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SECTIONAL INDEX

PART VI SECTION C TECHNICAL RELEASES

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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

**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.

(145th meeting of the Council - July 30, 2001)

**AUDITOR'S REPORT TO THE TRUSTEES/BOARD OF GOVERNORS/
MANAGEMENT COMMITTEE**

The standard format for the auditor's report relating to the audits of financial statements of Societies, Non-Government Organisations (NGOs), Non-Profit Organisations (NPOs), Charities, Voluntary Welfare Entities and similar organisations (here-in-after referred to as 'welfare entities') is not prescribed in any law in Pakistan at present. Further, there is no provision for the manner in which books of account should be maintained by such welfare entities or how their financial statements should be prepared, either in the Trust Act, 1882 or in the Societies Registration Act, 1860. In view of the present state of affair, the Council has decided that the auditor's report on the financial statements of the aforementioned welfare entities shall be prepared in accordance with the formats as attached in Illustrations 1 and 2, as applicable, and which form part of this ATR.

However, the auditor's report on the financial statements of the welfare entities registered under the repealed Companies Ordinance, 1984 or the Companies Act, 2017 shall be as per the format prescribed in Form 35A of the Companies (General Provisions and Forms) Rules 1985 or such other format specified for these entities.

Members are advised to ensure that the financial statements of the welfare entities are prepared in accordance with a 'general purpose financial reporting' framework while reporting on those welfare entities. A summary of the possible financial reporting frameworks for the preparation of financial statements of the welfare entities that are not registered under the repealed Companies Ordinance 1984 or the Companies Act, 2017, together with the applicable International Standards of Auditing (ISAs) as applicable in Pakistan for the auditor's report are as follows:

AUDITING**ATR 17 (Revised 2017)**

Framework/ basis used for preparation of financial statements	Format of auditor's report to be used/ applicable ISA	Format of the auditor's report specified in the ATR
*Approved accounting and reporting standards as applicable in Pakistan	Report to be issued in accordance with revised ISAs 700 - 799 <i>Audit Conclusions and Reporting</i>	Illustration 1
Cash receipts and expenditure basis/ Cash receipts and disbursements basis	Report to be issued in accordance with revised ISAs 700 - 799 <i>Audit Conclusions and Reporting</i>	Illustration 2

*Approved accounting and reporting standards as applicable in Pakistan include:

1. International Financial Reporting Standards (IFRSs) issued by International Accounting Standards Board (IASB) as notified by SECP; or
2. International Financial Reporting Standard for Small And Medium-sized Entities (IFRS for SMEs) issued by IASB as notified by SECP; or
3. Accounting and Financial Reporting Standard for Small-sized Entities (AFRS for SSEs) issued by ICAP in 2006; or
4. Revised Accounting and Financial Reporting Standard for Small-sized Entities (AFRS for SSEs) issued by ICAP in 2015; and
5. Accounting Standard for Not for Profit Organisations (NPOs) issued by ICAP.

Effective Date:

ATR 17 (Revised 2017) is effective for the audits of financial statements for the periods ending on or after June 30, 2017.

(288th Council meeting – 7-8 July, 2017)

Illustration 1: Auditor's Report on the financial statements of a welfare entity prepared in accordance with the approved accounting and reporting standards as applicable in Pakistan

Independent Auditor's Report to the *Trustees / Board of Governors / Management Committee / other as appropriate of *Trust/Society/ other as appropriate

Opinion

We have audited the financial statements of*(*Trust/Society/other as appropriate*), which comprise the statement of financial position as at, and the ***statement of comprehensive income/income and expenditure account, **statement of changes in equity and statement of cash flows* for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, (*or give a true and fair view of*) the financial position of as at, and (*of*) its financial performance and ***its cash flows* for the year then ended in accordance with ****approved accounting and reporting standards as applicable in Pakistan*.

