Model Audit Practice Manual

(Revised and Redrafted 2012)

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN

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Preface

It gives me great pleasure to inform all the practicing members that the Quality Assurance Board in its 41st meeting held on July 13, 2012 approved the revised Audit Practice Manual (APM). This is the second revision of the APM and would replace the earlier one which was divided into two volumes.

The need of the revision was felt following the completion of the clarity project by IAASB of IFAC, in March 2009, in which 36 revised and redrafted International Standards on Auditing (ISAs) were issued. To revise the APM, a Committee comprising of the following members was constituted:

Mr. Abbas	Chairman
Mr. Saad Kaliya	Member
Mr. Zafar Iqbal	Member
Mr. Muhammad Shazam Ziad Butt	Member

An attempt has been made to guide the practicing members through all the stages of an audit from planning an audit to assessment of risk and materiality, analytical reviews, detailed audit programmes and finally the reporting.

This Audit Practice Manual has been prepared on the premise that the user has the requisite knowledge of the ISAs and applicable legislation in Pakistan. The Manual does not cover engagements other than audit.

It is pertinent to note that the APM provides non-authoritative guidance on ISAs and should not be considered a directive of the Institute. Further APM is not a substitute for reading the ISAs and reference to the ISAs themselves should always be made. In conducting an audit in accordance with ISAs, the auditor is required to comply with all the ISAs as applicable in Pakistan that are relevant to the engagement.

It is hoped that the chartered accountants' firms using the Manual would tailor it to suit their own needs in accordance with the type and nature of the audit engagement.

I am sure that the members would find the Manual useful in gaining better implementation of the ISAs and legal requirements in their audit engagements.

In the end I would like to record my sincere thanks to Mr. Abbas, Chairman of the Committee and other members of the Committee for their contribution and devotion as the work of this significance would not have been possible without their cooperation and support.

Zafar Iqbal Sobani, FCA
Chairman
Quality Assurance Board

August 09, 2012

PART I PRE-ENGAGEMENT

This is a crucial phase where the practicing firm has to decide whether to accept the new client relationship or in case of existing client a periodic review whether to continue with the existing relationship. The decision to accept or continue an audit engagement depends on the client evaluation and ethical considerations.

The firm shall make a periodical review each year for listed and economically significant entities and at least three years in other cases of the existing audit clients and document the result thereof. However, the auditor shall remain alert to the conditions and circumstances requiring reconsideration to continue the existing clients.

As per paragraph 26 of ISQC-1, “The firm shall establish policies and procedures for the acceptance and continuance of client relationships and specific engagements, designed to provide the firm with reasonable assurance that it will only undertake or continue relationships and engagements where the firm:

(a) Is competent to perform the engagement and has the capabilities, including time and resources, to do so;
(b) Can comply with relevant ethical requirements; and
(c) Has considered the integrity of the client

If the issues have been identified, and the firm decides to accept or continue the client relationship or a specific engagement, the firm shall document how the issues were resolved.

As per paragraphs 12 and 13 of ISA-220 on Quality Control for an Audit of Financial Statements, the engagement partner shall be satisfied that the firm’s policies and procedures were duly followed in acceptance and continuation of client relationship and audit engagement and shall determine that the conclusions reached in this regard are appropriate.

The auditor shall follow ICAP Code of Ethics with respect to the following fundamental principles:

- Integrity
- Objectivity
- Professional Competence and Due Care
- Confidentiality, and
- Professional Behaviour

The auditor shall be alert to and appropriately address the following threats:

- Self interest
- Self review
- Familiarity
- Intimidation
- Advocacy

Chapter 1 Prospective Client Acceptance/Existing Client's Continuation Memorandum

The auditor is generally more careful about accepting the new client because of lack of previous experience with the management and those charged with the governance and knowledge of the business, transactions and associated risks affecting the financial statements.

While certain assessment procedures for both the prospective and existing clients would be common, however, they may assume additional importance in case of a new client.

The auditor also needs to communicate with the predecessor auditor.

I. Prospective Client Acceptance Memorandum

<table>
<tr><td colspan="2" rowspan="3"></td><td>WP Ref.:</td><td></td></tr>
<tr><td>Prepared by:</td><td></td></tr>
<tr><td>Approved by:</td><td></td></tr>
<tr><td colspan="2"></td><td>Date</td><td></td></tr>
<tr><td colspan="2">If Accepted:</td><td>Next Review Due in year</td><td></td></tr>
<tr><td>Client:</td><td colspan="3"></td></tr>
<tr><td></td><td colspan="3"></td></tr>
</table>

This memorandum should be filled and signed before accepting all new audit engagement.

i. Prospective client identity and source (consider following questions)

- *Whether the client is one of the following:-*

  a) *Listed Entity*
  b) Non listed entities which are financials institutions, Insurance, NBFCs and DFIs.
  c) Economically Significant Companies (ESC) as defined under the prevalent laws or standards.
  d) Others (specify).

- *What has been auditor's experience with the client or member of the same group?*

- *Has the work been referred by a long-standing professional contact?*

- *What are the significant risks associated with accepting the client?*

ii. Background information on the business (consider following questions)

- *What is known about the prospective business client?*
- *What is the business reputation of the prospective client, its owners/those charged with the governance, and its management?*
- *How capable is/are the management/those charged with the governance? Review qualifications and business experience.*
- *What is known about the integrity of the principal owners/those charged with the governance and management?*
- *Is there a dominant Chief Executive?*
- *Whether the auditor can meet with the Audit Committee freely and without the Executives present?*
- *What is known about entities bankers and lawyers?*
- *What is the financial status of the prospective client (particularly liquidity and viability)?*
- *Whether the management has a significant personal financial interest in the financial result?*
- *What is the integrity of those with significant influence over financial reporting (including fraudulent acts, non-bias in producing estimates, earnings management)?*
- *What is known about the industry in which the prospective client operates and the risks it presents?*
- *What reasons are given for the change of auditors and why our firm was selected?*
- *Whether the audit firm is competent and capable of handling the audit of the prospective client?*
- *Whether there would be need of an expert?*
- *Are there any concerns over the resources available within the firm to met any identified need for experts?*
- *In case of group audit whether the engagement team is capable of acting as group auditors?*
- *Is there any concern that the group engagement team will not be able to gain sufficient appropriate audit evidence in relation to the consolidation process and the financial information of the components on which to base the group audit opinion?*
- *Is an Engagement Quality Control Reviewer (EQCR) required?*

iii. **Results of inquiries with third parties**

Enter details of discussions with third parties.

iv. **Auditor's association with the prospective client** (consider following questions)

- *Whether the preconditions for an audit are present, that is, the use by management of an acceptable financial reporting framework in the preparation of the financial statements and the agreement of management or those charged with governance to the premise on which an audit is conducted.*
- *Whether any limitation of scope is likely that would result in a disclaimer of opinion?*
- *What is the need to accept the audit even where the limitation on scope is or likely to be imposed by the management?*
- *Are there any relationships that may impair auditor's objectivity or ability to meet any relevant independence requirements?*
- *Are there any potential conflict of interest affecting auditor's ability to accept the engagement? For example providing audit and accountancy services to the same client. If there is a conflict of interest whether the interest conflicting with audit removed or safeguards available that reduces the risk to an acceptable level?*
- *Consider that no conflict of interest arise in respect of services being provided as a result of accepting audit of a listed company in view of listing regulations and ICAP Code of Ethics.*
- *Have any relevant statutory or other regulatory provision been identified, including any implications on the auditor's ability to act for the client?*

1. Conflicts of interest

Enter details of issues that might lead to potential conflict of interest.

2. **Expertise**

Enter details of the skill and experience the auditor has that makes it a suitable for this client.

3. **Fee recovery**

Enter details of estimated fees, and review that an acceptable level of recovery of audit cost is expected.

4. **Other services**

Comment on the potential for providing other services to the client and suggest actions for taking advantage of these.

v. **Initial assessment of risk associated with the prospective client**

Specify the areas of concern that the client presents and explain how the risk will be managed.

vi. **Result of enquiries with predecessor auditor**

Document the results of enquiries with predecessor auditor and comment on the same.

____
____
____

vii. Independence Factors

Consider all factors that could impair the firm's or network's independence for this engagement including IESBA independence standards and other applicable independence rules. Determine if any of the following challenges are present:

1. Proposed or prospective services
2. Firm financial or business relationships with the client
3. Ex-firm staff working for the client in a position of influence
4. Firm professionals who were formerly employed by the client with involvement in the audit engagement
5. Audit team's and other covered persons' family members employed by the client
6. Long association of a senior team member with the client

viii. Other

Enter details of any other areas of concern or issues for consideration.

For example

Whether the firm has previously decline to perform audit services for this client if so give reasons and state mitigating factors for acceptance?

ix. Conclusion

On the basis of the above, we conclude that there is no reason to believe that the overall level of risk associated with ___________________________ is sufficient to prevent the client from being accepted and there are no other circumstances of which we are aware associated with ___________ __________________that suggest that the client should not be accepted.

OR

The circumstances identified from the above assessment have been disposed of as follows:

1. ______________________
2. ______________________

Significant risks

Based on the assessment following significant risks are identified, which needs to be addressed while planning and performing the audit

1. _________________
2. __________________

OR

On the basis of above and due to-------------------------- the offer is declined.

Signed ____________________ ________________________

Proposed Engagement partner — Date

____________________ ________________________

Senior partner — Date

II. Existing Client Continuation/ Retention Memorandum

S. No.	Description	Yes	No
1	Is there a significant change in the nature, size or structure of the client's business? If yes state increased risk associated with the change and why the firm should still continue with such client.		
2	Is there a request by another partner for re-evaluation of the engagement? If yes, state reasons for such request.		
3	Is there any new legal, regulatory or professional requirements that alter the planning, performance and reporting responsibilities?		
4	Are there any concern about a team member's ability to meet the applicable requirements?		
5	Is there any new legal, regulatory or professional requirements that alter the planning, performance and reporting responsibilities?		
6	Is there a significant change in management or those charged with the governance?		
7	Is there any reason whether due to past experience or present development to question or be concerned about the reputation, character, or integrity of management and/or those charged with the governance?		
8	Is there any known problem of independence by reason of activities or relationships of partner or professional staff in relation to the client?		
9	Is the client involved in any significant current or possible litigation?		

10	Did the client re-evaluation indicate a change in financial performance of the client?		
11	*Whether there would be need of an expert?*		
12	*Are there any concerns over the resources available within the firm to meet any identified need for experts?*		
13	*In case of group audit whether the engagement team is capable of acting as group auditors?*		
14	*Is there any concern that the group engagement team will not be able to gain sufficient appropriate audit evidence in relation to the consolidation process and the financial information of the components on which to base the group audit opinion?*		
15	*Is an Engagement Quality Control Reviewer (EQCR) required?*		

Independence Factors

Consider all factors that could impair the firm's or network's independence for this engagement including IESBA independence standards and other applicable independence rules. Determine if any of the following challenges are present:

1. Other services provided to the entity and its related entities in the previous 2 years (must always include any years subject to our audits)

2. Proposed or prospective services

3. Firm financial or business relationships with the client

4. Ex-firm staff working for the client in a position of influence

5. Firm professionals who were formerly employed by the client with involvement in the audit engagement

6. Audit team's and other covered persons' family members employed by the client

7. Long association of a senior team member with the client

8. Acceptance of hospitality that is not clearly insignificant

9. Threat of replacement over a disagreement with an accounting policy (c)

Changes to Audit Risks and Other Matters

Consider matters (including any identified in the Client Acceptance) including whether there are issues in relation to:

1. Going concern/financial viability/continued existence

2. Related parties

3. Current or possible litigation against the client

4. Compliance with laws and regulation including any regulatory investigations

5. Suspected or identified frauds

6. Items noted in Financial Statement review

7. Other matters

Conclusion

On the basis of the above it is concluded that the firm should / should not continue our client engagement.

If decided to continue:

The circumstances identified (if any) from the above assessment have been disposed of as follows:

1. ________________________________

2. ________________________________

Significant risks

Based on the assessment following significant risks (if any) are identified which needs to be addressed while planning and performing the audit:

1. ---

2. ---

3. ---

Signed

Proposed Engagement partner	Date
Senior partner	Date

Chapter 2 Terms of Engagement

I. Agreeing Terms of Engagement on Acceptance of the Audit

Having decided to accept the audit, the auditor shall agree the terms of audit engagement either through a formal contract or through an audit engagement letter which is the general practice. The auditor is advised to go through the format as per International Auditing Standard 210 on Agreeing the terms of audit engagement and modify/add the terms and conditions of the audit according to his requirements.

While agreeing the terms of engagement with the client the following requirements should be taken care off**.**

Preconditions for an Audit

a) Determine whether the financial reporting framework to be applied in the preparation of the financial statements is acceptable; and

b) Obtain the agreement of management that it acknowledges and understands its responsibility:

   (i) For the preparation of the financial statements in accordance with the applicable financial reporting framework, including where relevant their fair presentation;

   (ii) For such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and

   (iii) To provide the auditor with:

      a. Access to all information of which management is aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;

      b. Additional information that the auditor may request from management for the purpose of the audit; and

      c. Unrestricted access to persons within the entity from whom the auditor determines it necessary to obtain audit evidence.

Limitation on Scope Prior to Audit Engagement Acceptance

If management or those charged with governance impose a limitation on the scope of the auditor's work in the terms of a proposed audit engagement such that the auditor believes the limitation will result in the auditor disclaiming an opinion on the financial statements, the auditor shall not accept such a limited engagement unless required by law or regulation to do so.

The agreed term shall include the following minimum:

(a) The objective and scope of the audit of the financial statements;

(b) The responsibilities of the auditor;

(c) The responsibilities of management;

(d) Identification of the applicable financial reporting framework for the preparation of the financial statements; and

(e) Reference to the expected form and content of any reports to be issued by the auditor and a statement that there may be circumstances in which a report may differ from its expected form and content.

Recurring Audits

On recurring audits, the auditor shall assess whether circumstances require the terms of the audit engagement to be revised and whether there is a need to remind the entity of the existing terms of the audit engagement.

II. Change in Terms of Audit Engagement

Where a request has come to the auditor to change the terms of engagement, the auditor should consider the justification given for the change. To accept or decline the request by the auditor is a matter of his professional judgment having considered the relevant laws, auditing standards and ethical considerations and the prevalent circumstances. The auditor may agree to the change where the change is required due to:

1. A change in circumstances that affects the entity’s requirements for an audit.

2. A misunderstanding concerning the nature of the service originally requested.

The change in terms of an audit engagement would not be justified where the change relates to information that is incorrect, incomplete or otherwise unsatisfactory. For example, where auditor is unable to obtain sufficient appropriate audit evidence regarding an assertion in a financial statements and the entity asks for the audit engagement to be changed to a review or agreed upon procedure engagement to avoid a qualified opinion or disclaimer of opinion.

If the auditor is unable to agree to a change of the terms of the audit engagement and is not permitted by management to continue the original audit engagement, the auditor should:

a) Withdraw from the audit engagement where possible under applicable law or regulation; and

b) Determine whether there is any obligation, either contractual or otherwise, to report the circumstances to other parties, such as those charged with governance, owner or regulators.

PART II - PLANNING

Planning is crucial to a successful audit engagement because it enables auditors to meet their professional responsibilities at a reasonable cost.

Planning includes identifying audit risk while obtaining the understanding of the business, assessing the identified risk and responding to audit risks by designing the adequate audit procedures and applying them to obtain sufficient appropriate audit evidence to bring down the audit risk to an acceptable level. Planning also includes consideration of materiality and application of analytical procedures. Planning is a continuous process throughout the engagement.

Planning consists of:

I Developing an overall audit strategy

II Overall Audit Plan to lead to the preparation of detailed audit programme (for practical purposes this has been dealt with in Chapter 15, Sample Audit Programmes)

To develop the above documents the auditor needs to perform certain initial activities;

- Initial meeting with the client
- Risk assessment procedures

Chapter 3 The Planning Process

I. Developing an overall audit strategy

Audit strategy sets the scope, timing and direction of the audit, and guides the development of the audit plan.

Steps

Define scope (also state any limitation and acceptability thereof)

____
____
____
____
____
____

Ascertain reporting objectives (General purpose or special purpose audit)

____
____
____
____
____
____

Decide on Timing of the Audit (Schedule and priority over other assignments)

Decide on Nature and timing of communications required (correspondence & reports)

Consider significant factors in directing the engagement team.

Use knowledge acquired from preliminary audit engagement activities.

Decide nature, timing and extent of human (including experienced members for high risk area and material locations such as for observation of inventory counts) and other resources needed (such as computers, travelling etc).

Model Logistical Plan

Engagement team

Engagement Partner
Engagement Manager
Job-in-Charge
Team members
Appointment of EQC Reviewer if

required:
Name of EQC Reviewer:

Key management personnel

Chief Executive
Finance Director/CFO
Manager Finance
Factory Manager
Sales Manager

Staff and allocation of work

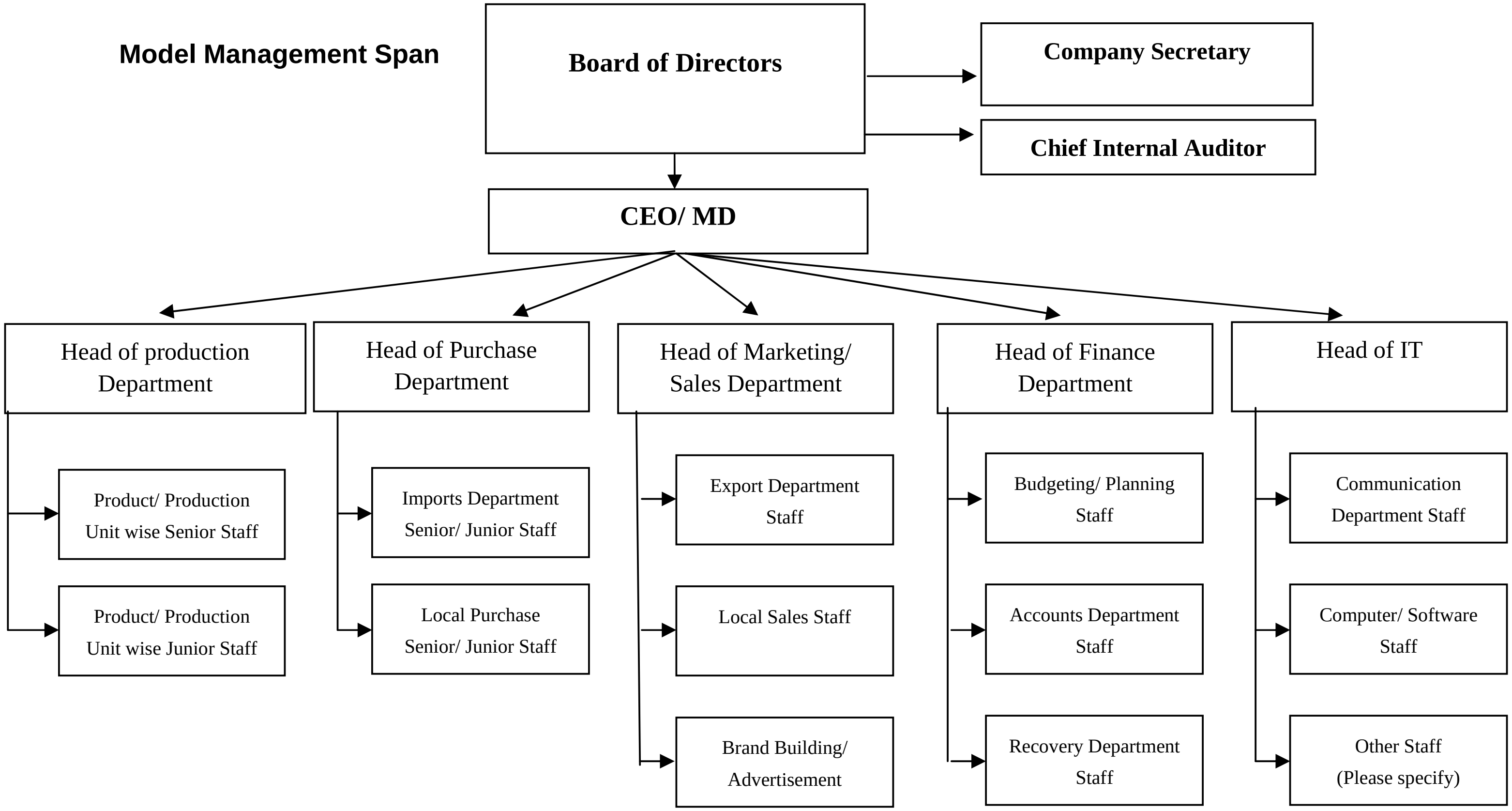
Staff **Allocated area**

Key dates and deadlines

Activity	**Date**
Kick off meeting	
Initial meeting with client	
Initial meeting with internal auditor (if any) for liaison	
Initial meeting with expert (if any) for liaison	
Meeting with client to understand role of service organization for work outsourced (if any)	
Inquiry and Confirmation circularization	
Manager review	
Partner review	
EQCR review, if required	
Covering letter	
Management Letter	
Board meeting and Audit report	

Location of client:
Telephone:
Fax:
Email:
Web site:

Model Management Span



1. Please amend the titles of Departmental heads, as per information provided by the client(s);
2. In case of foreign operations, foreign operations department may be added;
3. In cases of branches, branch operation may be added as deemed appropriate.

II. Overall Audit Plan

Understanding the entity and its environment to identify and assess the risk of material misstatement

The auditor knows that audit risk is the risk of failure to detect material misstatements in the financial statements (i.e., financial statements risks).

ISA-315 deal with the auditor's responsibility to identify and assess the risks of material misstatement in the financial statements, through understanding the entity and its environment, including the entity's internal control. This identification, understanding and assessment provide a basis for designing and implementing responses to the assessed risks of material misstatement as per ISA-330 "The Auditor's Responses to Assessed Risks".

The risk assessment process includes:

Inquiries:

Directed towards (for example):

a) Those charged with the governance and management to understand the environment in which the financial statements are prepared and to assist in identifying risks of material misstatement due to fraud or error.

b) Internal audit personnel (if any) about internal audit procedures performed during the year relating to the design and effectiveness of the entity's internal control and whether management has satisfactorily responded to findings from those procedures.

c) Employees involved in initiating, processing or recording complex or unusual transactions to evaluate the appropriateness of the selection and application of certain accounting policies.

d) In-house legal counsel (if any) to provide information about such matters as litigation, compliance with laws and regulations, knowledge of fraud or suspected fraud affecting the entity, warranties, post-sales obligations, arrangements (such as joint ventures) with business partners and the meaning of contract terms.

e) Marketing and sales personnel about changes in the entity's marketing strategies, sales trends, or contractual arrangements with its customers.

<u>Results of Inquiries</u>

Analytical Procedures

a) To identify aspects of the entity of which the auditor was unaware.

b) To identify the existence of unusual transactions or events, and amounts, ratios and trends that might indicate matters that have audit implications and might identify risks of material misstatement due to fraud.

Results of Analytical Procedures Applied

Observation and Inspection

Observation and inspection may support the results of inquiries and may also provide information about the entity and its environment. Examples include:

a) Observation of the entity's operations.

b) Inspection of documents (such as business plans and strategies), records, and internal control manuals.

c) Reports prepared by management (such as quarterly management reports and interim financial statements) and those charged with the governance (such as minutes of board of directors' meetings).

d) The entity's premises and plant facilities.

Results of Observation and Inspection

Information Obtained in Prior Period and relevance to the current period.

The auditor shall bring forward his knowledge of previous audits relating to the matters such as:

a) Past misstatements and whether they were corrected on a timely basis.

b) The nature of the entity and its environment, and the entity's internal control (including deficiencies in internal control).

c) Significant changes that the entity or its operations may have undergone since the prior financial period.

Conclusion as to the relevance to current period

____
____
____
____

The engagement partner and other key engagement team members shall discuss the susceptibility of the entity's financial statements to material misstatement and the application of the applicable financial reporting framework to the entity's facts and circumstances. The engagement partner shall determine which matters are to be communicated to engagement team members not involved in the discussion.

Some of the business risk leads to material misstatement of financial statements and therefore relevant to the audit and needs understanding at an early stage.

Identification of Business Risks of Your Client

Business risk is a risk resulting from significant conditions, events, circumstances, actions or inactions that could adversely affect an entity's ability to achieve its objectives and execute its strategies, or from the setting of inappropriate objectives and strategies.

The auditor uses the tools available to identify business risks. Examples of the tools available are Strength, Weaknesses, Opportunities, and Threats Analysis (SWOT) and Political, Economic, Social and Technological Analysis (PEST).

SWOT Analysis

Entity	**Competitors**
Strengths	
■	■
■	■
Weaknesses	
■	■
■	■
Opportunities	
■	■
■	■
Threats	
■	■
■	■

PEST Analysis - political, economic, social, and technology forces (External Business Forces)

General Business Environment (PEST Analysis)	
1. Political	
Forces	**Relevance to the Client**
Current/Future Legislation	
Regulatory bodies & processes	
Government Policies	
Funding, grants, initiative	

2. Economic	
Forces	**Relevance to the Client**
Home economy situation	
Overseas economy situation	
General Taxation Issues	
Taxation specific to products/ services	
Customer/end user drivers	
Interest and exchange rates	

3. Social	
Forces	**Relevance to the Client**
Life style trends	
Demographics/Market Segment or Groups	
Consumer attitudes and opinions	
Ethnic/ Religious Factors	
Advertising & Publicity	

4. Technological	
Forces	**Relevance to the Client**
Computer technology development	
Research	
Technology legislation	
Intellectual property issues	

Chapter 4 Know your client in Detail (understanding business and its activities)

I. Client Overview

(a) Client History and Background

Provide a description of relevant client background

Client Profile

- Nature of client business
- Number of Branches/offices (if any)
- Directors
- Major shareholders
- Chief Executive Officer (Address and telephone number)
- Chief Financial Officer (Address and telephone number)
- Head of internal audit (Address and telephone number)
- Company Secretary (Address and telephone number)Legal Advisor(s)
- List of related parties and their relationship
- Tax Advisor
- Major Banks
- Organizational Charts, etc.

(b) Client Business Objectives and Related Business Strategies

Provide a summary of the objectives, strategies and method of implementing the strategies.

Business Objectives	Related Business Strategies
1.	
2.	
3.	

(c) Client Business Components

(i) Major Markets

(ii) Major Products and Services

(iii) Major Customers

(iv) Major Competitors

(v) **Alliances (including suppliers) and other relationships**

(d) List of Authorized Signatories

Name	Designation	Monetary Limit Allowed	Signature

Note: Information shall be used in performing audit procedures (e.g. Test of Controls & Substantive Testing). If there are no significant changes since previous audit, this may be transferred to the permanent file.

(e) Notes of Meeting with Client
(for recurring audits)

CLIENT NAME	
DATE	
VENUE	
TIME	

FIRM REPRESENTATIVES	Name	Designation
CLIENT REPRESENTATIVES	Name	Designation

CONCLUDING REMARKS	

Sign off

Prepared by	*Reviewed by*
Date	*Date*

Agenda for Meeting

Latest audited accounts					
■ Coordinating persons		Name		Designation	
Information about Other Auditors/ Co-auditors(if any)					
Availability of Accounting and/ or Internal audit / Internal Control System manuals and any changes					
Areas Requiring special attention					
Physical Existence Verification					
		Approx. Value	Date	Location(s)	Coordinator(s)
Stock					
Cash					
Investment					
Others					

Clients expectation of completion of test of controls	
Expected date of Client to prepare financial statements	
Clients expectation of completion of audit	
Clients expectation of receipt of audited accounts	
Any significant accounting and audit issues identified during the last audit which are brought forward	
Involvement of internal audit	
a. No. of staff	
b. Name of department head	
c. Reporting authority	
d. Type of reports issued	
e. Frequency of reports	
Confirmation circularization dates	
• Banks	
• Debtors	
• Creditors	
• Legal Advisors	
• Tax Advisors	
• Other	
Changes in economic conditions	
Changes in industry and operations	
Significant changes in business since last year	
Changes in key finance and operations managers	
Changes in management / stake holders / owners	
Business objectives and whether they are being met	

Changes in market strategies	
Availability of latest cash flows / budgets	
Actual results to date (comment generally)	
Financial restriction placed by debt covenants	
Risk / Probability of breach of debt covenants	
Changes in credit terms for customers since last year	
Changes in information systems and technology in use	
Changes in significant accounting processes	
Effects of any recent or pending government legislation / actions	
Effects of outcomes of litigation since last year	
Effect of any new tax rules / legislation	
New competitors in product lines of the company	
Changes in market share	
Significant changes in major customers / suppliers	
Acquisitions / disposals of associates/ subsidiaries or any anticipation thereof	
Changes in internal reporting formats	
Changes in capital structure of the entity	
Names of key financiers and changes thereto.	
Significant changes in system of	

internal controls since last year	
Whether any instances of fraud or material error during the year. How management / those charged with the governance responded?	
Significant changes in accounting policies	
Effect of new accounting pronouncements	
Clients international reporting requirements and changes thereto	
Miscellaneous	

II. Business Control Environment

When analyzing the business control environment understand the client's:

- business structure;
- culture and ethics;
- remuneration management;
- personnel profiles;
- communication of information;

Business structure

Culture and ethics

Remuneration management

Personnel profiles

Communication of information

III. Computer Information Systems (CIS)

Business processes are often facilitated by computer information systems. Obtain an understanding of the:

- level of dependence the client has on computer information systems (include a list of the client's computer information systems);
- computer information systems' personnel structure and skills;
- security of computer information systems; Access Controls, Backups, Disaster Recovery.
- reliability of computer information systems; Data Integrity, Processing, and Reporting Controls.
- degree and rate of change in computer information systems;
- dependence on external computer processing; Use of Service Organisation-understanding and evaluation thereof.

IV. Financial Reporting Environment

Obtain an understanding of the:

- financial reporting framework applicable to the entity;
- accounting policies applied by the entity and applied within the industry;
- potential impact of accounting policies upon specific aspects of the financial statements.

