Hyderabad Branch of SIRC of ICAI
&
Hyderabad Branch of SICASA

E-Newsletter

EDIFY

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CONTENTS

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Committee Member

Aditi Kulkarni
Committee Member

Sardarni Manpreeth Kaur
Committee Member

Reach out for us; Instagram: sicasa_hyd, Twitter: SICASAhyd,

E-Mail: sicasahyderabad@outlook.com, Whatsapp : 6302783477,

Telegram :SICASA Hyderabad, Facebook: sicasahyd

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Tech Mithra:

"Tech Mithra" is an initiative taken by SICASA Hyderabad to make CA Students familiar with the Technological Changes happening around the world and how those changes would impact our Profession way forward.

In this Modern Era, its very important to stay updated with the usage of Technology. Though many of us maybe strong in the fundamentals of subjects & Concepts but might lack the application knowledge due to unawareness of usage of things around in this digital times.

We SICASA Hyderabad are trying to bridge that gap and help the fellow students by publishing a series of Topics which are inter-related in a sequential manner such that student can gain at least the basics of the topics and their impact on us moving ahead in their career path.

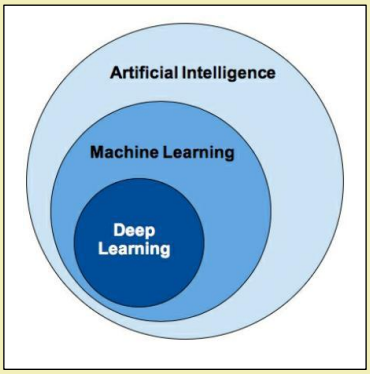
After learning 1.Artificial Intelligence

2.Machine Learning , this month we bring

3.Deep Learning

Series: 3- Deep Learning

Deep learning is an artificial intelligence function that imitates the workings of the human brain in processing data and creating patterns for use in decision making. It is a subset of machine learning in artificial intelligence (AI) that has networks capable of learning unsupervised from data that is unstructured or unlabeled. Also known as deep neural learning or deep neural network.



In deep learning, a computer model learns to perform classification tasks directly from images, text, or sound. Deep learning models can achieve state-of-the-art accuracy, sometimes exceeding human-level performance. Models are trained by using a large set of labeled data and neural network architectures that contain many layers.

How it works ?

Most deep learning methods use neural network architectures, which is why deep learning models are often referred to as deep neural networks. The term “deep” usually refers to the number of hidden layers in the neural network. Traditional neural networks only contain 2-3 hidden layers, while deep networks can have as many as 150.

Deep learning models are trained by using large sets of labeled data and neural network architectures that learn features directly from the data without the need for manual feature extraction. Deep learning architectures have been applied to fields including computer vision, speech recognition, natural language processing, audio recognition, social network filtering, machine translation, bioinformatics, drug design, medical image analysis, material inspection and board game programs, where they have produced results comparable to and in some cases surpassing human expert performance.

Neural Networks:

- Artificial neural networks (ANNs) were inspired by information processing and distributed communication nodes in biological systems. ANNs have various differences from biological brains. Specifically, neural networks tend to be static and symbolic, while the biological brain is dynamic (plastic) and analog.

- A Deep neural network (DNN) is an artificial neural network (ANN) with multiple layers between the input and output layers. The DNN finds the correct mathematical manipulation to turn the input into the output, whether it be a linear relationship or a non-linear relationship. The network moves through the layers calculating the probability of each output supervised models are trained through examples of a particular set of data, unsupervised models are only given input data and don't have a set outcome they can learn from. While supervised models have tasks such as regression and classification and will produce a formula, unsupervised models have clustering and association rule learning.

Deep Learning Models

1. Supervised Models – Classic, Convolutional, Recurrent neural networks

- Classic Neural Networks can also be referred to as Multilayer perceptrons. The perceptron model was created in 1958. Its singular nature allows it to adapt to basic binary patterns through a series of inputs, simulating the learning patterns of a human-brain. A Multilayer perceptron is the classic neural network model consisting of more than 2 layers

- Convolutional Neural Network (CNN) is more capable and advanced variation of classic artificial neural networks. CNN built to handle a greater amount of complexity around pre-processing, and computation of data. CNNs were designed for image data and might be the most efficient and flexible model for image classification problems. Although CNNs were not particularly built to work with non-image data, they can achieve stunning results with non-image data as well.

- Recurrent Neural Networks (RNNs) were invented to be used around predicting sequences. LSTM (Long short-term memory) is a popular RNN algorithm with many

- possible use cases like one-one, one-many, many-one, many-many.

2. Unsupervised Models – Self-Organizing Maps, Boltzmann Machines, AutoEncoders

- Self-Organizing Maps (SOMs) work with unsupervised data and usually help with dimensionality reduction (reducing how many random variables you have in your model). The output dimension is always 2-dimensional for a self-organizing map. So if we have more than 2 input features, the output is reduced to 2 dimensions.

- Boltzmann machines don't follow a certain direction. All nodes are connected to each other in a circular kind of hyperspace like in the image. A Boltzmann machine can also generate all parameters of the model, rather than working with fixed input parameters. Such a model is different from all the above deterministic models. Restricted Boltzmann Machines are more practical.

