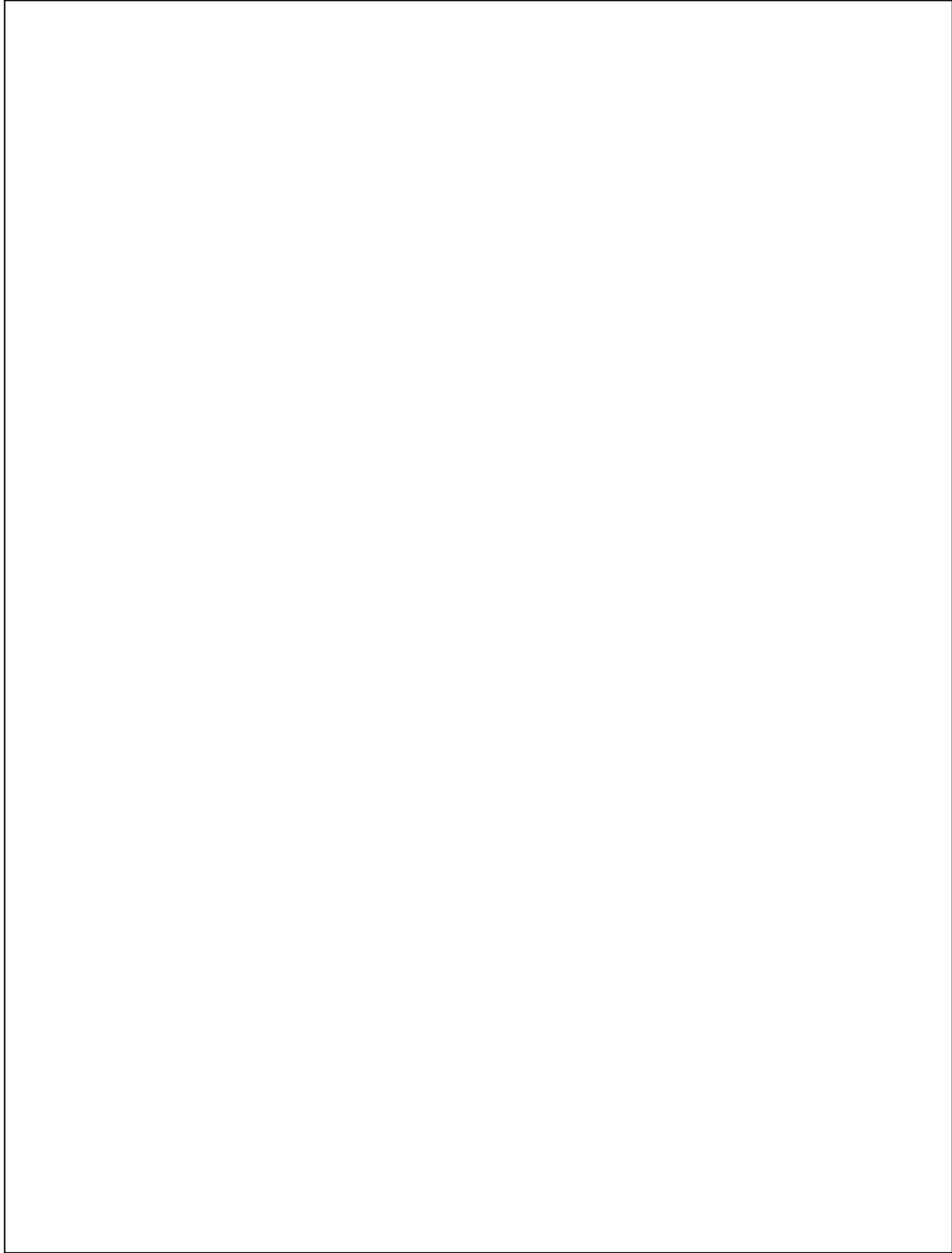


**MEMBERS' HANDBOOK**

**PART VI**

**AUDITING**

**THE INSTITUTE OF  
CHARTERED ACCOUNTANTS OF PAKISTAN**



# **MEMBERS' HANDBOOK**

## **INDEX**

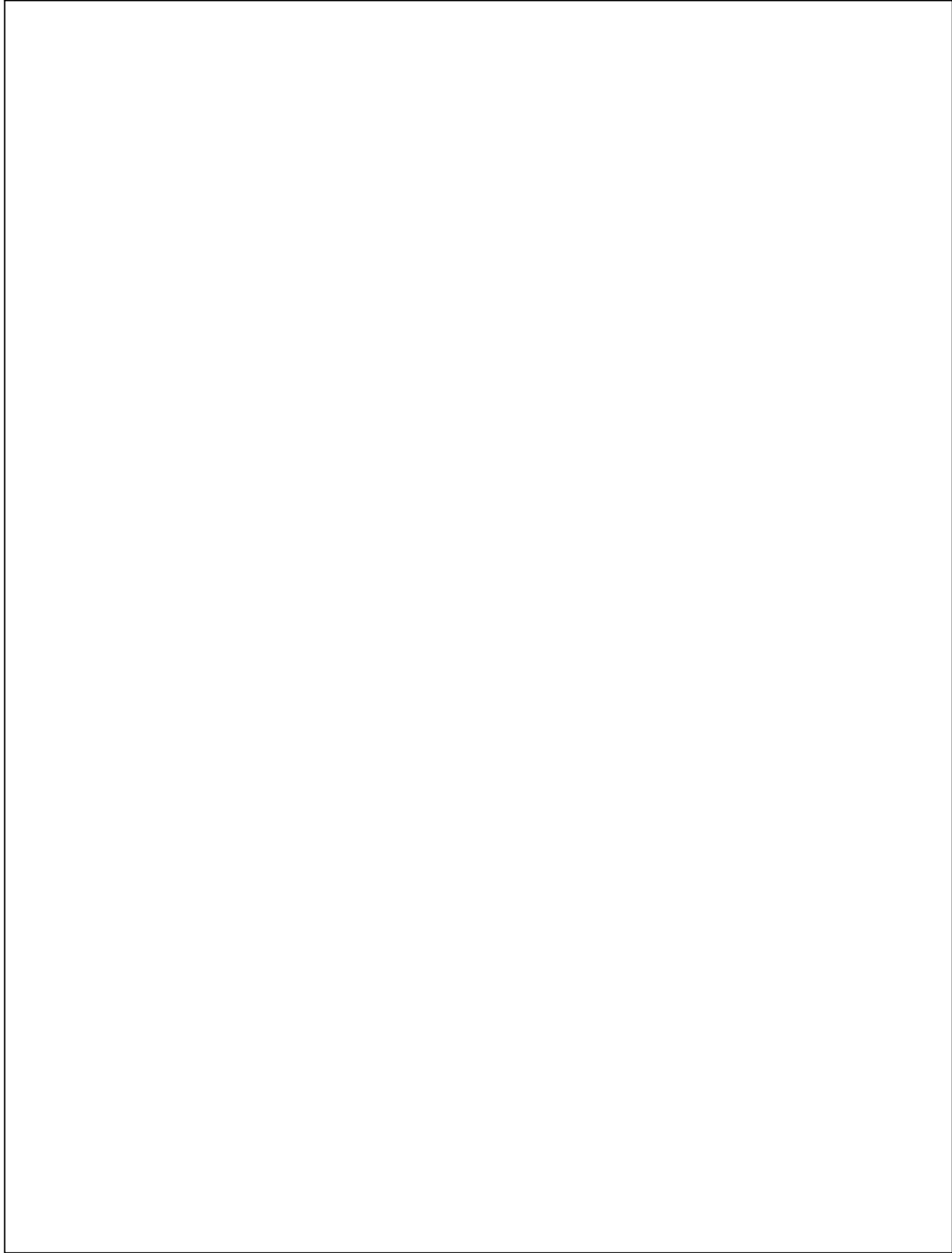
### **PART VI**

#### **AUDITING**

#### **CONTENTS**

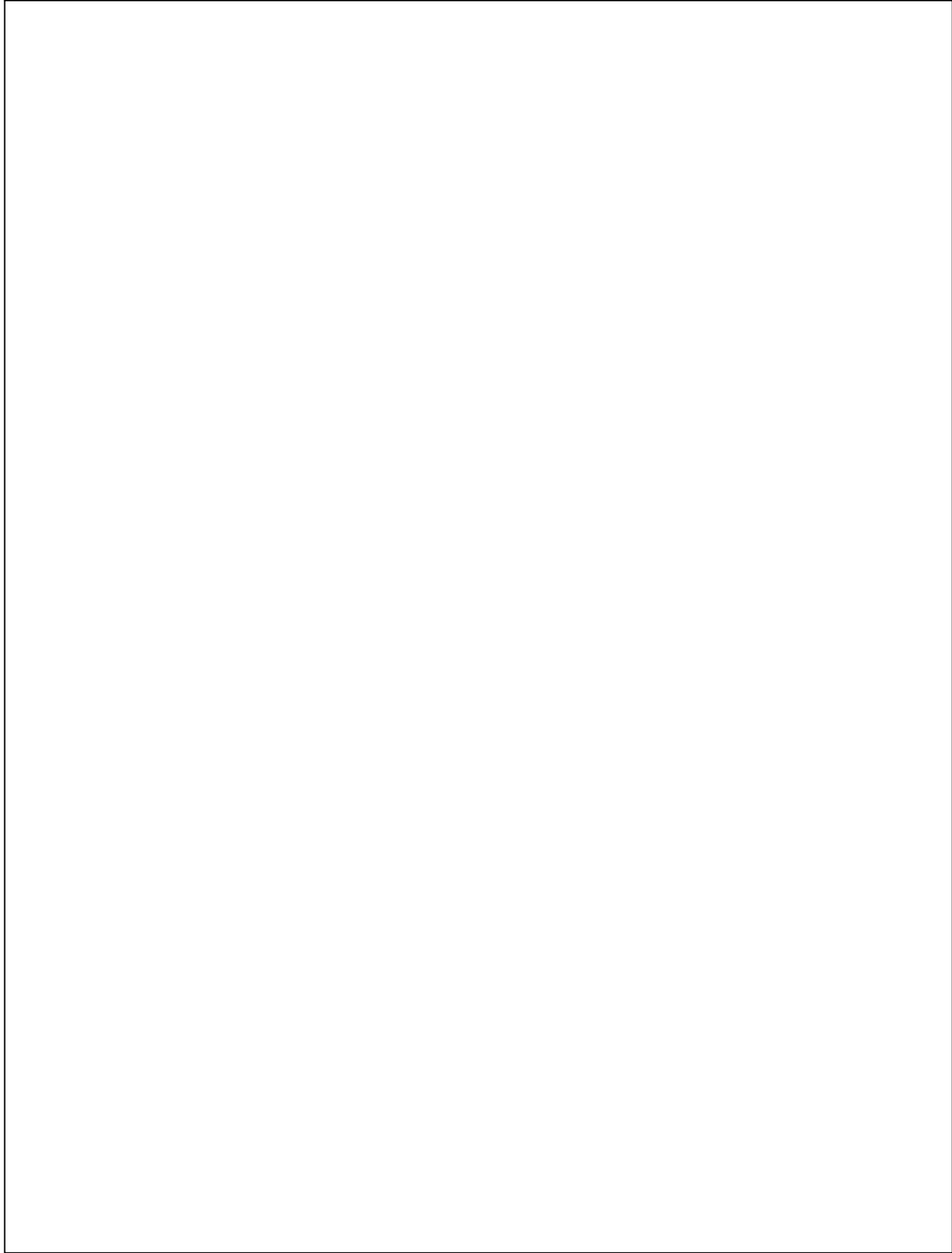
<b>SECTION A</b>	<b>STATEMENTS OF STANDARD AUDITING PARCTICES</b>
<b>SECTION B</b>	<b>STATEMENTS OF AUDITING GUIDELINES</b>
<b>SECTION C</b>	<b>TECHNICAL RELEASES</b>