Financial Reporting Issues

Consider the following for identification of financial reporting issues to be addressed while analyzing or consulting with colleagues, experts:

- client's accounting practices and policies;
- new accounting pronouncements;
- the going concern assumption;
- legal and regulatory changes

Financial reporting issue	Reason for identification

V. Critical Audit Areas / Significant Financial Statement Components

Critical audit areas are generally those where judgment is involved and significant estimation is used. For example, making accounting estimates, fair value, selection and application of accounting policies etc. The approach to those areas and resulting impact on the financial statements relating to the audit is documented. It also includes consideration of previous years brought forward issues.

Critical Audit Areas/ Objective	**Management Response**	**Proposed Audit Approach**
significant estimates made		
New borrowings with extra-ordinary terms and conditions		
Acquisition of a significant asset		
Discontinuation of major suppliers		
Discontinuation of a major customer		
Loss of a significant market share		
Related party transactions		
Impairment of assets		

Examples of major critical areas may include:

VI. Reasons for use of Experts and other parties

Description includes a summary of the issue, why it is considered significant to engage or use and its potential financial statement effects.

Involvement of:	*Computer Information System (CIS) Specialist*
Description of basis, nature, extent and conclusions related to the involvement of CIS Specialist: [Description]	

Involvement of:	*Other specialist or other party involved in the audit e.g.Actuary, Valuers, Internal audit, taxation*
Description of significant issue and decision related to the involvement of others: [Description] **Findings**	

Chapter 5 Control Overview

Control overview includes understanding control environment and control activities.

Control environment—Includes the governance and management functions and the attitudes, awareness and actions of those charged with governance and management concerning the entity's internal control and its importance in the entity. The control environment is a component of internal control.

Control activities—Those policies and procedures that help ensure that management directives are carried out. Control activities are a component of internal control.

Control risk—The risk that a misstatement that could occur in an assertion about a class of transaction, account balance or disclosure and that could be material, either individually or when aggregated with other misstatements, will not be prevented, or detected and corrected, on a timely basis by the entity's internal control.

Internal control—The process designed, implemented and maintained by those charged with governance, management and other personnel to provide reasonable assurance about the achievement of an entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. The term "controls" refers to any aspects of one or more of the components of internal control.

I. Control Overview and Risk Assessment Document

		WP Ref.:	
		Prepared by:	
		Date:	
Client:			
Period:			

(a) Control environment

Communication and enforcement of integrity and ethical values

Consider

- What are entity's ethical and behavioral standards
- How they are communicated
- How they are reinforced in practice

Commitment to competence

Consider

- Management's consideration of the competence levels for particular jobs.

- How those levels translate into requisite skills and knowledge.

Participation by those charged with governance

Consider

- Independence from management
- Their experience and stature

- The extent of their and the information they receive involvement and scrutiny of activities
- The appropriateness of their actions
- The degree to which difficult questions are raised and pursued with management
- Their interaction with internal and external auditors

Management's philosophy and operating style

Consider

- Management's approach to taking and monitoring business risks
- Management's attitudes and actions toward financial reporting (conservative or aggressive selection from available alternative accounting principles, and conscientiousness and conservatism with which accounting estimates are developed)
- Management's attitudes toward information processing and accounting functions and personnel

Organizational structure

Consider

- Key areas of authority and responsibility
- Appropriate lines of reporting

Assignment of authority and responsibility

Consider

- How authority and responsibility for operating activities are assigned
- How reporting relationships and authorization hierarchies are established.

Human resource policies and practices

Consider

- Standards for recruiting the individuals, their relevant qualification and experience.
- Training policies that communicate prospective roles and responsibilities
- Promotions driven by periodic performance appraisals

(b) Entity's risk assessment process

The auditor shall obtain an understanding of whether the entity has a process for:

1. Identifying business risks relevant to financial reporting objectives;
2. Estimating the significance of the risks;
3. Assessing the likelihood of their occurrence; and
4. Deciding about actions to address those risks.

The entity's risk assessment process forms the basis for how management determines the risks to be managed. If that process is appropriate to the circumstances, including the nature, size and complexity of the entity, it assists the auditor in identifying risks of material misstatement. Whether the entity's risk assessment process is appropriate to the circumstances is a matter of judgment.

Obtain an understanding of the risk assessment carried out by the management and the results thereof. If the management has failed to identify any risk the auditor identified. The auditor shall evaluate whether such a risk should have been identified by the entity's risk assessment process. The auditor shall evaluate whether the process of risk assessment is appropriate or determine if there is a significant deficiency in internal control.

If risk assessment process has not been established or has an ad hoc process, the auditor shall discuss with management whether business risks relevant to financial reporting objectives have been identified and how they have been addressed. The auditor shall evaluate whether the absence of a documented risk assessment process is appropriate or determine whether it represents a significant deficiency in internal control.

Risk Assessment Process in Small Entity

There is unlikely to be an established risk assessment process in a small entity. In such cases, it is likely that management will identify risks through direct personal involvement in the business. Irrespective of the circumstances, however, inquiry about identified risks and how they are addressed by management is still necessary.

Significant Risk

The auditor shall pay special attention to the significant risks which could be:

a) Risk of fraud
b) Risk related to recent significant economic, accounting or other developments
c) Risk from complex transaction
d) Risk from related parties transactions
e) Risk from measurement uncertainty
f) Unusual transactions

Findings/Results

____
____
____
____
____
____

(c) Information system, and related business processes relevant to financial reporting, and communication

The auditor shall obtain an understanding of the information system, including the related business processes, relevant to financial reporting, including the following areas:

1. The classes of transactions in the entity's operations that are significant to the financial statements;

2. The procedures, within both information technology (IT) and manual systems, by which those transactions are initiated, recorded, processed, corrected as necessary, transferred to the general ledger and reported in the financial statements;

3. The related accounting records, supporting information and specific accounts in the financial statements that are used to initiate, record, process and report transactions; this includes the correction of incorrect information and how information is transferred to the general ledger. The records may be in either manual or electronic form;

4. How the information system captures events and conditions, other than transactions, that are significant to the financial statements;

5. The financial reporting process used to prepare the entity's financial statements, including significant accounting estimates and disclosures; and

6. Controls surrounding journal entries, including non-standard journal entries used to record non-recurring, unusual transactions or adjustments.

Findings/Results

The auditor shall obtain an understanding of how the entity communicates financial reporting roles and responsibilities and significant matters relating to financial reporting, including:

(a) Communications between management and those charged with governance; and

(b) External communications, such as those with regulatory authorities. Control activities relevant to the audit

Considerations specific to smaller entities

Information systems and related business processes relevant to financial reporting in small entities are likely to be less sophisticated than in larger entities, but their role is just as significant. Small entities with active management involvement may not need extensive descriptions of accounting procedures, sophisticated accounting records, or written policies. Understanding the entity's systems and processes may therefore be easier in an audit of smaller entities, and may be more dependent on inquiry than on review of documentation. The need to obtain an understanding, however, remains important.

Findings/Results

(d) **Control activities relevant to audit**

The auditor shall obtain an understanding of control activities relevant to the audit, being those the auditor judges it necessary to understand in order to assess the risks of material misstatement at the assertion level and design further audit procedures responsive to assessed risks. An audit does not require an understanding of all the control activities related to each significant class of transactions, account balance, and disclosure in the financial statements or to every assertion relevant to them.

In understanding the entity's control activities, the auditor shall obtain an understanding of how the entity has responded to risks arising from IT.

Control activities are the policies and procedures that help ensure that management directives are carried out. Control activities, whether within IT or manual systems, have various objectives and are applied at various organizational and functional levels. Examples of specific control activities include those relating to the following:

- Authorization.
- Performance reviews.
- Information processing.
- Physical controls.
- Segregation of duties.

Control activities that are relevant to the audit are:

- Those that are required to be treated as such, being control activities that relate to significant risks; and
- Those that relate to risks for which substantive procedures alone do not provide sufficient appropriate audit evidence; or
- Those that are considered to be relevant in the judgment of the auditor.

(e) Considerations Specific to Smaller Entities

The concepts underlying control activities in small entities are likely to be similar to those in larger entities, but the formality with which they operate may vary. Further, small entities may find that certain types of control activities are not relevant because of controls applied by management. For example, management's sole authority for granting credit to customers and approving significant purchases can provide strong control over important account balances and transactions, lessening or removing the need for more detailed control activities.

Control activities relevant to the audit of a smaller entity are likely to relate to the main transaction cycles such as revenues, purchases and employment expenses.

Results/Findings

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The Information System, Including Related Business Processes, Relevant to Financial Reporting

The information system relevant to financial reporting objectives, which includes the accounting system, consists of the procedures and records designed and established to:

- Initiate, record, process, and report entity transactions (as well as events and conditions) and to maintain accountability for the related assets, liabilities, and equity;

- Resolve incorrect processing of transactions, for example, automated suspense files and procedures followed to clear suspense items out on a timely basis;

- Process and account for system overrides or bypasses to controls;

- Transfer information from transaction processing systems to the general ledger;

- Capture information relevant to financial reporting for events and conditions other than transactions, such as the depreciation and amortization of assets and changes in the recoverability of accounts receivables; and

- Ensure information required to be disclosed by the applicable financial reporting framework is accumulated, recorded, processed, summarized and appropriately reported in the financial statements.

Journal entries

An entity's information system typically includes the use of standard journal entries that are required on a recurring basis to record transactions. Examples might be journal entries to record sales, purchases, and cash disbursements in the general ledger, or to record accounting estimates that are periodically made by management, such as changes in the estimate of uncollectible accounts receivable.

An entity's financial reporting process also includes the use of non-standard journal entries to record non-recurring, unusual transactions or adjustments. Examples of such entries include consolidating adjustments and entries for a business combination or disposal or non-recurring estimates such as the impairment of an asset. In manual general ledger systems, non-standard journal entries may be identified through inspection of ledgers, journals, and supporting documentation. When automated procedures are used to maintain the general ledger and prepare financial statements, such entries may exist only in electronic form and may therefore be more easily identified through the use of computer-assisted audit techniques.

Related business processes

An entity's business processes are the activities designed to:

- Develop, purchase, produce, sell and distribute an entity's products and services;
- Ensure compliance with laws and regulations; and
- Record information, including accounting and financial reporting information.

Business processes result in the transactions that are recorded, processed and reported by the information system. Obtaining an understanding of the entity's business processes, which include how transactions are originated, assists the auditor obtain an understanding of the entity's information system relevant to financial reporting in a manner that is appropriate to the entity's circumstances.

Physical controls

These activities encompass the physical security of assets, including adequate safeguards such as secured facilities over access to assets and records; authorization for access to computer programs and data files; and periodic counting and comparison with amounts shown on control records (for example comparing the results of cash, security and inventory counts with accounting records).

Segregation of duties

Ensure that following three activities are separately assigned:

- authorizing transactions
- recording transactions, and
- maintaining custody of assets

This would reduce the opportunities to allow any person to be in a position to both perpetrate and conceal errors or fraud in the normal course of the person's duties.

(f) Monitoring of controls

Management's monitoring of controls includes considering whether they are operating as intended and that they are modified as appropriate for changes in conditions.

Examples are:

- management's review of whether bank reconciliations are being prepared on a timely basis
- internal auditors' evaluation of sales personnel's compliance with the entity's policies
- legal department's oversight of compliance with the entity's ethical or business practice policies.

Consider:

- assessment and reassessment of design and operation of controls on a timely basis
- necessary corrective actions

Ongoing monitoring activities (activities are built into the normal recurring activities)

- role of internal audit (if any) in monitoring of controls

Summary of our understanding of internal control

	Yes	**No**
Does the *entity's risk assessment process* appear to be satisfactory?		
Reasons for not being satisfactory		
Does the *control environment* appear to be satisfactory?		
Reasons for not being satisfactory		
Does *control activities* appear to be satisfactory		
Reasons for not being satisfactory		
Does *monitoring of controls* appear to be satisfactory		
Reasons for not being satisfactory		
Does the *information system, and business processes for financial reporting, and communication* appear to be satisfactory?		
Reasons for not being satisfactory		

Chapter 6 Audit Materiality

Information is material if it is likely to influence financial statements users' decisions. The major reason for thinking about materiality is to try to fine tune the audit for effectiveness and efficiency.

The auditors' materiality decision is a multi-factor decision involving both quantitative and qualitative aspects. Calculated materiality amounts derived using quantitative approaches may be increased or decreased based on the auditors' professional judgment about the possible effect of qualitative factors such as:

- Risk of earnings manipulation, for example, management motivation to "manage" or "smooth" earnings
- Possible effect on misstatements on trends, such as profitability trend
- Presence of restrictive debt covenants
- Magnifying effect of misstatement on share price for company with high price/earnings multiple
- Accuracy and reliability of accounting system
- Imminent acquisition/merger/sale
- Threat of litigation or other external review of the auditors' work such as monitoring by government agency or entity
- Imminent public stock offering
- The risk that there may be undetected misstatements
- Detection of fraud or fraud indicators in prior period

Planning materiality is concerned with whether a misstatement, or an aggregation of misstatements, in an underlying financial statement item, account balance or class of transaction, is likely to result in a material misstatement in the financial statements as a whole. Auditors use planning materiality to determine which financial statement items, account balances and transactions to test and which to not test.

Materiality at Financial Statement Level

A misstatement of a financial statement item is material when the misstatement, aggregated with misstatements of other financial statement items, is likely to equal or exceed the level of reporting materiality.

Materiality at Account Balances & Class of Transactions Level

A misstatement of an account balance underlying a financial statement item is material when the misstatement, aggregated with misstatements in other account balances underlying the financial statement item, is likely to result in a material misstatement of the financial statement item.

A misstatement of a transaction underlying an account balance is material when the misstatement, aggregated with misstatements in other transactions underlying the account balance, is likely to result in the material misstatement of the account balance.

Performance Materiality

To plan the audit of various accounts, auditors need to assign part of the planning materiality to each account or class of transactions. If planning materiality is Rs. 1 million and procedures for each account or class of transactions are designed to allow a Rs. 1 million misstatement to go undetected, the total misstatement could obviously be more than acceptable. Therefore, auditors use performance materiality (an amount less than materiality for the financial statements as a whole) to make sure that the aggregate of uncorrected and undetected immaterial misstatements does not exceed materiality for the financial statements as a whole. For example, auditors may use different amounts (smaller than overall financial statement materiality) when auditing particular classes of transactions, account balances, or disclosures. The audit team cannot look at every transaction, so the concept of performance materiality takes this risk into account. When auditors use sampling, performance materiality is referred to as tolerable misstatement.

Computing Materiality

A number of quantitative approaches may be used by the auditor depending on his professional judgment; however, two common methods employed are discussed here:

Single Rule Approach

This approach is based on “rule of thumb” and use a single financial variable for computing materiality. Typically, as a matter of policy, an audit firm would provide three or four such rules and allow the auditor in an individual audit to choose the most appropriate rule. Depending on his/her assessment of qualitative factors, an auditor would select the single rule that was judged to be the most appropriate way to compute materiality for a specific client. Examples of possible common single rules are:

- 5% of pre-tax income
- 1/2 % of total assets
- 1% of equity
- ½% of total revenues

Where an entity's results are expected to be "normal", materiality is based on pre-tax income amounts. However, where the entity incurs losses, has potential going concern problems or the results are in other ways unusual, materiality may be based on one or more of the other factors referred to above. For example, if the entity is incurring losses, both before and after tax, the auditor may use total assets or total revenue, whichever is the greater. The final assessment of reporting materiality is subjective and depends on the auditor's perception of, for example, what information is relevant, who the users of the financial statements are, what decisions the users may make and what would influence those decisions.

Blend or Average Method

This method typically takes four or five individual rules of thumb and then either weight each rule according to some proportion or average them (an equal weighing). Presumably, the blending or averaging process provides an indirect way of considering qualitative factors. An example of the averaging method would be to take the previously listed four single rules and average them (give each of them a 25% weight).

Hypothetical Case Illustration

In order to illustrate the previous materiality methods, let us assume the following summary financial statements for ABC Company:

Balance Sheet

Assets		Rs. 30,000,000
Liabilities	Rs. 20,000,000	
Owners' Equity	Rs. 10,000,000	Rs. 30,000,000

Income Statement

Total Revenues	Rs. 90,000,000
Cost of Merchandise	Rs. 50,000,000
Gross Profit	Rs. 40 000,000
Selling & Other Expenses	Rs. 32,000,000
Net Income Before Tax	Rs. 8,000,000
Income Tax	Rs. 3,000,000
Net Income After Tax	Rs. 5,000,000

The single rule method would involve the auditor selecting one of the four following materiality amounts:

Single Rule	**Computation**	**Materiality Amount**
5% of pre-tax income	5% x Rs. 8,000,000	Rs. 400,000
½% of total assets	1/2% x Rs 30,000,000	Rs. 150,000
1% of equity	1 % x Rs. 10,000,000	Rs. 100,000
1/2% of total revenues	1/2% x Rs. 90,000,000	Rs. 450,000

The average or blending method using the single rules previously given would involve the following computation:

Average Method

(5% of pre-tax income + 1/2% of total assets + 1 % of equity + 1/2% of total revenues) /4

Computation

(Rs.400,000 + Rs.150,000 +Rs.100,000 +Rs.450,000) /4 = Rs. 275,000.

Determining Performance Materiality

Performance materiality is generally based on overall planning materiality. The extent to which performance materiality is based on the overall materiality is a matter of professional judgment. As discussed earlier, the auditor would use an amount/rate lower than that arrived at for the overall financial statement level for account balances, class of transactions and disclosures.

Furthermore, the rate of performance materiality may also differ in each of the above case depending upon their significance to the financial statements as a whole. Instead of a blanket rate a range of different rates may be arrived at keeping in view the qualitative aspects of each area.

Chapter 7 Fraud Risk Assessment

Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the action that results in the misstatement of the financial statements is intentional or unintentional.

Fraud is an intentional act by one or more individuals among management, those charged with governance, employees, or third parties, involving the use of deception to obtain an unjust or illegal advantage.

In planning the audit, auditors must be alert to the possibility of fraud and assess the risk that fraud might occur. The concept of Watchdog proved a lullaby for the auditor. This concept placed auditors into disregarding deliberate management intent in producing fraudulent financial statements. International Standard on Auditing (ISA)-240 has rejected this concept and substantially increased auditors' responsibility in relation to fraud which is discussed in the following paragraph.

I. Responsibilities of the Auditor

ISA-240 deals with the auditor's responsibilities relating to fraud in an audit of financial statements. This ISA expands on how ISA-315 and ISA-330 are to be applied in relation to risks of material misstatement due to fraud. Under ISA-240, auditors are now required to evaluate the effectiveness of an entity's risk management framework (internal control) in preventing misstatements whether through fraud or otherwise, in all audits. Furthermore, auditors are now required to be more proactive in their search for fraud. The auditor is responsible for maintaining an attitude of professional skepticism throughout the audit, recognizing the possibility that a material misstatement due to fraud could exist, notwithstanding the auditor's past experience of the honesty and integrity of the entity's management and those charged with the governance. An overriding requirement of ISA-240 is that auditors are aware of the possibility of there being misstatements due to fraud.

The objectives of the auditor are:

a) To identify and assess the risks of material misstatement of the financial statements due to fraud;

b) To obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and

c) To respond appropriately to fraud or suspected fraud identified during the audit.

The ISA, however, recognize the fact that owing to inherent limitation of an audit, there is an unavoidable risk that some material misstatements of the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs.

Identification and Assessment of Risks of Material Misstatement Due to Fraud

In accordance with ISA 315, the auditor shall identify and assess the risks of material misstatement due to fraud at the financial statement level, and at the assertion level for classes of transactions, account balances and disclosures.

When identifying and assessing the risks of material misstatement due to fraud, the auditor shall, based on a presumption that there are risks of fraud in revenue recognition, evaluate which types of revenue, revenue transactions or assertions give rise to such risks. The auditor is required to document when he concludes that the presumption is not applicable in the circumstances of the engagement and, accordingly, has not identified revenue recognition as a risk of material misstatement due to fraud.

The auditor shall treat those assessed risks of material misstatement due to fraud as significant risks and accordingly, the auditor shall obtain an understanding of the entity's related controls, including control activities, relevant to such risks.

Significant Constituencies

Management may have incentives to manipulate the results of the business and the impression given by the financial statements considering significant stakeholders. Provide a discussion of individual stakeholders that management perceives as significant and discuss how management responds to expectations of significant stakeholders.

Constituency/ Stakeholders	Management Response to the Expectations

II. Fraud Risk Assessment Document

WP Ref.:	
Prepared by:	
Date:	

Client: ______________________________

Period: ______________________________

III. Discussion among the Engagement Team

The engagement partner discusses the susceptibility of the entity's financial statements to material misstatement due to fraud with the engagement team. In this brain storming session critical audit areas are discussed. Items typically discussed include previous experiences with the client, how a fraud might be perpetrated and concealed by the client, and procedures that might detect fraud. When studying a business operation, auditors' ability to think like a crook and devise ways to steal can help in creating procedures to determine whether fraud has happened. Often, imaginative extended procedures can be employed to unearth evidence of fraudulent activity.

Matters for Discussions

i) How and where the entity's financial statements may be susceptible to material misstatement due to fraud, how management could perpetrate and conceal fraudulent financial reporting, and how assets of the entity could be misappropriated.

ii) Circumstances that might be indicative of aggressive earnings management that could lead to fraudulent financial reporting.

iii) The known external and internal factors affecting the entity that may create an incentive or pressure for management or others to commit fraud, provide the opportunity for fraud to be perpetrated, and indicate a culture or environment that enables management or others to rationalize committing fraud.

iv) Management's oversight of employees with access to cash or other assets susceptible to misappropriation.

v) Any unusual or unexplained changes in behaviour or lifestyle of management or employees which have come to the attention of the engagement team.

vi) How an element of unpredictability will be incorporated into the nature, timing and extent of the audit procedures to be performed.

vii) The audit procedures that might be selected to respond to the susceptibility of the entity's financial statement to material misstatement due to fraud and whether certain types of audit procedures are more effective than others.

viii) Any allegations of fraud that have come to the auditor's attention.

ix) The risk of management override of controls.

x) An emphasis on importance of maintaining professional skepticism throughout the audit.

IV. Discussions with Management

During the planning phase of an audit, auditor makes enquiries of management concerning fraud and error. We may also seek the views of those charged with governance.

Matters that may be discussed as part of these enquiries include:

i) whether there are subsidiary locations, business segments, types of transactions, account balances or financial statement categories where the possibility of error may be high, or where fraud risk factors may exist, and how they are being addressed by management. Whether those charged with the governance or management have knowledge of any actual, suspected or alleged fraud.

ii) how those charged with the governance exercise oversight of management's processes for identifying and responding to the risks of fraud in the entity and the internal control that management has established to mitigate these risks.

iii) the work of the entity's internal audit function and whether internal audit has identified actual, suspected or alleged fraud or any material weaknesses in the system of internal control.

iv) how management communicates to employees its view on responsible business practices and ethical behaviour, such as through ethics policies or codes of conduct.

If the entity has established a programme that includes steps to prevent and detect fraud, we enquire of those persons overseeing such programs as to whether the program has identified fraud risk factors.

(a) Results of enquiries of management

Document the results of our enquiries below. State which member of management we enquired of and the date of the enquiry.

Management's fraud risk assessment

Document our understanding of management's assessment of the risk that the financial statements may be materially misstated as a result of fraud.

Oversight of Management by those Charged with the Governance. *Document how this is evidenced*

Accounting and internal control systems including internal audit

Document the results of our enquiries of management concerning the accounting and internal control systems management has put in place to address the risk of material misstatement due to fraud, and to prevent and detect error including the role of internal audit function.

Fraud and error

Document the results of our enquiries to determine whether management is aware of any known or suspected fraud and discovered any material errors.

(b) ***Discussions with those charged with governance***

Following our enquiries and discussions with the management, consider whether there are matters of governance interest to discuss with those charged with governance of the entity:

Fraud risk factors

(i) Fraudulent financial reporting

Fraud risk factors relating to fraudulent financial reporting may be grouped as follows:

(a) Management Characteristics and Influence over the Control Environment

- *Significant portion of management compensation contingent upon achieving aggressive targets etc.*
- *Excessive interest by management in maintaining or increasing the entity's share price or earning trends through the unusual practices*
- *Domination by single person/ small group without compensating controls*
- *Setting of unduly financial target and expectations for operating personnel*
- *Display of significant disregard for regulatory authorities*
- *Employing ineffective accounting, IT or internal auditing staff*
- *Participation of non-financial management in selection of accounting principles etc.*
- *High turnover of management staff or board members*
- *Strained relationship with existing/ predecessor auditor including frequent disputes, unreasonable demands, restriction on auditors and domineering management behavior*
- *Weak or ineffective corporate governance structure*

(b) Industry Conditions

- *New regulatory etc. requirements, which may impair entity's stability or performance*
- *Increasing competition and market saturation and declining margins/ customer demands*
- *Declining industry with increasing business failures*
- *Rapid changes in industry like rapidly changing technology / rapid product obsolescence*

(c) Operating Characteristics and Financial Stability

- *Reporting earning/ growth while inability to generate cash flows*
- *Balances and/ or transactions based on significant estimates involving unusually subjective judgments/ uncertainties*
- *Significant related party transactions out of normal course of business*
- *Significant, unusual, or complex transaction particularly at or near the year-end*
- *Significant bank account or business locations without clear business justification*

- *Over complex organisational structure involving various/ unusual legal entities, lines of authority or contractual arrangements without apparent business purpose*
- *Unusual rapid growth/ profitability as compare to competitors/ industry*
- *Dependence on debt, marginal ability to pay debt and difficult to maintain debt covenant*
- *Threat of imminent bankruptcy, foreclosure, or hostile takeover*
- *Adverse consequences on significant pending transactions if poor results are reported*
- *A poor or deteriorating financial position when management has personally guaranteed significant debts of the entity*

Document the fraud risk factors identified, for example while obtaining or updating our understanding of the business, as a result of our enquiries of management or during our audit team discussions that may indicate the possibility of fraudulent financial reporting.

Response

Document our response to the fraud risk factors identified. Consider the examples of possible responses in ISA 240, Appendix 2.

(ii) Misappropriation of assets

Fraud risk factors relating to misappropriation of assets may be grouped as follows:

(a) Susceptibility of Assets to Misappropriation

- *Large amounts of cash on hand or processed*
- *Inventory and other assets' characteristics such as small size with high value and high demand accompanied with lack of ownership identification*

- *Easily convertible assets such as bearer bonds, diamonds or computer chips*

(b) *Susceptibility of Assets to Misappropriation*

- *Lack of management oversight*
- *Lacking to screen job applicants for positions where employees have access to assets susceptible to misappropriation*
- *Inadequate record keeping for assets susceptible to misappropriation*
- *Lack of appropriate segregation of duties*
- *Lack of appropriate system of authorization and approval of transactions*
- *Poor physical safeguards over assets susceptible to misappropriation*
- *Lack of timely and appropriate documentation*
- *Lack of mandatory vacations/ job rotations for employees performing key control functions*

Document the fraud risk factors identified, for example while obtaining or updating our understanding of the business, as a result of our enquiries of management or during our audit team discussions that may indicate the possibility of misappropriation of assets.

Response

Document our response to the fraud risk factors identified. Consider the examples of possible responses in ISA 240, Appendix 2.

(a) Overall consideration

Professional skepticism:

Assignment to the audit team members:

Accounting principles and policies:

Controls:

Modification in nature, timing, and extent of audit procedures:

(b) Consideration at the account balance, class of transaction and assertion level

Specific responses to the auditor's assessment of the risk of fraud will depend upon the types or combinations of fraud risk factors or conditions identified, and the account balance, class of transaction and assertion may affect.

(c) Specific responses

Fraudulent financial reporting

Revenue recognition

Inventory quantities

Non-standard journal entries

Others

(d) Misappropriation of assets

Differing circumstances would necessarily dictate different responses. Document the specific responses.

(e) Circumstances that may indicate the possibility of fraud or error

Document circumstances that we have encountered that may indicate that there is a material misstatement in the financial statements resulting from fraud or error. Consider the example circumstances in ISA 240, Appendix 3.

Examples:

- *Unrealistic time deadlines for audit completion imposed by management*
- *Reluctance by management to engage in frank communication with third parties*
- *Imposing limitation on audit scope*

- *Identification of important matters not previously disclosed by management*
- *Significant difficult-to-audit figures in the accounts*
- *Aggressive application of accounting principles*
- *Conflicting or unsatisfactory evidence provided by management or employees*
- *Unusual documentary evidence such as handwritten alteration to document or handwritten documentation which is ordinarily electronically printed*
- *Information provided unwillingly or after unreasonable delay*
- *Seriously incomplete or inadequate accounting records*
- *Unsupported transactions*
- *Unusual transactions, by virtue of their nature, volume or complexity*
- *Transactions not recorded in accordance with management's specific or general authorization*
- *Significant unreconciled differences between control account and subsidiary records or between physical count and the related account balance which were not appropriately investigated and corrected on timely basis*
- *Inadequate controls over computer processing*
- *Significant differences from expectations disclosed by analytical procedures*
- *Fewer confirmation responses than expected or significant differences revealed by confirmation responses*
- *Evidence of an unduly lavish lifestyle by officers or employees*
- *Unreconciled suspense accounts*
- *Long outstanding account receivable balances*

(f) Audit procedures

Document the additional audit procedures performed as a result of the circumstances noted above.

V. Evaluation of Audit Evidence

If the auditor identifies a misstatement, the auditor shall evaluate whether such a misstatement is indicative of fraud. If there is such an indication, the auditor shall evaluate the implications of the misstatement in relation to other aspects of the audit, particularly the reliability of management representations, recognizing that an instance of fraud is unlikely to be an isolated occurrence.

