedures that can be implemented by mgmt to assist in prevention and detection of non-compliance with laws and regulations- Design Legal R₂TI

A) **Inquiring** of mgmt/tcwg whether entity is in compliance with such laws.
B) Inspecting **correspondence**, if any, with the relevant licensing or regulatory authorities.

During the course of audit what kind of Indications auditor can get about non-compliance with laws and regulations ? (Indicators of Non-Compliance)

Design → operating procedures are **designed** to meet legal requirements.
I → operating appropriate systems of **internal** control.
T → employees are properly **trained** and understand the code of conduct
Legal → Engaging **legal** advisors.
R → Maintaining a **register** of significant laws and regulations
R → Maintaining a **record** of complaints/non-compliance.

→ Investigations by regulatory organisations and government departments or payment of fines or penalties.
→ Payments for unspecified services or loans to consultants, related parties, employees or government employees
→ Sales commissions or agent's fees that appear excessive in relation to those ordinarily paid by the entity for such services.
→ Purchasing at prices significantly above or below market price.
→ Unusual payments in cash
→ Adverse media comment

3. What if non-compliance is suspected??

IF auditor identifies non-compliance or suspected non-compliance

Obtain an understanding of the nature of the act and the circumstances under which it has occurred

Further information to evaluate the possible effect of non-compliance on the FS. It includes:

- A) Potential financial consequences → Fines, penalties, damages etc.
- B) Whether it requires disclosure in the FS
- C) Whether the potential consequences are serious enough to question the fair presentation of FS

IF auditor suspects there could be non-compliance → Discuss the matter with mgmt. and where appropriate, TCWG

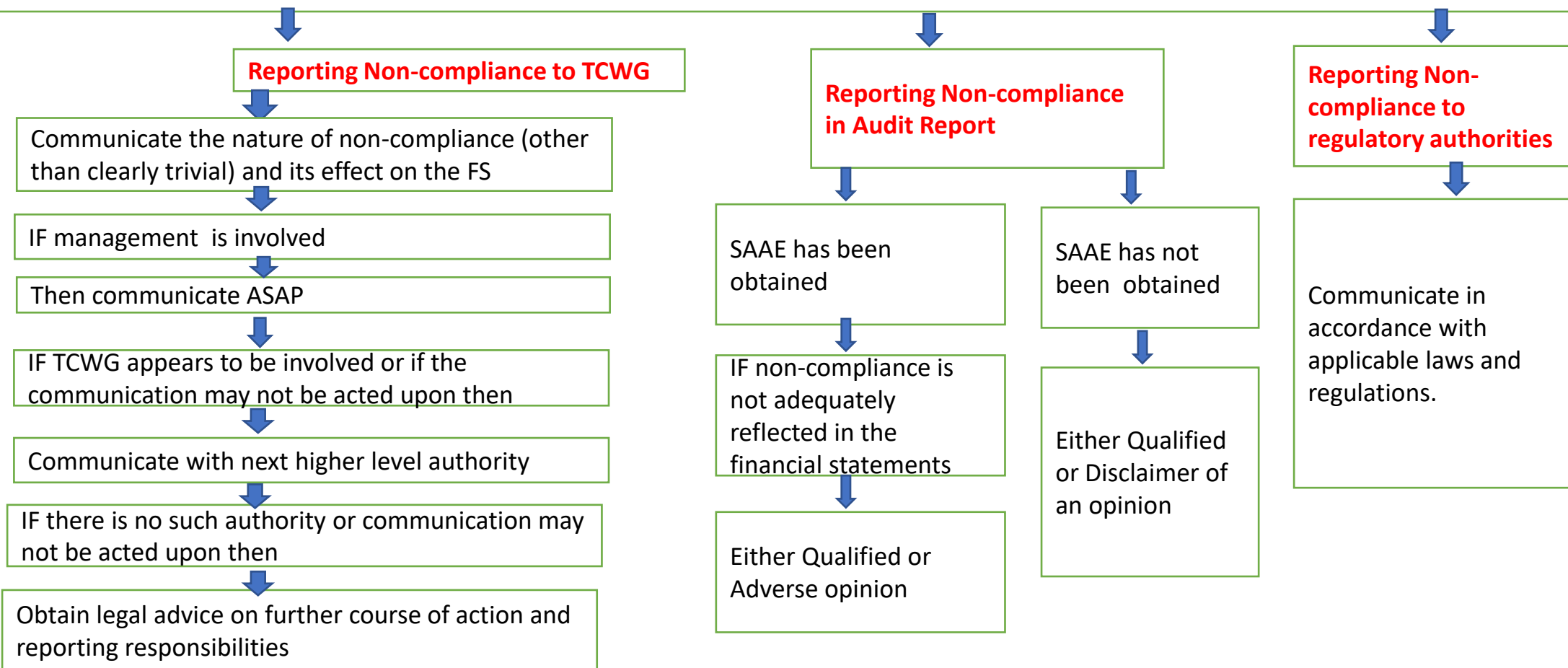
IF mgmt and TCWG do not provide sufficient information that supports that entity is in compliance with such laws

IF auditor believes that the effect of non-compliance could be material then

Then obtain legal advice to understand whether the entity is in compliance or not and what is the possible course of action

IF SAAE is still not available then consider impact on audit opinion.