**THE INSTITUTE OF  
CHARTERED ACCOUNTANTS OF PAKISTAN**



**SECTION-A**  
**Standards**





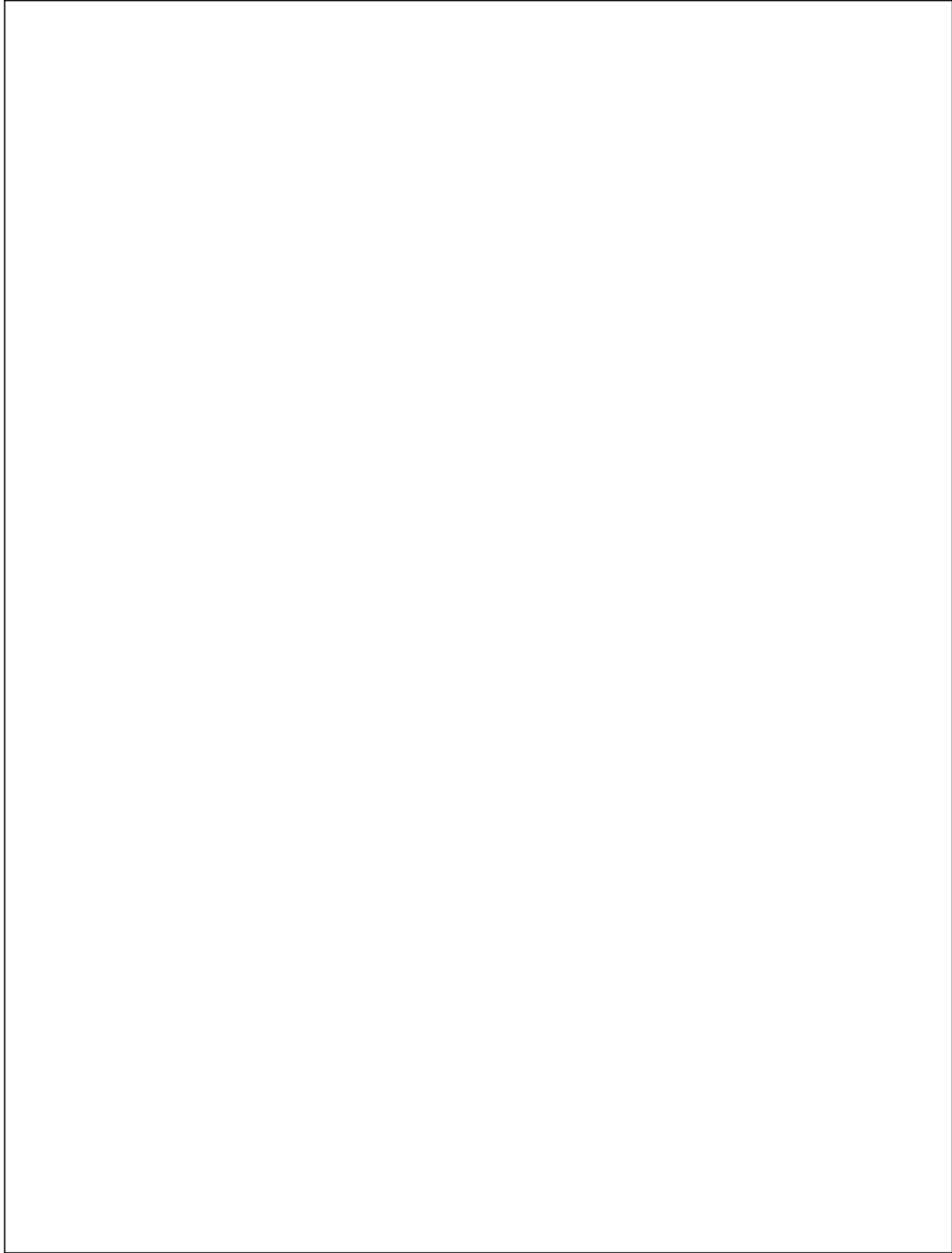
**MEMBERS' HANDBOOK**

**PART VI**

**SECTION A**

**STATEMENTS OF  
STANDARD AUDITING PRACTICES**

**THE INSTITUTE OF  
CHARTERED ACCOUNTANTS OF PAKISTAN**



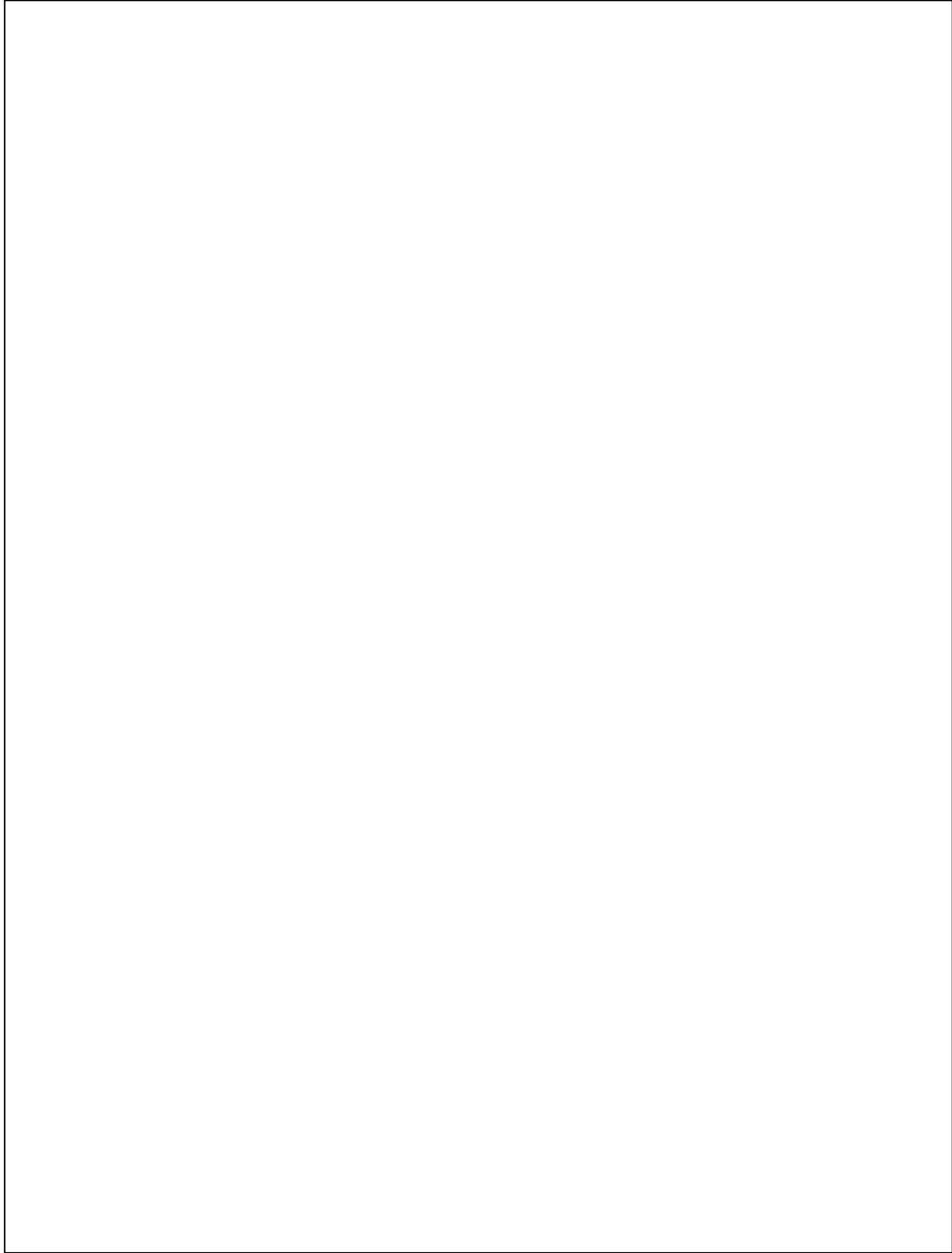
## SECTIONAL INDEX

### PART VI

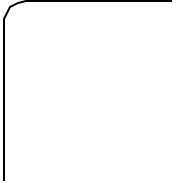