If the auditor identifies a misstatement, whether material or not, and the auditor has reason to believe that it is or may be the result of fraud and that management (in particular, senior management) is involved, the auditor shall re-evaluate the assessment of the risks of material misstatement due to fraud and its resulting impact on the nature, timing and extent of audit procedures to respond to the assessed risks. The auditor shall also consider whether circumstances or conditions indicate possible collusion involving employees, management or third parties when reconsidering the reliability of evidence previously obtained.

If the auditor confirms that, or is unable to conclude whether, the financial statements are materially misstated as a result of fraud the auditor shall evaluate the implications for the audit.

Results of Evaluation

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Communications to Management and with Those Charged with Governance

If the auditor has identified a fraud or has obtained information that indicates that a fraud may exist, the auditor shall communicate these matters on a timely basis to the appropriate level of management in order to inform those with primary responsibility for the prevention and detection of fraud of matters relevant to their responsibilities.

Unless all of those charged with governance are involved in managing the entity, if the auditor has identified or suspects fraud involving:

(a) management;

(b) employees who have significant roles in internal control; or

(c) others where the fraud results in a material misstatement in the financial statements, the auditor shall communicate these matters to those charged with governance on a timely basis. If the auditor suspects fraud involving management, the auditor shall communicate these suspicions to those charged with governance and discuss with them the nature, timing and extent of audit procedures necessary to complete the audit.

VI. Written Representations

The auditor shall obtain written representations from management that:

(a) It acknowledges its responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud;

(b) It has disclosed to the auditor the results of its assessment of the risk that the financial statements may be materially misstated as a result of fraud;

(c) It has disclosed to the auditor its knowledge of fraud or suspected fraud affecting the entity involving:

  (i) Management;

  (ii) Employees who have significant roles in internal control; or

  (iii) Others where the fraud could have a material effect on the financial statements; and

(d) It has disclosed to the auditor its knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

Chapter 8 General Purpose CIS Checklist

WP Ref.:	
Prepared by	
Date	
Reviewed by	
Date	

Client: ____________________

Period: ____________________

I. Purpose

Completion of General Purpose CIS Checklist should be considered in planning an audit. Where a more detailed review of the IT control environment is required the CIS checklist may be modified accordingly. This checklist assists in evaluating whether general level controls are satisfactory.

II. Preparation and Staffing

There may be management IT specialist in the entity. The auditor shall evaluate his status and role in the entity and evaluate relevance and effectiveness of his work. However, a computer audit specialist might be considered, for example, on new engagements, clients undergoing IT expansion or development, or in case of complex IT environment.

The answers to the questions on this worksheet would usually be determined by observation and enquiry, based primarily on discussions with the client's IT staff.

III. Questions

The checklists divided into seven sections (a to g), consisting of generic questions applicable to most of the computing environments. Each section is headed by a control objective. Supporting questions provide information to assist the auditor in assessing the stated objective. For most of the supporting questions, there is a 'Consider', providing the reviewer with issues to think about when answering the question.

IV. CIS Checklist

The questions are designed as an aid to evaluating the IT control environment. The auditor will usually describe the relevant control features in narrative in the 'Comments / WP Ref.' column, cross-referenced to supporting working papers as necessary.

Guidance notes are included on the facing page of each question including the implication of a 'No' answer which is noted in italics. These notes are for guidance only in completing the questionnaire and do not necessarily cover all relevant issues.

<table>
<tr><td rowspan="2">(a) Organization and Management Policies

1. To ensure that organisational policies and management procedures are in place to enable the IT function to be properly controlled.</td><td colspan="2">Objective Satisfied Y/N</td><td>Summary of findings</td></tr>
<tr><td>Yes</td><td>No</td><td>Comments / WP Ref.</td></tr>
<tr><td>IT Strategy

1.1 Is there a formal documented plan for IT covering systems to be developed or enhanced over the next 1 - 3 years?</td><td></td><td></td><td></td></tr>
<tr><td>1.2 Is there an IT Steering Committee?

Consider

■ Other, less formal, means of establishing and communicating IT strategy
■ User management representation</td><td></td><td></td><td></td></tr>
<tr><td>IT Policies and Procedures

1.3 Are there formal and comprehensive IT Policies and Procedures relating to Information Security, User Access Management, Program Change Management, Backup Management, Password Management e.t.c?

Consider

■ Approval at board level
■ Objectives
■ Scope and coverage
■ Responsibility for monitoring or update
■ Distribution to staff</td><td></td><td></td><td></td></tr>
</table>

	Yes	No	Comments / WP Ref.
Role of Internal Audit 1.4 Is internal audit department involved in review of IT controls. Consider the following: • Competence of audit personnel • Frequency of review • Matters raised in such reviews and its implication on audit.			
IT Security Function 1.5 Is there a formal IT Security function in the organization Consider ■ Roles and responsibilities ■ Reporting lines (Independent of IT) ■ Security awareness trainings			
Control Consciousness 1.6 Is the attitude of management and the structure of the organisation conducive to control consciousness?			

(b) Segregation of Duties	***Objective Satisfied Y/N***		***Summary of findings***
2. To ensure there is reasonable segregation of duties for staff, both within the IT department and between the IT and user functions, to prevent and/or detect errors or irregularities.			
	Yes	**No**	***Comments / WP Ref.***
2.1 Is there an organisation chart for the IT department? (Obtain a copy and review it)			
2.2 Is segregation of duties within the IT department appropriate for the size of the organisation? Consider ■ Segregation of functions e.g. ■ Number of IT staff ■ Systems programmers ■ Application programmers			

	■ Database administrator ■ IT operations ■ Data input ■ Network security ■ Reliance on key personnel ■ Reliance on contract staff			
2.3	Do IT staff only have responsibilities for functions within the IT department? <u>Consider</u> ■ Responsibility for initiating or authorising transactions ■ Amendments to master files ■ Correction of input errors			

(c)	**Logical Access Controls**	***Objective Satisfied Y/N***		***Summary of findings***
3.	**To ensure that unauthorised access cannot be gained to sensitive data or programs.**			
		Yes	**No**	***Comments / WP Ref.***
3.1	Have sensitive data or applications been identified?			
3.2	Have appropriate security measures been implemented to restrict users' access to data and programs? <u>Consider</u> ■ User-id and passwords ■ Menu facilities ■ Management approval of menu options ■ Periodic review of appropriateness of access rights ■ Review of security logs			
3.3	Check from the system controls relating to passwords: • password length (e.g. 6 characters). • Password composition (e.g.alphanumeric) • Password change interval (e.g. 90 days) • Account lockout (e.g. 3 invalid attempts)			

	• Password history (e.g 5 password remembered) • Force password change on first login • Session time out (e.g 10 min of inactivity) • Concurrent sessions allowed			

3.4	Are system development staff prevented from accessing data and software in the live environment?
	
	<u>Consider</u>
	
	■ Segregation of live and test environments
	■ Procedures for emergency changes eg
	  ■ documentation
	  ■ review			

3.5	Is the allocation, authorisation and use of powerful user-ids (e.g. system administrator, database administrator etc.) or passwords controlled and monitored? (Note to whom these user ids are assigned)			

(d)	Physical Access Controls	*Objective Satisfied Y/N*		*Summary of findings*
4.	**To ensure that the risk of accidental or malicious damage to, or theft of, computer equipment or media is minimized.**			
		Yes	**No**	***Comments / WP Ref.***
4.1	Is there adequate physical security over computer equipment, data, media and documentation? <u>Consider</u> ■ Buildings (including the protection of terminals) ■ Server room ■ Communications equipment ■ Fire proof storage for magnetic media ■ Fire prevention or detection ■ Off-site storage			
(e)	**Systems Development and Program Change Controls**	***Objective Satisfied Y/N***		***Summary of findings***
5.	**To ensure that systems development and program changes are authorized, tested, documented and operate as designed.**			
		Yes	**No**	***Comments / WP Ref.***
5.1	*In-house developments* For in-house developed systems, is there a formal methodology? <u>Consider</u> ■ Formal software development methodology adopted ■ Internal procedures developed by the systems development team ■ Prototype software ■ Programming standards followed			

	Yes	No	***Comments / WP Ref.***
5.2 Packages Is the business dependent on externally supplied and maintained application systems? <u>Consider:</u> ■ Maintenance agreement with the supplier ■ Changes and upgrades checked and tested before installation ■ Source code provided ■ Measures to prevent unauthorised access to the software ■ If the software is owned by the supplier, is there an escrow agreement?			
5.3 Are users appropriately involved in the systems development process? <u>Consider</u> ■ Specification of requirements ■ Contribution to priority setting ■ User sign offs ■ User acceptance testing ■ Training ■ Formal approval before implementation ■ Development of user manuals etc.			
5.4 Are development staff restricted from implementing new program versions into the production environment?			
5.5 Is comprehensive systems and program documentation produced? <u>Consider</u> ■ Compliance with standards ■ System documentation ■ Operating instructions ■ User documentation			

5.6 Are there program change control procedures? <u>Consider</u> ■ Program change documentation ■ Management authorisation ■ Test procedures ■ User involvement in authorising and testing			

(f) Business Continuity and Computer Operations	***Objective Satisfied Y/N***		***Summary of findings***
6. To ensure that the business will be able to resume effective operations (within a reasonable period of time) in the event that the existing processing facilities are no longer available.			
	Yes	**No**	***Comments / WP Ref.***
Back Up Procedures 6.1 Are back up copies of data files and programs taken regularly? (Note the back up cycle) <u>Consider</u> ■ Data at end of day, week, month, year ■ Whether back up taken after changes in the application			
6.2 Are back up copies held in a secure location remote from the computer site? <u>Consider</u> ■ Data files ■ Programs ■ Systems software ■ Systems documentation ■ Operating procedures ■ User procedures ■ Disaster Recovery Plan			

	Yes	No	***Comments / WP Ref.***
6.3 Are back up versions taken offsite regularly?			
6.4 Have the back up and restoration procedures been tested? <u>Consider</u> ■ Time taken to restore ■ Completeness and accuracy of data restored			
Disaster Recovery Planning 6.5 Have the business's critical systems without which the entity's operations and business could be affected.have been identified? <u>Consider</u> ■ How long could the business operate effectively without their critical computer systems? eg. hours, < 7 days, etc. 6.6 Has a disaster recovery plan been developed, documented and tested? <u>Consider</u> ■ Regular review and update of the plan (Note when it was last updated) ■ Periodic testing (Note when last tested) *Insurance* 6.7 Does the organisation have adequate insurance cover relating to its IT risks? <u>Consider</u> ■ Loss of computer equipment and data ■ Consequential loss ■ Additional cost of working ■ Denial of access ■ Exclusion clauses			

(g)	User Management e.g. Finance Director / Financial Controller / Chief Accountant	*Objective Satisfied Y/N*		*Summary of findings*
7.	**To ensure that IT systems satisfy the business needs.**			
7.1	Are users satisfied with the critical accounting systems? <u>Consider</u> ■ Management information ■ Timeliness of reporting ■ User friendliness ■ Response times			
7.2	Are the systems stable? <u>Consider</u> ■ Few modifications since, say, six months before the start of the accounting period ■ New systems planned			
OVERALL CONCLUSION				
Summarise the internal control weaknesses identified during our review which have an impact on the control objectives, for consideration when planning reliance on CIS controls. ____ ____ ____ ____ ____ ____ ____				

Chapter 9 Analytical performed as Risk Assessment Procedures

Analytical procedures performed as risk assessment procedures may identify aspects of the entity of which the auditor was unaware and may assist in assessing the risks of material misstatement in order to provide a basis for designing and implementing responses to the assessed risks. Analytical procedures performed as risk assessment procedures may include both financial and non-financial information, for example, the relationship between sales and square footage of selling space or volume of goods sold.

Analytical procedures may help identify the existence of unusual transactions or events, and amounts, ratios, and trends that might indicate matters that have audit implications. Unusual or unexpected relationships that are identified may assist the auditor in identifying risks of material misstatement, especially risks of material misstatement due to fraud.

Obtain evidence that the financial information is from the appropriate source. Identify the source data, comprised of key data sets or data points, which will be used in our risk assessment analytical procedures, and understand the underlying processes used to gather this source data. We can assess the reliability of source data by agreeing the interim financial information to the general ledger, and by agreeing budgeted amounts to the entity's budget and assessing whether the budget was historically a good representation of the financial results using prior audit experience. We can use the entity's budget to help identify plausible relationships and help us form our own independent expectations.

The following table presents a list of analytical procedures to be performed at the planning stage of the audit. The list below is not exhaustive and more evaluations can be performed for specific clients. The model is based on manufacturing entity, however, for other type of entities this shall be modified.

I.	Analytical Review – Ratio Analysis					
		F O R M U L A	**CY**	**Y1**	**Y2**	**Y3**
A.	**PERFORMANCE ANALYSIS**					
1.	Installed capacity					
2.	Capacity utilized					
3.	Production in units i.e. Kgs. metres etc.					
4.	Production after conversion, if any.					
5.	Gross sale in % - Local	local gross sales / gross total sales x 100				
	- Export	export gross sales / gross total sales x 100				
6.	Gross profit % to net sales	gross profit / net sales				
7.	Raw material consumption cost to cost of goods manufactured.	consumption cost / cost of goods manufactured x 100				
8.	Average raw material purchase price per unit.	total purchase price of raw material / total units purchased				
9.	Average conversion cost per unit of production	conversion cost / unit produced				
10.	Labour cost per unit of production	labour cost / units produced				
11.	Store and spares consumption per unit of production.	store & spares consumption in rupees / units produced				
12.	Electricity consumption per unit of production	electricity consumption in rupees / units produced				

			CY	Y1	Y2	Y3
13.	Packing material cost per unit of production	packing material cost / units produced				
14.	Administrative expenses / unit of production	administration expenses / units produced				
15.	Selling expenses per unit sold.	selling expenses / units sold				
16.	Financial charges	in rupees				
17.	Net profit / (loss) per unit sold	net profit / (loss) / unit sold				
18.	Net profit (Loss) percent of sales	net profit / (loss) x 100/sales				
19.	Finished goods produced	finished goods produced in units / raw material consumed in units				
21.	Average selling rate per unit					
	- Local	Local sales / total units sold				
	- Export	Export sales / total units sold				
B.	**PROFITABILITY RATIOS**					
1.	Return on assets (ROA)	net profit after tax / average total assets				
2.	Return on Capital Employed (ROCE)	net Profit after tax / average total capital employed				
3.	Earnings per share (EPS)	net profit available to equity holder / Number of ordinary shares outstanding				

Reasons for significant fluctuations:

		FORMULA	CY	Y1	Y2	Y3
4.	Earning yield	earnings per share /				
		market value per share				
5.	Price earning ratio	market price of per share / earnings per share				
6.	Operating expenses ratio	operating expenses / net sales				
7.	Administrative expenses ratio	administrative expenses / net sales				
8.	Selling Expenses ratio	selling expenses / net sales				
9.	Financial expenses ratio	financial expenses / net sales				
C.	***ACTIVITY RATIOS***					
1.	Inventory Turnover					
	i. Raw Material Turnover	cost of raw material used / average raw material inventory				
	ii. Work in process turnover	cost of good manufactured / average work in process inventory				
	iii. Finished goods turnover	cost of good sold / average finished goods inventory				
2.	Debtor turnover	credit Sales / debtors				
3.	Average debt collection period	debtors / credit sales x 365				
4.	Assets turnover	cost of good sold / average total assets				

		F O R M U L A	***CY***	***Y1***	***Y2***	***Y3***
5.	Fixed assets turnover	cost of goods sold / average fixed assets				
6.	Current assets turnover	cost of good sold / average current assets				
7.	Working Capital turnover	cost of good sold / net working capital				

D.	***LIQUIDITY RATIOS***					
1.	Current Ratio	Current assets / current liabilities				
2.	Acid – Test quick ratio	Quick assets / current liabilities				
3.	Creditors	Net credit purchase / average creditors				
E.	**LEVERAGE / CAPITAL STRUCTURE RATIOS**					
1.	Debt – Equity ratio	total debt / shareholders equity				
2.	Equity Turnover	sales / net worth				
3.	Owner's stake in the fixed assets	fixed assets / net worth				

Reasons for significant fluctuations:

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II. Review of Financial Performance of the Client

Summarize results of financial performance review and discuss its impact on audit.

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Financial performance review facilitates in assessing the risk e.g. risk of fraudulent financial reporting, going concern etc.

Suggested Format of Financial Performance Review

(a) Summary Financial Data Period Ended (Indicate)	CY	Y1	Y2	Y3
PROFIT AND LOSS				
Sales				
Cost of Sales				
Gross Profit				
Operating Expense				
Operating Income				
Other Income (Expense)				
Pre-Tax Income				
Provision for Income Tax				
Net Profit				
BALANCE SHEET				
Cash				
Trade debts				
Stock in trade				
Stores and spares				
Property, plant and equipment				
Total Assets				
Accounts payable				
Accrued expenses				
Other current liabilities				
Long-term debt				
Total liabilities				
Net assets				
Share capital and reserves				

(b) Profitability of Operations				
Gross Margin Percentage				
Operating Income Percentage				
Effective Tax Rate				
Net Income Percentage				
Eps				
(c) Financial Leverage				
Debt To Equity Ratio				

		CY	Y1	Y2	Y3
(d)	**Asset Turnover**				
	Ratio Revenue To Total Assets				
	Receivables Turnover Ratio				
	Inventory Turnover Ratio				
(e)	**Liquidity**				
	Working Capital				
	Operating Cash Flow				
	Current Ratio				
	Quick Ratio				
	Interest And Dividend Coverage				

Chapter 10 Internal Audit Function Evaluation

WP Ref.:	
Prepared by:	
Date:	

Client: ______________________________

Period: ______________________________

Introduction

Internal audit function is an appraisal activity established or provided as a service to the entity. Its functions include, amongst other things, examining, evaluating and monitoring the adequacy and effectiveness of internal control.

This working paper is relevant when the external auditor has determined, in accordance with ISA 315, that the internal audit function is likely to be relevant to the audit. The internal audit function is considered relevant when the nature of the internal audit function's responsibilities and activities are related to the entity's financial reporting, and the auditor expects to use the work of the internal auditors to modify the nature or timing, or reduce the extent, of audit procedures to be performed. However, the external auditor has sole responsibility for the audit opinion expressed, and that responsibility is not reduced by the external auditor's use of the work of the internal auditors.

The objectives of the external auditor, where the entity has an internal audit function that the external auditor has determined is likely to be relevant to the audit, are:

1. To determine whether, and to what extent, to use specific work of the internal auditors; and

2. If using the specific work of the internal auditors, to determine whether that work is adequate for the purposes of the audit.

Examples of internal auditor activities we may review to determine the nature, timing, and extent of procedures are:

- Inventory counts at various locations
- Fixed asset physicals
- Documentation for a new computerized sales and receivables system

We consider how the internal audit function affects the entity's accounting and internal control systems and develop an effective audit approach in the following manner.

Approach	**Documentation**
Understand internal audit's activities	Strategy and Planning Document We obtain and document an understanding of the internal audit function, to the extent that it operates as part of management's control system.
Determine whether, and to what extent, to use specific work	Section I of this working paper We document what work performed by the internal

of the internal auditors	auditor is relevant and can be used for the purpose of our audit.
Evaluate and test work of internal auditor	Section II of this working paper When we intend to use specific work of internal audit we document our evaluation and testing of the effectiveness of internal auditor's work.

Refer to ISA 610, "Considering the Work of Internal Auditors" for further guidance.

Section I—Preliminary assessment of the internal audit function

When it appears that internal audit is relevant to the external audit of the financial statements in specific audit areas, we make a preliminary assessment of internal audit by obtaining information about matters such as:

- the objectivity of internal audit function i.e. status and reporting of internal audit function in the entity
- the due professional care of internal audit, especially whether the work is adequately planned, supervised and reviewed
- the technical competence of the internal audit function
- whether management acts on internal audit's reports and recommendations and how this is evidenced

Comments/Preliminary Assessment

Section II—Evaluate and test the work of internal audit

When we intend to use specific work of internal audit, we evaluate and test that work to confirm its adequacy for our purposes.

(a) Evaluate that:

- the work is performed by persons with adequate technical training and proficiency.
- the work of assistants is properly planned, supervised, reviewed and documented.
- sufficient appropriate audit evidence is obtained to afford a reasonable basis for the conclusions reached.

- conclusions are appropriate in the circumstances and reports are consistent with the results of the work performed.
- any exceptions or unusual matters disclosed by internal audit are properly resolved by management.

(b) To help understand the internal auditor's work, including scope, it may be appropriate to coordinate work with the internal auditors by:

- Holding periodic meetings
- Scheduling our work to coordinate with that of the internal auditors to allow us to monitor the quality of their work and discuss any issues as they arise.
- Obtaining access to internal audit working papers.
- Reviewing internal audits reports and the recommendations made from work performed.

Evaluation

(c) Test

We may perform any of the procedures below relating to testing of internal audit that may be considered given specific client circumstances. Our tests of the internal audit function's work may include the following procedures.

- Observe the internal audit function perform audit procedures
- Re-perform some of the audit procedures previously performed by the internal audit function

  For example, we may test the same controls, transactions or balances as the internal audit function has tested.

- Perform different audit procedures

  For example, we may test controls, transactions or balances other than those the internal audit function tested.

- Examine internal audit's working papers.

[List any other procedures relating to internal audit issues that may be considered given specific circumstances. Our procedures, and the documentation of those procedures, are to be sufficient to support our decision to rely on internal auditor's work.]

#	Procedure(s)	Done by and date	W/P Ref.

Conclusion

Chapter 11 Group Audit and Using the Work of Component/Other Auditors

WP Ref.:	
Prepared by:	
Date:	

Client: ____________________

Period: ____________________

Introduction

This Chapter applies where the auditor:

i) is engaged to give the audit opinion on the group financial statements. (The auditor is expected to comply with the local legislation and the relevant ISA for the time being in force).

ii) the auditor involves other auditors in the audit of financial statements that are not group financial statements. For example, an auditor may involve another auditor to observe the inventory count or inspect physical fixed assets at a remote location, so far as may the auditor decides to use the relevant guidance available in this chapter and accordingly modify his work with amendments, additions/deletions.

[Note: This document does not deal with those instances where two or more auditors are appointed as joint auditors nor does it deal with the auditor's relationship with a predecessor auditor.]

Documentation may be included in this document, or other working papers (with cross-reference to this document).

Details of co-auditors / components and their auditor

S. No.	Description of component (subsidiary, associate, joint venture, division, branch or others)	Name of the other auditor(s)	Significance to the financial statements of the entity as a whole

Section I – Obtaining an understanding of the Group

Procedures	Results
(i) Obtain understanding in relation to the following: • The group structure, including both the legal and organisational structure. • Determine which of the components are considered 'significant' components for the group audit. • Components' business activities that are significant to the group, including the industry and regulatory, economic and political environments in which those activities take place. • Concerns, if any, the group engagement team has with regard to the integrity and competence of group or component management. • Description of group-wide controls, including the consolidation process. • Whether the group engagement team will have unrestricted access, when needed, to the component auditors (including relevant audit documentation sought by the group engagement team). • The applicable financial reporting framework.	
(ii) Consider whether the group engagement team's own participation is sufficient to be able to act as the principal / lead auditor.	

Section II – Understanding the Component Auditors

Procedures	Results
(i) When obtaining the understanding of the Component Auditors, consider: • The significance of the component including its materiality to the group financial statements and the level of work to be requested of the component auditor (e.g., audit of financial information). • The complexity of the component. • Previous experience and involvement with the component auditor. • The results of recent an internal or external quality reviews of the component auditor as reported by the component engagement partner. • Results or actions coming out of recent reviews or inspections by a regulatory or independent oversight body (e.g., peer review) in the territory of the group auditor. The results of these procedures will also be a consideration when determining the need for additional procedures to be performed, for example a visit to the component auditor.	
(ii) Obtain an understanding (a) whether the component auditor understands and will comply with the ethical requirements that are relevant to the group audit and, in particular, is independent; and (b) the component auditor's professional competence by performing the following: • Obtain written confirmation of compliance with ethical requirements, including independence, relevant to the	

Procedures	Results
group audit; and auditing standards and financial reporting framework competence and necessary special skills (e.g., industry knowledge). • Consider: - membership with professional organisation - membership or affiliation with other audit firm - reference to the professional organisation to which the other auditor belongs - result of inquires and discussion with other auditor and banker(s) • Consider previous work experience, if any. • Other procedures, if needed: - Discuss the component auditor with colleagues in the member network firm, if any, in that territory or with a reputable third party who has knowledge of the component auditor. - Obtain confirmations from professional bodies or bodies to which the component auditor belongs, licensing authorities or other third parties.	
(iii) Obtain an understanding whether the component auditor operates in a regulatory environment that actively oversees auditors.	

Section III – Communicating the group instructions to Component Auditors

Procedures	Results
(i) Develop audit instructions that include all matters that will be of significance to the component auditor in planning, performing and reporting on referred, including the following: • The auditing standards to be used and the financial reporting framework to be used by the component. • A description of specific laws and regulations applicable to the parent company that could have a direct bearing on the work the component team performs at the component. • The work to be performed and the use to be made of that work. • Timetable for completion of audit. • The form and content of the component auditor's communication with the group engagement team. • A request that the component auditor, knowing the context in which the group engagement team will use the work of the component auditor, confirms that the component auditor will cooperate with the group engagement team. • The ethical requirements that are relevant to the group audit and, in particular, the independence requirements. • Identified significant risks of material misstatement of the group financial statements, due to fraud or error, that are relevant	

Procedures		Results
	to the work of the component auditor.	
(ii)	Ensure the following acknowledgements and confirmations from the component auditor have been received: • The component auditor is aware that the component's financial information will be included in the group financial statements. • An acknowledgement that the group engagement team intends to consider and use the component auditor's work for purposes of the group audit opinion, including the component auditor's express permission for such use. • The component auditor has a sufficient understanding of, and has complied with, those ethical requirements relevant to the group audit and, in particular, the independence requirements and professional competence. • The component auditor has a sufficient understanding of the financial reporting framework and other statutory requirements applicable to the group financial statements. • The component auditor has a sufficient understanding of auditing standards as applicable to the audit of the group financial statements, and has performed the work on the component's financial information in accordance therewith.	
(iii)	Request the component auditor to communicate matters relevant to the group engagement team's conclusion with regard to the group audit. Such communication shall	

Procedures		Results
	include: • Information on instances of non-compliance with laws or regulations that could give rise to a material misstatement of the group financial statements. • A list of uncorrected misstatements of the financial information of the component and indication of possible management bias. • Related parties not previously identified by group management or the group engagement team. • Description of any identified significant deficiencies in internal control at the component level • Significant matters that the component auditor communicated or expects to communicate to those charged with governance of the component. • Any other matters that may be relevant to the group audit, or that the component auditor wishes to draw to the attention of the group engagement team, including exceptions noted in the written representations that the component auditor requested from component management. • The component auditor's overall findings, conclusions or opinion.	
(iv)	Request the component auditor to communicate important matters relevant to the component audited by them. Such communication shall include but not limited to: • Significant features of the year's results.	

Procedures	Results
• Evaluation of internal control. • Matters of judgment brought to the partner's / senior member of the component engagement team's attention, including errors and exceptions. • Matters giving arise to a qualification in the audit report. • Litigation and claims issues • Issues from minutes of meetings of directors and shareholders • Going concern assessment • Subsequent events review • Management representations	

Section IV – Other considerations

Procedures		Results
(i)	Obtain the materiality levels of used for the component from their auditors.	
(ii)	Conclude as to whether the group engagement team is satisfied that the audit of the financial information of the component was not performed using materiality that is materially different than that determined by the group engagement team, and particularly, that component materiality is not greater than materiality for the group financial statements as a whole. [Note: If the group engagement team becomes aware that such differences exist, the group engagement team needs to reconsider the computation of the group materiality, in order to confirm the materiality used in the audit of the group taken as a whole is appropriate to prevent the risk of material misstatement in the financial statements of the group.]	
(iii)	Read the component's financial information and the component auditor's report thereon to identify significant matters and, where considered necessary, communicating with the component auditor in this regard.	

Consolidation Process

• Evaluate the appropriateness, completeness and accuracy of consolidation adjustments and reclassifications.	
• Evaluate whether any fraud risk factors or indicators of possible management bias exist.	
• If the financial information of a component has not been prepared in accordance with the same accounting policies applied to the group financial statements, evaluate whether the financial information of that component has been appropriately adjusted for purposes of preparing and presenting the group financial statements.	
• If the group financial statements include the financial statements of a component with a financial reporting period-end that differs from that of the group, evaluate whether appropriate adjustments have been made to those financial statements in accordance with the applicable financial reporting framework.	

Section V - Reporting Considerations

Procedures		Results
(i)	Ensure whether: • The component's financial statements are prepared using the same financial reporting framework as the group financial statements; • the component auditor has performed an audit on the financial statements of the component in accordance with the auditing standards applicable to the group; and • the component auditor's report on the financial statements of the component is not restricted as to use.	
(ii)	Ensure that our intention of division of responsibility is properly and timely communicated to those charged with governance.	
(iii)	Ensure that the component auditor's express permission is obtained if the group engagement partner decides to name the component auditor in the auditor's report on the group financial statements, or if relevant law or regulation requires the component auditor's report to be presented together with the group auditor's report,	
(iv)	Read the audit report of the component auditor and list the modifications, emphasis of matter or 'other matter' paragraph included therein. Consider the nature and significance of modifications, emphasis of matter or 'other matter' paragraph in relation to the group financial statements in order to determine the effect that this may have on the auditor's report on the group financial statements, and	

Procedures		Results
	whether a modification in our opinion on the group financial statements is also required.	
(v)	Consider qualifying our opinion or disclaim an opinion on the financial statements taken as a whole, if: • If the results of our inquiries and procedures with respect to matters described in this document lead us to the conclusion that we can neither assume responsibility for the work of the other auditor in so far as that work relates to our expression of an opinion on the financial statements taken as a whole, or • make reference to the audit of the other auditor in our report. [Note: When the group engagement team concludes that the work of the other auditor cannot be used, the principal auditor may consider performing sufficient additional procedures regarding the financial information of the component audited by the other auditor.]	
(vi)	Retain the financial statements of the component and the report of the component auditor thereon.	