- Autoencoders work by automatically encoding data based on input values, then performing an activation function, and finally decoding the data for output. A bottleneck of some sort imposed on the input features, compressing them into fewer categories. Thus, if some inherent structure exists within the data, the autoencoder model will identify and leverage it to get the output.

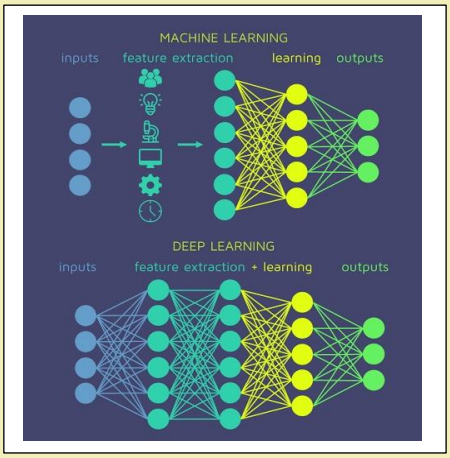
How to Create and Train Deep Learning Models?

- Training from Scratch: To train a deep network from scratch, you gather a very large labeled data set and design a network architecture that will learn the features and model. This is good for new applications, or applications that will have a large number of output categories. This is a less common approach because with the large amount of data and rate of learning, these networks typically take days or weeks to train.

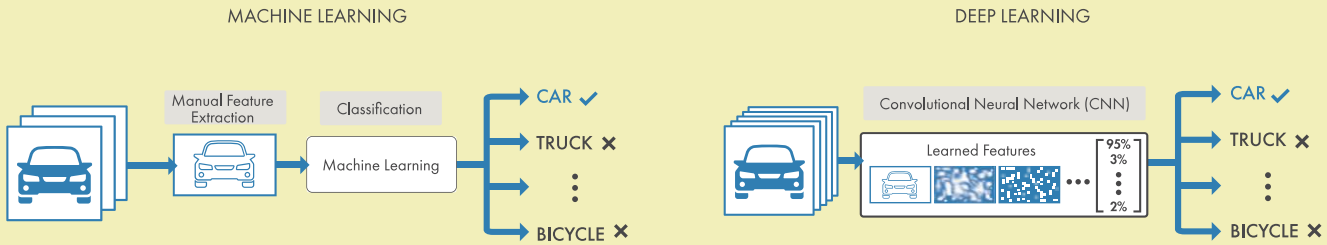
- Transfer Learning: Most deep learning applications use the transfer learning approach, a process that involves fine-tuning a pretrained model. You start with an existing network and feed in new data containing previously unknown classes. After making some tweaks to the network, you can now perform a new task. This also has the advantage of needing much less data (processing thousands of images, rather than millions), so computation time drops to minutes or hours. Transfer learning requires an interface to the internals of the pre-existing network, so it can be surgically modified and enhanced for the new task.

- Feature Extraction: A slightly less common, more specialized approach to deep learning is to use the network as a feature extractor. Since all the layers are tasked with learning certain features from images, we can pull these features out of the network at any time during the training process. These features can then be used as input to a machine learning model such as support vector machines.

Machine Learning Vs Deep Learning:



- Machine learning workflow starts with relevant features being manually extracted from images. The features are then used to create a model that categorizes the objects in the image.
- Deep learning workflow, relevant features are automatically extracted from images. In addition, deep learning performs "end-to-end learning" – where a network is given raw data and a task to perform, such as classification, and it learns how to do this automatically.
- Deep learning, a subset of machine learning, utilizes a hierarchical level of artificial neural networks to carry out the process of machine learning. The artificial neural networks are built like the human brain, with neuron nodes connected together like a web. While traditional programs build analysis with data in a linear way, the hierarchical function of deep learning systems enables machines to process data with a nonlinear approach.



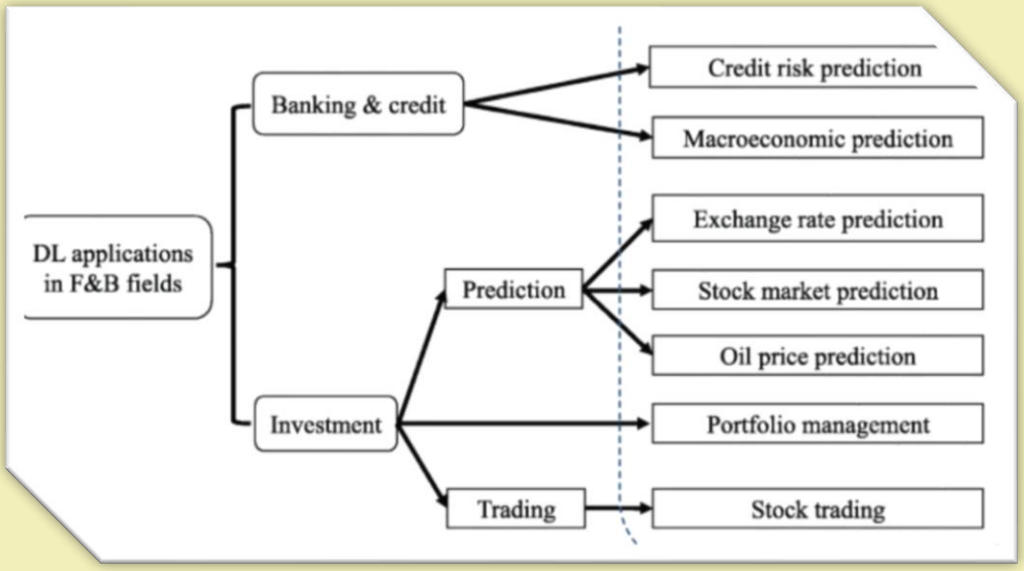
Comparing a machine learning approach to categorizing vehicles (left) with deep learning (right).