#### SECTION A STATEMENTS OF STANDARD ACCOUNTING PRACTICE

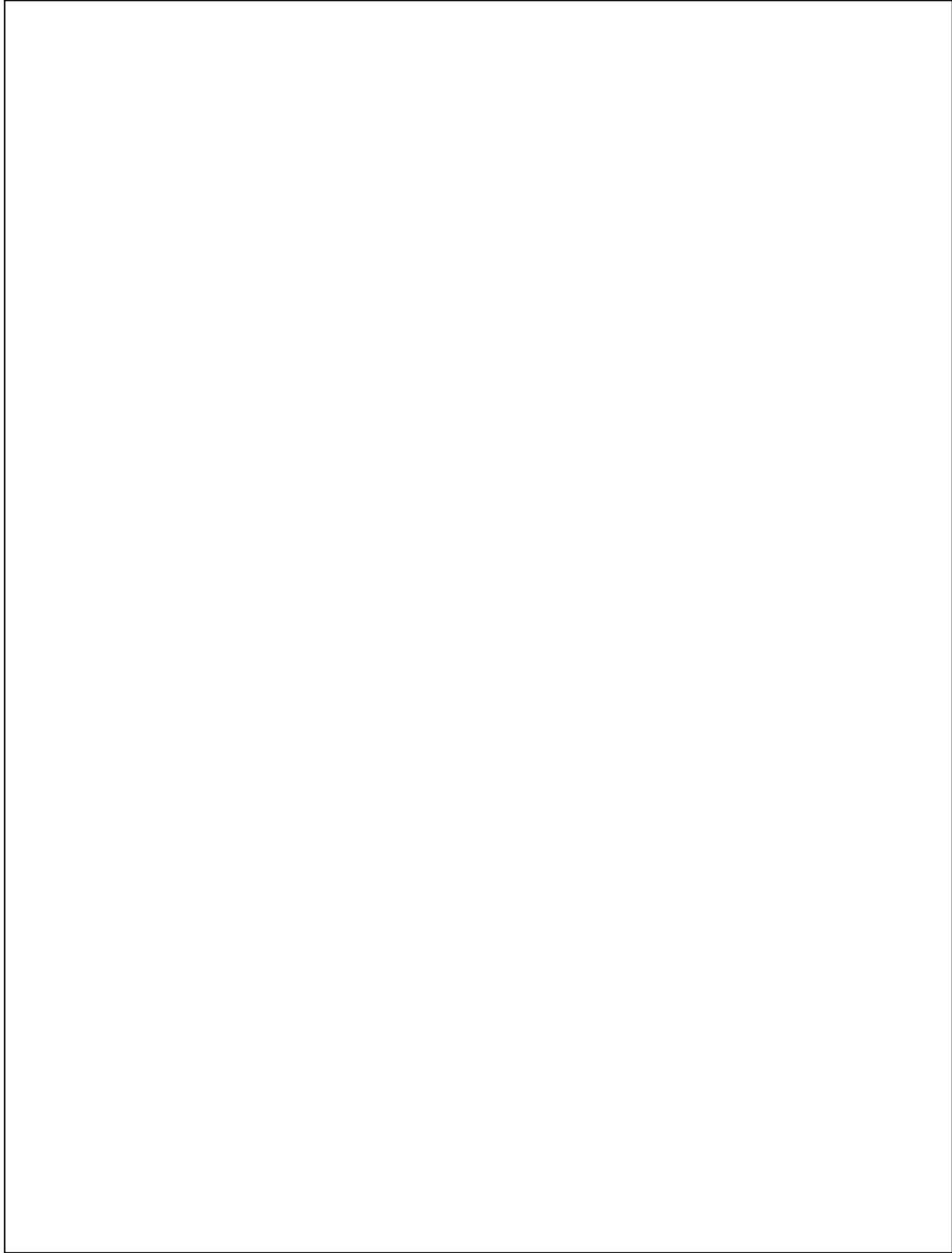
SAP-1	<b>Withdrawn</b> -(Bank Reports for Audit Purposes)
SAP-2	<b>Withdrawn</b> -(Auditors' Report and Qualification)
SAP-3	<b>Withdrawn</b> -(Verification of Inventories)
SAP-4	<b>Withdrawn</b> -(Audit Working Papers)
SAP-5	<b>Withdrawn</b> -(Verification of Debtors Balances-Confirmation by Direct Communication)