Signed ___________________________ Date ___________________________

Chapter 12 Staff Planning and Time Allocation

- Time Budget

CLIENT :				
PERIOD OF ACCOUNT :				**Staff :**
DETAILED TIME BUDGET				
Budget	Prepared by	Reviewed by	Approved by	

	BUDGET (hours)					ACTUAL (hours)				
	Sup.	Sr.	S.Sr.	Jr.	Total	Sup.	Sr.	S.Sr.	Jr.	Total
Strategic plan										
Detailed planning										
Audit program & budget										
TEST OF CONTROLS										
Cost of goods sold/manufacturing expenses										
Purchases										
Wages and salaries										
Administration and general expenses										
Sales and other Income										
P&L – Other										
Cash and bank										
Debtors (including Circularization)										
Fixed assets										
Observation of stock and work-in-process										
Physical stock taking										
Journal entries and posting thereof										
Internal control memorandum										
Travelling										
Supervision										
General										
TOTAL WORK FOR PERFORMING TEST OF CONTROLS										

	BUDGET (hours)					ACTUAL (hours)				
	Sup.	Sr.	S.Sr.	Jr.	Total	Sup.	Sr.	S.Sr.	Jr.	Total
SUBSTANTIVE AUDIT WORK										
Share capital/dividends										
Reserves										
Deferred liabilities										
Loans										
Creditors – Purchases										
Outstanding expenses										
Taxation										
Contingent liabilities										
Fixed assets and depreciation										
Investments										
Stock including work-in-process - valuation										
Trade debtors										
Advances, deposits and prepayments										
Cash and bank balances										
Sales and other income										
Manufacturing expenses										
Selling and administration expenses										
Travelling										
Supervision										
Reports/Memoranda										
Review Memorandum										
Completion activities										
General										
Meetings with client										

TOTAL SUBSTANTIVE WORK										
FINAL CHECKING AND COMPARING OF FINANCIAL STATEMENTS										
GRAND TOTAL (hours)										
Rate per unit										
Valuation										
Manager										
Partner										
COST										
FEE										
OVER (UNDER) RECOVERY										

Chapter 13 Points Forward from Previous Year

Client:_________________________	Prepared by:____________	Date:_____________
Accounting Period:____________________	Reviewed by:____________	Date:_____________

S. No.	Schedule Reference	Description of issue	Action required

PART III – EXECUTION

Chapter 14 Means of Selecting Items for Testing

I. Introduction

Auditor is responsible to design and perform audit procedures to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions. The auditor forms and expresses his opinion on the basis of these conclusions.

The nature, timing, and extent of audit procedures are responsive to the auditors risk assessments as per ISAs 315 and 330.

“When designing tests of control and tests of details, the auditor shall determine means of selecting items for testing that are effective in meeting the purpose of the audit procedure”. (Paragraph 10 read with Para A52-A56 of ISA-500 Audit Evidence).

The means available to the auditor for selecting items for testing are (Para A52 of ISA-500):

a) Selecting all items (100% examination)
b) Selecting specific items; and
c) Audit Sampling

Selecting specific items (Para A54 of ISA-500)

a) High value or key items. For example, items that are suspicious, unusual, particularly risk-prone or that have a history of error.

b) All items over a certain amount.

c) Items to obtain information. Such as the nature of the entity or the nature of transactions.

Selective examination of specific items does not provide audit evidence concerning the remainder of the population. (Para A-55 of ISA-500). The errors cannot be projected to the entire population.

ISA-530 Audit Sampling applies when the auditor has decided to use audit sampling in performing audit procedures. (Para 1 of ISA-530 Audit Sampling)

What is audit sampling

Audit sampling is the application of audit procedures to less than 100% of items such that all sampling units have a chance of selection to provide a reasonable basis on which to draw conclusions about the entire population.

What is not audit sampling

It is important to recognize that certain testing procedures do not come within the definition of sampling.

a) Test performed on 100% items

For example on each debtor some selective procedure was performed, verification of all items in legal expense account.

b) Selective testing

Likewise the techniques of selecting all items within a population which have a particular significance does not qualify as sampling with respect to the portion of the population examined nor with respect to the population as a whole. Since the items were not selected from the total population on a basis that we expected to be representative.

For Example, during the audit of accounts receivables, the auditor applies audit procedures to receivables balances in excess of Rs. 50,000/=. The testing of receivables balances in excess of Rs. 50,000/= constitute 100% testing of a sub-population, or in other words selective testing of high-value items. As a consequence, the results of such a test cannot be projected to the whole population.

c) Non-sampling tests include:

- 100% examination, i.e., selecting all items in a population;
- analytical procedures, inquiry, general observation, and review;
- general procedures such as reading minutes and contracts;
- tests in total (also called proofs in total or logic tests) i.e., calculations of reasonableness based on independently verified data;
- 'walk-through' tests, i.e., tracing a few transactions in order to obtain knowledge and understanding of the design and operation of accounting and internal control systems; and
- other selective testing of specific items, e.g., high-value, key and unusual (but not representative) items.

Anomaly

A misstatement or deviation that is demonstrably not representative of misstatements or deviations in a population. It is 'one-off' error and probably not repeated.

II. Sampling Risk

Sampling risk is the risk that the auditor's conclusion based on a sample may be different from the conclusion if the entire population were subjected to the same procedure. To put it otherwise, it is the probable difference between the conclusion based on a sample and the conclusion based on the entire population.

Nature or type of sampling risk

Sampling risk can lead to two types of erroneous conclusions:

Affecting Audit Effectiveness

For test of control-Risk of over reliance, i.e., incorrect conclusion that assessed levels of control risk based on sample supports preliminary assessment of control risk.

For substantive test of details-Risk of incorrect acceptance, i.e., incorrect conclusion that sample estimate of account balance or misstatements in account balance supports conclusion that recorded balance is not materially misstated.

Affecting Audit Efficiency - Prompts auditor to do additional work.

For test of control-Risk of under reliance, i.e., incorrect conclusion that assessed levels of control risk based on sample does not support preliminary assessment of control risk.

For substantive test of details-Risk of incorrect rejection, i.e., incorrect conclusion that sample estimate of account balance or misstatements in account balance supports conclusion that recorded balance is materially misstated.

Sampling risk is frequently expressed as a %. For example, 5% means that there is a 1 in 20 chance of material error going undetected (this is the risk accepted by many audit firms for any specific audit tests). Risk can also be expressed in terms of confidence levels (assurance required) and reliability factors.

A confidence level is the degree of assurance that material error does not exist; it is the opposite of risk.

Reliability (R-) factors are related to risk percentages**.**

The use of R-factors (and related methods) is popular. It makes determination of sample size easy, and is compatible with the Audit Risk Model.

Non-Sampling Risk

Non-sampling risk is the component of detection risk that is not due to examining only a portion of the data.

- Inappropriate audit procedures
- Misinterpretation of audit evidence
- Failure to recognize a misstatement or deviation

Examples of sources of non-sampling risk include:

i) failure to investigate significant fluctuations in relationships when placing reliance on analytical procedures; and

ii) placing reliance on management representations as a substitute for other audit evidence that could reasonably be expected to be available.

Selective testing (e.g., selection of risk-prone items) is also subject to non-sampling risk. Non-sampling risk can also arise, for example, if the auditor fails to recognise an error in an individual item in a sample.

The auditor seeks to minimise the risk of erroneous conclusions by proper planning, supervision and review.

III. Sampling Approaches

"Audit sampling can be applied using either non-statistical or statistical sampling approaches". (Para A4 of ISA-530)

Statistical

This approach has the following characteristics:

i) Random selection of the sample items; and

ii) The use of probability theory to evaluate sample results, including measurement of sampling risk.

Non-Statistical

A sampling approach which does not posses the above characteristics is called non-statistical sampling.

1. Planning the sample

1.1 Consider the following while planning the sample account balances and transactions:

- 1.1.1 Materiality and the number of items in the population;
- 1.1.2 Inherent risk (of errors arising);
- 1.1.3 Relevance and reliability of evidence available through non-sampling procedures; and
- 1.1.4 Costs and time involved.

1.2 Steps in planning the sample:

- 1.2.1. Determining the objectives of the test;
- 1.2.2. Defining what errors or deviation are being sought;
- 1.2.3. Identifying the population and sampling units; and
- 1.2.4. Deciding the size of the sample.

1.3 Determining the objectives of the test

Auditors need to consider the specific objectives to be achieved and the combination of audit procedures that is most likely to achieve those objectives. Audit sampling is applicable to both tests of control and substantive procedures.

a) Test of Control

Sampling is applicable in testing the operation of controls only when there is a trail of documentary or electronic evidence of the performance of control procedures. Such control procedures normally fall into the categories of authorization procedures, documents and records, and independent checks.

b) Substantive tests of details

Sampling plans for substantive tests of details may take one of two approaches. The first approach is to obtain evidence that an account balance is not materially misstated (for example, the book value of debtors). The second approach is to make an independent estimate of some amount (for example, to value stock for which no recorded book value exists).

Defining what errors or deviation are being sought

The auditors must consider what constitutes an error by referring to the objectives of the test. In test of control, the test objective is the identification of 'deviations' from the laid down control procedures. In substantive testing, the test objective is the identification of 'errors or misstatements' in recorded transactions or balances. The type of error or deviation expected will be related to the objective of the test.

Identifying the population and sampling units; and

Auditors must carefully identify the population and the sampling unit in line with the objective of the audit test.

Population should be appropriate. When testing for overstatement of creditors, for example, auditors could define the population as the creditors' listing. However, when testing for understatement of creditors, it is inappropriate to use the creditors listing; the appropriate population is subsequent payments, unpaid invoices, suppliers' statements and unmatched goods received notes.

Population should be complete. For auditors to be able to make appropriate assessments of the level of monetary errors or of the application of a particular control, the population needs to include all relevant items from throughout the period. A complete population is particularly important when auditors are using computer-assisted audit techniques to perform sample selection-that is, they must use the correct file.

A sampling unit means the individual items constituting a population-for example, sales invoices, debtors' balances, fixed assets on a register and a listing of suppliers. The auditors will need to consider whether any particular advantage arises out of using a particular sampling unit. Sometimes, customers will be unable to respond to a request for confirmation of the balance owed, but they can confirm individual invoices outstanding; in such cases, the best sampling unit would be unpaid invoices making up the balance.

Stratification

Stratification, i.e., dividing up a population to create relatively homogeneous groups in which the variation in characteristics is expected to be small. It is used mainly in substantive testing.

Stratification increases audit efficiency and reduces audit cost. The objective of stratification is to focus greater audit work on areas that are of higher risk of being materially misstated. It is particularly used in the audit areas of debtors, stock and property, plant and equipment.

For tests of control the population must have the same control characteristics. So, for example, supplier's invoices for raw materials will be distinct from supplier's invoices for services because the former should evidence the receipt of goods.

Deciding the size of the sample

"The auditor shall determine a sample size sufficient to reduce sampling risk to an acceptably low level". (Para 7 of ISA-530)

"The sample size can be determined by the application of statistically-based formula or through the exercise of professional judgement". (Para A11 of ISA-530)

Generally, larger the size of the sample, the more it will be representative of a population. Many audit firms would like to standardize the size of sample based on general and specific risk factors.

The tolerable error or performance materiality is also called 'precision'. It is the maximum error (or deviation rate) that can be accepted to conclude that the audit objective has been achieved.

For substantive tests, precision may be expressed as a monetary amount (which is less than overall materiality) or a percentage of population value. For tests of control, precision is the maximum rate of failure of an internal control that can be accepted in order to place reliance on it.

Errors increase the imprecision of results from sampling. Therefore, if they are expected, a larger sample size is required.

In determining an appropriate sample size, the auditors' main concern is with reducing sampling risk to an acceptably low level. The level of sampling risk that auditors are willing to accept will have an inverse relationship with the sample size required.

Various factors influencing the size of the sample have been stated in Appendix 2 for test of control and Appendix 3 for test of details of ISA-530.

IV. Selecting and testing the sample (Methods)

"The auditor shall select items for the sample in such a way that each sampling unit in the population has a chance of selection". Para 8 of ISA-530

ISA-530 (Appendix 4) recognises the following commonly used methods of obtaining representative samples for audit sampling:

1.1 Statistical

1.1.1 Random Selection;
1.1.2 Systematic (interval) Selection;

1.1.3 Monetary Unit Sampling (also known as value weighted sampling and is used in conjunction with systematic selection);

1.1.1 Random number selection — every item in a population has the same statistical probability of being selected as every other item. Random numbers are selected using a computer program or random number tables.

In using random number tables, the auditors must pick a starting point-either by making a 'blind stab' or arbitrarily choosing a point to start-and then determine the direction or route (top to bottom, left to right, etc.) to be used in reading them. The route selected must be followed consistently.

However, in the absence of sequentially numbered documents, it may be difficult to establish correspondence between random numbers and the items in the population.

1.1.2 Systematic selection — requires the calculation of a uniform sampling interval which is obtained by dividing the population by the sample size. For example, if 50 sales invoices are to be selected from a population of 600 invoices every 12th invoice will be selected from a randomly selected starting point (within the sampling interval).

The following basic steps are used in systematic selection.

i). Select a random starting point from within the population (serial no. or amount).

ii). Determine the necessary sampling interval. The sampling interval identifies the frequency with which items are selected within the population. It is determined by dividing the number of items in the population by the necessary sample size.

iii). Add the sampling interval to the random starting point. The item in the population corresponding to this number is the next item selected.

iv). Add the sampling interval to the total from step 3. The item in the population corresponding to this number will be the next item selected.

v). Repeat Step 4 until the number of items equal to the necessary sample sizes selected.

This method is suitable for both tests of controls and substantive tests and particularly useful for sampling from non-monetary populations. However, care must be taken to ensure that the population is not structured in such a way that the sampling interval corresponds to a pattern in the population. For example, if cash book payments are written up by cheques in date order with all the bank statement entries (direct debits, bank charges, etc.,) being recorded at each month end, a sample could be biased towards a particular transaction type.

1.1.3 Monetary Unit Sampling (Value weighted selection)

"In considering the characteristics of the population, the auditor may determine that stratification or value weighted selection is appropriate". Para A8 of ISA-530

This systematic selection method uses currency unit values, rather than the items, as the sampling population. Each individual rupee is given an equal chance of selection. Since these cannot be examined, the item in which a rupees selected lies (called 'logical unit') is tested. The logical unit could be individual customers account, an account payable or any other component of account balance or class of transactions. In this method, high-value items have a greater chance of being selected. In exhibit # 02 we have made a random start or blind stab with Rs. 5,000/= and selected first account balance of Rs. 8,190/= against it. Thereafter, applying the class interval, we have selected next four debtors having higher values and so and so forth.

The benefit of this method is that audit efforts is directed to the large value Items and can result in smaller sample sizes. As can be seen in exhibit # 02, while MUS will not always select the largest rupee transactions or components, it provides a relatively high probability that these components will be selected, and any item of account (logical unit) exceeding the class interval Rs. 17,241/= has the 100% chance of being selected. This approach may be used in conjunction with the systematic method of sample selection and is most efficient when selecting items using random selection.

The short coming in this method is that the same item may be selected twice. This phenomenon can occur in MUS when individual logical units are greater than the sampling interval. As can be seen in exhibit # 02 item No. 7 was selected twice. In these cases, the audit team counts this item as two selections and continues. As a result, the actual number of logical units examined under MUS can be smaller than the determined sample size. The auditor will have to determine, by applying is professional judgement, that despite reduction in the number of items to be examined, the method still enables the auditor to draw a representative sample to obtain sufficient appropriate audit evidence because of being able to select the higher value items.

1.2 Non-Statistical

- 1.2.1 Haphazard Selection;
- 1.2.2 Block Selection

1.2.1 Haphazard selection —Haphazard selection is the selection of a sample without following a structured technique. The auditors must take care to avoid any bias (such as avoiding the first or last entry on each page of the ledger) particularly conscious bias (such as avoiding difficult-to-locate items).

1.2.2 Block selection — consists of the selection ‘en bloc’ of adjacent transactions or items. Block selection is a technique where the auditor applies procedures to such items that all occur in the same block of time or sequence. An example of block selection may be testing amounts received from customers in the month of September. Alternatively, a block of remittance advices received in September may be tested in their entirety.

2. Projecting the error to the population

Errors or deviations that appear to be consistent with those anticipated during the procedure’s planning can then be projected to consider the effect on the population. Given the planned level of sampling risk, it is assumed that the deviation or error rate in the sample is representative of the rate of deviation or errors in the population.

Both non-statistical and statistical sampling require the sample results to be projected on the population. The key difference with non-statistical sampling is that sampling risk is not mathematically quantified, but assessed on a more qualitative basis.

2.1 For Test of Control

The rate of deviations in the sample may be taken to be the rate of deviations in the population. If, of a sample of 60, three deviations from laid down control procedures are discovered, then the projected deviation rate for the population can be estimated as 3/60 or 5%. If this is no worse than the tolerable deviation rate, then it is appropriate to confirm the preliminary assessment of control risk.

If the projected deviation rate exceeds the tolerable deviation rate, then the preliminary assessment of control risk is not confirmed. Depending on qualitative considerations of actual deviations or on the existence of compensating controls, the auditors must reassess control risk at a higher level, thus reducing the acceptable detection risk. This means that the auditors have to revise the audit programme to increase the level of substantive procedures.

2.2 For substantive tests

For substantive tests there are two quantitative methods of error projection. Their use depends on whether or not the error relates closely (i.e., is proportional) to the size of the item.

2.2.1 Ratio method

This method is used if errors relate closely to the size of the items (i.e., small errors in small balances, large errors in large balances). As the monetary value of the item increases, so does the monetary value of the error.

The projected error is estimated by extrapolation as:

Error found in sample x	Population value
	Sample value

To this must be added the actual errors in items examined 100% (if any) to give a total estimate of error.

2.2.2 Difference Method

The difference method should be used where the error does not have a direct relationship to the monetary value of the item. It is relatively constant for all items, and so will increase in proportion to the number of items in the population.

A simple example would be if a credit card company charged a renewal fee of Rs. 210 per account instead of Rs. 120 per account.

Such errors can be projected by multiplying the average difference between audited (i.e., correct) and recorded (i.e., incorrect) amounts (i.e., Rs. 90 in the preceding example) by the total number of items in the population. This amounts to calculating:

Error found in sample x	Number of items in population
	Number of items in sample

For tests of control the number of observed deviations divided by the sample size is the best estimate of the deviation rate in the population from which it was selected.

3. Evaluating the results

In evaluating misstatements, the auditor, should exclude ‘anomalous’ error(s) from his projected misstatements. However, such errors may be considered when evaluating all misstatements within the sample and auditors shall obtain sufficient appropriate audit evidence to corroborate the fact that an error or deviation is anomalous.

Each error or deviation discovered will need to be examined for its implication (i.e. its qualitative aspect).

3.1 Qualitative aspects of errors or deviations

In analysing errors, the auditors must consider whether the error or deviation:

Has an effect on the whole population; or

Is an isolated or localised occurrence.

An error due to posting a sales invoice to the wrong customer’s account will not affect the total balance of debtors. Similarly, a control deviation properly authorised by management will not affect the assessed level of control risk.

When analysing the errors or deviations (as defined when planning the sample) their nature, cause and possible impact on other audit areas and the financial statements as a whole should be considered. If they have a common and potentially significant feature a sub-population of items possessing that feature may be identified for further testing.

A qualitative evaluation of deviations should answer the following with regard to observed deviations:

i) Do deviations represent a pervasive error made consistently on all transactions or an isolated mistake made on a specific transaction?

ii) Are deviations intentional or unintentional in nature?

iii) Do deviations represent a misunderstanding of instructions or careless attention to duties?

iv) Do deviations have implications with regard to the effectiveness of other controls (for example, information technology general controls)?

V. Examples of some testing/sampling methods

Exhibit # 01

Random Sampling-how to select the sample for testing

Partial random number table

		COLUMNS			
ROW	**(1)**	**(2)**	**(3)**	**(4)**	**(5)**
1	04734	*(4)* **3942**6	91035	54839	76873
2	10417	*(5)* **1968**8	83404	42038	48226
3	07514	48374	*(10)* **3565**8	38971	53779
4	52305	86925	16223	25946	90222
5	96357	*(6)* **1148**6	30102	82679	57983
6	**Start** → 92870	*(7)* **0592**1	65698	27993	86406
7	*(1)* **0050**0	75924	38803	05386	10072
8	*(2)* **3486**2	93784	52709	15370	96727
9	*(3)* **2580**9	*(8)* **2186**0	36790	76883	20435
10	77487	*(9)* **3841**9	20631	48694	12638

4. HOW TO APPLY RANDOM NUMBER TABLE

Note in the above random number table that the 'random numbers' are shown in five-digit groupings. To illustrate its use, assume that a sample is desired from a population of sales invoices numbered 0001 to 4000. Assume further that the auditors elect to use the first four digits of each five-digit random number, start with row six of column one, and read from top to bottom. In this case, the first 10 invoices in the sample would be those shown in bold. Note that the starting number, 9287, is rejected because it falls outside the range of sales invoice numbers in the population (0001 to 4000). Similarly, the numbers 7748 and 4837 are rejected, and so on.

4.1 Computer generated random numbers

We can also generate random numbers and construct the desired random number table on spreadsheet.

Exhibit # 02

Systematic Method of Sample Selection in conjunction with Monetary Unit Sampling (Value Weighted Selection)

SUBSTANTIVE TESTS OF DETAILS

Client: Period-end

Prepared by: Date:

Objective: Verification of Debtors.

Population: Debtors Rs 3,000,000/=

Sampling Unit: Account balances Nos. 1500

Tolerable error: Rs. 100,000

Sample Size: 174

$$\text{Sampling Interval} = \frac{\text{Population}}{\text{Sample Size}}$$

$$= \frac{3{,}000{,}000}{174}$$

$$= \text{Rs. } 17{,}241.38$$

The auditor will examine every 17,241st Rupees of debtors.

As a result of tolerable error assessed at Rs. 100,000 the auditor will examine every customer account that would be material to the financial statements taken as a whole. The explicit advantage of this sampling method is that it results in larger rupee components of an account balance or class of transactions having a higher likelihood of selection. In contrast, if the auditor randomly selected 174 customer accounts out of 1,500 for examination, no guarantee exists that the larger rupee accounts would be selected.

MONETARY UNIT SAMPLING (Value Weighted selection)

		Sample Interval		17,241
Account	Account Balance	Cumulative Balance	Rupees Selected	**Sample Selected**
1	Rs. 1,260	1,260		
2	**8,190**	8,190	5,000	**8,190**
3	**14,110**	22,300	22,241	**14,110**
4	750	23,050		
5	920	23,970		
6	2,040	26,010		
7	**38,170**	64,180	39,482 56,723	**38,170**
8	3,150	67,330		
9	2,710	70,040		
10	**10,000**	80,040	73,964	**10,000**
11	4,480	84,520		
12	**9,830**	94,350	91,205	**9,830**
13	1,210	95,560		
14	4,060	99,620		
15	1,651	101,271		
16	3,390	104,661		
*	*	*		
*	*	*		
*	*	*		
1,500	6,870	**3,000,000**		

A worked example of testing method/sampling with interpreting the result

NON-STATISTICAL SAMPLING (WITH STRATIFIED POPULATION) OF SUBSTANTIVE TESTS OF DETAILS

Model Situation

Client:	Period-end
Prepared by:	Date:

Objective: Circularization of debtors to confirm existence.

Population: Debtors (excluding credit balances) Rs. 42,500,000/=

Sampling Unit: Account balances Nos. 1100

Variability: Rs. 1,000/= to Rs. 1,400,000/=

JUDGMENTS

Five accounts over Rs. 500,000/= totaling Rs. 5,000,000/= were considered to be individually material, leaving a remaining population of 1,095 accounts with a value of Rs. 37,500,000/= to be sampled.

Tolerable error:	Rs. 1,300,000/=
Control risk assessment:	Moderate
Effect on detection risk of other substantive procedures:	Analytical procedures provide moderate assurance. Cut-off test provides moderate assurance.
Acceptable level of sample risk:	Moderate
Expected Errors:	Few
Reliability Factor:	2.3 from reliability factor table

Table Reliability factors for non-statistical sampling

REQUIRED LEVEL OF ASSURANCE	RELIABILITY FACTOR	
	FEW OR NO ERRORS EXPECTED	SOME ERRORS EXPECTED
Substantial	3.0	6.0
Moderate	2.3	4.0
Little	1.5	3.0

Source: Adapted from Audit and Accounting Guide: Audit Sampling, p. 59. © The American Institute of Chartered Public Accountants.

COMPUTATION OF SAMPLE SIZE, SELECTING SAMPLE, ANALYZING RESULTS, PROJECTING ERRORS/MISSTATEMENTS, AND FORMING CONCLUSION

Computation of sample size:

$$\frac{\text{Population value}}{\text{Tolerable error}} \times \text{Reliability factor}$$

$$\frac{37{,}500{,}000}{1{,}300{,}000} \times 2.3 = 66.344 \quad \text{rounded off to } 66$$

Selecting Sample:

Assume that the sample of Rs. 1,800,000/= (66 in Nos. out of 1095) was selected systematically from a listing of debtors' balances that had been tested to and from the sales ledger, and had been added and agreed in total to the balance on the control account in the general ledger.

Sample Results and Analysis

Replies were received from:

Five large customers and
60 of those sampled.

The accounts of the six customers failing to reply were verified by other tests and found to be correctly stated.

Sample Error Rs. 30,000/= overstatement (out of 60 replies received)

Error in 5 large customers Rs. 10,000/= Overstatement

No 'Anomalous' error detected.

The reported errors were considered qualitatively. Those considered to reflect errors in the population are detailed as follows:

	POPULATION	**STRATUM & SAMPLE**		
	Recorded Rs.	**Recorded Rs.**	**Audited Rs.**	**Overstatement Rs.**
Material Items	5,000,000	5,000,000	4,990,000	10,000
Sampled Items	37,500,000	1,800,000	1,770,000	30,000

Projecting Errors

$$\frac{\text{Error in Sample Items}}{\text{Sample}} \times \text{Population}$$

$$\frac{30{,}000}{1{,}800{,}000} \times 37{,}500{,}000 = \text{Rs. } 625{,}000/=$$

Conclusion

The entity corrected the Rs. 30,000/= errors found in the sample, but disputed the Rs. 10,000/= error on the large accounts resulting in a net projected population error (NPPE) of:

NPPR = Projected Error - Corrected Error + Uncorrected Error

Rs. 605,000 = 625,000 - 30,000 + 10,000

This is significantly lower than the tolerable error Rs. 1,300,000/=, so it may be concluded that the recorded existence of debtors is not materially misstated.

In this worked example, we assumed that no 'Anomalous Error' has been detected. However, if an anomalous error detected, it must be considered while computing NPPE for final conclusion since any type of material misstatements could result in material misstatement of financial statements of an entity.

Chapter 15 Sample Audit Programs

The following alphabets have been used to indicate the assertion addressed in a step:

Assertion	Alphabet	Class of transaction and events	Account balances at period end	Presentation and disclosure
Occurrence	O	✓		✓
Completeness	C	✓	✓	✓
Accuracy	A	✓		✓
Cut off	T	✓		
Classification	L	✓		✓
Existence	E		✓	
Rights and obligation	R		✓	✓
Valuation	V		✓	✓
Allocation	K		✓	
Understandability	U			✓

I. Balance Sheet – Assets

S. No.	Financial Statement Caption	Reference No.	Page No.
1.	Fixed assets (Tangible, intangible and CWIP)		
2.	Investment Properties		
3.	Investments		
4.	Derivatives		
5.	Long term loans and advances		
6.	Long term deposits and Prepayments		
7.	Stores, spares and stock-in-trade		
8.	Trade debts		
9.	Advances, Deposits, Prepayments & Other receivable		
10	Cash & Bank Balances		

Audit Program

WP Ref.:	
Prepared by:	
Date:	
Reviewed by	
Date	

(a) Fixed assets (tangible, intangible & CWIP)

Client: ______________________

Period: ______________________

Subject: Fixed assets (tangible, intangible & CWIP)

Amount in Rs.