DEEP LEARNING IN AUDITING:

The capabilities of deep learning for text understanding, speech recognition, visual recognition, and structured data analysis fit into the audit environment. Based on these four capabilities, deep learning serves 2 major functions in supporting audit decision making: Information identification and Judgment support.

An audit data warehouse of historical data can be used to construct prediction models, providing suggested actions for various audit procedures. The data warehouse will be updated and enriched with new data instances through the application of deep learning and a human auditor's corrections.

Applications of DL in Finance & Banking:



THE HUMAN BRAIN IS COMPLEX. DEEP LEARNING IS NOT

"Current deep learning is just a data-driven tool. But it's definitely not self-learning yet."
Not only that, but no one yet knows how many neurons are necessary to make it self-learning. Also, from a biological standpoint, relatively little is known about the human brain- certainly not enough to create a system that comes anywhere close to imitate it.

Future Trends of Deep Learning

- Current growth of Deep Learning research and industry applications demonstrate its "ubiquitous" presence in every facet of AI — be it Neuro-linguistic programming (NLP) or computer vision applications.
- With time and research opportunities, unsupervised learning methods may deliver models that will closely mimic human behaviour.
- The apparent conflict between consumer data protection laws and research needs of high volumes of consumer data will continue.
- Deep learning technology's limitations in being able to "reason" is a hindrance to automated, decision-support tools.
- The future ML and DL technologies must demonstrate learning from limited training materials, and transfer learning between contexts, continuous learning, and adaptive capabilities to remain useful.
- Though globally popular, deep learning may not be the only saviour of AI solutions
- If deep learning technology research progresses in the current pace, developers may soon find themselves outpaced and will be forced to take intensive training.

Self – supervised Learning: The idea behind self-supervised learning is to develop a deep learning system that can learn to fill in the blanks. If we show a system a piece of input, a text, a video, even an image, you suppress a piece of it, mask it, and you train a neural net or your favourite class or model to predict the piece that's missing. It could be the future of a video or the words missing in a text.

Future of Deep Learning:

self-supervised learning is the future. This is what's going to allow to our AI systems, deep learning system to go to the next level, perhaps learn enough background knowledge about the world by observation, so that some sort of common sense may emerge. The next revolution in AI will not be supervised, nor purely reinforced.

Money Laundering: A Global Outlook

Abstract

Every year, huge amounts of funds are obtained by illegal activities such as drugs, racketeering, kidnapping, gambling, human trafficking, smuggling and armed robbery. These illegally obtained funds need a process, which is called laundering, in order to appear legitimately obtained and become usable. Money laundering is a number of criminal acts to generate a profit for the individual or group that carries out the act. Criminals do this by disguising the sources money, changing its form or moving the funds from the origin to another place so that they will attract less attention. These activities enable the criminal to enjoy these profits without jeopardizing their source.

This paper focuses on three different aspects of money laundering:

- Money laundering from a macro-economic view- its mechanism, causes and effects on global economy.
- An overview of the Financial Action Task Force.
- An overview of the Prevention of Money Laundering Act, 2002 in India.

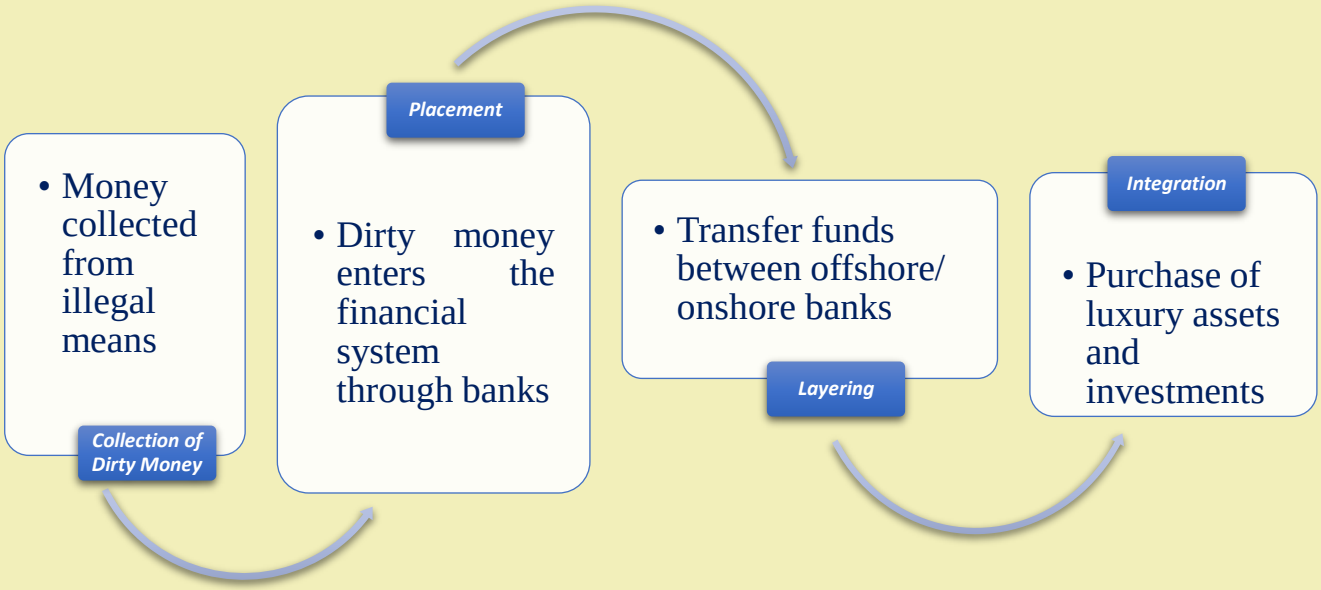
What is Money Laundering?