**THE INSTITUTE OF  
CHARTERED ACCOUNTANTS OF PAKISTAN**



**SECTION-B**  
**Guidelines**





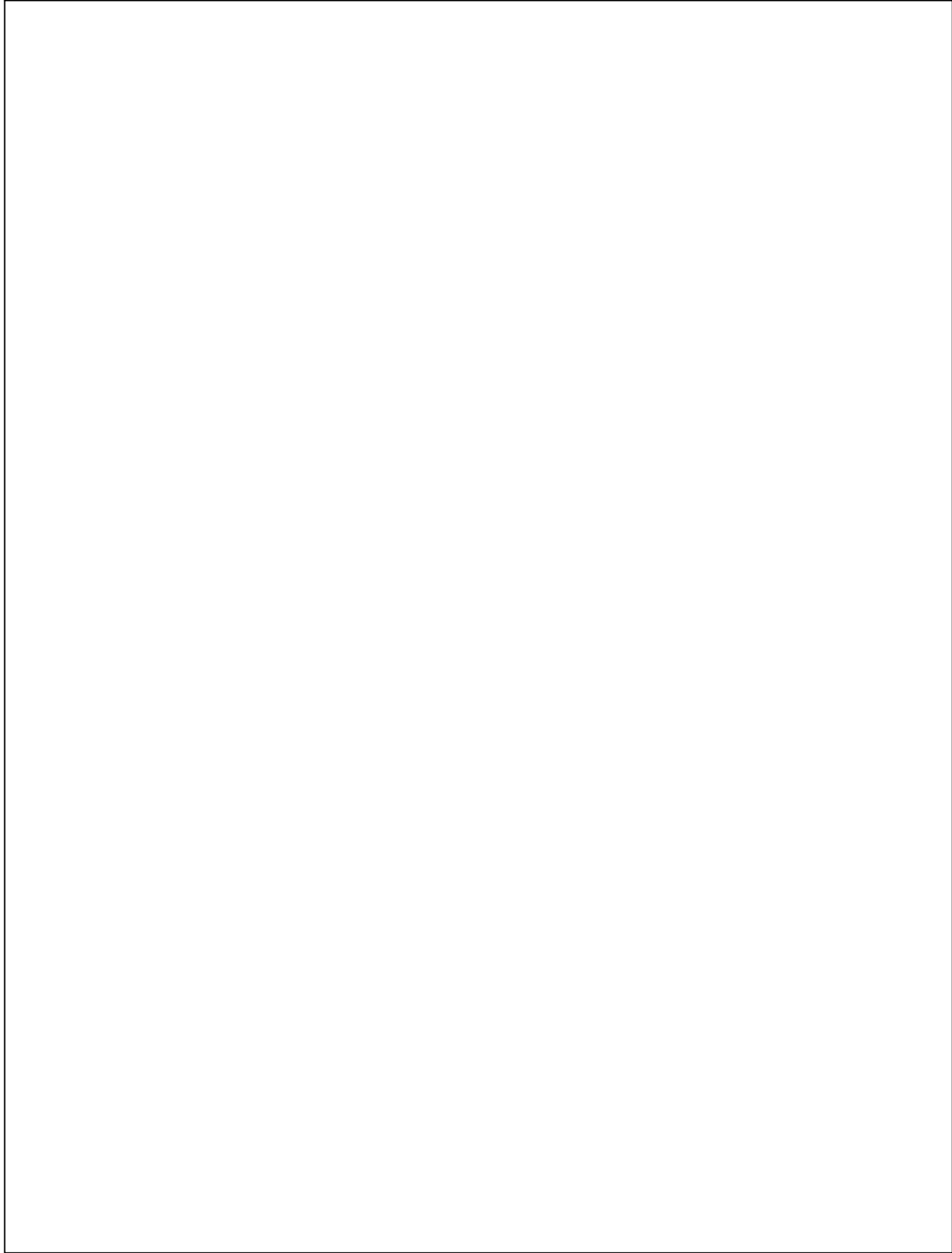
**MEMBERS' HANDBOOK**

**PART VI**

**SECTION B**

**STATEMENTS OF AUDITING GUIDELINES**

**THE INSTITUTE OF  
CHARTERED ACCOUNTANTS OF PAKISTAN**

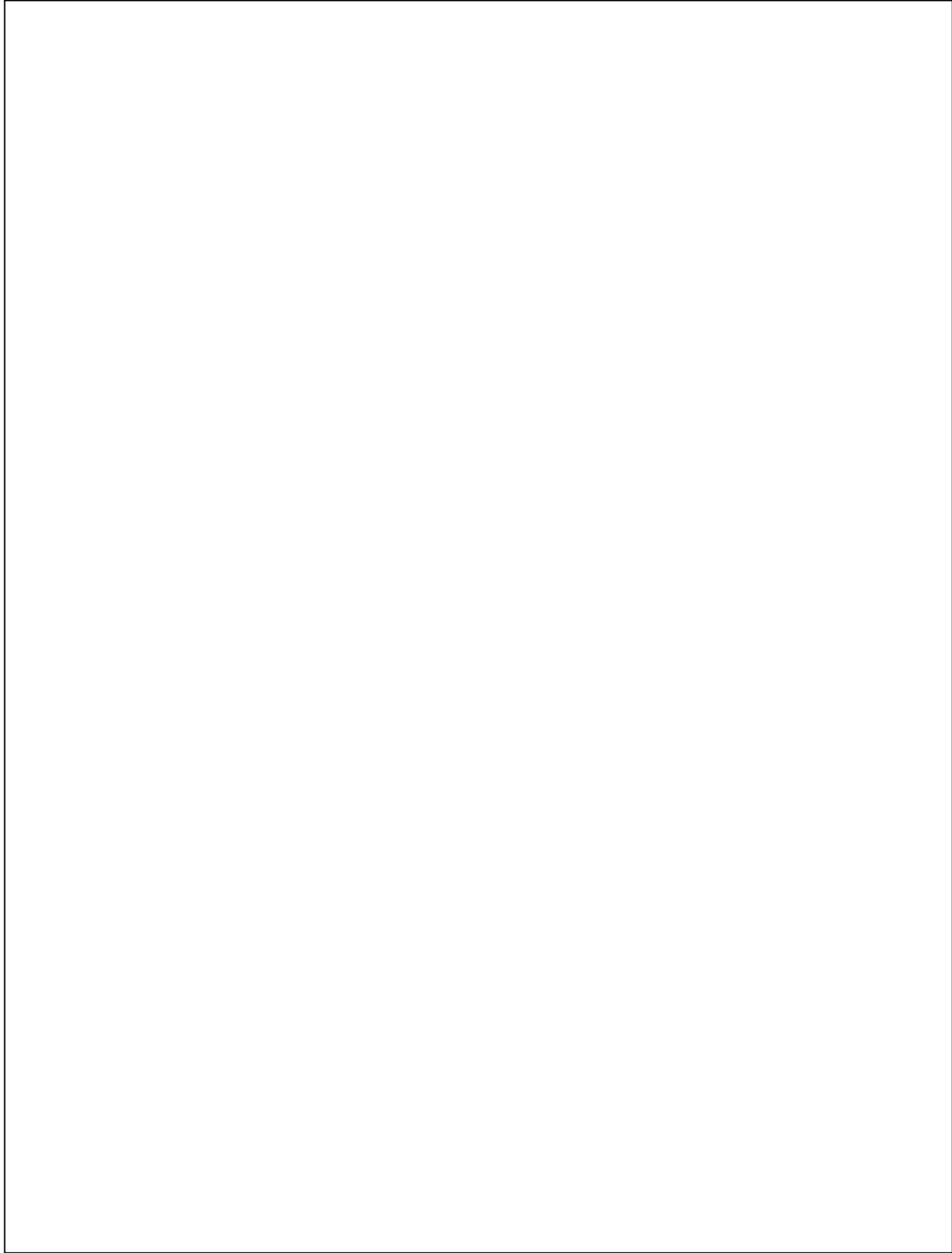


## **SECTIONAL INDEX**

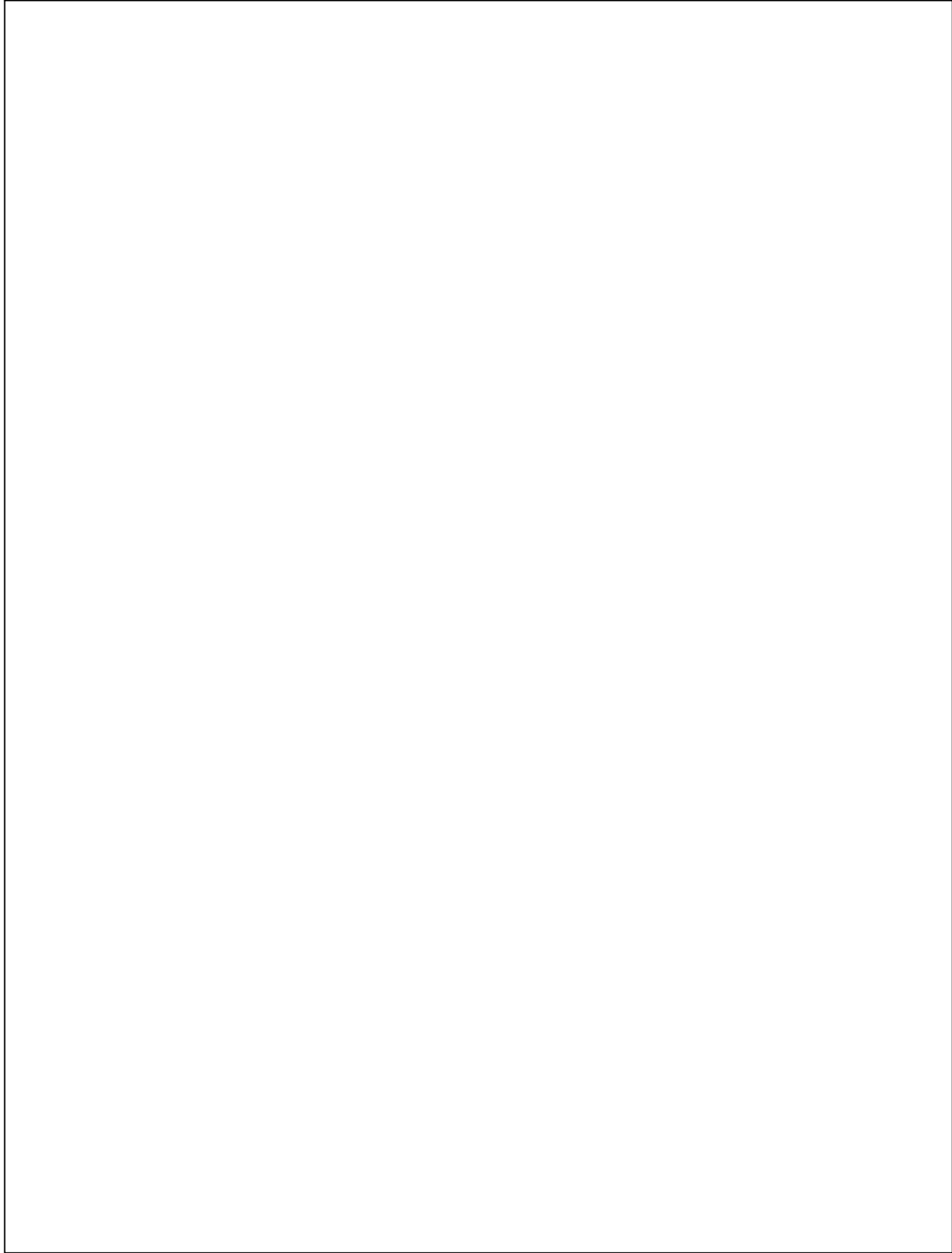
### **PART VI**

#### **SECTIONS B STATEMENTS OF AUDITING GULDELINES**

Revised Statement of Auditing Guideline No. 1 (**Withdrawn**)