Account balances:

Tangible fixed assets (owned and leased)	
Intangible fixed assets	
CWIP	

Classes of transactions:

Depreciation	
Amortisation	
Loss/ gain on disposal	
Impairment	

S. No.	Audit Objectives	Assertions	Risk Assessment		
			IR	CR	CRA
1.	Fixed assets are completely and accurately recorded	CA			
2.	All recorded fixed assets actually exist.	E			
3.	Fixed assets are recorded at appropriate values.	V			
4.	Fixed assets recorded are owned by the client and title is also in the name of client.	R			
5.	Depreciation /amortisation / impairment expense and gain/ loss on disposal has been accurately calculated and appropriately disclosed.	OCATL			
6.	Fixed assets are presented and all disclosures have been given in accordance with the Fourth / Fifth Schedules of the Companies Ordinance, 1984 and relevant IASs.	OCAL RVU			

S. No.	Audit Procedures	Objective	Done by	W. P. Ref.
Test of Controls				
1.	Assess the reasonableness of design of system of internal control by enquiring relevant client personnel and documenting the same (if not a documented system manual has been developed by the client). A walk through test would be necessary to confirm the understanding as documented. Identify the preventive (exercised before occurrence of transactions and event) and detective (exercised after occurrence of transactions and event) controls established by management to support its assertions.	ALL		
2.	Check on sample of selected transactions covering the whole period that all preventive controls are exercised on all transactions.	ALL		
3.	Check that proper fixed assets register has been maintained and entries are made in the register on prompt and consistent basis and the same is reconciled with general ledger and physically verified assets on periodical basis.	ALL		
4.	Check on a sample of transactions that detective controls are appropriately been exercised and in case of any detection of error/ fraud, proper steps have been taken to avoid recurrence of the same.	CE		
5.	Ensure that management does not override the designed controls by: ■ Enquiring from the designated staff person ■ Remain skeptical during performing test of design and test of effective operation			
6.	Document the conclusion after performing test of controls and required level of assurance from substantive procedures.	N/A		

Analytical Procedures				
1.	Assess the appropriateness of depreciation/ amortisation method and rate in view of the flow of economic benefits and useful life of the assets.	U		
2.	Check the reasonableness of depreciation expense by applying depreciation rate to closing cost/ carrying value as per the method adopted	CAL		
3.	Document logical commercial reasons for major additions and disposal made during the year and check whether the additions are in accordance with the objects of the company	AU		
4.	Compare current year balances and expense with last year balances and expenses and ensure that any significant variation should be properly and logically reasoned.	CEA		
Test of Details				
1.	Obtain movement schedule of tangible and intangible fixed assets and Capital work-in-progress both for cost, accumulated depreciation and impairment. Check casting and cross casting of the schedule.	CEA		
2.	Trace opening balances from fixed assets register, general ledger and last year's working papers.	CE		
3.	Make a selection of fixed assets held by client at year-end and physically inspect them to ensure that: (a) Asset is owned and held by client. (b) Remaining useful life appears to be correct (c) No new / further impairment is needed	CEV		

4.	For selected additions during the current period: (a) For purchases in current year, obtain / see capital expenditure approvals and vendor's invoices. (b) Ensure that additions to fixed assets do not include any amount of a nature of revenue expenditure. (c) Ensure that where full payment has not been made for what so ever reason, asset is recorded at full cost and balance has been recognized as liability. (d) Review the entity's capitalization policy and check whether the assets are recognized as per the criteria laid by the policy	CEV		
5.	For selected assets disposed of during the current period: (a) Obtain / see disposals approval (b) Examine documents authorizing disposal. (c) Examine documents supporting amounts for which assets were sold e.g. cash receipts (d) Calculate gain or loss on disposal of fixed assts	OAL		
6.	To check depreciation expense: (a) Determine the reasonableness of accounting policy and depreciation method, rates and their consistency with prior years. (b) Check calculation of depreciation of selected assets. (c) Assess the reasonableness of allocation to manufacturing costs, admin cost etc.	OCAL		
7.	Ensure that none of the assets is impaired or the recoverable amount of an asset is not less than its carrying amount. If the carrying amount of an asset is more than its recoverable amount, that same should be reduced to recoverable amount recognising the reduction as impairment loss. Ensure that any subsequent addition should be depreciated over remaining useful life and not simply depreciated by applying the depreciation rate.	V		

8.	Inspect evidence of ownership e.g. vehicle registration, property documents, machinery import documents etc.	R		
9.	Ascertain the nature of each significant intangible asset by inquiry or reviewing information contained in prior-year's working papers.	E		
10.	Ensure that all intangible assets fully comply with the definition (identifiable, control and flow of economic benefits) and recognition criteria of the IAS 38 i.e. (a) Flow of economic benefits to enterprise is expected in future, and (b) Cost of the asset may be determined	EVR		
11.	For selected intangibles additions during the year: - (a) Approval in Board meeting (b) Trace the recorded value to supporting documents e.g. independent valuation for purchases in current year. (c) Obtain authorization or board minutes.	V		
12.	For selected intangible assets disposed-off during the year: - (a) Examine supporting documents (e.g. cash receipts). (b) Calculate gain or loss on sale of assets	CEV		
13.	Determine that client's accounting policies for amortization are appropriate and applied consistently. See that intangible assets with indefinite life are subject to impairment review.	U		
14.	For additions in leased assets during the year, check from lease agreements that the lease is a finance lease in substance.	CEKR		
15.	Ensure that depreciation on leased assets is calculated on the same rates as for owned assets. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the assets should be fully depreciated over the shorter of the lease term or its useful life.	OCV		

16.	For selected additions to CWIP during the year: - (a) Check supporting documents like vendors' invoices, contractor bills, and other evidences. (b) Check proper authorization and approval.	E		
17.	For selected transfers to fixed assets during the year, check contractor certificates of completion of project and proper approval thereof and examine the stage of completion.	K		
18.	For items stuck-up for considerable period of time, inquire about its status from the management. Compute provisions if required and ask for management representations.	V		
19.	In case of revalued assets ensure that ■ Entire class of assets has been revalued on periodical basis ■ Any asset's revaluation results in deficit should not be adjusted against other assets' surplus but should be immediately charged. ■ Depreciation is charged on revalued amount and remaining useful life ■ Revalued amount and incremental depreciation should be transferred to other comprehensive income	V		
20.	Ensure that closing balances as per our working paper file are in match with general ledger.	N/A		
21.	Determine that disclosures have been made in accordance with the requirements of Fourth Schedule to the Companies Ordinance, 1984 and the applicable IASs.	OCAL RVU		

Audit Program **(b) Investment properties**	WP Ref.:	
	Prepared by:	
	Date:	
	Reviewed by	
	Date	

Client:	
Period:	
Subject:	Investment properties

		Amount in Rs.
Account balances:		
Investment properties		
Classes of transactions:		
Depreciation		
Gain/ loss due to change in fair value		

S. No.	**Audit Objectives**	**Assertions**	**Risk Assessment**		
			IR	**CR**	**CRA**
1.	Investment properties are completely and accurately recorded	CA			
2.	All recorded investment properties actually exist.	E			
3.	Investment properties are recorded at appropriate values.	V			
4.	Investment properties recorded are owned by the client and title is also in the name of client.	R			
5.	Depreciation expense / gain /loss due to change in fair value and gain/ loss on disposal has been accurately calculated and appropriately disclosed.	OCATL			

S. No.	Audit Objectives	Assertions	Risk Assessment		
			IR	CR	CRA
6.	Investment properties and all disclosures have been given are presented in accordance with the Fourth Schedule / Fifth Schedule of the Companies Ordinance, 1984 and relevant IASs.	OCAL RVU			

Note: Steps should be carried out on the basis of model (cost or fair value) adopted by the client.

S. No.	Audit Procedures	Objective	Done by	W. P. Ref.
Test of Controls				
1.	Assess the reasonableness of design of system of internal control by enquiring relevant client personnel and documenting the same (if not a documented system manual has been developed by the client). A walk through test would be necessary to confirm the understanding as documented. Identify the preventive (exercised before occurrence of transactions and event) and detective (exercised after occurrence of transactions and event) controls established by management to support its assertions.	ALL		
2.	Check on sample of selected transactions covering the whole period that all preventive controls are exercised on all transactions.	ALL		
3.	Check that proper subsidiary records have been maintained and entries are made in the same on prompt and consistent basis and the same is reconciled with general ledger. Separately identifiable assets like lifts, electric installations and other fixtures etc. should be physically verified on periodical basis and any adjustment is accounted for both in subsidiary records and general ledger.	ALL		
4.	Check on a sample of transactions that detective controls are appropriately been exercised and in case of any detection of error/ fraud, proper steps have been taken to avoid recurrence of the same.	CE		
5.	Ensure that management does not override the designed controls by ■ Enquiring from the designated staff person ■ Remain skeptical during performing test of design and test of effective operation			

S. No.	Audit Procedures	Objective	Done by	W. P. Ref.
6.	Document the conclusion after performing test of controls and required level of assurance from substantive procedures.	N/A		
Analytical Procedures				
1.	Assess the appropriateness of depreciation/ amortisation method and rate in view of the flow of economic benefits and useful life of the properties.	U		
2.	Check the reasonableness of depreciation expense by applying depreciation rate to closing cost/ carrying value.	CAL		
3.	Document logical commercial reasons for major additions and disposal made during the year and check whether the additions are in accordance with the objects of the company.	AU		
4.	Compare current year balances and expense with last year balances and expense and ensure that any significant variation should be properly and logically reasoned.	CEA		
Test of Details				
1.	Obtain movement schedule of investment properties both for cost and accumulated depreciation. Check casting and cross casting of the schedule.	CEA		
2.	Trace opening balances from investment properties' subsidiary records, general ledger and last year's working papers.	CE		
3.	Ensure that: (a) Properties are owned and held by client. (b) Remaining useful life appears to be correct (c) No new / further impairment is needed	CEV		

S. No.	Audit Procedures	Objective	Done by	W. P. Ref.
4.	If a client holds property partly held to earn rentals or for capital appreciation and partly held for own use then the property should be classified as investment property only if these portions could be sold separately (or leased out separately under a finance lease) or if an **insignificant portion** is held for own use. Ensure the compliance with requirement of IAS 40.	K		
5.	Ensure that a property is classified as investment property only if its cost may be determined. Under construction properties should not be classified as investment properties.	K		
6.	For selected capitalizations during the current period: (a) Appropriate approvals and bills/ invoices and certificates. (b) Ensure that expenditure relating to an investment property should be debited to the investment property when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing investment property, will flow to the enterprise. All other expenditure should be recognised as an expense in the period in which it is incurred. .	CEV		
7.	For any property disposed off during the current period: (a) Examine documents authorizing disposal. (b) Examine documents supporting amounts for which sale was affected e.g. cash receipts (c) Calculate gain or loss on disposal of investment properties	OAL		
8.	To check depreciation expense: (a) Determine the reasonableness of accounting policy and depreciation method, rates and their consistency with prior years. (b) Check calculation of depreciation.	OCAL		

S. No.	Audit Procedures	Objective	Done by	W. P. Ref.
9.	Ensure that none of the property is impaired or the recoverable amount of any property is not less than its carrying amount. If the carrying amount of an asset is more than its recoverable amount, that same should be reduced to recoverable amount recognising the reduction as impairment loss.	V		
10.	Inspect property documents to ensure ownership.	R		
11.	Ensure that where fair value model has been adopted the fair value of investment property should reflect the actual market state and circumstances as of the balance sheet date, not as of either a past or future date. Any gain and loss on revaluation is charged to Profit and Loss.	V		
12.	Ensure that valuer's assumptions are reasonable.	V		
13.	Ensure that there are no restrictions on the realisability of investment property or the remittance of income and proceeds of disposal.			
14.	Ensure that closing balances as per our working paper file are in match with general ledger.	N/A		
20.	Determine that disclosures have been made in accordance with the requirements of Fourth / Fifth Schedule to the Companies Ordinance, 1984 and the IAS 40.	OCAL RVU		

Audit Program **(c) Investments (subsidiaries, associates, and others)**	WP Ref.:	
	Prepared by:	
	Date:	
	Reviewed by	
	Date	

Client:	
Period:	
Subject:	Investments (subsidiaries, associates, and others)

		Amount in Rs.
Account balances:		
Investments		
■ In subsidiaries and associates		
■ Held to maturity		
■ Available for sale		
■ At Fair value through Profit and Loss		
Classes of transactions:		
Dividend		
Interest		
Gain/ loss on revaluation		
Gain/ loss on disposal		
Impairment Loss		

S. No.	**Audit Objectives**	**Assertions**	**Risk Assessment**		
			IR	**CR**	**CRA**
1.	Investments are completely and accurately recorded.	CA			
2.	All recorded investments actually exist.	E			
3.	All investments are appropriately valued.	V			
4.	All investments are owned by the client and title is also in the name of client.	R			
5.	Dividend and interest income, gain/ loss on revaluation and gain/ loss on disposal has been accurately calculated, completely recorded and appropriately disclosed.	OCATL			
6.	Investments are presented and all disclosures have been given in accordance with the Fourth / Fifth Schedule of the Companies Ordinance, 1984 and relevant IASs.	OCAL RVU			

S. No.	Audit Procedures	Objective	Done by	W. P. Ref.
Test of Controls				
1.	Assess the reasonableness of design of system of internal control by enquiring relevant client personnel and documenting the same (if not a documented system manual has been developed by the client). A walk through test would be necessary to confirm the understanding as documented. Identify the preventive (exercised before occurrence of transactions and event) and detective (exercised after occurrence of transactions and event) controls established by management to support its assertions.	ALL		
2.	Check on sample of selected transactions covering the whole period that all preventive controls are exercised on all transactions.	ALL		
3.	Check that proper subsidiary records have been maintained and entries are made in the same on prompt and consistent basis after proper approval and appropriate authorisation.	ALL		
4.	Check on a sample of transactions that detective controls have appropriately been exercised and in case of any detection of error/ fraud, proper steps have been taken to avoid recurrence of the same.	CE		
5.	All investments in subsidiaries and associates should with the board's specific approval and in accordance with requirements of section 208 of the Companies Ordinance, 1984.	Laws and Regulation		
6.	Ensure that management does not override the designed controls by : ■ Enquiring from the designated staff person ■ Remain skeptical during performing test of design and test of effective operation			
7.	Document the conclusion after performing test of controls and required level of assurance from substantive procedures.	N/A		

S. No.	Audit Procedures	Objective	Done by	W. P. Ref.
Analytical Procedures				
1.	Document logical commercial reasons for major additions and disposal made during the year	AU		
2.	Compare current year balances and income with last year amounts and ensure that any significant variation should be properly and logically reasoned.	CEA		
Test of Details				
1.	Obtain a movement schedule of investments (shares, TFCs and PIBs etc) both for numbers and amounts.	CE		
2.	Trace the opening balances from the general ledger, subsidiary records, and last year working papers.	C		
3.	Trace the carrying value of selected investments to supporting documents e.g. (a) Broker's notes for investments purchased in the current year, to confirm date of purchase, description and number of shares. (b) Carrying costs in our prior year's working papers	E		
4.	Check the computation of valuation of investments in subsidiaries, joint ventures and associates is made as per the accounting policies of the company.	V		
5.	Obtain and recompute amortisation schedule and check its accuracy for fixed interest securities whether purchased at premium or discount.	OCAL		
6.	Re-perform the marked to market valuation of PIBs and TFCs at year-end to check the valuation of these securities.	V		
7.	Where any lien marked on the investments, check the disclosure thereof.	U		
8.	Perform cut-off at year-end.	T		
9.	Check redemptions of principal during the year and obtain supports to ascertain the overdue instalments. Check if such payments were as per the terms of the redemption agreement.	EV		
10.	Check that brokerage expenses are accurately recorded.	AO		

S. No.	Audit Procedures	Objective	Done by	W. P. Ref.
11.	For selected shares disposed off during the year: (a) Examine supporting documents of investments sold e.g. brokers notes and cash receipts records. (b) Confirm the date of disposal, description, and number of shares. (c) Calculate the gain or loss on sale of investment and trace the amount transferred to the profit and loss account.	COA		
12.	Test the casting and cross casting of the schedule.	CE		
13.	Obtain the schedule of capital gain earned / interest income received during the year and vouch few transactions on test basis.	O		
14.	Check the accrual of interest and amortization of premium / discount on fixed income securities with the one calculated on IRR basis.	CVT		
15.	Ensure that closing balances of investments in working papers agree with the general ledger.	N/A		
16.	For investments held by client at period end, perform the following: (a) Physically inspect selected securities held by the client. (b) For selected securities not held by the client, circularize confirmation requests to the custodian. Compare replies to recorded investments. (c) Ensure that the recoverable amount is not less that carrying amount, if yes we will see whether it is permanent decline, if yes book the impairment.	RE		

S. No.	Audit Procedures	Objective	Done by	W. P. Ref.
17.	For selected investments, compute market value as under: (a) For quoted investments, trace market value from independent published quotations. (b) For unquoted investments, calculate breakup value of shares from respective company's financial statements.	V		
18.	Ensure that investments are presented and all disclosures have been given in accordance with the Fourth / Fifth Schedule of the Companies Ordinance, 1984 and relevant IASs. As per IAS 39 all investments should be properly classified in at fair value through Profit and Loss, available for sale and held to maturity.	OCAL RVU		
	Investment Income			
19.	Obtain a schedule showing opening and closing balances of accrued income and income earned and received during the year	CE		
20.	Trace opening balance of accrued income from general ledger/ trial balance.	C		
21	Ensure that accrual of dividend income is made only where AGM is held before year-yen.	RA		
22.	Ensure proper accounting treatment of bonus share received and right shares subscribed.	V		
23.	Make a selection of accruals and examine documents supporting the amounts of investment income (e.g. rates from published quotations, dividend warrants).	E		
24.	Examine subsequent receipts of income accrued at period-end.	EV		
25.	Ensure that closing balances of accrued income in working papers agree with general ledger.	N/A		

Audit Program for Derivatives –Test of Details				
1.	Obtain a movement schedule of derivatives.	CE		
2.	Trace the opening balances from the general ledger, subsidiary records, and last year working papers.	C		
3.	Check the computation of valuation of derivatives is made as per the accounting policies of the company.	V		
4.	Obtaining evidence corroborating the fair value of derivatives measured or disclosed at fair value and check that the model and assumptions used in valuation of derivatives is appropriate.	V		
5.	Obtain confirmation of holding from custodian.	CR		
6.	Confirm significant terms with the holder of, or counterparty to, the derivative; and inspect underlying agreements and other forms of supporting documentation, in paper or electronic form.	R		
7.	Where derivative is designated as a hedging instrument, obtain hedge documentation prepared at inception of hedge and check whether it meets the criteria of eligible hedging instrument. Also check whether the hedge was effective during the year.	E		
8.	Check for existence of embedded derivatives and ensure that the derivative component is separated from host contract where criteria of IAS 39 is satisfied.	VP		
9.	Test the casting and cross casting of the schedule.	CE		
10.	Ensure that closing balances of investments in working papers agree with the general ledger.	N/A		

Audit Program **(d) Long term loans and advances**	WP Ref.:	
	Prepared by:	
	Date:	
	Reviewed by	
	Date	

Client:	
Period:	
Subject:	Long term loans and advances

		Amount in Rs.
Account balances:		
Long term loan and advances		
Provision against long term loan and advances		
Classes of transactions:		
Interest income		

S. No.	**Audit Objectives**	**Assertions**	**Risk Assessment**		
			IR	**CR**	**CRA**
1.	Long term loans and advances are completely and accurately recorded	CA			
2.	All recorded long term loans and advances actually exist.	E			
3.	Long term loans and advances are recorded at appropriate values and all bad and doubtful balances have been provided for/ written off.	V			
4.	Long term loans and advances recorded are the right of the company.	R			
5.	Long-term loans and advances to associated undertaking were in accordance with legal requirements.	Laws & Regulation			
6.	Long term loans and advances are presented and all disclosures have been given in accordance with the Fourth / Fifth Schedule of the Companies Ordinance, 1984 and relevant IASs.	OCAL RVU			

S. No.	Audit Procedures	Objective	Done by	W. P. Ref.
Test of Controls				
1.	Assess the reasonableness of design of system of internal control by enquiring relevant client personnel and documenting the same (if not a documented system manual has been developed by the client). A walk through test would be necessary to confirm the understanding as documented. Identify the preventive (exercised before incurrence of transactions and event) and detective (exercised after incurrence of transactions and event) controls established by management to support its assertions.	ALL		
2.	Check on sample of selected transactions covering the whole period that all preventive controls are exercised on all transactions.	ALL		
3.	Check that proper subsidiary records have been maintained and entries are made in the same on prompt and consistent basis and the same is reconciled with general ledger.	ALL		
4.	Check on a sample of transactions that detective controls are appropriately been exercised and in case of any detection of error/ fraud, proper steps have been taken to avoid recurrence of the same.	CE		
5.	For sample of disbursements made during the year: (a) Check approval of appropriate level of management. (b) Check that the employee has fulfilled all formalities necessary before disbursement of loans.	EV		
6.	Ensure that management does not override the designed controls by: ■ Enquiring from the designated staff person ■ Remain skeptical during performing test of design and test of effective operation			
7.	Document the conclusion after performing test of controls and required level of assurance from substantive procedures.	N/A		

S. No.	Audit Procedures	Objective	Done by	W. P. Ref.
Analytical Procedures				
1.	Compare current year balances and expense with last year balances and expenses and ensure that any significant variation should be properly and logically reasoned.	CEA		
Test of Details				
1.	Obtain a employee-wise movement schedule of principal amount of loans and advances and interest thereon and trace the opening balances from the general ledger, subsidiary records, and last year working papers. Check casting and cross casting of the schedule.	CE		
2.	For disbursements made during the year check disbursements of funds with disbursement register and bank statement.	E		
3.	For a sample of repayments made during the year: (a) Ensure that amount and date of repayment was accordance with repayment schedule or agreement. (b) Check receipt of funds with receipt records and bank statement. (c) Recovery of interest is in accordance with the policy (i.e. along with principal or after recovery of full principal, as the case may be).	EVR		
4.	Circularize confirmations to selected parties. Match replies with the amounts outstanding against each party.	CER		
5.	Obtain age-analysis of long-term loans and advances and perform the following: (a) Verify that loans have been classified in correct categories. (b) Current maturity has been appropriately calculated and separately disclosed. (b) Consider the value of securities available against each loan for the purpose of calculation of provision for doubtful loans and advances.	VK		
6.	Check subsequent recovery of loans etc.	EV		

S. No.	Audit Procedures	Objective	Done by	W. P. Ref.
7.	Ensure that all loans and advances to associated undertakings are granted after due compliance with legal requirements.	Laws etc.		
8.	Ensure that none of the loans and advances are impaired or the recoverable amount of a loan or advance is not less than its carrying amount. If the carrying amount of a loan/ advance is more than its recoverable amount, then same should be reduced to recoverable amount recognising the reduction as impairment loss	V		
9.	For items stuck-up for considerable period of time, inquire about its status from the management. Compute provisions if required and ask for management representations.	V		
10.	Ensure that loans and advances should be measured at amortised cost using the effective interest rate method.			
11.	Re-perform calculation of interest income on test basis: (a) Verify rate of interest from agreement/ policy. (b) Check the number of days for which interest is to be charged. (c) Also consider the repayment of loans	OATE		
12.	Test check loan agreement and legal documents to verify the terms and conditions of the advances	RU		
13.	Ensure that closing balances as per our working paper file are in match with general ledger.	CE		
14.	Determine that disclosures have been made in accordance with the requirements of Fourth Schedule to the Companies Ordinance, 1984 and the applicable IASs.	OCAL RVU		

Audit Program **(e) Long term deposits and prepayments**	WP Ref.:	
	Prepared by:	
	Date:	
	Reviewed by	
	Date	

Client:	
Period:	
Subject:	Long term deposits and prepayments

	Amount in Rs.
Account balances:	
Long term deposits and prepayments	
Provision against long term deposits and prepayments	
Classes of transactions:	
Impairment Loss	

S. No.	**Audit Objectives**	**Assertions**	**Risk Assessment**		
			IR	**CR**	**CRA**
1.	Long term deposits and prepayments are completely and accurately recorded	CA			
2.	All recorded long term deposits and prepayments actually exist.	E			
3.	Long-term deposits and prepayments are recorded at appropriate values and all bad and doubtful balances have been provided for/ written off.	V			
4.	Long-term deposits and prepayments recorded are the right of the company.	R			
5.	Long-term deposits and prepayments are presented and all disclosures have been given in accordance with the Fourth / Fifth Schedule of the Companies Ordinance, 1984 and relevant IASs.	OCAL RVU			

S. No.	Audit Procedures	Objective	Done by	W. P. Ref.
Test of Controls				
1.	Assess the reasonableness of design of system of internal control by enquiring relevant client personnel and documenting the same (if not a documented system manual has been developed by the client). A walk through test would be necessary to confirm the understanding as documented. Identify the preventive (exercised before occurrence of transactions and event) and detective (exercised after occurrence of transactions and event) controls established by management to support its assertions.	ALL		
2.	Check on sample of selected transactions covering the whole period that all preventive controls are exercised on all transactions.	ALL		
3.	Check that proper subsidiary records have been maintained and entries are made in the same on prompt and consistent basis and the same is reconciled with general ledger.	ALL		
4.	Check on a sample of transactions that detective controls are appropriately been exercised and in case of any detection of error/ fraud, proper steps have been taken to avoid recurrence of the same.	CE		
5.	For sample of deposits and prepayments made during the year: (a) Ensure the commercial and logical reason. (b) Check approval of appropriate level of management.	EV		
6.	Ensure that management does not override the designed controls by: ■ Enquiring from the designated staff person ■ Remain skeptical during performing test of design and test of effective operation			
7.	Document the conclusion after performing test of controls and required level of assurance from substantive procedures.	N/A		

S. No.	Audit Procedures	Objective	Done by	W. P. Ref.
Analytical Procedures				
1.	Compare current year balances and expense with last year balances and ensure that any significant variation should be properly and logically reasoned.	CEA		
Test of Details				
1.	Obtain a party-wise movement schedule of deposits and prepayments and trace the opening balances from the general ledger, subsidiary records, and last year working papers. Check casting and cross casting of the schedule.	CE		
2.	For deposits and prepayments made during the year check disbursements of funds with disbursement voucher and bank statement.	E		
3.	For a sample of refund of deposits during the year: - (a) Ensure that amount and date of refund was in accordance with agreement. (b) Check receipt of funds with receipt records and bank statement.	EVR		
4.	Circularize confirmations to selected parties. Match replies with the amounts outstanding against each party.	CER		
5.	Obtain age-analysis of long-term deposits and perform the following:- (a) Verify that deposits have been classified in correct categories. (b) Current maturity has been appropriately identified and separately disclosed.	VK		
6.	Check subsequent recovery of deposits and adjustment of prepayments etc.	EV		
7.	Ensure that none of the deposits or prepayments are impaired or the recoverable amount of same is not less than its carrying amount. If the carrying amount of a deposits or prepayments is more than its recoverable amount, then same should be reduced to recoverable amount recognising the reduction as impairment loss	V		

S. No.	Audit Procedures	Objective	Done by	W. P. Ref.
8.	For items stuck-up for considerable period of time, inquire about its status from the management. Compute provisions if required and ask for management representations.	V		
9.	Ensure that closing balances as per our working paper file are in match with general ledger.	CE		
10.	Determine that disclosures have been made in accordance with the requirements of Fourth / Fifth Schedule to the Companies Ordinance, 1984 and the applicable IASs.	OCAL RVU		

Audit Program **(f) Stores, spares and stock-in-trade**	WP Ref.:	
	Prepared by:	
	Date:	
	Reviewed by	
	Date	

Client:	
Period:	
Subject:	Stores, spares and stock-in-trade

	Amount in Rs.
Account balances:	
Stores	
Spares	
Raw material	
Work-in-process	
Finished goods	
Classes of transactions:	
Provision / Impairment loss	
Cost of Sales	

S. No.	**Audit Objectives**	**Assertions**	**Risk Assessment**		
			IR	**CR**	**CRA**
1.	Stock-in-trade is completely and accurately recorded	CA			
2.	All recorded stocks-in-trade actually exist.	E			
3.	Recorded stocks-in-trade are valued appropriately.	V			
4.	Recorded stock-in-trade are owned by the client and title is also in the name of client.	R			
5.	Stock-in-trade are presented and all disclosures have been given in accordance with the Fourth / Fifth Schedule of the Companies Ordinance, 1984 and relevant IASs.	OCAL RVU			

S. No.	Audit Procedures	Objective	Done by	W. P. Ref.
Test of Controls				
1.	Assess the reasonableness of design of system of internal control by enquiring relevant client personnel and documenting the same (if not a documented system manual has been developed by the client). A walk through test would be necessary to confirm the understanding as documented. Identify the preventive (exercised before occurrence of transactions and event) and detective (exercised after occurrence of transactions and event) controls established by management to support its assertions.	ALL		
2.	Check on sample of selected transactions covering the whole period that all preventive controls are exercised on all transactions.	ALL		
3.	Check that proper inventory listing has been maintained and entries are made in the same on prompt and consistent basis and the same is reconciled with general ledger and physically verified inventories on periodical basis at least on annual basis.	ALL		
4.	Check on a sample of transactions that detective controls are appropriately been exercised and in case of any detection of error/ fraud, proper steps have been taken to avoid recurrence of the same.	CE		
5.	Ensure that management does not override the designed controls by: ■ Enquiring from the designated staff person ■ Remain skeptical during performing test of design and test of effective operation			

S. No.	Audit Procedures	Objective	Done by	W. P. Ref.
6.	Document the conclusion after performing test of controls and required level of assurance from substantive procedures.	N/A		
Analytical Procedures				
1.	Assess the appropriateness of purchases and consumptions method and rate in view of the flow of economic benefits.	U		
2.	Check the reasonableness of consumption allocated to inventories at different stages.	CAL		
3.	Document logical commercial reasons for purchases and consumption made during the year	AU		
4.	Check the appropriateness of compilation of overheads and allocation basis of the same to different products.	OAL		
5.	Compare current year balances and expense with last year and ensure that any significant variation should be properly and logically reasoned.	CEA		
Test of Details				
1.	Observe physical counting of inventories carried out by the client at year-end or at any other date and perform tests of intervening transactions to ensure existence and conditions unless impracticable. Also check on sample basis some items to ensure reliability.	CE		
2.	Check that third party inventories are identified and excluded from physical count.	CR		
3.	For items owned by client but not physically held, obtain independent confirmations from custodians.	ER		

S. No.	Audit Procedures	Objective	Done by	W. P. Ref.
4.	Obtain final inventory compilation schedule and perform the following: (a) Test casting and calculation of schedule. (b) Trace balances to the general ledger. (c) Trace quantities from physical stock take working papers. (d) Trace prices used to build up the average cost to purchase invoices.	C		
5.	To test check cut-off of inventory, select transactions from purchases, purchase returns and sales (stock outs) of some days before and after the year end and ensure proper recording of transactions in correct period.	CO		
6.	Determine that the basis of valuation of e.g. FIFO or average cost is appropriate and followed consistently.	V		
7.	Obtain stock card of some items and ensure that cost formula is correctly applied on receipts and issues.	AC		
8.	Compare cost of closing stock with its NRV by comparing raw material with last invoice from supplier, WIP with expected cost to completion and finished goods with market value less expenses necessary to make the sale.	V		
9.	Obtain aging of inventories and compute provision for obsolete, damaged, or slow moving stocks, if any. Ensure that raw material of loss making and discontinued products are adequately provided for.	V		
10.	Ensure that stores and spares related to specific machinery should lie longer than the machine.			
11.	Ensure that closing balances as per our working paper file are in match with general ledger.	N/A		
12.	Determine that disclosures have been made in accordance with the requirements of Fourth / Fifth Schedule to the Companies Ordinance, 1984 and the applicable IASs.	OCAL RVU		

Audit Program **(g) Advances, Deposits, Prepayments & Other receivables**	WP Ref.:	
	Prepared by:	
	Date:	
	Reviewed by	
	Date	

Client:	
Period:	
Subject:	Advances, Deposits, Prepayments & Other receivables

	Amount in Rs.
Account balances:	
Advances	
Deposits	
Prepayments	
Other receivables	
Provision against advances, deposits, prepayments & other receivables	
Classes of transactions:	
Payments of advances, deposits, prepayments & other receivable	
Refund/ adjustment of advances, deposits, prepayments & other receivable	
Provision for the year against bad and doubtful balances	

S. No.	**Audit Objectives**	**Assertions**	**Risk Assessment**		
			IR	**CR**	**CRA**
1.	Advances, deposits, prepayments & other receivables are completely and accurately recorded	CA			
2.	All recorded advances, deposits, prepayments & other receivables actually exist.	E			
3.	Advances, deposits, prepayments & other receivables are recorded at appropriate values and all bad and doubtful balances have been provided for/ written off.	V			

S. No.	Audit Objectives	Assertions	Risk Assessment		
			IR	CR	CRA
4.	Advances, deposits, prepayments & other receivables recorded are the right of the company.	R			
5.	Advances to associated undertaking were in accordance with legal requirements.	Laws & Regulation			
6.	Advances, deposits, prepayments & other receivables are presented and all disclosures have been given in accordance with the Fourth Schedule of the Companies Ordinance, 1984 and relevant IASs.	OCAL RVU			

S. No.	Audit Procedures	Objective	Done by	W. P. Ref.
Test of Controls				
1.	Assess the reasonableness of design of system of internal control by enquiring relevant client personnel and documenting the same (if not a documented system manual has been developed by the client). A walk through test would be necessary to confirm the understanding as documented. Identify the preventive (exercised before occurrence of transactions and event) and detective (exercised after occurrence of transactions and event) controls established by management to support its assertions.	ALL		
2.	Check on sample of selected transactions covering the whole period that all preventive controls are exercised on all transactions.	ALL		
3.	Check that proper subsidiary records have been maintained and entries are made in the same on prompt and consistent basis and the same is reconciled with general ledger.	ALL		
4.	Check on a sample of transactions that detective controls are appropriately been exercised and in case of any detection of error/ fraud, proper steps have been taken to avoid recurrence of the same.	CE		
5.	Ensure that management does not override the designed controls by: ■ Enquiring from the designated staff person ■ Remain skeptical during performing test of design and test of effective operation			
6.	Document the conclusion after performing test of controls and required level of assurance from substantive procedures.	N/A		

S. No.	Audit Procedures	Objective	Done by	W. P. Ref.
Analytical Procedures				
1.	Compare current year balances and expense with last year balances and expense and ensure that any significant variation should be properly and logically reasoned.	CEA		
Test of Details				
1.	Obtain a party-wise movement schedule of advances, deposits, prepayments & other receivables and trace the opening balances from the general ledger, subsidiary records, and last year working papers. Check casting and cross casting of the schedule.	CE		
2.	For disbursements made during the year check disbursements of funds with disbursement register and bank statement.	E		
3.	For a sample of repayments made during the year: (a) Ensure that amount and date of repayment was accordance with repayment schedule or agreement. (b) Check receipt of funds with receipt records and bank statement.	EVR		
4.	Inquire about the nature of trade deposits. Corroborate movements in trade deposits with supporting documents	CER		
5.	Obtain age-analysis of advances, deposits, prepayments & other receivables and perform the following: (a) Verify classification in correct categories. (b) Current maturities of advances, deposits, prepayments, & other receivables has been appropriately calculated and separately disclosed. (c) Consider the value of securities available if any, for the purpose of calculation of provision for doubtful loans and advances.	VK		
6.	Check subsequent realizations / adjustments etc.	EV		
7.	Ensure that all loans and advances to associated undertakings are granted after due compliance with legal requirements.	Laws etc.		