Money laundering is the process of showing the source of money obtained from illegal revenues freely as a legal income. Criminals use this process as an attempt to hide the illegal source of their income. By passing the money through complex transfers and transactions, or through a series of businesses, the money is “cleaned” of its illegitimate origin and made to appear as legitimate business profits.

What is Need to Launder Money?

A major business problem of large, organized criminal enterprises such as drug smuggling operations is that they end up with huge amounts of cash that they need to conceal in order to avoid attracting investigation by legal authorities. The recipients of such large amounts of cash also do not want acknowledge it as their income, thereby evading income tax liabilities.

To deal with the problem of having millions in cash obtained from illegal activities, criminal enterprises create ways of "laundering" the money to obscure its illegal nature. In short, money laundering aims to disguise money made illegally by working it into a legitimate financial system, such as bank or business.



How does Money laundering work?

Money laundering typically occurs in three phases:

1. Initial entry or placement is the initial movement of an amount of money earned through criminal activity into some legitimate financial network or institution.
2. Layering is the continuing transfer of the money through multiple transactions, forms, investments or enterprises, to make it virtually impossible to trace the money back to its illegal origin.
3. Final Integration is when the money is freely used legally without the necessity to conceal it any further.

Money laundering- An example

One of the most commonly used and simpler methods of "washing" money is by funneling it through a restaurant or other business, like casinos, where there are a lot of cash transactions. In fact, the origin of the term "money laundering" comes from the infamous gangster Al Capone of the United States who used a chain of laundry-service shops or laundromats which he owned to launder huge amounts of cash.

The money laundering process usually goes something like the following:

- Initial Placement:

A criminal or criminal organization owns a legitimate restaurant business. Money obtained from illegal activities is gradually deposited into a bank through the restaurant. The restaurant reports daily cash sales much higher than what it actually takes in.

For example, the restaurant sales INR 20,000 in cash in one day. An additional INR 20,000 which is coming from illegal activities will be added to that amount and the restaurant will falsely report that it took INR 40,000 in cash sales for the day. The money has now been deposited in the restaurant's legitimate bank account and appears as an ordinary deposit of restaurant's business proceeds.

- Layering the money

When the restaurant shows higher income than it generates, there are chances that it might have to incur high tax liability. To deal with this tax issue and to further disguise the criminal source of the extra deposited funds, the restaurant may invest the money in another legitimate business such as real estate. Things are further obscured from the authorities by using shell companies or holding companies that control several business enterprises that the laundered money may be funneled through.

The layering often involves passing the money through multiple transactions, accounts, and companies. It may pass through a casino to be disguised as gambling winnings, go through one or more foreign currency exchanges, be invested in the financial markets, and ultimately be transferred to accounts in offshore tax havens where banking transactions are subject to much less scrutiny and regulation. The multiple pass through from one account to another make it increasingly difficult for the money to be traced and tied back to its original illegal source.

- Final Integration

In the final phase of money laundering, the money is placed into legitimate business or personal investments. It may be used to purchase high-end luxury goods, such as jewelry or automobiles. It may even be used to create yet another business entity through which future amounts of illegal cash will be laundered.

At this stage, the money has, ideally, been sufficiently laundered so that the criminal or criminal enterprise can use it freely without resorting to any criminal tactics. The money is typically then either legitimately invested or exchanged for expensive assets such as property.

Involvement of Banks in Money laundering

Major financial institutions, such as banks, are frequently used for money laundering. All that is necessary is for the bank to be non-compliant in its reporting procedures. The lack of regulation enforcement enables criminals to deposit large sums of cash without triggering the deposits being reported to central bank authorities or government regulatory agencies.

In the recent past, prestigious financial institutions, such as the Denmark based Danske Bank and HSBC, have been found guilty of assisting or enabling money laundering by failing to properly report large deposits of cash. HSBC was found to have facilitated the laundering of almost USD 1 billion in 2012, and Dankse Bank branches were accused of having taken in a whooping USD 200 billion in Russian mafia money over a span of eight years.