4. Reporting Responsibilities in case of non-compliance



10+ years of experience! Unbeatable Passion for Audit Subject!!! That's CA Pragnesh Kanabar Sir!

Brahmastra Revision CA Final Audit- New Syllabus

Chapter 2 SAs by CA Pragnesh Kanabar

SA 260- Communication with Those Charged With Governance

**Watch Revision Videos on our Youtube Channel- The Audit Academy
to get maximum benefit of these notes**

Visit our website- www.theauditacademy.com to join our Youtube channel, telegram channel and to Download our app.

SA 260- Communication with Those Charged With Governance (TCWG)

1. Who is TCWG?

It depends upon size/ ownership of the entity. For Example:

- A) Supervisory board (non-executive) that is legally separate from executive management (two-tier)
- B) Supervisory and executive functions of single board (one-tier)
- C) Government entities- TCWG may not be a part of the entity i.e it could be an external party

2. Matters to be communicated (PLAN AND FIND RESPONSIBLE INDEPENDENCE)

Planned scope and timing of audit.
Communicate MIKER- (materiality, Internal control relevant to audit, preliminary views about Key Audit Matter, Expert's involvement, Risk areas of significant risk)

Written declaration regarding compliance with **independence**.
Mandatory in case of **listed entities**.
Content of such communication:
(a) team and firm has complied with independence
(b) All relationships and other matters between the firm, network firms, and the entity that, in the auditor's professional judgment, may reasonably be thought to bear on independence. This shall include total fees charged during the period covered by the financial statements for audit and non-audit services and
(c) The related safeguards that have been applied to eliminate identified threats to independence or reduce them to an acceptable level.

Significant findings from audit: WO MARD

- A- Accounting practices- qualitative aspects- discussion of PED- Policy estimates and disclosures
- D- Difficulties encountered during the course of audit- E.g. Delay, denial, short-time, refusal to provide information etc.
- R- Report modifications- Q,A,D opinion, EOM, OM, KAM etc.
- M- Matters subject to discussion with management- significant events/transactions in current period; Appointment and fees related; Matters on which there is a disagreement between auditor and mgmt.
- W- WRs that auditor is requesting
- O- Other matters relevant to financial reporting that require attention of TCWG

Auditor's **Responsibilities** in relation to audit of FS.
If LOE as per SA 210 has been discussed and agreed with TCWG then no separate communication required as per SA 260.
If LOE has been agreed with management then forward copy of such letter to TCWG

3. Manner of communication

- A) The auditor shall communicate with those charged with governance the form, timing and expected general content of communications.
- B) The auditor shall communicate in writing with those charged with governance regarding significant findings from the audit if, in the auditor's professional judgment, oral communication would not be adequate. Written communications need not include all matters that arose during the course of the audit.
- C) The auditor shall communicate in writing with those charged with governance regarding auditor independence when required in case of listed entities. The auditor shall communicate with those charged with governance on a timely basis.
- D) The auditor shall evaluate whether the two-way communication between the auditor and those charged with governance has been adequate for the purpose of the audit. If it has not, the auditor shall evaluate the effect, if any, on the auditor's assessment of the risks of material misstatement and ability to obtain sufficient appropriate audit evidence, and shall take appropriate action.

4. Significance of Communication with Those charged with governance

An effective two-way communication is important in assisting:

- A) understanding matters related to the audit in context, and in developing a constructive working relationship.
- B) auditor in obtaining from those charged with governance information relevant to the audit.
- C) Those charged with governance in fulfilling their responsibility to oversee the financial reporting process

10+ years of experience! Unbeatable Passion for Audit Subject!!! That's CA Pragnesh Kanabar Sir!

Brahmastra Revision CA Final Audit- New Syllabus

**Chapter 2 SAs by CA Pragnesh Kanabar
SA 299- Joint Audit of Financial Statements**

**Watch Revision Videos on our Youtube Channel- The Audit Academy
to get maximum benefit of these notes**

Visit our website- www.theauditacademy.com to join our Youtube channel, telegram channel and to Download our app.