S. No.	Audit Procedures	Objective	Done by	W. P. Ref.
8.	Ensure that none of the advances, deposits, prepayments & other receivables are impaired or the recoverable amount is not less than its carrying amount. If the carrying amount is more than its recoverable amount, then same should be reduced to recoverable amount recognising the reduction as impairment loss	V		
9.	For items stuck-up for considerable period of time, inquire about its status from the management. Compute provisions if required and ask for management representations.	V		
10.	Document the nature of other receivables, check the movement with supporting documents and compute the amount of provision for doubtful receivables, if required.	U		
11.	For short-term loans and advances to staff, review company's policies for disbursement and recoveries thereof, and ensure the same with supporting documents. Verify on a test basis deductions from advances to staff from their respective payroll register.	CEV		
12.	Test check loan agreement and legal documents to verify the terms and conditions of the advances	RU		
13.	Ensure that closing balances as per our working paper file are in match with general ledger.	CE		
14.	Determine that disclosures have been made in accordance with the requirements of Fourth / Fifth Schedule to the Companies Ordinance, 1984 and the applicable IASs.	OCAL RVU		

Audit Program **(h) Trade debts**	WP Ref.:	
	Prepared by:	
	Date:	
	Reviewed by	
	Date	

Client:	
Period:	
Subject:	Trade debts

	Amount in Rs.
Account balances:	
Trade debts	
Classes of transactions:	
Provision for doubtful debts	

S. No.	**Audit Objectives**	**Assertions**	**Risk Assessment**		
			IR	**CR**	**CRA**
1.	Trade debts are completely and accurately recorded	CA			
2.	All recorded trade debts actually exist.	E			
3.	Trade debts are appropriately valued.	V			
4.	Trade debts recorded are owned by the client.	R			
5.	Trade debts are presented and all disclosures have been given in accordance with the Fourth / Fifth Schedule of the Companies Ordinance, 1984 and relevant IASs.	OCAL RVU			

S. No.	Audit Procedures	Objective	Done by	W. P. Ref.
Test of Controls				
1.	Assess the reasonableness of design of system of internal control by enquiring relevant client personnel and documenting the same (if not a documented system manual has been developed by the client). A walk through test would be necessary to confirm the understanding as documented. Identify the preventive (exercised before occurrence of transactions and event) and detective (exercised after occurrence of transactions and event) controls established by management to support its assertions.	ALL		
2.	Check on sample of selected transactions covering the whole period that all preventive controls are exercised on all transactions.	ALL		
3.	Check that proper party wise subsidiary ledger has been maintained and entries are made in the same on prompt and consistent basis and the same is reconciled with general ledger.	ALL		
4.	Check on a sample of transactions that detective controls are appropriately been exercised and in case of any detection of error/ fraud, proper steps have been taken to avoid recurrence of the same.	CE		
5.	Ensure that management does not override the designed controls by: ■ Enquiring from the designated staff person ■ Remain skeptical during performing test of design and test of effective operation			
6.	Document the conclusion after performing test of controls and required level of assurance from substantive procedures.	N/A		

S. No.	Audit Procedures	Objective	Done by	W. P. Ref.
Analytical Procedures				
1.	Assess the appropriateness of discount and credit policy in view of the flow of economic benefits.	U		
2.	Check the reasonableness of impairment expense.	CAL		
3.	Document logical commercial reasons for major balances' additions and deletions made during the year	AU		
4.	Compare current year balances and expense with last year balances and expenses and ensure that any significant variation should be properly and logically reasoned.	CEA		
Test of Details				
1.	Obtain a party-wise movement schedule and trace the opening balances from the general ledger, subsidiary records, and last year working papers. Check casting and cross casting of the schedule.	CE		
2.	Make a selection of customers' balances using appropriate sampling techniques and circularize confirmations of selected parties. Compare replies to requests. Ensure that reconciling items, if any, are properly supported and appropriately adjusted.	EVR		
3.	Check subsequent clearance.	ER		
4.	Inquire into significant disputed balances, if any.	V		
5.	Obtain a movement schedule of allowance for doubtful debts and ensure completeness.	C		
6.	Obtain aging of debtors and ensure that no unreasonably delayed balances are appearing.	V		
7.	Ensure the recoverability of the debtors considered good. No subsequent event has raised any doubts about their recoverability.	V		
8.	Assess the reasonableness of methods used by management in the business circumstances of the client to estimate that the doubtful debts are appropriate and ensure that the same is applied consistently.	V		
9.	Calculate provision for doubtful debts based on age-analysis of debtors.	V		

S. No.	Audit Procedures	Objective	Done by	W. P. Ref.
10.	Review documents, supporting correspondence and authorization for selected write-offs during the year. Obtain board approval for write-offs.	E		
11.	Select transactions from sales invoices and customer returns notes pertaining to some days prior to and after year-end and ensure that they have been recorded in the correct period.	T		
12.	Ensure that closing balances as per our working paper file are in match with general ledger.	N/A		
13.	Determine that disclosures have been made in accordance with the requirements of Fourth / Fifth Schedule to the Companies Ordinance, 1984 and the applicable IASs.	OCAL RVU		

Audit Program **(i) Cash and bank balances**	WP Ref.:	
	Prepared by:	
	Date:	
	Reviewed by	
	Date	

Client:	
Period:	
Subject:	Cash and bank balances

		Amount in Rs.
Account balances:		
Cash in hand		
Cash at bank- Current		
	- PLS	
Classes of transactions:		

S. No.	**Audit Objectives**	**Assertions**	**Risk Assessment**		
			IR	**CR**	**CRA**
1.	All cash and bank balances are completely and accurately recorded	CA			
2.	All recorded cash and bank balances actually exist.	E			
3.	All cash and bank balances are recorded at appropriate values.	V			
4.	All cash and bank balances recorded are owned by the client and title is also in the name of client.	R			
5.	All cash and bank balances are presented and all disclosures have been given in accordance with the Fourth / Fifth Schedule of the Companies Ordinance, 1984 and relevant IASs.	OCAL RVU			

S. No.	Audit Procedures	Objective	Done by	W. P. Ref.
Test of Controls				
1.	Assess the reasonableness of design of system of internal control by enquiring relevant client personnel and documenting the same (if not a documented system manual has been developed by the client). A walk through test would be necessary to confirm the understanding as documented. Identify the preventive (exercised before occurrence of transactions and event) and detective (exercised after occurrence of transactions and event) controls established by management to support its assertions.	ALL		
2.	Check on sample of selected transactions covering the whole period that all preventive controls are exercised on all transactions.	ALL		
3.	Check on a sample of transactions that detective controls are appropriately been exercised and in case of any detection of error/ fraud, proper steps have been taken to avoid recurrence of the same.	ALL		
4.	Check that proper bank reconciliations are prepared, checked and approved. Long outstanding items are followed up and proper disposition of such items is made.	ALL		
5.	Proper segregation of duties between custodian and accounting and approving personnel exist.	CE		
6.	Payments vouchers are appropriately prepared and properly approved by designated authority.	ECA		
7.	Ensure that management does not override the designed controls by: ■ Enquiring from the designated staff person ■ Remain skeptical during performing test of design and test of effective operation			
8.	Document the conclusion after performing test of controls and required level of assurance from substantive procedures.	N/A		

S. No.	Audit Procedures	Objective	Done by	W. P. Ref.
Analytical Procedures				
1.	Document logical commercial reasons for new bank accounts opened and closed during the year.	AU		
2.	Compare current year balances with last year balances and ensure that any significant variation should be properly and logically reasoned.	CEA		
Test of Details				
1.	Attend year-end cash count and deposit verification.	E		
2.	Circularize direct confirmations to all banks.	ER		
3.	Trace opening balance in general ledger from last year working papers.	CE		
4.	Obtain and examine bank reconciliations ensure the following: ■ No long outstanding item should remain un-followed, ■ No revenue nature item should be appearing ■ All deposit made should be cleared within two days ■ No long outstanding cheques of significant amount are un-presented; if so then check their payment voucher and ensure that no discrepancy is involved.	CEA		
5.	Ensure that all balances etc. reported by bank in replies to bank confirmation request are included in records of the client.	CA		
6.	Ensure that no balances are subject any encumbrance, if so then disclosure is made.	U		
7.	Convert FCY accounts into PKR at year-end rate.	V		
8.	Ensure that all bank accounts are in company's name.	R		
9.	Ensure that closing balances as per our working paper file are in match with general ledger.	N/A		
10.	Determine that disclosures have been made in accordance with the requirements of Fourth Schedule to the Companies Ordinance, 1984 and the applicable IASs.	OCAL RVU		

II. Balance Sheet – Liabilities

S. No.	Financial Statement Caption	Reference No.	Page No.
1.	Accrued Expenses		
2.	Contingencies & Commitments		
3.	Deferred Liabilities		
4.	Direct Taxation		
5.	Dividend Payable		
6.	Equity		
7.	Liabilities Against Assets		
8.	Long Term Debt		
9.	Long Term Deposit		
10.	Payables		
11.	Short Term Borrowings		
12.	Surplus on Revaluation		

Audit Program **(a) Accrued Expenses**		WP Ref.:	
		Prepared by:	
		Date:	
		Reviewed by	
		Date	
Client:			
Period:			
Subject:	Accrued Expenses		

	Amount in Rs.
Account balances:	
Accrued Expenses, Cash and bank balances	
Classes of transactions:	
Expenses	

S. No.	**Audit Objectives**	**Assertions**	**Risk Assessment**		
			IR	**CR**	**CRA**
	To ensure that accrued expenses represent valid claims by suppliers against goods delivered or services rendered to the entity.	Existence, Rights & Obligations			
	To ensure that all goods and services received by the entity have been accounted for in the books of the company on a timely basis.	Completeness			
	To ensure that liability is recorded at the correct amount.	Valuation			
	To ensure that payables have been presented, classified and disclosed in the financial statements in accordance with the requirements of applicable financial reporting framework i.e. Companies Ordinance, 1984 and applicable International Financial Reporting Standards.	Presentation & Disclosure			

S. No.	Audit Procedures	Objective	Done by	W. P. Ref.
Test of Controls				
	Select purchase transactions over the period under audit and ensure the following controls have existed during the period:			
	Purchase orders are approved at an appropriate level.	Only authorized purchases are made		
	Purchase orders are serially numbered.	All purchase orders are entered into the records		
	Entries are made only on the basis of approved Goods Received Notes (GRN).	Credit to accrued expenses represent goods actually received		
	Entry to accrued expense account is authorized at appropriate level and supported by appropriate calculations.	All entries to Accrued expenses are authorized		
	Suppliers' invoices are checked for calculation and casting by a person independent of the purchase department	Accrued expenses are recorded in the appropriate amount		
	Price charged by the supplier is verified for appropriateness, for e.g. by agreeing the rates charged to approved price lists or quotations.	Accrued expenses are recorded at the appropriate amount		
	An independent person compares the purchase orders, goods received notes and suppliers invoices for consistency.	Accrued expenses have been booked at appropriate amount and represent valid claims by third party		
	Suppliers' statements are obtained and reconciled to accounting records on a regular basis.	Accrued expenses are accurately recorded		

S. No.	Audit Procedures		Done by	W. P. Ref.
	Credit notes are checked for correctness of calculation by a person independent of the preparer.	Credit Notes issued are properly calculated and recorded at appropriate amount		
	Credit notes have been entered in the same period to which the purchases relate.	Credit Notes are recorded in an appropriate period		
Analytical Procedures				
1.	Compare accrued expenses to prior periods and budgets seeking explanations for unusual items and significant variances.			
2.	Review monthly movement of accrued expenses in order to identify any inconsistency particularly towards the period end.			
3.	Analyse the turnover of trade creditor – ratio of creditors to total operating costs and compare to prior periods and budgets, seeking explanations for unusual items and significant variances.			
4.	Review the ratio of individual expense accounts to sales or other appropriate base.			
5.	Review the accrued expense, purchases or expense ledgers to identify whether there are any significant purchases or expenses towards the period end. Check that these have been accounted for in the correct period.			

S. No.	Audit Procedures	Done by	W. P. Ref.
Test of Details			
1.	**TEST THE PROPRIETY OF ACCRUED EXPENSE ACCOUNTING POLICIES AND PROCEDURES**		
	A. Review the information in prior-year working papers and/or inquire concerning the nature of each significant accrued expense account and the policies and procedures used to account for them.		
	B. Inquire as to the reasons for significant changes in accrued expense balances since the prior year.		
	C. Determine that the accounting policies and procedures for identifying when liabilities should be recorded are appropriate and applied consistently.		
	D. In the course of performing the following procedures in this Program, consider \whether audit evidence we examine supports our understanding of accrued expense accounting policies and procedures and their propriety.		
2.	**TEST ACCRUED EXPENSES BALANCES**		
	A. Perform Procedure 1, Steps B to D, in the Model Audit Program for Payables. For selected subsequent cash disbursements or unpaid invoices that indicate liabilities incurred but not recorded as accounts payable in the audit period, ascertain that they were recorded in an appropriate accrued expense account.		
	B. Inquire and/or review information in prior-year working papers concerning the nature of recorded accrued expenses. Inquire and consider other available evidence, if any, that unrecorded or under-recorded liabilities exist. Consider the following sources of evidence, among others, as applicable: prior-year balances of accrued expense accounts; prior and current-year balances of related expense accounts; minutes of meetings of the board of directors; discussions with internal legal counsel; responses to letters of inquiry to independent legal counsel; employee benefit plans (e.g., pension, medical, vacation, deferred compensation) and reports from actuaries, insurance companies, etc.; subsequent payroll records; significant contracts for services performed in the audit period.		

	C. Make a selection of the significant accrued expenses noted while performing Steps A and B (including any that appear to exist but are unrecorded or under-recorded).		
	1. For selected accruals that are based primarily on known data (i.e., that are not accounting estimates), examine documents supporting the amounts accrued (e.g., service contracts or invoices, subsequent payroll records, property tax statements).		
	2. For selected accruals that are accounting estimates (e.g., liabilities for certain employee benefits plans and legal contingencies):		
	2.1 Evaluate the reasonableness of the methods and assumptions management used to make the estimates.		
	2.2 If management's methods and assumptions were reasonable, test the data and assumptions underlying the estimates, and re-compute the estimates.		
	2.3 If management's methods and assumptions were not reasonable, develop an independent range of reasonable estimates and determine whether management's estimates fall within that range. (Note: The factors that might be considered will vary according to the nature of the liabilities.)		
	3. For selected accruals with significant balances in the prior year that no longer exist or that have significantly lower balances in the current year:		
	3.1 Assess whether the circumstances requiring the accruals in the prior year no longer exist or whether they warrant reductions in the amounts accrued.		
	3.2 If the accounts consist of only one or very few transactions (e.g., a prior-year accrual for a legal liability), trace the disposition of the liability (or partial disposition) to supporting documents (e.g., cancelled checks).		
	4. Evaluate results of the tests.		

	D. Obtain aging analysis of accrued and other liabilities. For accruals and other liabilities, which are outstanding for a considerable period, inquire its reasons for non-clearance, refer them to the working papers and consider them for adjustments, if any. Consider impact of tax laws for old outstanding liabilities.		
	E. Check subsequent clearance of accrued liabilities and other liabilities and mention clearance in terms of percentage.		
3.	**TEST PRESENTATION OF ACCRUED EXPENSES**		
	A. Determine that the following balances, if any, are properly classified:		
	1. Debit balances in accrued expenses.		
	2. Non-current accrued expenses.		
	B. Determine that the following, if any, are properly recorded, classified, and/or disclosed, as appropriate:		
	1. Accrued expenses owed to related parties.		
	2. Loss contingencies.		
	3. Retirement plans.		
	4. Post retirement health care and life insurance benefit plans.		
	5. Property taxes estimated with a substantial measure of uncertainty.		
	6. Lease obligations.		
4.	**TEST BALANCES DENOMINATED IN FOREIGN CURRENCIES**		
	A. Agree the closing exchange rate(s) used to published records and test the translation calculations.		
5.	**TEST PRESENTATION OF RELATED-PARTY BALANCES**		
	A. Inquire and consider available evidence, if any, to identify all related parties. Obtain a schedule of related-party balances and determine that all identified related parties with balances at year end are included in the schedule. Trace the amounts in the schedule to the trial balance.		
	B. Determine that the economic substance of the related-party balances supports their recording.		
	C. Evaluate the reasonableness of presentation and/or footnote disclosures of related-party balances.		
	D. Consider requesting positive confirmation of material balances with related parties.		

S. No.	Audit Procedures	Done by	W. P. Ref.
6.	**TEST ACCOUNTING ESTIMATES FOR BIAS**		
	A. Perform a retrospective review of significant accounting estimates reflected in the financial statements of the prior year to determine whether management judgments and assumptions relating to the estimates indicate a possible bias on the part of management.		
	1. The significant accounting estimates selected for testing should include those that are based on highly sensitive assumptions or are otherwise significantly affected by judgments made by management.		
	2. Consider the results of this retrospective review in evaluating the current-year estimates. If we identify a possible bias on the part of management in making prior-year accounting estimates, we should evaluate whether circumstances producing such a bias represent a risk of a material misstatement due to fraud.		
	B. Consider whether differences between estimates best supported by the audit evidence and the estimates included in the financial statements, even if they are individually reasonable, indicate a possible bias on the part of the entity's management. If so, reconsider estimates taken as a whole.		
7.	**TEST UNUSUAL ENTRIES RECORDED TO THE GENERAL LEDGER**		
	A. Investigate journal entries from sources that are typically not associated with this account.		

	1. When selecting items to be tested, consider (a) our assessment of the risk of material misstatement due to fraud, (b) the effectiveness of controls over the preparation and posting of journal entries, (c) the entity's financial reporting process and the nature of the evidence that can be examined, (d) the nature and complexity of the accounts, and (e) the amount and number of such entries. Because fraudulent journal entries often are made at the end of a reporting period, our testing ordinarily should focus on the journal entries and other adjustments made at that time. In addition, because material misstatements in financial statements due to fraud can occur throughout the period and may involve extensive efforts to conceal entries at the end of the reporting period, we should consider whether there also is a need to extend the testing of journal entries to other periods within the period under audit.		
	B. Examine related accounting records and determine whether the selected debit/credit is valid, appropriate, and authorized. Determine whether the selected entry was properly recorded in the correct period and consider the possible implications of such journal entries on internal control.		
	C. Determine whether the entries exhibit characteristics of inappropriate or unauthorized journal entries such as (a) entries made to unrelated, unusual, or seldom-used accounts or business segments, (b) entries recorded at the end of the period or as post-closing entries that have little or no explanation or description, (c) entries made either before or during the preparation of the financial statements that do not have account numbers, and (d) entries that contain round numbers or a consistent ending number.		
	D. Evaluate the reasonableness of other adjustments (e.g., entries posted directly to financial statement drafts, consolidating adjustments, report combinations, and reclassifications) made in the preparation of the financial statements.		

8.	**EVALUATE BUSINESS RATIONALE FOR SIGNIFICANT UNUSUAL TRANSACTIONS**		
	A. If we become aware of significant transactions that are outside the normal course of business or that otherwise appear to be unusual given our understanding of the entity and its environment, perform the following procedures:		
	1. Gain an understanding of the business rationale for such significant unusual transaction.		
	2. Consider whether the transactions involve previously unidentified related parties or parties that do not have the substance or the financial strength to support the transaction without assistance from the entity we are auditing.		
	3. Determine whether that rationale (or the lack thereof) suggests that the transactions may have been entered into to engage in fraudulent financial reporting.		

Audit Program **(b) Contingencies & Commitments**	WP Ref.:	
	Prepared by:	
	Date:	
	Reviewed by	
	Date	

Client:	
Period:	
Subject:	Contingencies & Commitments

	Amount in Rs.
Account balances:	
Classes of transactions:	

S. No.	**Audit Objectives**	**Assertions**	**Risk Assessment**		
			IR	**CR**	**CRA**
A.	The contingent liabilities disclosed by the management includes all contingencies wherein it is not yet confirmed whether the entity has a present obligation that could lead to outflow of economic benefits or the amounts of which cannot be measured with sufficient reliability or the existence of which will be confirmed only by the occurrence of one or more uncertain future events not wholly within the control of the entity and that these are adequately classified and disclosed.	Completeness			
B.	All the future commitments embodying outflow of economic benefits against committed transactions have been identified, classified and disclosed as commitments.				
C.	To ensure that contingencies and commitments have been disclosed in the financial statements in	Presentation & Disclosure			

	accordance with the requirements of applicable financial reporting framework i.e. Companies Ordinance, 1984 and applicable International Financial Reporting Standards.				
Analytical Procedures					
	1. Review contingencies and commitments appearing in last year's accounts and inquire about the status this year.				
	2. Compare current year disclosures with last year and obtain explanations for any significant or unusual items.				
Test of Details					
1.	**CONTINGENCIES AND COMMITMENTS**				
	1. Inquire of and discuss with management the client's policies and procedures for identifying, evaluating, and accounting for contingencies, including those resulting from litigation and claims. The inquiry should consider addressing oral arrangements, such as an oral guarantee for the debt of others, as well as written arrangements.				
	2. Obtain from legal adviser a confirmation and evaluation of the litigation and claims that existed at the balance sheet date and during the period from the balance sheet date to the date the information is provided to the auditors.				
	3. Examine documents, including correspondence and invoices from lawyers, in the client's possession concerning litigation, claims and unasserted claims.				
	4. Obtain and evaluate letters from legal advisors.				
	5. Inquire of and discuss with management the client's policies and procedures for identifying, evaluating, and accounting for commitments.				
	6. Review the results of audit procedures performed in other accounts.				
	7. Read the minutes of corporate meetings (e.g., shareholders, board of directors, and relevant committees of the board) held during the period being examined and through to the date of the auditor's report.				
	8. Read significant contracts, loan agreements, leases, service guarantees, insurance policies (or note the lack of insurance), and other applicable to sales, purchases or lease contracts.				

	9. Determine, through inquiry and review of sales and/or lease agreements, polices in effect with respect to returns, repurchases, and future allowances applicable to sales or leases.		
	10. Determine, through inquiry and review of minutes, contracts/agreements, and bank confirmations, accounting and operating policies in effect with respect to interest rate and foreign currency futures/hedges.		
	11. Examine bank confirmations for contingent liabilities, letters of credit, and compensating balance arrangements.		
	12. Inquire as to material commitments to complete sales contracts at a loss.		
	13. Inquire as to any commitments to repurchase assets previously sold; purchase quantities in excess of requirements or at prices in excess of prevailing market prices; construct or acquire property, plant, equipment, investments, investments, intangibles, or other non current assets.		
	14. Refer capital commitments relating to long- term projects from capital work in progress.		
	15. Refer minutes of meeting of Board of Directors for potential capital commitments.		
	16. Refer unfulfilled purchase orders relating to capital expenditure for potential capital commitments.		
	17. Review cost and progress estimation procedures for long term projects.		
	18. Where some or all of the expenditure required to settle a contingent liability is expected to be reimbursed by another party, ensure that the reimbursement should be disclosed when, and only when, it is virtually certain that the reimbursement will be received if the enterprise settles the potential obligation.		
	19. Evaluate the possibility of subsequent events, to ensure that there is no unrecorded contingency		
	Tax Contingencies		
	i) Obtain professional opinion of the tax consultant of the entity so as to assure the degree and extent of exposure.		
	ii) Refer to the tax working papers, particularly tax position schedule in order to identify any potential contingent liability.		
	iii) Obtain from client any reports/details of sales tax audits/income tax audits.		

	iv) Obtain from client any notices of demand/show cause notices served during the period/subsequent to year-end.		
	Outstanding Bank guarantees		
	i) Prepare summary in accordance with the confirmations received from banks.		
	ii) Review the bank guarantee letters/agreements.		
	iii) Examine returned standard bank confirmations forms and any other returned confirmations of bank credit arrangements for contingent liabilities, letters of credit, and compensating balance arrangements.		
	iv) Ascertain whether any bank guarantee also constitutes/reveals a contingency.		
	20. Obtain the client's representation regarding contingencies & commitments as part of the financial statement representation letter.		