What influence does Money laundering have on Economic Development?

Launderers are continuously looking for new routes for laundering their funds. Economies with growing or developing financial centers, but inadequate controls are particularly vulnerable as compared to established financial center countries, which implement comprehensive anti-laundering regimes.

Differences between national anti-money laundering systems will be exploited by launderers, who tend to move their networks to countries and financial systems with weak or ineffective counter-measures.

Some might argue that developing economies cannot afford to be too selective about the sources of capital they attract. But postponing action is dangerous. The more it is deferred, the more entrenched organized crimes can become.

As with the damaged integrity of an individual financial institution, there is a damping effect on foreign direct investment when a country's commercial and financial sectors are perceived to be subject to the control and influence of organized crime. Fighting money laundering and terrorist financing is therefore a part of creating a business friendly environment which is a precondition for lasting economic development.

Money Laundering: Tax Evasion in progress

Income Tax Laws do not distinguish between legal and illegal income. Hence, even if any income is earned from illegal or illegitimate source, it shall still be taxable under the income tax laws. But, when an income is involved in money laundering, it is kept hidden from the authorities. Therefore, there is no chance that it was brought under the Income Tax regime. Moreover, in money laundering the income is shuffled through various channels and funneled to those countries which are either low or under no tax jurisdiction. Some of these countries include Cayman Islands, Andorra, Bermuda and United Arab Emirates. This also leads to Base Erosion and Profit Shifting, which erodes the tax base of an economy. This eventually affects the revenue generated by the Government of the country.

Combating Money Laundering

- ✓ Financial Action Task Force Recommendations

The Financial Action Task Force (FATF) is an intergovernmental organization that designs and promotes policies and standards to combat financial crime. Recommendations created by FATF target money laundering, terror financing, and other threats to the global financial system. The FATF was created at the behest of the Group of Seven (G7) Industrial economies, but at present there are 39 members, including India as one.

The FATF makes recommendations for combating financial crimes, review members' policies and procedures, and seeks to increase acceptance of anti-money laundering regulations across the globe. Since, persons involved in money laundering alter their technique to avoid apprehension, the FATF updates their recommendations in every few years.

- ✓ Prevention of Money Laundering Act, 2002

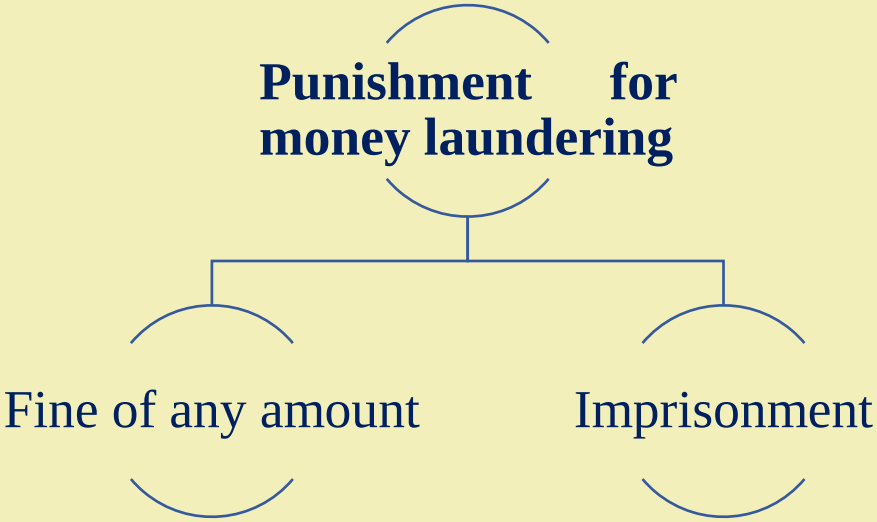
In India, the Prevention of Money Laundering Act, 2002 was enacted to prevent money laundering. This Act aims to prevent money laundering and provide for confiscation of property derived from or involved in money laundering and for matters connected therewith or incidental thereto.

To further strengthen the existing legal framework and to effectively combat money laundering, terror financing and cross border economic offenses, Amendment Act, 2009 was passed.

The new law seeks to check use of black money for financing terror activities. Financial intermediaries like banks and money changers have been brought into this purview. They also include casinos under the reporting regime.

The passage of the Amendment Act 2009 has enables India's entry into The Financial Action Task Force, an inter-governmental body that aims to combat money laundering.

Punishment under Prevention of Money Laundering Act,2002.



The imprisonment shall be not less than 3 years but which may extend up to 7 years. However, if any person commits any offence of money laundering under paragraph 2 of Part A of Schedule, under the Narcotic Drugs and Psychotropic Substances Act, 1985, then he shall be punishable with imprisonment for a term of not less than 3 years but which extend up to 10 years. Some of these offences includes:

- Dealing in poppy straw, opium and cannabis.
- Financing illicit human trafficking
- Abetment and criminal conspiracy.

Moreover, if any property is involved in money laundering, as a proceeds of crime, it may lead to attachment of such property and eventually leading to adjudication and its confiscation.