SA 299- Joint Audit of Financial Statements

1. Joint Audit Planning and Risk Assessment

- A) Factors to be considered in development of Joint Audit Plan and strategy
 - I) Identify division of audit areas
 - II) Ascertaining reporting objectives to plan timing of audit
 - III) Team members to be directed depend upon certain factors
 - IV) Results of preliminary engagement activities and knowledge gained on other similar engagements
 - V) Ascertaining the nature, timing and extent of resources
- B. Work allocation document to be signed by all JAs and to be communicated with TCWG
- C. All JA's to obtain common engagement letter and common written representation letter.

2. Responsibility division

Jointly and Severally responsible for:

- A) Audit work which is not divided.
- B) decisions taken by all JAs under audit planning for common audit areas concerning the NTE of procedures to be performed by each JA.
(execution remains individual responsibility)
- C) matters brought to notice by one JA and on which there is an agreement among all JAs.
- D) Examining that FS of the entity comply with relevant law.
- E) P&D of FS as required by AFRF.
- F) Ensuring that audit report complies with Law and SAs

Individually responsible for

- Areas allocated to each Joint auditor.
- Determine the NTE of audit procedures to be applied to the area allocated.
- Study the internal control system of the area allocated.

Each JA is allowed to assume that the other JAs have performed work as per SAs. Not required to review the work performed by other JA.

3. Reporting Considerations

- where the joint auditors are in disagreement with regard to the **opinion or any matters to be covered by the audit report, they shall express their opinion in a separate audit report.**
- A joint auditor is not bound by the views of the majority of the joint auditors regarding the opinion or matters to be covered in the audit report.
- Such Separate audit report shall also make reference to the audit report issued by other joint auditors. Such reference shall be made under the heading "Other Matter Paragraph" as per SA 706.

10+ years of experience! Unbeatable Passion for Audit Subject!!! That's CA Pragnesh Kanabar Sir!