**SECTION-C**  
**Technical**  
**Releases**



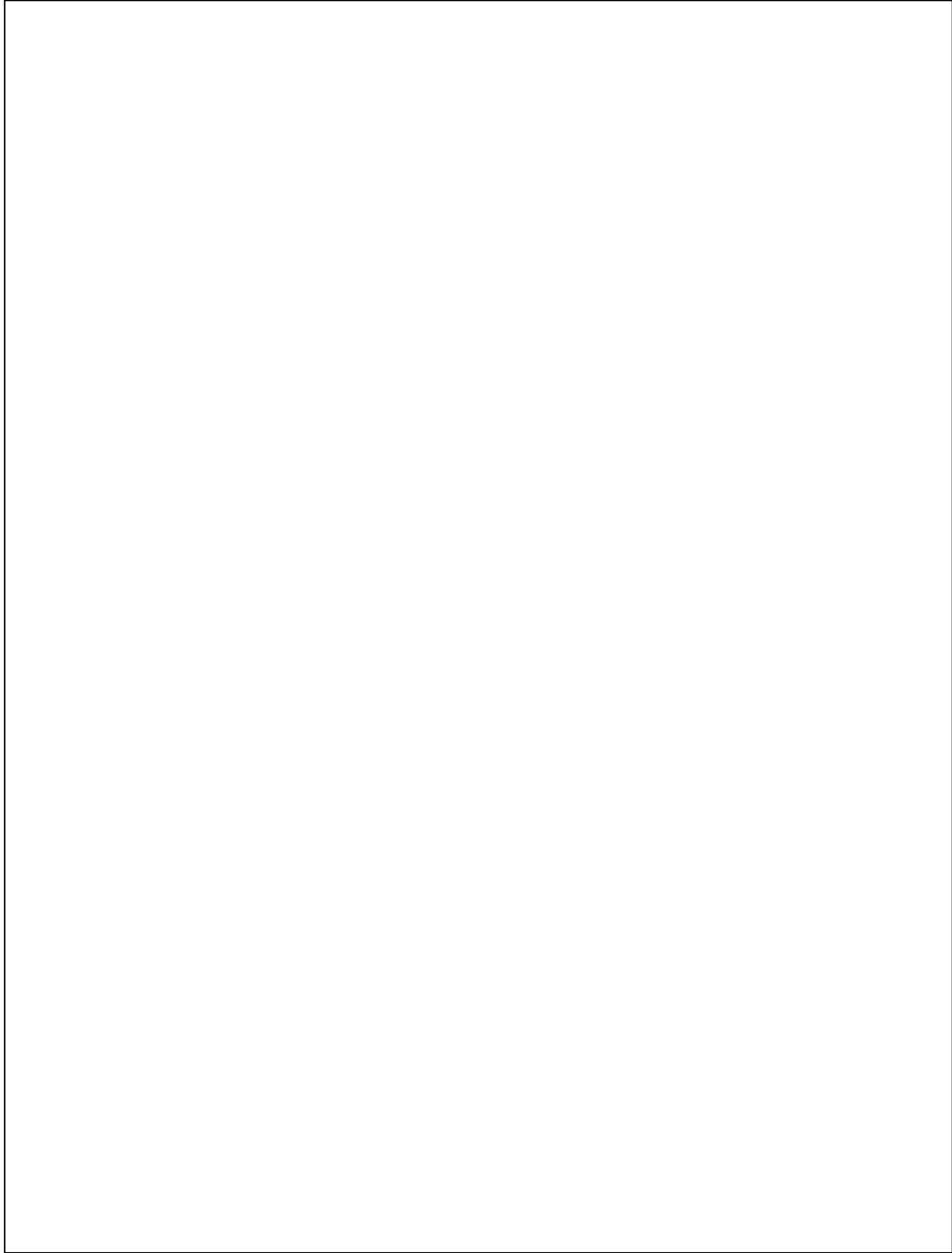
**MEMBERS' HANDBOOK**

**PART VI**

**SECTION C**

**TECHNICAL RELEASES**

**THE INSTITUTE OF  
CHARTERED ACCOUNTANTS OF PAKISTAN**



## SECTIONAL INDEX

### PART VI SECTION C TECHNICAL RELEASES

ATR-1	<b>Withdrawn</b> - Only Members to sign audit documents
ATR-2	<b>Withdrawn</b> - (Communication - Statement on the explanation and its clarification of the word )
ATR-3	<b>Withdrawn</b> - (Incoming auditors to help in clearing the professional dues of retiring member)
ATR-4	<b>Withdrawn</b> - ( Audit of government corporations )
ATR-5	<b>Withdrawn</b> - (Replying to enquiries for audit jobs )
ATR-6	<b>Withdrawn</b> - (Audit by ex-employees)
ATR-7	<b>Withdrawn</b> - (Some glaring omissions by the auditors pointed out by Corporate Law Authority)
ATR-8	Preparation of accounts from incomplete records and report thereon as auditors (Reformatted 2002)
ATR-9	<b>Withdrawn</b> - Signing of correspondence and financial statements by Members
ATR-10	<b>Withdrawn</b> - (Communication of consent by incoming auditors)
ATR-11	Appointment of auditors-1 (Reformatted 2002)
ATR-12	<b>Withdrawn</b> - (Appointment of auditors-II)
ATR-13	Lien or books of accounts due to non-payment of professional dues
ATR-14	Minimum Hourly Charge Out Rates and Minimum Fee for Audit Work by Practicing Members (Revised 2008)
ATR-15	<b>Withdrawn</b> - (Qualification in auditor's report - going concern assumption for organization formed with a limited life)

## SECTIONAL INDEX

### PART VI

#### SECTION C TECHNICAL RELEASES

ATR-16	Acceptance of Audit Assignments by New Auditor(s) when audit fee of existing auditor(s) is outstanding
ATR-17	Auditors' Report to the Trustees/Board of Governors/ Management Committee (Revised 2004)
ATR-18	Bank Report for audit purposes
ATR-19	Identification of Audit Engagement Partner in the Auditors' Report on Financial Statements (Revised 2008)
ATR-20	Auditor's Reporting Responsibilities in respect of Non Compliances with Laws or Regulations

**PREPARATION OF ACCOUNTS FROM INCOMPLETE RECORDS AND REPORT THEREON AS AUDITORS****THE ISSUE**

Can practising auditors act as accountants and auditors for the same company / client even if they have prepared accounts from incomplete records?

**DEFINITION OF INCOMPLETE RECORDS:**

All vouchers, cheques and other details are available but are not recorded in books such as cashbook, ledger etc.

**TECHNICAL ADVISORY COMMITTEE RECOMMENDATIONS**

It is not uncommon for accountants, acting as auditors of companies, to provide concurrently other professional services for the same client, including the writing-up of books of account and the preparation of final accounts. This does not relieve the officers and directors of the company from their statutory and financial responsibilities. It is their responsibility to see that proper books of account are kept and that accounts giving a true and fair view are prepared. Auditors performing accounting services act in that connection in a separate capacity of accountants, but while this may assist them in carrying out their auditing duties, it in no way impinges on or modifies their responsibility and duties as auditors. Dual responsibilities as accountants and auditors are not regarded as necessarily incompatible professionally nor are they prohibited by law, but all practising auditors have to bear in mind that certain “judgements” are exercised while performing the accounting function and in this regard they should either ensure segregation of function or should not undertake accounting assignments which would impair their independence as auditors.

Note: The restrictions on certain non-audit services to audit clients being listed companies shall, however, prevail over this ATR to the relevant extent.

**APPOINTMENT OF AUDITORS - I**

1. This Technical Release supersedes ATR-11 “Appointment of Auditors” issued on July 10, 1982.
2. The Issue  

The ATR seeks to explain certain aspects relating to the appointment of auditors.
3. Raison d’être
4. Additional clarifications/guidance in respect of following matters are required.
  - (a) What shall be the procedure if no auditors are appointed at an annual general meeting?
  - (b) Can retiring auditors continue to hold office, if no auditors are appointed at an annual general meeting?
  - (c) In case of default in complying with the provisions of section 252 of the Companies Ordinance 1984 (the Ordinance) and no auditors are appointed until the next annual general meeting:-
    - (i) can an auditor or auditors appointed at the next annual general meeting be considered auditors for the period from the conclusion of last annual general meeting?
    - (ii) Whether the incoming auditor or auditors are required to communicate with the retiring auditor or auditors at the last annual general meeting?
  - (d) Can an auditor or auditors audit pending accounts of a Company?
  - (e) In case no auditors are appointed at an annual general meeting and also the accounts are not prepared before the meeting, can the retiring auditors continue to hold the office to complete the audit of the accounts which is in progress.

**APPOINTMENT OF AUDITORS - I****5. Technical Committee's Recommendations**

- 5.1 Under sub-section (1) of section 252 of the Ordinance, every company is required to appoint an auditor or auditors at each annual general meeting to hold office from the conclusion of that meeting until the conclusion of the next annual general meeting.

Further sub section (6) of section 252 of the Ordinance requires that, where at an annual general meeting no auditors are appointed, the Securities and Exchange Commission of Pakistan (the Commission) may appoint a person to fill the vacancy.

Whenever such situation arises, the Company under sub section (7) of section 252 of the Ordinance is required to give notice of that fact to the Commission, within one week of the Commission's power becoming exercisable. The remuneration of auditors so appointed shall be fixed by the Commission.

In case of default by a company in complying with any of the provision of section 252 of the Ordinance, the company and every officer of the company who is knowingly and willfully a party to the default shall be punishable with fine which may extend to two thousand rupees. (Section 259)

- 5.2 As explained in para 4.1 above, only the Commission can appoint an auditor or auditors if no auditors are appointed at an annual general meeting. Therefore retiring auditors can not continue to hold the office.
- 5.3 In case of continuing default in complying with the provision of section 252 of the Ordinance, the office of auditors shall remain vacant and auditors appointed at the next annual general meeting can not be considered auditor for the default period. Further the company shall remain at default in complying with the requirements of section 252 of the Ordinance.

## AUDITING

## ATR-11 (Reformatted 2002)

Although the office of auditors remained vacant and there are no retiring auditors, the incoming auditors should communicate with the retiring auditors of the last annual general meeting.

- 5.4 Since the auditors are appointed for a period up to the conclusion of the next annual general meeting, they can audit more than one year's accounts during their period in the office. However such situation can only arise if a company fails to prepare and present the accounts at the annual general meeting as required under section 230 of the Ordinance. Under sub-section (6) of the section 233 of the Ordinance, any person who is a party to the default in complying with this requirement shall:
- (a) in respect of a listed company, be punishable with imprisonment for a term which may extend to one year and with fine which shall not be less than ten thousand rupees nor more than twenty thousand rupees, and a further fine which may extend to two thousand rupees for every day after the first during which the default continues; and
  - (b) in respect of any other company, be punishable with imprisonment for a term, which may extend to six months and with fine, which may extend to five thousand rupees.
- 5.5 As explained in para 4.1 above, only the Commission can appoint an auditor or auditors if no auditors are appointed at an annual general meeting. Therefore retiring auditors cannot continue to hold the office to complete the pending audit of the accounts. In such a situation, the commission may appoint the retiring auditor to hold the office until the next annual general meeting.

**LIEN ON BOOKS OF ACCOUNTS DUE TO NON-PAYMENT OF PROFESSIONAL DUES**

Opinion was sought on the proper course of action in the following circumstances:-

“We were appointed auditors of M/s..... for the year ended 30th June, 1984. We conducted the audit for the year 30th June 1984. We also took up the stock taking for the year ended 30-6-1984 & 1985.

In the meantime due to non cooperation of responsible staff of M/s..... we have communicated our inability to carry on the audit. We have incurred self cost of Rs. 5,500/- for the time consumed on this job. In the meantime due to mismanagement, Government has appointed an Administrator to investigate affairs of M/s.....

We have in our possession some books of accounts of M/s..... we have asked the Administrator to reimburse our out of pocket expenses. According to law we have no lien over the books of accounts of M/s..... Whereas we fear that if the books are returned our outstanding amount will not be paid by them.

We shall be obliged if you please advise us the proper course to be adopted.

The following opinion was given:

Since there is no lien on books, books should be returned. Legal remedies may be tried for the recovery of the dues.