Audit Program **(c) Deferred Liabilities**	WP Ref.:	
	Prepared by:	
	Date:	
	Reviewed by	
	Date	

Client:	
Period:	
Subject:	Deferred Liabilities

	Amount in Rs.
Account balances:	
Classes of transactions:	

S. No.	**Audit Objectives**	**Assertions**	**Risk Assessment**		
			IR	**CR**	**CRA**
	All deferred liabilities on the balance sheet represent amounts owed by the entity to tax authorities, employees or other third parties.	Existence			
	The deferred liabilities represent obligations of the entity at the balance sheet date.	Rights & Obligations			
	All deferred liabilities owed by the entity and all related expenses that have accrued at the balance sheet date have been recorded.	Completeness			

S. No.	Audit Objectives	Assertions	Risk Assessment		
			IR	CR	CRA
	Deferred Liabilities have been included on the balance sheet at appropriate amounts.	Valuation			
	To ensure that deferred liabilities have been presented, classified and disclosed in the financial statements in accordance with the requirements of applicable financial reporting framework i.e. Companies Ordinance, 1984 and applicable International Financial Reporting Standards.	Presentation & Disclosure			

S. No.	Audit Procedures	Done by	W. P. Ref.
Analytical Procedures			
	1. Compare current year balances with prior year and ensure reasonableness of changes during the year.		
	2. Enquire into and obtain explanations for any unusual changes during the year.		
	3. Compare income tax expense to previous year and assess whether variance is consistent with change in profits after taking into account any changes in income tax rates.		
Test of Details			
1.	**TEST DEFERRED LIABILITIES**		
	A. Obtain a schedules of all Deferred liabilities showing beginning and ending balances, provision payments during the year, and perform the following:		
	1. To obtain assurance about the completeness of the schedule:		
	1.1 Make inquiries of knowledgeable management.		
	2. Test the summarization and trace the ending balances to the general ledger.		
	B. For deferred liability regarding gratuity perform the following procedures		
	1. Obtain copy of company's rules and policies regarding staff gratuity.		
	2. Verify the last salaries drawn by selected employees from payroll or salary sheet.		
	3. Verify the date of appointment from personal files.		
	4. Check the calculation of number of years completed from date of appointment to date of the balance sheet.		
	5. Check the calculation of charge of the gratuity for the year.		
	6. Verify the payments of the gratuity to staff retired during the year from the company's rule and bank statements.		
	7. Check other requirements as per IAS 19.		
	8. For unfunded gratuity schemes, obtain the latest actuarial valuation from the actuary and review whether the assumption and data used in actuarial report are valid and reasonable.		
	C. For deferred liability regarding pensions:-		

	1. Obtain a copy of company's rules and policies regarding pension (whether funded or unfunded).		
	2. For funded pension plans, check payment of contribution of client towards fund according to the fund's rules.		
	3. For unfunded pension plan, verify provisions for deferred liability in light of actuarial valuations.		
	4. Check other requirements as per IAS-19 (revised).		
	D. For deferred liability regarding taxation:		
	i) Obtain a deferred tax working schedule from the client along with related disclosures for current and prior periods. Match and cross-refer with the relevant sections of the working paper file.		
	ii) Obtain schedule of temporary differences at balance sheet date along with the supporting details.		
	iii) Obtain schedule of tax base of each component of balance sheet along with working.		
	iv) Determine and ensure the consistency and adequacy of method used.		
	v) Review and test the cumulative temporary differences as of the balance sheet date.		
	vi) Review the scheduled reversals of cumulative temporary differences and determine whether all identified temporary differences have been scheduled in a reasonable manner that is consistent with information obtained in other audit areas.		
	vii) Obtain management's representations regarding scheduled reversals, if appropriate.		
	viii) Test the computation of deferred tax liabilities/assets by applying appropriate provisions of enacted tax law to scheduled reversals particularly the tax rates applicable at the time of expected reversals.		
	ix) Review the client's tax-planning strategies that affect the recorded amounts of deferred taxes under the liability method and determine that all valid strategies that could materially affect deferred taxes have been identified and accounted for.		
	x) If appropriate, obtain management's representations as to their ability and intent to implement the strategy if necessary.		

	xi) Determine whether deferred tax assets and liabilities are properly classified as to current or non-current based upon work performed in testing the deferred tax provision/credit.		
	xii) Review and test the cumulative temporary differences as of the balance sheet date.		
	E) For Deferred Asset regarding Taxation:		
	i) Ensure that deferred tax asset recognizing tax saving is not required to be set up if a reasonable estimate of turnover/profits for foreseeable future cannot be made (refer paragraph 1.4 of ICAP selected opinion No. 1).		
	ii) Deferred tax asset should not be accounted for unless it can be ensured with reasonable surety that future "tax profits" will be available for realization of such assets and the management will be able to plan its tax strategies in a manner to obtain benefit of such assets. [Note: Such future income should be enough to cover the future deferred tax assets (deductible temporary differences) first and any remaining future income should be applied to assess the realisability of deferred tax assets.		
	1. Calculate taxable and deductible timing differences.		
	2. Apply appropriate rate of taxation on total of reversible timing differences as per IAS 12, all timing differences whether reversing in the foreseeable future or not, are required to be incorporated into the accounts). Ensure that proper amount has been taken in profit and loss account by taking difference of opening and closing balance of deferred tax liability.		
	F. Evaluate results of the tests.		
2.	**TEST VALUATION AND PRESENTATION**		
	A. Determine that disclosures have been made in accordance with requirement of Companies Ordinance, 1984 and relevant accounting pronouncements.		

Audit Program **(d) Direct Taxation**	WP Ref.:	
	Prepared by:	
	Date:	
	Reviewed by	
	Date	

Client:	
Period:	
Subject:	Direct Taxation

	Amount in Rs.
Account balances:	
Classes of transactions:	

S. No.	**Audit Objectives**	**Assertions**	**Risk Assessment**		
			IR	**CR**	**CRA**
	All liabilities for income taxes on the balance sheet represent amounts owed to income tax authorities.	Existence			
	The income taxes payable on the balance sheet represent obligations of the entity at the balance sheet date.	Rights & Obligations			
	All liabilities for income taxes owed by the entity and all income tax expense that had accrued at the balance sheet date have been recorded.	Completeness			
	Income taxes payable are included on the balance sheet at the appropriate amounts.	Valuation			

S. No.	Audit Objectives	Assertions	Risk Assessment		
			IR	CR	CRA
	To ensure that liabilities for income tax and the related expense has been presented, classified and disclosed in the financial statements in accordance with the requirements of applicable financial reporting framework i.e. Companies Ordinance, 1984 and applicable International Financial Reporting Standards.	Presentation & Disclosure			

S. No.	Audit Procedures	Done by	W. P. Ref.
Analytical Procedures			
1.	Compare current year balances with prior year and ensure reasonableness of changes during the year.		
2.	Enquire into and obtain explanations for any unusual changes during the year.		
3.	Compare income tax expense to previous year and assess whether variance is consistent with change in profits after taking into account any changes in income tax rates.		
Test of Details			
1.	**DIRECT TAXATION**		
	A. Obtain (or prepare) a movement schedule of taxation liabilities, showing beginning balance, activity during the year, and ending balance by tax jurisdiction and tax years. Agree opening and closing balances to the general ledger. Test transactions for the year, and investigate unusual items.		
	B. Review status of last years' returns, and examine related correspondence from tax authorities for indications that the actual liability may differ significantly from the amount provided.		
	C. Obtain list of assessments pending finalisation and study correspondence in relation to them to determine the need for any further provision/reversal.		
	D. Obtain summary of tax assessment and appellate order in respect of prior year’s taxes. Re-examine their current status to ensure that there is no shortfall in the provision.		
	E. Update tax position schedule and where tax matters are complex consult with tax department and document understanding obtained.		

	F. Reconcile the tax payments with the advance tax and corroborate them with the statements filed quarterly. On a test basis, verify tax payments with tax challans, bill of entries etc.		
	G. Where liabilities have been finalized, verify appropriate payment or refund. Determine that adjustments have been made for any difference between the final liability and the amount provided, and consider the effect of any such adjustments on subsequent tax years and taxes imposed by other jurisdictions.		
	H. Obtain detailed schedules from client for all temporary differences along with expenses which will be disallowed under various sections of the Income Tax Ordinance, 2001, such as for excess perquisites, payments subject to withholding tax deduction but made without deduction of Withholding tax etc.		
	I. Obtain calculation of the tax liability identifying all items constituting the difference between net pre-tax income and taxable income, and compare calculation to that of the previous year. Review calculation to determine that correct tax rates have been used and that all significant tax matters have been addressed. Agree with tax returns, if prepared.		
	J. If applicable, ensure that any tax losses have been correctly calculated and appropriately dealt with.		
	K. Circularize confirmation to tax consultants and examine the response.		
	L. If applicable, consider whether any provisions for deferred taxes have been appropriately dealt with. Test calculation of deferred taxes and whether timing differences have been appropriately considered.		
	M. Evaluate results of the tests.		
2.	**TEST ACCOUNTING ESTIMATES FOR BIAS**		
	A. Perform a retrospective review of significant accounting estimates reflected in the financial statements of the prior year to determine whether management judgments and assumptions relating to the estimates indicate a possible bias on the part of management.		
	1. The significant accounting estimates selected for testing should include those that are based on highly sensitive assumptions or are otherwise significantly affected by judgments made by management.		

	2. Consider the results of this retrospective review in evaluating the current-year estimates. If we identify a possible bias on the part of management in making prior-year accounting estimates, we should evaluate whether circumstances producing such a bias represent a risk of a material misstatement due to fraud.		
	B. Consider whether differences between estimates best supported by the audit evidence and the estimates included in the financial statements, even if they are individually reasonable, indicate a possible bias on the part of the entity's management. If so, reconsider estimates taken as a whole.		

Audit Program	WP Ref.:	
(e) Dividend Payable	Prepared by:	
	Date:	
	Reviewed by	
	Date	

Client:	
Period:	
Subject:	Dividend Payable

	Amount in Rs.
Account balances:	
Classes of transactions:	

S. No.	**Audit Objectives**	**Assertions**	**Risk Assessment**		
			IR	**CR**	**CRA**
	To ensure that dividend payable represents established liability as at the year end payable to the shareholders of the company.	Existence, Rights & Obligations			
	To ensure that the company's liability in respect of dividends has been recorded in the books in full.	Completeness			
	To ensure that liability is recorded at the correct amount.	Valuation			
	To ensure that dividend payable has been presented, classified and disclosed in the financial statements in accordance with the requirements of applicable financial reporting framework i.e. Companies Ordinance, 1984 and applicable International Financial Reporting Standards.	Presentation & Disclosure			

S. No.	Audit Procedures	Done by	W. P. Ref.
Analytical Procedures			
1.	Review the percentage of declaration as compared to previous year.		
2.	Determine whether the declaration is consistent with the profits of the company		
3.	Review movement during the year and ensure that any unpaid dividends carried forward have been properly classified as unclaimed dividends.		
Test of Details			
1.	**TEST DIVIDEND PAYABLE BALANCES**		
	1. Trace opening balance from general ledger.		
	2. Obtain a list of members of the company as at the book closure date.		
	3. Obtain copy of the board resolution to verify the rate of the dividend (interim and final) announced.		
	4. Check that Zakat has been deducted at source and deposited in the Central Zakat Fund under the provisions of the Zakat and Ushr Ordinance, 1980.		
	5. Ensure that the opinion paragraph contained in the auditors' report is updated with regard to the reporting on the matters relating to Zakat and is properly supported.		
	5. Check that income tax has been deducted from dividend under the provisions of the income tax Ordinance 2001.		
	6. Ensure that dividend warrants are issued in the name of registered shareholders or to their order.		
	7. Check payment of the dividend (i.e. dispatch of the dividend warrant) has been made within the time period as required by Sec 251 of the Companies Ordinance, 1984.		
	8. Ensure that any unpaid / unclaimed amount of dividends is adequately disclosed.		
	9. Ensure that dividends are paid out of profits and no dividend is paid out of proceeds of sale or disposal of any immovable property / asset of capital nature.		
	10. Ensure compliance with Foreign Exchange Act, 1947 including nomination of authorized dealer and permission from SBP for purchase of foreign exchange for remittance of dividend to foreign shareholders.		
	11. Ensure that amount of dividend payable is being kept in a separate bank account prior to payment.		
	11. Agree closing balance with general ledger.		
	12. Evaluate results of the tests.		

2.	**TEST PRESENTATION OF DIVIDEND PAYABLE**		
	A. Determine that disclosures have been made in accordance with requirements of the Companies Ordinance, 1984 and relevant accounting pronouncements.		

Audit Program **(f) Equity**		WP Ref.:	
		Prepared by:	
		Date:	
		Reviewed by	
		Date	
Client:			
Period:			
Subject:	Equity		

		Amount in Rs.
Account balances:		
Classes of transactions:		

S. No.	**Audit Objectives**	**Assertions**	**Risk Assessment**		
			IR	**CR**	**CRA**
	All the equity accounts on the balance sheet are appropriately authorized and issued.	Existence, Rights & Obligations			
	To ensure that all changes to equity accounts including transfer to reserve and dividends have been accounted for in the books of the company on a timely basis.	Completeness			
	To ensure that all equity accounts are stated on the balance sheet at the appropriate amounts.	Valuation			
	To ensure that all equity accounts have been presented, classified and disclosed in the financial statements in accordance with the requirements of applicable financial reporting framework i.e. Companies Ordinance, 1984 and applicable International Financial Reporting Standards.	Presentation & Disclosure			

S. No.	Audit Procedures	Done by	W. P. Ref.
Analytical Procedures			
	1. Compare current year balances with prior year and ensure reasonableness of changes during the year.		
	2. Enquire into and obtain explanations for any unusual changes during the year.		
Test of Details			
1.	**TEST EQUITY BALANCES**		
	A. Obtain a schedule of all equity accounts showing number of shares authorized, issued, and outstanding at the beginning and end of the year and all transactions affecting equity (e.g., dividends, retained earnings) occurring during the year.		
	1. Test the summarization of the schedule.		
	2. Trace totals to the general ledger.		
	3. Check the number of shares and amount of issued, subscribed and paid up capital from a) Memorandum of association b) Form 'A'		
	4. Agree changes in authorized or issued shares to minutes and documents filed with the SECP.		
	5. Agree total of balances on the share registers with the issued capital at the balance sheet date.		
	6. Obtain listing of shareholders/pattern of shareholding from CDC and compare it with the details available with client to work out the actual pattern of shareholding.		
	7. Examine all changes in capital.		
	7.1 Trace to appropriate authorizations (e.g., board minutes, member's register).		
	7.2 Agree number of shares and proceeds from issuance of new shares to cash receipts and supporting records. Compute the entries to par value of outstanding shares and paid in capital.		

S. No.	Audit Procedures	Done by	W. P. Ref.
	7.3 Agree number of shares and value of redemptions to cash disbursements and supporting records.		
	7.4 For shares issued as bonus shares a) Check board resolution b) Check member's register to ensure that changes have been made in number of shares of each member.		
	7.5 Ensure that all receipts are through banking channels, particularly those from foreign nationals and trace in bank statement. Match with "Proceeds Realisation Certificate", if applicable.		
	7.6 Ensure compliance with the provision of Companies (Issue of Capital) Rules, 1996 for: • Shares issued for cash consideration; • Bonus issue; • Issue of share for consideration other than cash; and • Right issue of shares.		
	B. Test entries to paid-up capital other than from the issuance of securities.		
	C. Test entries to retained earnings other than from net income, dividends, and treasury shares.		
	D. Examine documents supporting treasury shares transactions during the period. Confirm outstanding treasury shares.		
	E. Note changes in Directorships with Register of Directors and Managers and inspect Form 29 filed with the Registrar of Companies		
	F. Examine schedule of shares owned off record and beneficially by major officers.		
	G. Evaluate results of the tests.		
2.	**TEST DIVIDENDS AND RETAINED EARNINGS**		
	A. Determine that dividend payment and liability have been correctly recorded.		
	1. Review extracts of board minutes for dividends proposed and paid.		
	2. Re-compute calculation of dividends and trace total dividends to earnings statement.		
	3. Re-compute the liability for dividends.		
	B. Agree changes in retained earnings (e.g., income, dividends) to supporting documentation and trace ending balance to general ledger and equity accounts.		
	C. Evaluate results of the tests.		

S. No.	Audit Procedures	Done by	W. P. Ref.
3.	**TEST PRESENTATION OF EQUITY**		
	A. Determine that for each class of authorised shares, the title of issue, par or stated value per share, and the number of shares authorized, issued, and outstanding are properly recorded and disclosed.		
	B. Determine that authorised shares, paid-in capital, reserves, and retained earnings are properly recorded, classified and/or disclosed, as appropriate.		
	C. Determine that any shares options, warrants, rights, or conversion privileges existing at the balance-sheet date are disclosed properly.		
	D. Determine that all transactions affecting shareholders' equity are properly recorded in conformity with applicable state laws.		
4.	**TEST SHARES OPTIONS**		
	A. Obtain a schedule of options granted, cancelled, and exercised during the audit period, and options outstanding, exercisable and available for future grant at the balance-sheet date.		
	1. Test the summarization of the schedule.		
	2. Review descriptions of the shares option plans and determine that all activity during the year is in compliance.		
	3. Agree options granted to board minutes and to schedule of changes in outstanding shares.		
	4. Determine that outstanding options are valid.		
	5. Agree option price of qualified shares options granted to market source.		
	6. Determine that compensation expense has been recorded on nonqualified shares options when appropriate.		
	7. Agree options cancelled or expired to supporting documentation (e.g., employee termination notice).		
	8. Evaluate results of the tests.		

S. No.	Audit Procedures	Done by	W. P. Ref.
5.	**TEST UNUSUAL ENTRIES RECORDED TO THE GENERAL LEDGER**		
	A. Investigate journal entries from sources that are typically not associated with this account.		
	1. When selecting items to be tested, consider (a) our assessment of the risk of material misstatement due to fraud, (b) the effectiveness of controls over the preparation and posting of journal entries, (c) the entity's financial reporting process and the nature of the evidence that can be examined, (d) the nature and complexity of the accounts, and (e) the amount and number of such entries. Because fraudulent journal entries often are made at the end of a reporting period, our testing ordinarily should focus on the journal entries and other adjustments made at that time. In addition, because material misstatements in financial statements due to fraud can occur throughout the period and may involve extensive efforts to conceal entries at the end of the reporting period, we should consider whether there also is a need to extend the testing of journal entries to other periods within the period under audit.		
	B. Examine related accounting records and determine whether the selected debit/credit is valid, appropriate, and authorized. Determine whether the selected entry was properly recorded in the correct period and consider the possible implications of such journal entries on internal control.		

S. No.	Audit Procedures	Done by	W. P. Ref.
	C. Determine whether the entries exhibit characteristics of inappropriate or unauthorized journal entries such as (a) entries made to unrelated, unusual, or seldom-used accounts or business segments, (b) entries recorded at the end of the period or as post-closing entries that have little or no explanation or description, (c) entries made either before or during the preparation of the financial statements that do not have account numbers, and (d) entries that contain round numbers or a consistent ending number.		
	D. Evaluate the reasonableness of other adjustments (e.g., entries posted directly to financial statement drafts, consolidating adjustments, report combinations, and reclassifications) made in the preparation of the financial statements.		
6.	**EVALUATE BUSINESS RATIONALE FOR SIGNIFICANT UNUSUAL TRANSACTIONS**		
	A. If we become aware of significant transactions that are outside the normal course of business or that otherwise appear to be unusual given our understanding of the entity and its environment, perform the following procedures:		
	1. Gain an understanding of the business rationale for such significant unusual transaction.		
	2. Consider whether the transactions involve previously unidentified related parties or parties that do not have the substance or the financial strength to support the transaction without assistance from the entity we are auditing.		
	3. Determine whether that rationale (or the lack thereof) suggests that the transactions may have been entered into to engage in fraudulent financial reporting.		

Audit Program **(g) Liabilities Against Assets**	WP Ref.:	
	Prepared by:	
	Date:	
	Reviewed by	
	Date	

Client:	
Period:	
Subject:	Liabilities Against Assets

		Amount in Rs.
Account balances:		
Classes of transactions:		

S. No.	**Audit Objectives**	**Assertions**	**Risk Assessment**		
			IR	**CR**	**CRA**
	To ensure that liability represents valid claims by lessor against assets leased to the entity under finance lease arrangements.	Existence, Rights & Obligations			
	To ensure that the entire liability against finance lease arrangements has been accounted for in the books of the company on a timely basis.	Completeness			
	To ensure that liability is recorded at the correct amount.	Valuation			
	To ensure that the liability has been presented, classified and disclosed in the financial statements in accordance with the requirements of applicable financial reporting framework i.e. Companies Ordinance, 1984 and applicable International Financial Reporting Standards.	Presentation & Disclosure			

S. No.	Audit Procedures	Done by	W. P. Ref.
Analytical Procedures			
	1. Compare balances to prior periods and budgets seeking explanations for unusual items and significant variances.		
	2. Review movement during the year in long term deposits and ensure reasonableness of changes during the year.		
Test of Details			
1.	**TEST LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE.**		
	A. Obtain a schedule(s) of Finance and operating leases (including any that existed at the end of the prior year, as well as any new leases). For finance leases, the schedule should show beginning and ending balances and borrowings and repayments during the year. For operating leases, the schedule should show current-year rent expense.		
	1. To obtain assurance about the completeness of the schedule:		
	1.1 Make inquiries of knowledgeable management.		
	1.2 Consider any evidence of additional leases obtained through examination of minutes of the board, significant contracts, confirmations of bank accounts, support for subsequent cash disbursements (when testing payables) or for property additions, and other documents.		
	2. Test the summarization and trace the ending balances (for operating leases, the current-year amount of rent expense) to the general ledger.		
	B. Read the lease agreements (or descriptions thereof in our permanent files) and determine that each is accounted for as a capital or an operating lease, as appropriate. Determine that the leased property is still in use.		

S. No.	Audit Procedures	Done by	W. P. Ref.
	C. Make a selection of finance leases. Prepare, or have the client prepare, confirmation requests, and perform the following:		
	1. Ascertain that the confirmations request all information likely to be relevant to our tests of the leases and related interest balances (e.g., applicable interest rates, due dates, the date to which interest has been paid, and the nature and original value of the property leased).		
	2. Mail the request under our control to the lessor.		
	3. Send second requests for non-replies.		
	4. Compare replies to requests. Prepare, or have the client prepare, reconciliations of exceptions. Trace reconciling items to supporting documents.		
	D. For new lease obtained during the year:		
	1. Review the lease agreements to ascertain its nature as to finance or operating lease.		
	2. Check proper approval of lease transaction.		
	3. Ensure that only principal portion has been recorded as liability against assets subject to finance lease.		
	4. Review the security documents.		
	5. Evaluate results of the tests.		
2.	**TEST RENTAL EXPENSE**		
	A For rentals paid during the year check the following:		
	1. The amount of lease rentals from lease amortization schedule.		
	2. Proper bifurcation of lease rental into principal portion paid and finance charges paid.		

S. No.	Audit Procedures	Done by	W. P. Ref.
	3. Verify payment from bank statements.		
	4. Check calculation of financial charges amortization schedule.		
	B. For selected parties, circularize confirmation requests. Match replies to confirmation with amount given in the schedule.		
	C. Evaluate results of the tests.		
3.	**TEST VALUATION AND PRESENTATION**		
	A. Check that lease liabilities are properly bifurcated into current and non-current portions.		
	B. Determine that disclosures have been made in accordance with requirement of Companies Ordinance, 1984 and relevant accounting pronouncements.		

Audit Program **(h) Long Term Debt**		WP Ref.:	
		Prepared by:	
		Date:	
		Reviewed by	
		Date	
Client:			
Period:			
Subject:	Long Term Debt		

		Amount in Rs.
Account balances:		
Long term debt		
Classes of transactions:		

S. No.	**Audit Objectives**	**Assertions**	**Risk Assessment**		
			IR	**CR**	**CRA**
	All long term debts on the balance sheet represent valid claims by banks or other third parties.	Existence, Rights & Obligations			
	To ensure that all goods and services received by the entity have been accounted for in the books of the company on a timely basis.	Completeness			
	To ensure that liability is recorded at the correct amount.	Valuation			
	To ensure that long term debts have been presented, classified and disclosed in the financial statements in accordance with the requirements of applicable financial reporting framework i.e. Companies Ordinance, 1984 and applicable International Financial Reporting Standards.	Presentation & Disclosure			

S. No.	Audit Procedures	Done by	W. P. Ref.
Analytical Procedures			
	1. Compare current year balances with prior year and ensure reasonableness of changes during the year.		
	2. Enquire into and obtain explanations for any unusual changes during the year.		
Test of Details			
1.	**CONFIRM DEBT**		
	A. Obtain a schedule of notes payable and long-term debt (including debt outstanding at the end of the prior year, as well as any new debt) showing beginning and ending balances and borrowings and repayments during the year, and perform the following:		
	1. To obtain assurance about the completeness of the schedule:		
	1.1 Make inquiries of knowledgeable management.		
	1.2 Consider any evidence of additional debt obtained through examination of minutes of the board, significant contracts, confirmations of bank accounts, support for subsequent cash disbursements (when testing payables), and other documents.		
	2. Test the summarization and trace the ending balances to the general ledger.		
	B. For each lender (or, in some circumstances, selected lenders) with which the client had debt outstanding at the prior year end or during the current year, prepare, or have the client prepare, a confirmation request for the amount(s) owed to the lender, and perform the following:		

S. No.	Audit Procedures	Done by	W. P. Ref.
	1. Ascertain that the confirmation asks for all information likely to be relevant to our tests of debt and related interest balances (e.g., applicable interest rates, due dates, the date to which interest has been paid, collateral and security interests).		
	2. Mail the requests under our control to a person within the lending institution who would be expected to be knowledgeable about the client's obligations, including any contingent liabilities, guarantees, letters of credit, security agreements, or similar matters with which the lender may be involved.		
	3. Send second requests for non-replies.		
	4. Compare replies to requests. Prepare, or have the client prepare, reconciliations of exceptions. Trace reconciling items to supporting documents.		
2.	**TEST ACCRUED INTEREST**		
	A. Obtain a schedule of accrued interest expense (which may be prepared in connection with the schedule of debt in Procedure 1 above). Test the summarization and trace the total or the individual amounts, as applicable, to the general ledger.		
	B. Make a selection of debt instruments tested in Procedure 1 and, for each item selected, perform the following:		
	1. Based on the information in the confirmation concerning the date through which interest was paid and the applicable interest rate, re-compute the amount of accrued interest.		
	2. If the information needed to re-compute the amount was not confirmed:		
	2.1 Examine the debt agreement evidencing the interest rate.		
	2.2 Obtain and examine cash disbursement records (usually the paid check) evidencing the most recent payment of interest.		

S. No.	Audit Procedures	Done by	W. P. Ref.
	2.3 Re-compute the amount of accrued interest.		
	C. Evaluate results of the tests.		
3.	**TEST INTEREST EXPENSE**		
	A. Calculate overall interest expense on loans for the year, and compare with recorded interest expense.		
4.	**TEST VALUATION AND PRESENTATION OF DEBT AND INTEREST ACCOUNTS**		
	A. Determine that the following items, if any, are properly recorded, classified, and/or disclosed, as appropriate:		
	1. Debt owed to related parties.		
	2. Long-term debt and current portion of long-term debt.		
	3. Debt callable by the creditor (e.g., due to loan covenant violations).		
	4. Short-term obligations expected to be refinanced.		
	5. Capitalized interest (e.g., related to construction financing).		
	6. Imputed interest (e.g., when there is no stated interest rate).		
	7. Discounts or premiums and related amortization.		
	8. Unconditional purchase obligations.		
	B. Obtain a schedule(s) of amounts due to be repaid in the next five years under the terms of long-term debt agreements (including, separately, amounts due under capitalized leases and/or unconditional purchase obligations, if any). Test the summarization of the schedule and re-compute (possibly on test basis) the amounts.		

S. No.	Audit Procedures	Done by	W. P. Ref.
	C. Read the provisions in loan and debt agreements (and update descriptions thereof contained in our permanent files, if applicable) and perform the following:		
	1. Ensure that the debt agreement made between the Company and the lender is adequate and that: • It is made on the stamp paper; • It is duly authorized by the notary public; • It is signed by both the parties to the agreement and witnessed; • Official stamp of both the parties to the agreement; • Agreement is not expired during the period under review; • The terms and conditions of such loans are compatible with normal business norms; • Adequate security is provided by the Company to the lender; • The terms and conditions are not vague; • It is approved by persons authorized by the Company to do so.		
	2. If agreement contains security against mortgaged charges are: • Recorded in register of mortgages charges under section 125 of the Companies Ordinance, 1984; and • Registered under certificate of registration of mortgages charges as per section 127 of the Companies Ordinance, 1984.		
	3. Test that the client is in compliance with loan covenants and other significant provisions of the agreements.		
	4. If there are any provisions with which the client is not in compliance, determine whether the debt should be classified as current. If enforcement of the provisions has been waived by the lender, obtain confirmation of the waiver from the lender.		
	D. Review refinancing/restructuring agreements subsequent to the balance sheet date to determine their effects on balance sheet classifications or on disclosures.		
	E. Determine that the accounting policies and methods of recording debt are appropriate and applied consistently.		

5.	**ROLL FORWARD TEST FOR DEBT TESTED PRIOR TO YEAR END**		
	A. Inquire, and consider any other evidence that comes to our attention (e.g., in reading the minutes of the board), as to the existence of any new debt agreements, or modifications to existing agreements, in the intervening period from the interim testing date to the balance-sheet date. Test any new debt (and related accrued interest) as in Procedures 1 through 4 of this Program.		
	1. Evaluate results of the tests.		
	B. Inquire, and consider any other evidence that comes to our attention (e.g., in reading the minutes of the Board), as to the existence of any new debt agreements, or modifications to existing agreements, in the intervening period from the interim testing date to the balance-sheet date. Test any new debt (and related accrued interest) as in Procedures 1 through 4 of this Program.		
	C. Test transactions during the intervening period between the interim testing date and year end:		
	1. Obtain reconciliations of the interim debt balances to the year-end balances:		
	1.1 Agree new borrowings to cash receipts journals or to entries in cash accounts.		
	1.2 Agree payments to cash disbursements journals or to entries in cash accounts.		
	1.3 Examine supporting documents to verify other significant entries.		
	2. Make a selection of entries in cash disbursement journals (or those entries recorded directly in cash accounts that represent debt payments):		
	2.1 Determine that the amounts of the payments are in accordance with the terms of the debt agreements (e.g., by re-computing the payments).		
	2.2 Examine related paid checks or bank advices (for wire transfers) for evidence of receipt and deposit by the authorized payee (i.e. the lender).		
	3. Evaluate results of the tests.		
6.	**CLIENT SERVICE CONSIDERATIONS**		
	Consider whether we can make useful recommendations to the client with respect to any of the following:		
	A. When debt is retired, the client ensures that a discharge is received on assets securing the debt.		