Conclusion-Money Laundering is more than just siphoning of funds

Money laundering is the moving of illegally acquired cash through financial systems so that it appears to be legally acquired. Money Laundering is not just siphoning of funds, but it is the conversion of money which is illegally obtained. International cooperation is necessary to fight against money laundering. It cannot be effectively controlled without the international cooperation of finance ministries, central banks, financial institutions, and financial regulators. The legal enforcement and punishment is the most effective measure against money laundering. In this respect, countries must criminalize all forms of money laundering, and establish efficient mechanism and institutions which are capable of enforcing regulations. In order to prevent them from being used by criminals for money laundering the financial institutions should know and record the true identity of their customers, record the details of transactions, report suspicious transactions and activities and respond to information requests from appropriate government authorities. In Prevention of Money Laundering Act, 2002, these are covered under the duties of reporting entities like banks, money changers and financial institutions. Even casinos are brought under the purview of money laundering law in India.

As a result, finance ministries, central banks, financial institutions and financial regulators worldwide must continue to focus on money laundering and the efforts to combat financial abuse, including money laundering must be strengthened.

Diganta Chowdhury

ERO 0203708

E-Way Bill under GST

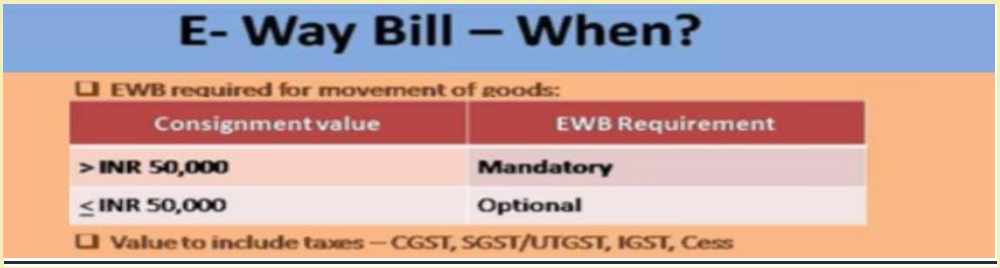
Introduction

- E-Way Bill is a document required to be carried by a person in charge of the conveyance carrying any consignment of goods of value exceeding Rs. 50,000 as mandated by the Government in terms of Rule 138 & Section 68 of the Goods and Services Tax Act.

- E-Way Bill was launched by the govt. to track movement of Goods.

- E-Way Bill is generated from https://ewaybillgst.gov.in/ by the taxpayer or transporter. An E-Way Bill needs to be generated before the commencement of movement of goods or consignment. It contains the details of the Sender, Receiver and the Transporter.

When E-Way Bill is generated



- E-Way Bill is generated when there is a movement of goods in a vehicle/ conveyance of value more than Rs. 50,000 :-

a) in relation to a supply or
b) for reasons other than a supply or
c) due to inward supply from an unregistered person, shall, before commencement of such movement, furnish information relating to the said goods in Part A of FORM GST EWB-01, electronically, on the common portal.

- The limit of Rs. 50,000 shall be used for individual invoice or in aggregate of all invoices in a vehicle/conveyance.

- Value of consignment means the Value of goods mentioned in the Invoice/ Bill of supply/ challan and shall include the taxes in the form of CGST/ SGST/ IGST as well. It excludes the value of any exempt goods that are billed together with taxable goods.

Total Invoice Value	XXX
(-) Exempted Supply	(XXX)
Value	XXX

- Example , If total Invoice Value is Rs. 75,000 & Exempted SS is Rs. 10,000, then as Value after deducting exempted Supply (Rs. 65,000) exceeds Rs. 50,000, so E-Way Bill is required in this case.

- Mere Supply of Goods can't lead to generation of E-Way Bill, it is the movement of Goods + Value exceeding Rs. 50,000 which are the deciding factors.

Who can generate E-Way Bill ?

- Registered Person
- Unregistered Persons
- Transporter

Documents or details required for generation of E-Way Bill

Mainly following Documents or details are required for generation of E-Way Bill :-

- Invoice
- Registered Mobile No.
- Product details
- Recipient details
- Transporter details

Where E-Way Bill is Compulsorily required ?

E-Way Bill is compulsorily required in following Cases (Irrespective of Amount) :-

a) Job Worker

Where goods are sent by a principal in 1 State/UT to a job worker in any other State/UT, either by Principal or Job worker, if registered.

b)Handicrafts Goods

Where Handicraft Goods are transported from 1 State/UT to another State/UT by a person who has been exempted from the requirement of obtaining registration under Section 24 (Mandatory Registration), the E-way Bill can be generated by said person.

Where E-Way Bill is not Required ?

There are certain cases where E-Way Bill is not required, which are listed as follows :-

a)The mode of transport is non-motor vehicle.

b)Movement of goods caused by defence formation under Ministry of Defence as a consignor or consignee.

c)Goods transported from Customs port, airport, air cargo complex or land customs station to Inland Container Depot (ICD) or Container Freight Station (CFS) for clearance by Customs.

d)Goods transported under Customs supervision or under customs seal.

e)Goods specified as exempt from E-Way Bill requirements in the respective State/Union territory GST Rules.

f)Goods transported under Customs Bond from ICD to Customs port or from one custom station to another.

g)Transit cargo transported to or from Nepal or Bhutan.

h)Empty Cargo containers are being transported.

i)Consignor transporting goods to or from between place of business and a weighbridge for weighment at a distance of 20 kms , accompanied by a Delivery challan.

j)Goods being transported by rail where the Consignor of goods is the Central Government, State Governments or a local authority.

k)Transport of certain specified goods- Includes the list of exempt supply of goods, Annexure to Rule 138(14), goods treated as no supply as per Schedule III, Certain schedule to Central tax Rate notifications.