**Dated: 18-9-1985**

**MINIMUM HOURLY CHARGE OUT RATES AND MINIMUM FEE FOR  
AUDIT ENGAGEMENTS**

1. The audit engagements carry immense responsibility and which has increased manifold in recent years. To meet the expectations of various stakeholders, stringent regulatory requirements and ever increasing demand to increase the level of due care, the members need to perform the audit exercising very high degree of “professional competence.” Such work is also required to be properly documented to support the opinion expressed by the auditors.
2. The Council of the Institute of Chartered Accountants of Pakistan (ICAP) has recently issued a notification making it mandatory, for the firms doing audit of listed and public sector entities, to observe from 1 July 2009 ISQC 1, Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information and Other Assurance and Related Services Engagements, issued by IFAC and has also notified, ISA 220 Quality Control for Audits of Historical Financial Information, ISA 230 Audit Documentation etc. These standards require extensive documentation of audit procedures and recruitment of qualified staff. Furthermore the minimum stipend rate for audit trainees have also significantly increased. Hence, the cost to perform audit by the firms has significantly increased to ensure that quality control procedures are adequately complied with by the firms.
3. The Council of the ICAP periodically reviews and prescribes minimum hourly rates, which it considers reasonable and compatible with the increase in the cost to complete the engagements and quality of professional standards to be observed by the practicing members of the Institute. The current minimum chargeable rates as prescribed by the Council of the Institute are shown below:

	<b>Rupees Per man-hour</b>
Partner	7,500
Qualified Support Staff:	
Above 8 years	5,000
4 to 8 years	4,000
Below 4 years	3,000
Supervisor	2,000
Senior	1,000
Semi-Senior	750
Junior	500

4. The level of fee is to be mutually agreed between the auditor and his client, which largely depends upon the volume of work involved and estimated time to be incurred on the audit engagement. The Council whilst recognizing this principle is however, of the view that there has to be a minimum threshold of audit fee. To achieve the desired objective, the following minimum audit fee is prescribed (which may be increased by consent having regard to specific circumstances of an audit engagement).

**Schedule of Minimum Audit Fee:**

<b>Type of entity</b>	<b>Minimum Fee Rupees</b>
<b>Listed companies</b>	
Turnover up to 500 million	250,000
Turnover over 500 million up to 1 billion	300,000
Turnover over 1 billion up to 5 billion	500,000
Turnover above 5 billion	1,000,000
<b>Economically Significant Entities</b>	
Turnover up to 1 billion	250,000
Turnover over 1 billion up to 5 billion	400,000
Turnover above 5 billion	800,000
<b>Medium Sized Entities</b>	125,000
<b>Small Sized Entities</b>	75,000

**Notes:**

- i) The terms “Economically Significant Entities” (ESE), “Medium Sized Entities”(MSE) and “Small Sized Entities” (SSE) shall have the same meaning as defined in S.R.O.859(I)/2007 dated 21 August 2007 issued by the Securities and Exchange Commission of Pakistan pursuant to Section 234 of the Companies Ordinance, 1984.
- ii) Considering the practical difficulties being faced by various practicing members in the determination of audit fee, the Council has decided that the prescribed minimum audit fee shall be charged without any exception. However, in case of an existing audit client, the present audit fee shall be enhanced to the aforesaid prescribed level over a period of two years with mutual consent provided it is not less than 75% of the prescribed minimum in the first year. Nevertheless, in case of acceptance of an audit client by a practicing member for the first time the prescribed fee levels shall be strictly observed.

**5. Minimum Audit Fee in Certain Circumstances**

For audit engagements of clients in the pre-incorporation / pre-operation stages or in case of sickness of the project or closed operations or discontinuation of business, the prescribed minimum audit fee chargeable by the practicing members shall be as under:

<b>Listed Companies/ ESEs</b>	<b>MSEs</b>	<b>SSEs</b>
Minimum audit fee: Rs.75,000	Rs.50,000	Rs. 30,000

The exception in paragraph 4(ii) above shall apply mutatis mutandis to the above paragraph 5.

6. The minimum audit fee prescribed in paragraph 4 and 5 above is exclusive of the below mentioned additional services to be rendered by a statutory auditor under the Code of Corporate Governance and for any other certifications and the professional fee for such services shall be charged separately by mutual consent.

## AUDITING

## ATR-14 (Revised-2008)

- Attend the Audit Committee Meetings of clients
  - Issue a Review Report on Statement of Compliance with Best Practices of Corporate Governance
  - Issue Review Report on half – yearly financial statements
  - Special certification required by regulators over and above normal scope of audit
7. The minimum audit fee determined in accordance with this ATR shall not be less than the present audit fee of an existing client.
  8. In case of joint audits, fee may be shared among the auditors as may be mutually agreed between them.
  9. The fee may be reviewed annually to cover inflationary effects in costs.
  10. The hourly rates and fee are exclusive of traveling and hotel expenses, out of pocket expenses and other incidental costs which would be reimbursable to auditors at actual.
  11. In case of a religious or charitable institution or a company “not for profit”, the practicing members may undertake to do the audit on a token fee or on an honorary basis.
  12. At the time of quality control review, the reviewer will ensure the compliance of this ATR.

This Directive supersedes ATR-14 (Revised) issued pursuant to the Council's decision of 30 March, 2007 and would apply to all audit appointments made after August 31, 2008.

*(19<sup>th</sup> meeting of the Council held on July 25, 2008)*

**ACCEPTANCE OF AUDIT ASSIGNMENTS BY NEW AUDITOR(S)  
WHEN AUDIT FEE OF EXISTING AUDITOR(S) IS OUTSTANDING**

**THE ISSUE**

Whether new auditor should accept the assignments in case the statutory audit fee of the retiring auditor is outstanding?

**THE TECHNICAL ADVISORY COMMITTEE RECOMMENDATION**

A member of the Institute in practice shall be deemed to be guilty of professional misconduct, if he accepts the appointment as auditor of an entity in case the undisputed audit fee of another Chartered Accountant for carrying out the statutory audit under the Companies Ordinance, 1984 or under other statutes has not been paid.

Undisputed audit fee means the amount which has been agreed to and provided for in the financial statements.

Members are, therefore, advised to keep the above directive of the Council in view while accepting new assignments of audit.

**(145<sup>th</sup> meeting of the Council - July 30, 2001)**

**AUDITORS' REPORT TO THE TRUSTEES / BOARD OF GOVERNORS /  
MANAGEMENT COMMITTEE****The Issue**

What should be the format of the auditors' report in case of audit of Societies, NGOs & Charity Organizations?

**Technical Advisory Committee Recommendations**

As there is no standard format of auditors' report and also there is no provision for maintenance of accounts and audit of these societies either in the Trust Act, 1882 or Societies Registration Act, 1860 the Council has approved the enclosed format of auditors' report.

Members are advised to follow the following formats whichever is applicable while reporting on the financial statements of such organizations: -

**AUDITORS' REPORT TO THE <sup>1</sup>TRUSTEES / BOARD OF GOVERNORS  
/ MANAGEMENT COMMITTEE****(ACCRUAL BASIS OF ACCOUNTING)**

We have audited the annexed balance sheet of the ----- as at -----  
----and the related income and expenditure account and cash flow statement  
together with the notes forming part thereof (here-in-after referred to as the  
financial statements for the year then ended).

It is the responsibility of the trustees / board of governors / management  
committee to establish and maintain a system of internal control, and prepare and  
present the financial statements in conformity with the approved accounting  
standards as applicable in Pakistan. Our responsibility is to express an opinion on  
these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards.  
Those standards require that we plan and perform the audit to obtain reasonable  
assurance about whether the financial statements are free of material

**AUDITING**

**ATR-17 (Revised-2004)**

misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the financial statements present fairly in all material respects the financial position of the ----- as at ----- and of its surplus/deficit and cash flow for the year then ended in accordance with the approved accounting standards as applicable in Pakistan.

Date \_\_\_\_\_

Signature  
[Name(s) of Auditors]

Place \_\_\_\_\_

Note: 1. Select wherever is appropriate.

**AUDITORS' REPORT TO THE <sup>1</sup>TRUSTEES / BOARD OF GOVERNORS / MANAGEMENT COMMITTEE**

**(OTHER THAN ACCRUAL BASIS OF ACCOUNTING)**

We have audited the annexed the receipt and disbursement account / receipt and expenditure account of the ..... as at ..... together with the notes forming part thereof (here-in-after referred to as the statement(s) for the year then ended).

It is the responsibility of the trustees / board of governors / management committee to establish and maintain a system of internal control, and prepare and present the statement(s) in conformity with the cash receipt and disbursement / cash receipt and expenditure incurred basis as described in Note X to the accounts. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and

**AUDITING**

**ATR-17 (Revised-2004)**

disclosures in the statements. An audit also includes assessing the accounting policies used and significant estimates made by management, as well as evaluating the overall presentation of the statements. We believe that our audit provides a reasonable basis for our opinion.

As described in Note X, the statement(s) have been prepared on the (cash receipts and disbursements basis / cash receipt and expenditure basis, etc.) of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion the statement(s) present(s) fairly, in all material respect(s), the cash receipt and disbursement or cash receipt and expenditure, etc. of the -----  
----- for the year ended ----- on the basis of accounting described in Note X to the statement.

Date \_\_\_\_\_

Signature  
[Name(s) of Auditors]

Place . \_\_\_\_\_

Note: 1. Select wherever is appropriate.

*(163<sup>rd</sup> meeting of the Council held on April 29-30 and May 14,2004)*

**BANK REPORTS FOR AUDIT PURPOSES****1.0 THE ISSUE**

1.1 To seek standardization of auditing practice when approaching banks for audit information.

**2.0 EXPLANATION**

2.1 This release deals with request by auditors to client's bankers for confirmation of balances and other information and prescribing a standard letter of request.

2.2 The practice of obtaining independent confirmations or reports from banks is essential to the proper discharge of auditors' responsibilities. Bank reports assist auditors to verify existence of liabilities and the existence, ownership and proper custody of assets; they also provide other information relevant to the audit of accounts.

**3.0 TECHNICAL COMMITTEE RECOMMENDATION**

3.1 The Committee suggests the following standard format for the letter of request for bank confirmation and also the appropriate guidance in this regard to be used by the auditors while verifying the bank balances.