Basis for Opinion

We conducted our audit in accordance with the International Standards on Auditing (ISAs) as applicable in Pakistan. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the **(Trust/Society/other as appropriate)* in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants as adopted by the Institute of Chartered Accountants of Pakistan (the Code), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty relating to Going Concern (if applicable)**Emphasis of Matter (if any)****Other Information (if any)****Responsibilities of Management and Those Charged with Governance for the Financial Statements**

The **(Trustees/Board of Governors/Management Committee/other as appropriate) are/is* responsible for the preparation and fair presentation of the financial statements in accordance with the ****approved accounting and reporting standards as applicable in Pakistan*, and for such internal control as the **(Trustees/Board of Governors/Management Committee/other as appropriate)* determine(s) is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, **(Trustees/Board of Governors/Management Committee/other as appropriate) are/is* responsible for assessing the **(Trust's/Society's /other as appropriate)* ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the **(Trust/Society/other as appropriate)* or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the **(Trust/Society/other as appropriate)* financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs as applicable in Pakistan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs as applicable in Pakistan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the **(Trust's/Society's/other as appropriate)* internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the **(Trust's/Society's/other as appropriate)* ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the **(Trust's/Society's/other as appropriate)* to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

AUDITING

ATR 17 (Revised 2017)

[Auditor's signature]

[Date of the auditor's report]

[Place of signing]

[Name of the engagement partner]

** Select whichever is applicable*

*** Mention whichever is applicable or other statement as per the applicable approved accounting and reporting standards*

**** Approved accounting and reporting standards as applicable in Pakistan include:*

- 1. International Financial Reporting Standard (IFRS) issued by International Accounting Standards Board (IASB) as notified by the SECP; or*
- 2. International Financial Reporting Standard for Small And Medium-sized Entities (IFRS for SMEs) issued by IASB as notified by the SECP; or*
- 3. Accounting and Financial Reporting Standard for Small-sized Entities (AFRS for SSEs) issued by the ICAP in 2006; or*
- 4. Revised Accounting and Financial Reporting Standard for Small-sized Entities (AFRS for SSEs) issued by the ICAP in 2015; and*
- 5. Accounting Standard for Not for Profit Organisations (NPOs) issued by the ICAP.*

Note 1: In case of modified opinion, please refer to ISA 705 (revised), *Modifications to the Opinion in the Independent Auditor's Report*

Illustration 2: Auditor's Report on financial statement of a welfare entity prepared in accordance with the cash receipts and disbursements / cash receipts and expenditure basis**Independent Auditor's Report to the *Trustees/Board of Governors/Management Committee/other as appropriate of the *Trust/Society/other as appropriate****Opinion**

We have audited the financial statement of **(Trust/Society/other as appropriate)* which comprise the statement of ****cash receipts and disbursements/cash receipts and expenditure** (here-in-after referred to as the financial statement) for the year then ended, and notes to the financial statement, including a summary of significant accounting policies.

In our opinion, the accompanying financial statement of the **(Trust/Society/other as appropriate)* is prepared, in all material respects, in accordance with *****(cash receipts and disbursements/cash receipts and expenditure)*** basis of accounting described in note X to the financial statement.

Basis for Opinion

We conducted our audit in accordance with the International Standards on Auditing (ISAs) as applicable in Pakistan. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the **(Trust/Society/other as appropriate)* in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants as adopted by the Institute of Chartered Accountants of Pakistan (the Code) and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty relating to Going Concern (if applicable)**Emphasis of Matter (if any)****Other Information (if any)**

Responsibilities of Management and Those Charged with Governance for the Financial Statement

The **(Trustees/Board of Governors/Management Committee/other as appropriate)* are/is responsible for the preparation of the financial statement in accordance with *** (cash receipts and disbursements/cash receipts and expenditure)* basis of accounting described in note X to the financial statement, and for such internal control as the **(Trustees/Board of Governors/Management Committee/other as appropriate)* determines is necessary to enable the preparation of the financial statement that is free from material misstatement, whether due to fraud or error.

In preparing the financial statement, **(Trustees/Board of Governors/Management Committee/ other as appropriate)* are/is responsible for assessing the **(Trust's/Society's/other as appropriate)* ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless **(Trustees/Board of Governors/Management Committee/other as appropriate)* either intends to liquidate the **(Trust/Society/other as appropriate)* or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the **(Trust/Society/other as appropriate)* financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statement

Our objectives are to obtain reasonable assurance about whether the financial statement as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs as applicable in Pakistan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statement.