Brahmastra Revision CA Final Audit- New Syllabus

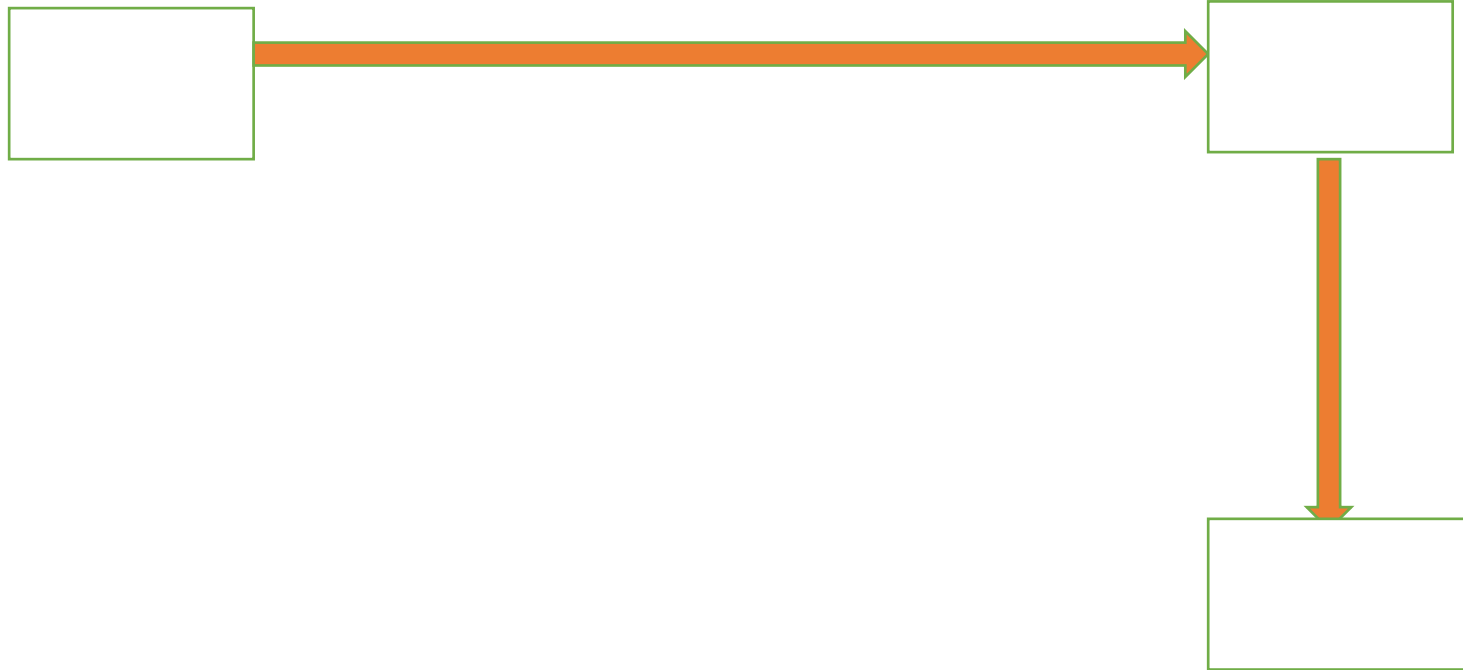
Chapter 2 SAs by CA Pragnesh Kanabar

SA 402- Audit Considerations in relation to an entity using service organisation

**Watch Revision Videos on our Youtube Channel- The Audit Academy
to get maximum benefit of these notes**

Visit our website- www.theauditacademy.com to join our Youtube channel, telegram channel and to Download our app.

SA 402 Audit of an entity using Service organisation



Objective of the USER auditor → when the user entity uses the services of a service organisation

To obtain an understanding of
→ the nature and significance of the services provided by the service organisation and
→ their effect on the user entity's internal control relevant to the audit in order to identify RoMM

To design and perform audit procedures responsive to those risks (to obtain reasonable assurance about the internal controls implemented by user entity and service organisation over such services)

1. Risk Assessment Procedure

How will you determine whether A service organisation's services are part of a user entity's information system, including related business processes, relevant to financial reporting

If these services affect any of the following:

- A) Significant Transactions of User Entity.
- B) The procedures (IT/Manual) by which the user entity's transactions are initiated, recorded, processed, corrected as necessary, transferred to the general ledger and reported in the FS.
- C) The related accounting records, either in electronic or manual form
- D) How the user entity's information system captures events and conditions
- E) Financial reporting process used to prepare user entity's FS
- F) Controls over journal entries

Obtaining an understanding how a user entity uses the services of a service organization in the user entity's operations, including

- A) The **nature of the services** provided by the SO
- B) **Significance** of the services provided by SO to the user entity
- C) The **effect on the user entity's internal control**.
- D) Nature and **materiality** of the transactions processed by SO
- E) UE's **Financial reporting processes affected** by SO
- F) **Degree of interaction** between the activities of SO and UE.
- G) Nature of the **relationship** between UE and SO.
- H) Relevant **contractual terms** between UE and SO

IF user auditor cannot obtain sufficient understanding from User entity then he shall perform one or more of the following

Obtaining a Type 1 report

Contacting SO through UE to obtain specific info

Visiting SO to obtain understanding

Using Another Auditor to perform procedures at SO

- A) Type 1 Report- Report by service auditor on design and description of the controls of SO.
- B) Type 2 Report- Report by service auditor on design, description and operating effectiveness of the controls at SO.

2. Special Points on Type 1 and Type 2 report issued by Service organisation

Points to be considered to measure adequacy of such reports:

- A) Date/Period covered → relevant and adequate?
- B) Scope of the work of Service Auditor
- C) sufficiency and appropriateness of the evidence provided by the report.
- D) whether CUEC (complementary user entity controls) have been identified?
- E) Results of Test of controls

Such reports may assist the user auditor in obtaining an understanding of:

- A) Controls at SO.
- B) How Sub-SO, if any, is used by SO.
- C) Flow of significant transactions
- D) Whether controls at SO are suitably DIM (Designed, Implemented and Maintained)

3. Further Audit procedure and auditor's conclusion.

Determine whether SAAE is available from records available at UE

IF it is not then perform further audit procedures to obtain SAAE or use another auditor to perform those procedures at the service organisation on the user auditor's behalf.

Test of Controls if user auditor expects controls at SO to operate effectively then he shall perform one or more of the following

Obtaining a Type 2 report

Visiting SO to perform appropriate Test of Controls

Using Another Auditor to perform procedures at SO

4. Sub-service organisation

→ If a SO uses a Sub-SO, the service auditor's report may either include or exclude the controls of Sub-SO in his type 1 or type 2 report. These two methods of reporting are known as the inclusive method and the carve-out method, respectively.

→ If the Type 1 or Type 2 report excludes the controls at a Sub SO, and the services provided by the Sub-SO are relevant to the audit of the UE's FS , the user auditor is required to apply the requirements of this SA in respect of the Sub-SO.

5. Reference to the work of a service auditor in the user auditor's report



**Watch Revision Videos on our Youtube Channel- The Audit Academy
to get maximum benefit of these notes**

Visit our website- www.theauditacademy.com to join our Youtube channel, telegram channel and to Download our app.