**STANDARD LETTER OF REQUEST**

3.2 The information which is usually required from banks and financial institutions for audit purposes is substantially the same for most audits and can be obtained in a standard letter of request which would facilitate prompt response from banks and financial institutions. The use of such letter, designed to cover all normal banking activities and to facilitate extraction of information from banking records should enable prompt response to these requests. It should also enable auditors to make further enquiries from banks if the replies received call for further clarification.

3.3 This technical release, therefore, requires auditors to adopt the practice of requesting information from banks and financial institutions in the form of standard letter set out in Appendix-I. It also requires that the standard

letter of request should be used in accordance with the procedures laid down in paragraph 5 below. Appendix-II to this release sets out explanations of items that are incorporated in, or specifically excluded from, the standard letter. It is stressed that this standard letter is for audit purposes only.

#### **4.0 AUTHORITY TO DISCLOSE**

Banks and financial institutions will require explicit written authority of their customers to disclose information requested by auditors. For convenience sake, it has been decided that the authority shall be evidenced by the customer's counter signature on the standard letter of request. In the case of joint accounts, the authority must be given in the standard letter of request by all parties to the account. In the case of security lodged by third party, its authority for disclosure will also have to be obtained and produced to the bank.

#### **5.0 PROCEDURES**

5.1 The following procedures should be adopted by the auditors in connection with the standard letter of request for bank report:

- a) The standard letter set out in Appendix-I to this release should be sent on each occasion by the auditor on his own letterhead to the Manager of each bank branch with which it is known that the client holds an account or has dealt since the end of the previous accounting period.
- b) The client's authority to permit disclosure should be obtained on the standard letter of request itself before the letter is sent out.
- c) The standard letter of request should preferably reach the branch manager on or before the date of the client's financial year-end.
- d) The dates to be entered on the standard letter are normally the closing dates of:
  - i) The client's accounting reference period for which the report is requested; and

- ii) the client's previous accounting reference period for which full bank report was compiled. If, exceptionally, audited financial statements are produced other than for an accounting reference period, alternative dates should be substituted.
  - e) In reviewing the bank's reply, it is important for auditors to check that bank has answered all questions in full.
  - f) It will be necessary to obtain confirmation as to the authenticity of any letter not received directly from the bank branch concerned and of any letter received from a bank without a request having previously been made. It is essential that in both cases, the auditors obtain confirmation from the branch concerned that the report has been prepared in compliance with the terms of the standard letter.
  - g) If no reply is received from the banks within two weeks after the original request was made or two weeks after the closing of the year which ever is earlier, the auditor should send a "First Reminder" so marked on the standard letter of request.
  - h) After the expiry of a further period of one week from the date of sending out the "First Reminder", if no reply is received, the auditor may consider sending a "Second Reminder" so marked on the standard letter of request if deemed appropriate by him.
- 5.2 The Standard letter should be used in its complete form for all audit requests and in accordance with the above procedures in respect of financial statements for the relevant period and should not be altered to reduce the minimum contents prescribed. In certain circumstances, supplementary requests for additional information may be required for audit purposes. The letter containing such supplementary requests should be submitted to the bank, as far as possible, at the same time as the standard letter.

*(179<sup>th</sup> meeting of the Council held on March 7, 2006)*

## **AUDITING**

**ATR – 18**

### **APPENDIX-I**

The Manager

(Bank)

(Branch)

Dear Sir,

(Clients's Name)

#### **STANDARD REQUEST FOR BANK REPORT FOR AUDIT PURPOSES**

In accordance with your above-named customer's instructions given hereon, please send DIRECT to us at the above address, as auditors of your customer, the following information relating to their affairs at your branch as at the close of business on and, in the case of items 2,4 and 12 during the period since the end of the previous accounting period.

Please state against each item any factors which may limit the completeness of your reply; if there is nothing to report, state 'None'.

It is understood that any replies given are in strict confidence, for the purposes of audit.

**Information Requested**

**Response**

**BANK ACCOUNTS**

- (1) Full titles of all accounts together with the account numbers and balances therein, including NIL balances:
- (a) where your customer's name is the sole name in the title;
  - (b) where your customer's name is joined with that of other parties;
  - (c) where the account is in a trade name.

**NOTES**

- (i) Where the amount is subject to any restriction (e.g. a garnishee order or arrestment) or exchange control considerations (e.g. 'blocked account') information regarding nature and extent of the restriction should be stated.
  - (ii) where the authority upon which you are providing this information does not cover any amounts held jointly with other parties, please refer to your customer in order to obtain the requisite authority of the other parties with a copy to us.
- (2) Full titles and dates of closure of all accounts closed during the period.

**Information Requested****Response**

- (3) The separate amounts accrued but not charged or credited as at the above date, of
  - (a) markup/interest; and
  - (b) provisional charges (including commitment fees)
- (4) The amount of markup/interest charged during the period if not specified separately in the customer's statement of account.
- (5) Particulars (i.e. date, type of document and accounts covered) of any written acknowledgement of set-off, either by specific letter of set-off, or incorporated in some other document or security.

**FACILITIES**

- (6) Details of leasing facilities, loans, overdrafts, cash credit facilities (including standby facilities), and associated guarantees / indemnities specifying agreed limits, unused facilities, markup/interest terms, over due rentals / installments and in the case of term loans, date for repayment or review.

**SECURITIES**

- (7) (a) In respect of facilities, contingent liabilities and derivatives and commodity trading, please give:
  - (i) details of any security formally charged in favour of the bank, including the date and type of charge, (e.g. pledge, hypothecation etc.)

## **AUDITING**

**ATR – 18**

### **Information Requested**

### **Response**

- (ii) particulars of any undertaking to assign any assets to the bank.

If a security is limited to any borrowing, or if there is a prior, pari passu or subordinate charge, please indicate.

- (iii) Whether the security supports facilities granted by the bank to the customer or to another party.

- (iv) For any arrangements for set off of balances or compensating balances e.g. back to back loans, give particulars of any acknowledgement of set off (i.e. date, type of document and accounts covered).

## **CUSTODIES**

- (b) Investments, bills of exchange, documents of title or other assets held but not charged. Please give details.

## **CONTINGENT LIABILITIES**

- (8) Nature, currency, amount and extent of any facilities limits and details of period of availability of agreed facility of all contingent liabilities, viz:-

- (a) Total of bills discounted with recourse to the customer or any subsidiary or related party of the customer;

**Information Requested****Response**

- (b) Details of any guarantees, comfort letters, letter of undertakings, bonds, endorsements or indemnities given to you by the customer in favour of third parties (separately specifying any such items in favour of any subsidiary or related party of the customer);
- (c) Details of any guarantees, bonds or indemnities given by you, on your customer's behalf, stating where there is recourse to your customer and/or to its holding, parent or any other company within the group;
- (d) Total of acceptances;
- (e) Total of outstanding liabilities under documentary credits;
- (f) Others (please give details).

**ASSETS**

- (9) Details specifying the nature, amount and maturity date of the assets covered under Islamic mode of finance (e.g. morabaha, musharika, modaraba etc.) or any other mode of finance including leasing:-
  - (a) Asset repurchase agreement;
  - (b) Asset resale agreement;
  - (c) Options outstanding at the relevant date.

## AUDITING

ATR – 18

### Information Requested

### Response

#### DERIVATIVES AND COMMODITY TRADING

- (10) Details of all outstanding contracts specifying the number, deal date, maturity or value date, price at which the deal was transacted and currency of the contract bought and sold for:-
- (a) Total of foreign exchange contracts;
  - (b) Bullions;
  - (c) Securities;
  - (d) Others
- (11) Information in respect of any letter of comfort obtained by the bank from the parent or any other associated concern of the company.

#### ADDITIONAL BANKING RELATIONSHIPS

- (12) A list of other banks, or branches of your bank, where you are aware that a relationship has been established during the period.

#### (13) OTHER INFORMATION

Yours faithfully,

#### DISCLOSURE AUTHORISED

For and on behalf of

(CUSTOMER'S NAME)

Signed in accordance with the terms and conditions for the conduct of the customer's bank account.

**NOTES ON THE STANDARD LETTER**

(This Appendix contains explanations of item numbers referred to in the Standard letter)

**(1) BANK ACCOUNTS:**

The phrase 'all accounts' includes details of all current, deposit loan and foreign currency accounts and other advances or facilities, money held on deposit receipt and account numbers.

**(4) ANALYSIS OF CHARGES:**

The details of the rate of markup/interest applicable to any markup/interest-bearing account shall be required.

**(5)** Auditors will need to have an understanding of the principles governing set-off, but it should not normally be necessary to make enquiries beyond the question as put in the standard letter. Details should be available from the relevant documents. A right to set-off may exist even when there are no written arrangements.

**(7) CUSTOMER'S ASSETS:**

a) Security includes details of charge, mortgage or other claims or security or security registered (e.g. debenture, memorandum of deposit); assets charged and where appropriate cross reference to facility specifically secured.

b) Assets include bonds, stock and share certificates, investments, bearer or other securities; title deeds relating to freehold, leasehold or other property; bills of exchange or other negotiable instruments receivable (other than cheques); deposit receipts (as distinct from any account represented by the deposit receipt); the names of persons who are able to obtain release of the assets should be ascertained from the customer and are usually covered by the bank mandate.

c) Lien: Auditors should be aware that any assets held by the bank other than those specifically charged, may be subject to some form of banker's lien, although this may only operate under particular conditions. It should be necessary to enquire only in exceptional circumstances.

**APPENDIX-II**

d) Bearer securities: detailed enquiries on bearer securities should be made of the bank only when evidence cannot be obtained from the customer or his banking records.

**(8) CONTINGENT LIABILITIES:**

The liabilities under indemnities/ guarantees given in respect of shipping documents relating to imports do not have an expiry date. From time to time the banks take a view on old liabilities and remove some of them from their records. Certain of these old liabilities may not therefore be shown in the figure quoted by the bank, but it cannot be guaranteed that no claim will be incurred subsequently.