Some of those goods are :-

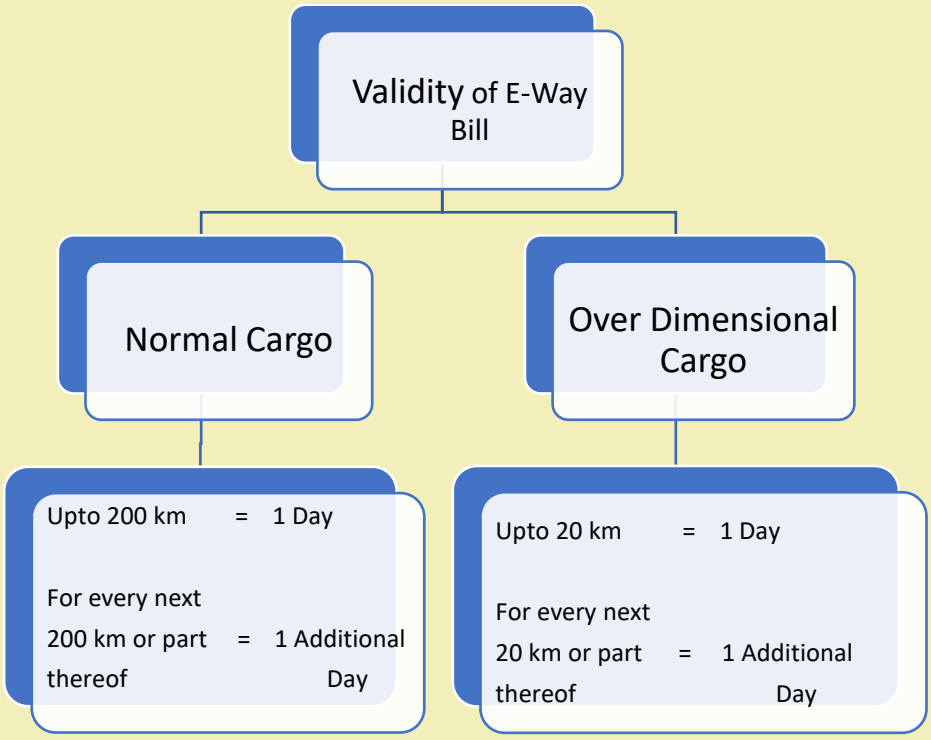
- Liquefied petroleum gas for supply to household and non-domestic exempted category customers.
- Kerosene oil sold under PDS.
- Postal baggage transported by Department of Posts.
- Natural or cultured pearls and precious or semi-precious stones; precious metals and metals clad with precious metal.
- Jewellery, goldsmiths' and silversmiths' wares and other articles.
- Currency.
- Used personal and household effects.
- Unworked and worked coral.

Modes of Generation of E-Way Bill

Following are various modes of generation of E-Way Bill :-
a)Web (Online)
b) Android App (The IMEI of the phone and the registered mobile Number has to be given)
c)SMS based (through registered Mobile Number)
d)Excel based upload is provided for bulk generation

Validity of E-Way Bill

Validity of the E-Way Bill or Consolidated E-Way Bill depends upon the distance the goods have to be transported .



Extension of Validity of E-Way Bill

- Validity of the E-Way Bill can be extended, if consignment does not reach the destination within the validity period due to reasons like natural calamities, law and order issues, trans-shipment delay, accident of conveyance, etc.
- This option to extend the validity of E-Way Bill is before 8 hours and after 8 hours of expiry of the validity. The reason for extension needs to be given while extending the validity period along with from place (current place), approximate distance to travel and Part-B details.

Cancellation of Validity of E-Way Bill

- Provision for Cancellation of E-Way Bill within 24 hours by the person who have generated the E-Way Bill.

- The Recipient can reject the E-Way Bill within 72 hours of generation.

Shikhar Gulati

NRO0385069

SA 240-The Auditor's Responsibilities relating to Fraud

Introduction:

The standard adopts a Risk-based approach to Auditor's responsibility relating to fraud in an audit of Financial Statements. Standard explains how the material misstatements in the financial statements due to fraud can be identified, assessed and appropriate procedures to detect can be implemented.

Effective Date:

This SA is effective for audits of financial statements for period beginning on or after April 1, 2009.

Characteristics of Fraud:

1. Misstatements in Financial Statements can be arise from either Error or Fraud. The distinguishing factor between Error and Fraud is the underlying actions performed by management i.e intentional or unintentional.
2. Two types of intentional misstatements that are relevant to audit are Misstatements resulting from i) Fraudulent Financial Reporting and ii) Misappropriation of Assets.