AUDITING

ATR 17 (Revised 2017)

As part of an audit in accordance with ISAs as applicable in Pakistan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statement, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the **(Trust/Society/other as appropriate)* internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of **(Trustees/Board of Governors/Management Committee/ other as appropriate)* use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the **(Trust/Society/other as appropriate)* ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statement or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the **(Trust/Society/other as appropriate)* to cease to continue as a going concern.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

[Auditor's signature]

[Date of the auditor's report]

[Place of signing]

[Name of the engagement partner]

** Select whichever is applicable*

*** Select whichever is applicable*

Note 1: In case of modified opinion, please refer to ISA 705 (revised), *Modifications to the Opinion in the Independent Auditor's Report*.

The ATR-17 before this revision reads as under:

AUDITING

ATR - 17 (Revised 2015)

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

The standard format for an auditors' report relating to audits of Societies, Non-Government Organisations (NGOs), Non-Profit Organisations (NPOs), Charities and similar organisations (here-in-after referred to as 'welfare entities') is not prescribed in any law in Pakistan at present. Further, there is no provision for the manner in which books of accounts should be maintained by for such 'welfare entities' or how their financial statements should be prepared, either in the Trust Act, 1882 or in the Societies Registration Act, 1860. In view of the present state of affair, the Council has decided that the auditors' reports on the financial statements of the aforementioned 'welfare entities' should be prepared in accordance with the formats as attached in Illustrations 1 and 2, as applicable, and which form part of this ATR.

However, an audit report to be issued on the financial statements of 'welfare entities' registered under the Companies Ordinance, 1984 shall be as prescribed under Form 35A of 'The Companies (General Provisions and Forms) Rules, 1985'.

Members are advised to ensure that the financial statements of the 'welfare entities' are prepared in accordance with a 'general purpose financial reporting' framework while reporting on those 'welfare entities'. A summary of the possible financial reporting frameworks to be used for/basis of preparation of financial statements for 'welfare entities' not registered under the Companies Ordinance, 1984 together with the applicable International Standard of Auditing (ISA) under which the auditors' report should be issued are as follows:

Framework/basis used for preparation of financial statements	Format of auditor's report to be used / applicable ISA
a. *Approved accounting standards as applicable in Pakistan	Standard report to be issued based on ISAs 700-799 Audit Conclusions and Reporting. Format of the auditor's report is set out in Illustration 1.
b. Guideline for Accounting and Financial Reporting by Non-Government Organisations(NGOs)/ Non-Profit Organisations (NPOs) issued by the Institute of Chartered Accountants of Pakistan (ICAP)	Standard report to be issued based on ISA 700 – 799 Audit Conclusions and Reporting. Format of the auditor's report is set out in Illustration 1.
c. Cash receipts and expenditure basis/ cash receipts and disbursements basis	Format of the auditor's report to be issued is set out in Illustration 2.

**Approved accounting standards as applicable in Pakistan' include IFRSs as notified by the SECP, IFRS for SMEs, and the Accounting and Financial Reporting Standards for Medium and Small Sized Entities issued by ICAP.*

Effective Date:

ATR 17 (Revised 2015) is effective for audits of financial statements for accounting periods beginning on or after June 15, 2015. Earlier application of ATR 17 (Revised 2015) is encouraged.

Illustration 1

Independent auditors' report to the *Trustees / Board of Governors / Management Committee [under the financial reporting framework as referred to under (a) and (b) in the above table (accrual basis of accounting)]

We have audited the accompanying financial statements of, which comprise of the statement of financial position as at, and the statement of comprehensive income, the ***statement of changes in equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

The *Trustees / Board of Governors / Management Committee (or other as appropriate) *are/is responsible for the preparation and fair presentation of these financial statements in accordance with the **approved accounting standards as applicable in Pakistan, and for such internal control as the *Trustees / Board of Governors / Management Committee determine(s) is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the approved auditing standards as applicable in Pakistan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by *Trustees / Board of Governors/ Management Committee (or other as appropriate), as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, (or *give a true and fair view of*) the financial position of as at, and (of) its financial performance and its cash flows for the year then ended in accordance with the **approved accounting standards as applicable in Pakistan.

[Auditor's signature]

[Date of the auditor's report]

[Place of signing]

[Name of the engagement leader]

* *select whichever is applicable*

** *'approved accounting standards as applicable in Pakistan' include IFRSs as notified by the SECP, IFRS for SMEs and the Accounting and Financial Reporting Standards for Medium and Small Sized Entities issued by ICAP.*

*** *Statement of Changes in Equity and Cash flow Statement is optional for SSEs.*

Illustration 2

Independent auditors' report to the *Trustees/ Board of Governors/ Management Committee [under the financial reporting framework as referred to under (c) in the above table]

We have audited the accompanying statement of *cash receipts and disbursements/ cash receipts and expenditure offor the year ended, and a summary of significant accounting policies and other explanatory information (herein-after referred to as the 'financial statement').