**(13) OTHER INFORMATION:**

Banks are often asked for introductions to other branches or banks for the purpose of establishing new sources of finance. The provision of any available information relating to introductions or new accounts will assist auditors to satisfy themselves that they have information about all of their client's banking relationship.

**SUGGESTED FORMAT OF LETTER FOR DEBTOR'S  
CONFIRMATION BY DIRECT COMMUNICATION**

**(TO BE TYPED ON CLIENT'S LETTERHEAD)**

**DEBTOR'S NAME AND ADDRESS**

Dear Sir,

As part of their normal audit procedures, we have been requested by our auditors \_\_\_\_\_ of \_\_\_\_\_ to ask you to confirm direct to them your indebtedness to us of Rs. \_\_\_\_\_ as at \_\_\_\_\_.

If the amount is in agreement with your records, please sign in the space provided below and return this letter directly to our auditors.

If the amount is not in agreement with your records please notify our auditors directly of the amount shown by your records and, if possible, send them full particulars of the difference.

For your reply to be of assistance to our auditors please give this request your early attention. \*We enclose a prepaid envelope for your convenience.

Please do not send remittances to the auditors along with the confirmation.

Yours faithfully,

CLIENT'S AUTHORISED SIGNATORY

PLEASE DO NOT DETACH

(CLIENT'S NAME)

DEBTOR'S NAME:

NO:

The amount shown above of Rs. \_\_\_\_\_ due from us \*is/ [is not] in agreement with our records at \_\_\_\_\_. \*The details of discrepancies are annexed.

Authorized Signature & Stamp

Title of Position

\* Delete as appropriate (stamped self-addressed return envelope by the auditor's should be enclosed)

## **SUGGESTIONS FOR IMPROVING RATE OF FEEDBACK FOR DEBTORS' CONFIRMATIONS**

The efficiency of the audit procedure of debtor's confirmation through direct communication is influenced by both the willingness and ability of debtor to respond accurately to the information presented on the letter of confirmation. Improving confirmation feedback rate may reduce the extent of other audit procedures that the auditor may have planned to undertake. The following are some suggestions for improving feedback rates:-

### **(a) Use of preliminary notification**

The use of a brief letter, post card, or telephone call by the client immediately before posting the letter generally tends to increase responses as the debtor is less likely to ignore the letter having been previously notified.

### **(b) Request information the debtor is able to confirm**

The confirmation request should include all the relevant detailed information required for response by the debtor.

### **(c) Use clear wording**

The confirmation request should avoid technical jargon and should be written in simple language to facilitate an early and effective reply. (including Urdu or vernacular).

### **(d) Set deadlines**

The confirmation should state deadlines e.g. URGENT or REPLY REQUESTED WITHIN 5 DAYS.

### **(e) Provide return envelopes**

Return envelopes that have the firm's name and address printed in bold are likely to draw attention to confirmations and are likely to encourage debtors to respond.

### **(f) Provide prepaid postage**

To facilitate responses, auditors normally include a stamped self-addressed return envelope along with each confirmation.

### **(g) Send follow-up reminders/second requests**

Sending reminders/second request soon after sending the initial letter are likely to increase feedback rates.

**IDENTIFICATION OF AUDIT ENGAGEMENT PARTNER IN THE AUDITORS' REPORT ON THE FINANCIAL STATEMENTS**

The Council wishes to draw attention of all practicing members about the prevalent practice of signing audit report in the name and style of the firm where the individual's responsibility for signing the audit report is not identified for personal responsibility and accountability. This practice, based on the decisions taken nearly half a century ago, needed a change according to the current international practices and environment in the profession.

Reference is made to Paragraph 6 of the ISA 220 '*Quality Control for Audits of Historical Financial Information*', according to which '*The engagement partner should take responsibility for the overall quality on each audit engagement to which that partner is assigned*'.

ISQC 1 '*Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements*', which is in the process of adoption by the Institute, in its paragraph 42, states that '*The firm should assign responsibility for each engagement to an engagement partner. The firm should establish policies and procedures requiring that:*

- (a) *The identity and role of the engagement partner are communicated to key members of client management and those charged with governance;*
- (b) *The engagement partner has the appropriate capabilities, competence, authority and time to perform the role; and*
- (c) *The responsibilities of the engagement partner are clearly defined and communicated to that partner*'.

Further attention is drawn to Paragraph 51 of ISA 700 (revised) according to which '*The auditor's signature is either in the name of the audit firm, the personal name of the auditor or both, as appropriate for the particular jurisdiction. In addition to the auditor's signature, in certain jurisdictions, the auditor may be required to declare the auditor's professional accountancy designation or the fact that the auditor or firm as appropriate, has been recognized by the appropriate licensing authority in that jurisdiction*'.

## **AUDITING**

**ATR-19(Revised 2008)**

ISA 220 defines 'Engagement partner' as 'the partner or other person in the firm who is responsible for the audit engagement and its performance, and for the auditor's report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body'.

For purpose of clarity it may be noted that the audit opinion on each audit engagement is the collective responsibility of the firm appointed as auditor and the opinion is the result of consultation with other partners. However, signing in his/her own name along-with name of the firm provides the identification of engagement partner who is the person responsible for the audit engagement.

In the backdrop of the situation, it has been decided that where the auditors' report on financial statements is signed in the firm's name, the name of the engagement partner shall be identified.

The above shall be applicable on all audit appointments made on or after July 1, 2008.

### **Correspondence with ICAP**

All correspondence related to policy matters from a firm to the Institute should be signed by a partner in the case of partnership concerns and by the sole-proprietor in the case of a sole-proprietary concern, in his/her name along with the name of the firm. Routine correspondence may be signed by any other person authorized in this behalf by the firm.

The statement is issued as a directive of the Council and supersedes ATR 1 and 9. Any contravention thereof shall be deemed to be an act of misconduct liable to punitive action in terms of clause 3 of Part 4 of Schedule I of the Chartered Accountants Ordinance, 1961 and is required to be followed by all practicing members of the Institute.

*(197<sup>th</sup> Meeting of the Council –July 25, 2008)*

**AUDITOR'S REPORTING RESPONSIBILITIES IN RESPECT OF NON COMPLIANCES WITH LAWS OR REGULATIONS**

1. The statutory audit of financial statements in Pakistan is required to be conducted in accordance with the requirements of the International Standards on Auditing (ISAs) as have been adopted by the Institute of Chartered Accountants of Pakistan. The said standards should, therefore, be the primary basis for determining auditor's reporting responsibilities in case of an entity's non-compliance with the applicable laws or regulations including with respect to the provisions of Section 195 or 208 of the Companies Ordinance, 1984 (the Ordinance).
2. In relation to the above, the ISA 250 – 'Consideration of Laws and Regulations in an Audit of Financial Statements' prescribes as under:

***“26. When the auditor becomes aware of information concerning a possible instance of noncompliance, the auditor should obtain an understanding of the nature of the act and the circumstances in which it has occurred, and sufficient other information to evaluate the possible effect on the financial statements.***

***35. If the auditor concludes that the noncompliance has a material effect on the financial statements, and has not been properly reflected in the financial statements, the auditor should express a qualified or an adverse opinion“(emphasis ours)***
3. It follows from the above that the basic objective of an auditor when confronted with instances of infraction of laws or regulation including with respect to the provisions of Section 195 or 208 of the Ordinance, is to assess the impact of the same on the financial statements in terms of any monetary adjustments or requirements of disclosures.
4. It should be noted that the provisions of Section 195 or 208 of the Ordinance do not deal with the determination of amounts that are to be included in the financial statements nor prescribe the form and content of disclosures in a company's financial statements, instead, the said

provisions prohibit the Board of Director (BOD) of a company from undertaking certain specified transactions or require shareholders' approval before making investments in associates. Hence, any contravention of the said provisions of the Ordinance by the BOD of the company, although may be regarded as undertaking of transactions beyond the powers of the BOD, the same cannot be deemed as being beyond the powers of the company. An act which is ultra vires the powers of the BOD would still be valid if it is intra vires the powers of the company having been permitted by its constitution. What is more important is to understand that the such contraventions do not result in a misstatement in the financial statements if the transaction has been properly accounted for and disclosed in the financial statements. Accordingly, in such circumstances, the modification of the auditor's opinion is not mandated by the ISAs.

5. It should also be noted that it is not the purpose of the audit nor the responsibility of the auditor to highlight the contraventions of corporate and other laws.
6. However, notwithstanding the above, in some cases, the transactions subject to non compliance with the provisions of Section 195 or 208 of the Ordinance may be so significant in the context of the overall financial statements, that non disclosure of the matter in the financial statements may impair the users ability to understand the state of affairs of a company. As an additional step, the auditor is not precluded from adding an emphasis of matter paragraph in his report to highlight the non compliance.
7. Additionally, in case of non compliance with laws and regulations, the ISA 250 also requires the auditor to report the same to members of management charged with governance. The standard lays down the following in this respect:

***“32. The auditor should, as soon as practicable, either communicate with those charged with governance, or obtain audit evidence that they are appropriately informed, regarding noncompliance that comes to the auditor's attention. However, the auditor need not do so for matters that are clearly inconsequential or trivial and may reach***

*agreement in advance on the nature of such matters to be communicated.*

*33. If in the auditor's judgment the noncompliance is believed to be intentional and material, the auditor should communicate the finding without delay.*

*34 If the auditor suspects that members of senior management, including members of the board of directors, are involved in noncompliance, the auditor should report the matter to the next higher level of authority at the entity, if it exists, such as an audit committee or a supervisory board. Where no higher authority exists, or if the auditor believes that the report may not be acted upon or is unsure as to the person to whom to report, the auditor would consider seeking legal advice.”*

8. Hence it is concluded that an infraction of laws or regulations, the financial implication of which is not material to the financial statement do not require the modification of the auditors opinion. The auditor should follow the guidance given in paragraphs 6 and 7 above.

**(204<sup>th</sup> meeting of the Council – January 23, 2009)**