Responsibility of Prevention and Detection of Frauds:

1. The Primary responsibility of prevention and detection of frauds is lies with the management.
2. The Management and Those charged with governance should implement the internal controls for prevention of frauds.

Responsibilities of Auditor:

1. An Auditor conducting an Audit in accordance with SA's is responsible for obtaining the reasonable assurance that the financial statements are free from Material Misstatements i.e., From Error or Fraud.
2. While obtaining the reasonable assurance, the auditor is responsible for maintaining professional skepticism throughout the audit.
3. As inscribed in SA 200, owing to certain inherent limitations of an audit, an Auditor cannot obtain absolute Audit assurance that the Financial Statements are free from material misstatement whether due to Fraud or Error.

4. Further, the risk of non detection of fraud is higher than the non detection of Errors. Because, Frauds are intentionally done by Management or Employees and they may involve sophisticated and carefully organized schemes designed to conceal it.
5. The requirements in this SA are designed to assist the auditor in identifying and assessing the risks of material misstatements due to fraud and in designing procedures to detect such misstatement.

Objectives of Auditor:

1. To identify and assess the risks of material misstatement in the Financial Statements due to Fraud
2. To obtain Sufficient appropriate Audit evidence about the assessed risks of material misstatement due to fraud.
3. To respond appropriately to identified or suspected Fraud.

Requirements:

1. Professional Skepticism: In Accordance with SA 200, Auditor should maintain the professional skepticism throughout the audit, recognizing the possibility of material misstatement due to fraud. If the Auditor cannot believe the records and documents provided by the management then, he must investigate further.
2. Risk Assessment Procedures and Related Activities: Perform risk assessment procedures and related activities to obtain an understanding of the entity and its environment , including entity's internal control. The Auditor shall perform the relevant Audit procedures to obtain information in identifying the risks of material misstatements due to Fraud.
3. Discussion among Engagement Team: SA 315 requires discussion among the team members. The discussion shall place particular emphasis on how and where the entity's Financial Statements may be suspectable to material misstatement due to Fraud
4. Management and Others within the Entity: The Auditor shall make enquiries to management regarding :
   a) Management's assessment of risk that the financial statements may be materially misstated due to fraud, including nature, extent, and frequency of such assessments.

b) Management's process of identifying and responding to the risks of frauds within the entity.
c) Enquire those charged with governance whether they have knowledge of any actual, suspected or alleged fraud affecting the entity.

5. Unusual or Unexpected Relationships Identified: The Auditor should evaluate whether there are any unusual or unexpected relationships that have been identified in performing analytical procedures, including those related to revenue accounts, may indicate risks of material misstatements due to fraud.
6. Evaluation of Fraud Risk Factors: The Auditor shall evaluate whether the information obtained from other risk assessment procedures and related activities performed indicates one or more risk factors that may exist. The risk factors exist not only in the case of detected frauds but also which may lead to a fraud.
7. Identification and Assessment of the risks of Material Misstatement due to Fraud: When identifying and assessing the risks of material misstatement due to fraud, the Auditor shall, based on a presumption that there are risks of fraud in revenue recognition, evaluates which types of revenue, revenue transactions or assertions give rise to such risks.
8. Responses to Assesses Risks of Material Misstatement due to Fraud: In accordance with SA330, the Auditor shall determine the overall responses to address the assessed risks of material misstatement due to fraud at the Financial Statement level.

Management Representations: The Auditor shall obtain written representations from management and, where applicable, those charged with governance that :

1. They Acknowledge their responsibility for the design, implementation and maintenance of internal control to prevent and detect Fraud.
2. They have disclosed to the Auditor their knowledge of fraud or suspected fraud affecting entity involving:
   a) Management,
   b) Employees who have significant role in Internal Controls,
   c) Others, where the fraud could have a material affect on the Financial Statements.

Communications to Management and with those charged with Governance:

1. If the Auditor has identified or suspects fraud involving:
   a) Management,
   b) Employees who have significant roles in internal control,

c) Others, where the Fraud results in material misstatements in the Financial Statements,

The Auditor shall communicate these matters to those charged with governance on a timely basis. If the Auditor suspects fraud involving management, the Auditor shall communicate these suspicions to those charged with governance and discuss with them the nature, timing and extent of Audit procedures necessary to complete the Audit.

Communications to Regulatory and Enforcement Authorities:

Further he shall communicate such fraud details to regulatory Authorities if such communication is required as per Applicable Financial Reporting Framework. (E.g., Sec. 143(12) of Companies Act, 2013)

Auditor Unable to Continue Engagement: As a Result of a Fraud or Suspected Fraud resulting to Material Misstatement, if the Auditor encounters exceptional circumstances that bring into question the Auditor's ability to perform the Audit, The Auditor shall:

1. Determine the professional and legal liabilities applicable in the circumstances.
2. Consider whether to withdraw from the engagement, where withdrawal from engagement is legally permitted.
3. If the Auditor withdraws:
   a) Discuss with appropriate level of management and those charged with governance, the Auditor's withdrawal from the engagement and the reasons for withdrawal.
   b) Determine whether there is a legal or professional requirement to report by whom Auditor is appointed.

B Yashwanth

SRO0580042

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