Basis of Preparation

The financial statement has been prepared by the management in accordance with the *cash receipts and disbursements/ cash receipts and expenditure basis of accounting as described in note X thereto.

Management' Responsibility for the Financial Statements

The *Trustees / Board of Governors / Management Committee (or other as appropriate) *are/is responsible for the preparation and fair presentation of this financial statement in accordance with the *cash receipts and disbursements/ cash receipts and expenditure basis of accounting described in note X, and for such internal control as the *Trustees / Board of Governors / Management Committee (or other as appropriate) determines is necessary to enable the preparation of the financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with the approved auditing standards as applicable in Pakistan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, if any, made by the *Trustees / Board of Governors / Management Committee (or other as appropriate), as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statement presents fairly, in all material respects, the statement of *cash receipts and disbursements/ cash receipts and expenditure offor the year ended in accordance with the *cash receipts and disbursements/ cash receipts and expenditure basis of accounting as described in note X.

*****Report on Other Legal and Regulatory Requirements***

[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities, if any.]

[Auditor's signature]

[Date of the auditor's report]

[Place of signing]

[Name of the engagement leader]

* *select whichever is applicable*

** *use if applicable*

BANK REPORTS FOR AUDIT PURPOSES

1.0 The Issue

- 1.1 To seek standardisation of auditing practice when approaching banks for information required for audit purposes.

2.0 Explanation

- 2.1 This release deals with request by auditors to bankers' of the client for confirmation of balances and providing other information and prescribing a standard letter of request.
- 2.2 The practice of obtaining independent confirmations or reports from banks is essential for 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 financial statements.

3.0 Technical Committee Recommendation

- 3.1 The Committee recommends the following standard format for the letter of request to be sent to banks 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 a prompt response from banks and financial institutions. The use of such a 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 require a 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 a standard letter as 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 the sake of convenience, it is proposed that the authority should 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 a 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 a bank report:
- a) The standard letter as 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 branch of a bank with which it is known that the client holds an account or has dealt with 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/period 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 the 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 a bank within two weeks after the original request was made or two weeks after the closing of the year whichever 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.

- 5.3 The auditor should require the banks to send responses to the confirmations, directly to the auditor address.
- 5.4 If the responses by bank to the confirmations sent to them are received via e-mail or facsimile, a telephone call shall be made to verify these responses. Documentation of the telephone call should, depending on the circumstances, ordinarily indicate:
- The name of the person spoken with;
 - the name of the person who completed the confirmation;
 - that such person was authorised and knowledgeable to respond;
 - that there were no changes to the confirmations since the date they were provided electronically/via facsimile;
 - verification of certain key client-specific information contained in the response; and
 - conclusion that the source and contents of the response were verified without exception and that the response was received from an authorised individual.

This revised ATR – 18 (2012) supersedes the requirement as contained in ATR – 18 and is applicable for audits of financial statement/statements for periods beginning on or after July 1, 2011. However, earlier application is encouraged.

(230th meeting of the Council held on December 17, 2011)

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

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.
- (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, overdue 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:

AUDITING

ATR-18 (Revised 2012)

- (i) Details of any security formally charged in favour of the bank, including the date and type of charge, (e.g. pledge, hypothecation etc.)
- (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.

- (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;
 - (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;

AUDITING

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- (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.

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.

APPENDIX-II**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.
- 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 THE 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. Some suggestions for improving the rate of feedback are as follows:-

(a) 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 for information that the debtor is able to confirm

The confirmation request should include all the relevant information required for a 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, where considered necessary).

(d) Set deadlines

The confirmation should state deadlines e.g. **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 early.

(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.

The ATR-18 before this revision reads as under:

AUDITING

ATR – 18

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.

(179th meeting of the Council held on March 7, 2006)

The Manager

(Bank)
(Branch)

Dear Sir,

(Client'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.)

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.

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.

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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*'.

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ATR-19(Revised 2012)

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.

(197th 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.

(204th meeting of the Council – January 23, 2009)