7.	**TEST BALANCES DENOMINATED IN FOREIGN CURRENCIES**		
	A. Agree the closing exchange rate(s) used to published records and test the translation calculations.		
8.	**TEST PRESENTATION OF RELATED-PARTY BALANCES**		
	A. Inquire and consider available evidence, if any, to identify all related parties. Obtain a schedule of related-party balances and determine that all identified related parties with balances at year end are included in the schedule. Trace the amounts in the schedule to the trial balance.		
	B. Determine that the economic substance of the related-party balances supports their recording.		
	C. Evaluate the reasonableness of presentation and/or footnote disclosures of related-party balances.		
	D. Consider requesting positive confirmation of material balances with related parties.		
9.	**TEST UNUSUAL ENTRIES RECORDED TO THE GENERAL LEDGER**		
	A. Investigate journal entries from sources that are typically not associated with this account.		
	1. When selecting items to be tested, consider (a) our assessment of the risk of material misstatement due to fraud, (b) the effectiveness of controls over the preparation and posting of journal entries, (c) the entity's financial reporting process and the nature of the evidence that can be examined, (d) the nature and complexity of the accounts, and (e) the amount and number of such entries. Because fraudulent journal entries often are made at the end of a reporting period, our testing ordinarily should focus on the journal entries and other adjustments made at that time. In addition, because material misstatements in financial statements due to fraud can occur throughout the period and may involve extensive efforts to conceal entries at the end of the reporting period, we should consider whether there also is a need to extend the testing of journal entries to other periods within the period under audit.		

S. No.	Audit Procedures	Done by	W. P. Ref.
	B. Examine related accounting records and determine whether the selected debit/credit is valid, appropriate, and authorized. Determine whether the selected entry was properly recorded in the correct period and consider the possible implications of such journal entries on internal control.		
	C. Determine whether the entries exhibit characteristics of inappropriate or unauthorized journal entries such as (a) entries made to unrelated, unusual, or seldom-used accounts or business segments, (b) entries recorded at the end of the period or as post-closing entries that have little or no explanation or description, (c) entries made either before or during the preparation of the financial statements that do not have account numbers, and (d) entries that contain round numbers or a consistent ending number.		
	D. Evaluate the reasonableness of other adjustments (e.g., entries posted directly to financial statement drafts, consolidating adjustments, report combinations, and reclassifications) made in the preparation of the financial statements.		
10.	**EVALUATE BUSINESS RATIONALE FOR SIGNIFICANT UNUSUAL TRANSACTIONS**		
	A. If we become aware of significant transactions that are outside the normal course of business or that otherwise appear to be unusual given our understanding of the entity and its environment, perform the following procedures:		
	B. If we become aware of significant transactions that are outside the normal course of business or that otherwise appear to be unusual given our understanding of the entity and its environment, perform the following procedures:		
	1. Gain an understanding of the business rationale for such significant unusual transaction.		

S. No.	Audit Procedures	Done by	W. P. Ref.
	2. Consider whether the transactions involve previously unidentified related parties or parties that do not have the substance or the financial strength to support the transaction without assistance from the entity we are auditing.		
	3. Determine whether that rationale (or the lack thereof) suggests that the transactions may have been entered into to engage in fraudulent financial reporting.		

Audit Program **(i) Long Term Deposit**	WP Ref.:	
	Prepared by:	
	Date:	
	Reviewed by	
	Date	

Client:	
Period:	
Subject:	Long Term Deposit

		Amount in Rs.
Account balances:		
Classes of transactions:		

S. No.	**Audit Objectives**	**Assertions**	**Risk Assessment**		
			IR	**CR**	**CRA**
	To ensure that long term deposits represent valid claims by third parties.	Existence, Rights & Obligations			
	To ensure that all deposits received from customers or other third parties have been accounted for in the books of the company on a timely basis.	Completeness			
	To ensure that long term deposits are recorded at the correct amount.	Valuation			
	To ensure that long term deposits have been presented, classified and disclosed in the financial statements in accordance with the requirements of applicable financial reporting framework i.e. Companies Ordinance, 1984 and applicable International Financial Reporting Standards.	Presentation & Disclosure			

S. No.	Audit Procedures	Done by	W. P. Ref.
Analytical Procedures			
	1. Compare balances to prior periods and budgets seeking explanations for unusual items and significant variances.		
	2. Review movement during the year in long term deposits and ensure reasonableness of changes during the year.		
Test of Details			
1.	**TEST LONG TERM DEPOSIT BALANCES**		
	A. Ascertain the nature of deposits by inquiry or by reviewing prior year's working papers		
	B. Examine the supporting documents of deposits e. g. contracts with customers etc.		
	C. Circularize confirmations to selected parties. Match replies with the amounts shown in general ledger.		
	D. Check that the amounts of deposits to which Sec 226 of the Companies Ordinance, 1984 applies have been credited by the client in a separate bank account as required by that Section.		
2.	**TEST PRESENTATION**		
	A. Determine that disclosures have been made in accordance with the requirements of the Companies Ordinance, 1984 and the relevant accounting pronouncements.		

Audit Program **(j) Payables**	WP Ref.:	
	Prepared by:	
	Date:	
	Reviewed by	
	Date	

Client:	
Period:	
Subject:	Payables

		Amount in Rs.
Account balances:		
Classes of transactions:		

S. No.	**Audit Objectives**	**Assertions**	**Risk Assessment**		
			IR	**CR**	**CRA**
	To ensure that payables represent valid claims by suppliers against goods delivered or services rendered to the entity.	Existence, Rights & Obligations			
	To ensure that all goods and services received by the entity have been accounted for in the books of the company.	Completeness			
	To ensure that liability is included on the balance sheet at the correct amount.	Valuation			
	To ensure that the liability is recorded in the appropriate period and there are not cut off issues.	Completeness			

S. No.	Audit Objectives	Assertions	Risk Assessment		
			IR	CR	CRA
	To ensure that payables have been presented, classified and disclosed in the financial statements in accordance with the requirements of applicable financial reporting framework i.e. Companies Ordinance, 1984 and applicable International Financial Reporting Standards.	Presentation & Disclosure			

S. No.	Audit Procedures	Objective	Done by	W. P. Ref.
Test of Controls				
	Select purchase transactions over the period under audit and ensure the following controls have existed during the period:			
	■ Purchase orders are approved at an appropriate level.	Only authorized purchases are made		
	■ Purchase orders are serially numbered.	All purchase orders are entered into the records		
	■ Entries are made only on the basis of approved Goods Received Note (GRN).	Credit to accounts payable represent goods actually received		
	■ Suppliers' invoices are checked for calculation and casting by a person independent of the purchase department	Accounts Payable are recorded at the appropriate amount		
	■ Price charged by the supplier is verified for appropriateness, for e.g. by agreeing the rates charged to approved price lists or quotations.	Accounts Payable are recorded at the appropriate amount		
	■ An independent person compares the purchase orders, goods received notes and suppliers invoices for consistency.	Accounts payable have been booked at appropriate amount and represent valid claims by third party		
	■ Suppliers' statements are obtained and reconciled to accounting records on a regular basis	Accounts Payable are accurately recorded		

S. No.	Audit Procedures	Objective	Done by	W. P. Ref.
	■ Entries to Accounts Payable are approved at an appropriate level	All entries to Accounts payable are authorized		
	■ Credit notes are checked for correctness of calculation by a person independent of the preparer.	Credit Notes issued are properly calculated and recorded at appropriate amount		
	■ Credit notes have been entered in the same period to which the purchases relate.	Credit Notes are recorded in the appropriate period		
Analytical Procedures				
1.	Compare trade creditors, purchases and payments to prior periods and budgets seeking explanations for unusual items and significant variances.			
2.	Review monthly movement of trade creditors in comparison to purchases and payments particularly around the period end.			
3.	Analyse the turnover of trade creditor – ratio of creditors to total operating costs and compare to prior periods and budgets, seeking explanations for unusual items and significant variances.			
4.	Analyze the ratio of purchases in the last month of the period to total purchases.			
5.	Review the gross profit margin achieved particularly around the period end and compare to prior periods and budgets seeking explanations for any unusual variance.			
6.	Review the ratio of individual expense accounts to sales or other appropriate base.			
7.	Review the accounts payable, purchases or expense ledgers to identify whether there are any significant purchases or expenses towards the period end. Check that these have been accounted for in the correct period.			
Test of Details				
1.	**TEST PAYABLES**			
	A. Obtain the payables trial balance. Test the summarization and the reconciliation of the total to the general ledger. Trace significant reconciling items, if any, to supporting documents.			

	B. Make a selection of cash disbursements from subsequent cash disbursement records during an appropriate period following the date of the payables trial balance (usually at least one trade payables cycle, or, if payables are tested at year end, to the end of field work), and:		
	1. Trace selected disbursements to receiving documents, purchase invoices, and/or other supporting documents.		
	2. Determine whether those selected disbursements that indicate a liability as of the trial balance date are recorded in the trial balance or the reconciliation to the general ledger.		
	C. On or after the date of the test in Step B, make a selection of unpaid suppliers' invoices and unmatched receiving reports. Determine whether those that indicate a liability as of the trial balance date are recorded in the trial balance or the reconciliation to the general ledger.		
	D. Review the year-end accounts payable trial balance to determine whether significant debits are included in the account balance. For material debit balances that are included in the year end balance consider whether reclassification is appropriate.		
	E. Evaluate results of the tests.		
2.	**TEST VALUATION AND PRESENTATION OF PAYABLES**		
	A. Determine that the following balances, if any, are properly classified:		
	1. Debit balances in payables.		
	2. Non-current or non-trade payables.		
	B. Determine that the following balances, if any, are properly valued, classified, and/or disclosed, as appropriate:		
	1. Old, disputed, or questionable payables.		
	2. Payables to related parties.		
	3. Purchase commitments.		
3.	**TEST EARLY CUT-OFF OF PURCHASES**		
	A. Make a selection of purchase invoices recorded in the ___-day period after year end. Trace the selected invoices to receiving records. Determine that the payables were recorded in the correct period. Evaluate results of the tests.		
	B. Make a selection of initial records of receipts of goods or services that occurred in the ___-day period prior to year end. Trace receiving records to purchase invoices. Determine that the payables were recorded in the correct period. Evaluate results of the tests.		

4.	**TEST LATE CUT-OFF OF DEBIT NOTES**		
	A. Inquire into purchase returns in the ___-day period after year end. Determine that the debit notes were recorded in the correct period.		
	B. Make a selection of debit notes recorded in the ___-day period prior to year end. Trace the debit notes to shipping records and determine that they were recorded in the correct period.		
	C. Identify miscellaneous debits to payables recorded in the ___-day period prior to year end. Trace the debits to supporting documents and determine that they were recorded in the correct period.		
	D. Evaluate results of the tests.		
5.	**ROLL FORWARD TEST FOR PAYABLES TESTED PRIOR TO YEAR END**		
	A. Inquire into any significant disputed balances since the date at which payables were tested under Procedure 1 (or 4, if performed). Investigate disputed balances as necessary.		
	B. Review the trial balance of payables as of year end. For individual supplier accounts that have decreased significantly since the interim testing date, either review subsequent cash disbursement records for indications of unrecorded liabilities to such suppliers or obtain statements or unpaid invoices received by the client from such suppliers. Determine that any liabilities to such suppliers that existed at year end were recorded at year end. Evaluate results of the tests.		
	C. Perform analytical procedures to test the payables balance at year end:		
	1. Consider using the following data, as applicable, to develop an expectation of the payables balance at year end: prior period balances, monthly amounts of purchases, disbursements, and purchase returns in the intervening period from the interim testing date to the balance-sheet date compared to such monthly amounts in prior years and in the current year prior to the interim testing date.		
	2. Determine the threshold needed to identify a significant difference between the expectation and the recorded year end payables balance.		
	3. Compare the expectation to the recorded balance. If the difference is more than the threshold, obtain and corroborate explanations for the difference (e.g., by examining supporting documents).		
	4. Evaluate results of the tests.		

	D. Test transactions during the intervening period between the interim testing date and year end:		
	1. Obtain a reconciliation of the interim payables balance to the year-end balance:		
	1.1 Agree purchases totals to purchases journals.		
	1.2 Agree disbursements totals to cash disbursements journals.		
	1.3 Examine supporting documents to verify other significant entries.		
	2. Make a selection of entries to purchases journals in the intervening period between the interim testing date and year end:		
	2.1 Trace the selected entries to supplier invoices and receiving records.		
	2.2 Verify additions and extensions on the invoices.		
	2.3 Determine that the purchases were recorded in the correct period.		
	3. Make a selection of entries in cash disbursements journals in the intervening period between the interim testing date and year end:		
	3.1 Trace the selected entries to supplier invoices and receiving records.		
	3.2 Determine that the disbursements were recorded in the correct period.		
	3.3 Agree totals in disbursements journals to credits in cash accounts.		
	4. Evaluate results of the tests.		
6.	**TEST PAYABLES OWED TO SELECTED SUPPLIERS**		
	A. Make a selection of significant suppliers to which amounts may be payable as of the date of the payables trial balance. Such suppliers may be identified through inquiry and/or review of prior cash disbursements records. (Perform B, if practicable, or else C)		
	B. Obtain statements or purchase invoices received by the client from selected suppliers.		
	C. If statements from selected suppliers are not available, prepare, or have the client prepare, confirmation requests for the amounts owed to the suppliers and perform the following:		
	1. Mail the requests under our control.		
	2. Send second requests for non-replies.		
	3. Compare replies to requests.		

	4. For non-replies, examine subsequent cash disbursements to the suppliers and/or unpaid supplier invoices, and receiving records. Determine that any items representing liabilities as of the trial balance date are recorded at that date.		
	D. Obtain and prepare reconciliations of statements, invoices, or confirmations obtained in Steps B and C above to the amounts recorded in the payables trial balance. Trace reconciling items to shipping/receiving records, purchase invoices, debit notes, and other supporting documents, as applicable.		
	E. Evaluate results of the tests.		
7.	**TEST PRESENTATION OF RELATED-PARTY PAYABLES**		
	A. Inquire and consider other available evidence, if any, to identify all related parties from which purchases were made during the year. Obtain a schedule of related-party payables and determine that all identified related parties to which payables are owed at year end are included in the schedule. Trace the amounts in the schedule to the payables trial balance.		
	B. Determine that the economic substance of the related-party payables supports their recording.		
	C. Evaluate the reasonableness of presentation and/or footnote disclosures of related-party payables.		
	D. Consider requesting positive confirmation of material balances with related parties.		
8.	**TEST VALUATION OF FOREIGN CURRENCY PAYABLES**		
	A. Inquire and consider other available evidence, if any, to identify foreign suppliers from which purchases were transacted in foreign currencies. Identify payables to such suppliers. Identify applicable exchange rates and agree them to an independent source. Re-compute foreign currency payable amounts in local currency.		
	B. Determine the impact of foreign currency hedging contracts, if any, on the recorded balance of foreign currency payables.		
	C. Trace currency translation adjustments to the general ledger.		

9.	**TEST ACCOUNTING ESTIMATES FOR BIAS**		
	A. Perform a retrospective review of significant accounting estimates reflected in the financial statements of the prior year to determine whether management judgments and assumptions relating to the estimates indicate a possible bias on the part of management.		
	1. The significant accounting estimates selected for testing should include those that are based on highly sensitive assumptions or are otherwise significantly affected by judgments made by management.		
	2. Consider the results of this retrospective review in evaluating the current-year estimates. If we identify a possible bias on the part of management in making prior-year accounting estimates, we should evaluate whether circumstances producing such a bias represent a risk of a material misstatement due to fraud.		
	B. Consider whether differences between estimates best supported by the audit evidence and the estimates included in the financial statements, even if they are individually reasonable, indicate a possible bias on the part of the entity's management. If so, reconsider estimates taken as a whole.		
10.	**TEST UNUSUAL ENTRIES RECORDED TO THE GENERAL LEDGER**		
	A. Investigate journal entries from sources that are typically not associated with this account.		

	1. When selecting items to be tested, consider (a) our assessment of the risk of material misstatement due to fraud, (b) the effectiveness of controls over the preparation and posting of journal entries, (c) the entity's financial reporting process and the nature of the evidence that can be examined, (d) the nature and complexity of the accounts, and (e) the amount and number of such entries. Because fraudulent journal entries often are made at the end of a reporting period, our testing ordinarily should focus on the journal entries and other adjustments made at that time. In addition, because material misstatements in financial statements due to fraud can occur throughout the period and may involve extensive efforts to conceal entries at the end of the reporting period, we should consider whether there also is a need to extend the testing of journal entries to other periods within the period under audit.		
	B. Examine related accounting records and determine whether the selected debit/credit is valid, appropriate, and authorized. Determine whether the selected entry was properly recorded in the correct period and consider the possible implications of such journal entries on internal control.		
	C. Determine whether the entries exhibit characteristics of inappropriate or unauthorized journal entries such as (a) entries made to unrelated, unusual, or seldom-used accounts or business segments, (b) entries recorded at the end of the period or as post-closing entries that have little or no explanation or description, (c) entries made either before or during the preparation of the financial statements that do not have account numbers, and (d) entries that contain round numbers or a consistent ending number.		
	D. Evaluate the reasonableness of other adjustments (e.g., entries posted directly to financial statement drafts, consolidating adjustments, report combinations, and reclassifications) made in the preparation of the financial statements.		

11.	**VALUATE BUSINESS RATIONALE FOR SIGNIFICANT UNUSUAL TRANSACTIONS**		
	A. If we become aware of significant transactions that are outside the normal course of business or that otherwise appear to be unusual given our understanding of the entity and its environment, perform the following procedures:		
	1. Gain an understanding of the business rationale for such significant unusual transaction.		
	2. Consider whether the transactions involve previously unidentified related parties or parties that do not have the substance or the financial strength to support the transaction without assistance from the entity we are auditing.		
	3. Determine whether that rationale (or the lack thereof) suggests that the transactions may have been entered into to engage in fraudulent financial reporting.		

Audit Program **(k) Short Term Borrowings**	WP Ref.:	
	Prepared by:	
	Date:	
	Reviewed by	
	Date	

Client:	
Period:	
Subject:	■ Short Term Borrowings

		Amount in Rs.
Account balances:		
Short term borrowings		
Classes of transactions:		

S. No.	**Audit Objectives**	**Assertions**	**Risk Assessment**		
			IR	**CR**	**CRA**
	All short term borrowings on the balance sheet represent valid claims by banks or other third parties.	Existence, Rights & Obligations			
	To ensure that all short term borrowings have been accounted for in the books of the company on a timely basis.	Completeness			
	To ensure that liability is recorded at the correct amount.	Valuation			
	To ensure that short term borrowings have been presented, classified and disclosed in the financial statements in accordance with the requirements of applicable financial reporting framework i.e. Companies Ordinance, 1984 and applicable International Financial Reporting Standards.	Presentation & Disclosure			

S. No.	Audit Procedures	Done by	W. P. Ref.
Analytical Procedures			
1.	Compare current year balances with prior year and ensure reasonableness of changes during the year.		
2.	Enquire into and obtain explanations for any unexpected changes.		
Test of Details			
1.	**CONFIRM DEBT**		
	A. Obtain a schedule of short term borrowing (including debt outstanding at the end of the prior year, as well as any new debt or renewal of debt) showing beginning and ending balances and borrowings and repayments during the year, and perform the following:		
	1. To obtain assurance about the completeness of the schedule:		
	1.1 Make inquiries of knowledgeable management.		
	1.2 Consider any evidence of additional debt obtained through examination of minutes of the board, significant contracts, confirmations of bank accounts, support for subsequent cash disbursements (when testing payables), and other documents.		
	2. Test the summarization and trace the ending balances to the general ledger.		
	B. For each lender (or, in some circumstances, selected lenders) with which the client had debt outstanding at the prior year end or during the current year, prepare, or have the client prepare, a confirmation request for the amount(s) owed to the lender, and perform the following:		
	1. Ascertain that the confirmation asks for all information likely to be relevant to our tests of debt and related interest balances (e.g., applicable interest rates, due dates, the date to which interest has been paid, collateral and security interests).		
	2. Mail the requests under our control to a person within the lending institution who would be expected to be knowledgeable about the client's obligations, including any contingent liabilities, guarantees, letters of credit, security agreements, or similar matters with which the lender may be involved.		
	3. Send second requests for non-replies.		

	4. Compare replies to requests. Prepare, or have the client prepare, reconciliations of exceptions. Trace reconciling items to supporting documents.		
	C. Evaluate results of the tests.		
2.	**TEST ACCRUED INTEREST**		
	A. Obtain a schedule of accrued interest expense (which may be prepared in connection with the schedule of debt in Procedure 1 above). Test the summarization and trace the total or the individual amounts, as applicable, to the general ledger.		
	B. Make a selection of debt instruments tested in Procedure 1 and, for each item selected, perform the following:		
	1. Based on the information in the confirmation concerning the date through which interest was paid and the applicable interest rate, re-compute the amount of accrued interest.		
	2. If the information needed to re-compute the amount was not confirmed:		
	2.1 Examine the debt agreement evidencing the interest rate.		
	2.2 Obtain and examine cash disbursement records (usually the paid check) evidencing the most recent payment of interest.		
	2.3 Re-compute the amount of accrued interest.		
	C. Evaluate results of the tests.		
3.	**TEST INTEREST EXPENSE**		
	A. Calculate overall interest expense on loans for the year, and compare with recorded interest expense.		
4.	**TEST VALUATION AND PRESENTATION OF DEBT AND INTEREST ACCOUNTS**		
	A. Determine that the following items, if any, are properly recorded, classified, and/or disclosed, as appropriate:		
	1. Debt owed to related parties.		
	2. Debt callable by the creditor (e.g., due to loan covenant violations).		
	3. Short-term obligations expected to be refinanced.		
	4. Imputed interest (e.g., when there is no stated interest rate).		
	5. Discounts or premiums and related amortization.		
	6. Unconditional purchase obligations.		

	B. Read the provisions in loan and debt agreements (and update descriptions thereof contained in our permanent files, if applicable) and perform the following:		
	1. Test that the client is in compliance with loan covenants and other significant provisions of the agreements.		
	2. If there are any provisions with which the client is not in compliance, determine whether the debt should be classified as current. If enforcement of the provisions has been waived by the lender, obtain confirmation of the waiver from the lender.		
	C. Determine that the accounting policies and methods of recording debt are appropriate and applied consistently.		
5.	**ROLL FORWARD TEST FOR DEBT TESTED PRIOR TO YEAR END**		
	A. Inquire, and consider any other evidence that comes to our attention (e.g., in reading the minutes of the board), as to the existence of any new debt agreements, or modifications to existing agreements, in the intervening period from the interim testing date to the balance-sheet date. Test any new debt (and related accrued interest) as in Procedures 1 through 4 of this Program.		
	1. Evaluate results of the tests.		
	B. Inquire, and consider any other evidence that comes to our attention (e.g., in reading the minutes of the Board), as to the existence of any new debt agreements, or modifications to existing agreements, in the intervening period from the interim testing date to the balance-sheet date. Test any new debt (and related accrued interest) as in Procedures 1 through 4 of this Program.		
	1. Agree borrowings to cash receipts journals or to entries in cash accounts.		
	1.1 Agree payments to cash disbursements journals or to entries in cash accounts.		
	1.2 Examine supporting documents to verify other significant entries.		
	2. Make a selection of entries in cash disbursement journals (or those entries recorded directly in cash accounts that represent debt payments):		

S. No.	Audit Procedures	Done by	W. P. Ref.
	2.1 Determine that the amounts of the payments are in accordance with the terms of the debt agreements (e.g., by re-computing the payments).		
	2.2 Examine related paid checks or bank advices (for wire transfers) for evidence of receipt and deposit by the authorized payee (i.e. the lender).		
	3. Evaluate results of the tests.		
6.	**CLIENT SERVICE CONSIDERATIONS**		
	Consider whether we can make useful recommendations to the client with respect to any of the following:		
	A. When debt is retired, the client ensures that a discharge is received on assets securing the debt.		
7.	**TEST BALANCES DENOMINATED IN FOREIGN CURRENCIES**		
	A. Agree the closing exchange rate(s) used to published records and test the translation calculations.		
8.	**TEST PRESENTATION OF RELATED-PARTY BALANCES**		
	A. Inquire and consider available evidence, if any, to identify all related parties. Obtain a schedule of related-party balances and determine that all identified related parties with balances at year end are included in the schedule. Trace the amounts in the schedule to the trial balance.		
	B. Determine that the economic substance of the related-party balances supports their recording.		
	C. Evaluate the reasonableness of presentation and/or footnote disclosures of related-party balances.		
	D. Consider requesting positive confirmation of material balances with related parties.		

S. No.	Audit Procedures	Done by	W. P. Ref.
9.	**TEST UNUSUAL ENTRIES RECORDED TO THE GENERAL LEDGER**		
	A. Investigate journal entries from sources that are typically not associated with this account.		
	1. When selecting items to be tested, consider (a) our assessment of the risk of material misstatement due to fraud, (b) the effectiveness of controls over the preparation and posting of journal entries, (c) the entity's financial reporting process and the nature of the evidence that can be examined, (d) the nature and complexity of the accounts, and (e) the amount and number of such entries. Because fraudulent journal entries often are made at the end of a reporting period, our testing ordinarily should focus on the journal entries and other adjustments made at that time. In addition, because material misstatements in financial statements due to fraud can occur throughout the period and may involve extensive efforts to conceal entries at the end of the reporting period, we should consider whether there also is a need to extend the testing of journal entries to other periods within the period under audit.		
	B. Examine related accounting records and determine whether the selected debit/credit is valid, appropriate, and authorized. Determine whether the selected entry was properly recorded in the correct period and consider the possible implications of such journal entries on internal control.		
	C. Determine whether the entries exhibit characteristics of inappropriate or unauthorized journal entries such as (a) entries made to unrelated, unusual, or seldom-used accounts or business segments, (b) entries recorded at the end of the period or as post-closing entries that have little or no explanation or description, (c) entries made either before or during the preparation of the financial statements that do not have account numbers, and (d) entries that contain round numbers or a consistent ending number.		

S. No.	Audit Procedures	Done by	W. P. Ref.
	D. Evaluate the reasonableness of other adjustments (e.g., entries posted directly to financial statement drafts, consolidating adjustments, report combinations, and reclassifications) made in the preparation of the financial statements.		
10.	**EVALUATE BUSINESS RATIONALE FOR SIGNIFICANT UNUSUAL TRANSACTIONS**		
	A. If we become aware of significant transactions that are outside the normal course of business or that otherwise appear to be unusual given our understanding of the entity and its environment, perform the following procedures:		
	1. Gain an understanding of the business rationale for such significant unusual transaction.		
	2. Consider whether the transactions involve previously unidentified related parties or parties that do not have the substance or the financial strength to support the transaction without assistance from the entity we are auditing.		
	3. Determine whether that rationale (or the lack thereof) suggests that the transactions may have been entered into to engage in fraudulent financial reporting.		

Audit Program **(I) Surplus on Revaluation**	WP Ref.:	
	Prepared by:	
	Date:	
	Reviewed by	
	Date	

Client:	
Period:	
Subject:	■ Surplus on Revaluation

		Amount in Rs.
Account balances:		
Classes of transactions:		

S. No.	**Audit Objectives**	**Assertions**	**Risk Assessment**		
			IR	**CR**	**CRA**
	Surplus on revaluation represents valid gains on revaluation of fixed assets.	Existence, Rights & Obligations			
	To ensure that all transfers to and from the account have been made in accordance with the requirements of applicable financial reporting framework, i.e. Companies Ordinance, 1984 and applicable International Financial Reporting Framework.	Completeness			
	To ensure that the surplus has been stated on the balance sheet at an appropriate amount.	Valuation			

S. No.	Audit Objectives	Assertions	Risk Assessment		
			IR	CR	CRA
	To ensure that Surplus on Revaluation has been presented, classified and disclosed in the financial statements in accordance with the requirements of applicable financial reporting framework i.e. Companies Ordinance, 1984 and applicable International Financial Reporting Standards.	Presentation & Disclosure			

S. No.	Audit Procedures	Done by	W. P. Ref.
Analytical Procedures			
1.	Compare current year balances with prior year and ensure reasonableness of changes during the year.		
2.	Enquire into and obtain explanations for any unusual changes during the year.		
Test of Details			
1.	**TEST SURPLUS BALANCE**		
	A. Obtain a schedule of Revaluation of fixed assets showing assets wise detail, cost of the assets, revalued amount, name of valuer.		
	1. Test the summarization of the schedule.		
	2. Trace totals to the general ledger.		
	3. Examine the valuer's report to ensure the correctness of revalued amount of the fixed assets and ensure independence of the valuer and check appropriateness of assumptions used by valuer.		
	4. Check the increase in value of the assets has been transferred to separate account called "surplus on revaluation of fixed assets" in accordance with Section 235 of the Companies Ordinance, 1984.		
	5. Check that the surplus on revaluation of the fixed assets has been applied: a) Only to the extent actually realized on disposal of revalued assets. b) On setting –off any deficit arising from the revaluation of any other fixed assets of the company.		
	6. Check incremental depreciation transferred from surplus to unappropriated profit / accumulated loss.		
	7. Examine the revaluation policy in respect of property, plant and equipment and ensure that it is being consistently applied as per requirements of IAS-16 and IAS-36.		

	8. Ensure that proper disclosures as required under IASs and the Companies Ordinance, 1984 relating to the following have been made: • The basis used to revalue the assets; • Effective date of revaluation; • Whether an independent valuer was involved; • The nature of any indices used to determine replacement cost; and The carrying amount of each class of property, plant and equipment.		
	9. Obtain a listing of all the assets that have been revalued , and consider the following: • Reasons for revaluation; • The professional competency and experience of the valuer; • Significant assumptions made; • Method used; • Date and year of revaluation; • Amount of revaluation; and Treatment of revaluation surplus / deficit.		
	10. Obtain copies of revaluation report from the client in case of revaluation. Perform audit tests in accordance with ISA-620 “Using the Work of an Auditor’s Expert”. Have following considered, while considering the valuation reports: • Competence and objectivity of the expert; • Scope of the expert’s work; and		
	11. Check compliance with the requirement of IAS 12 “Income Taxes (Revised)” in respect of deferred Tax on surplus on revaluation of fixed assets.		
2.	**TEST PRESENTATION OF SURPLUS ON REVALUATION OF FIXED ASSETS**		
	A. Determine that disclosures have been made in accordance with the requirements of the Companies Ordinance, 1984 and the relevant accounting pronouncements.		

III. Profit & Loss A/C

S. No.	Financial Statement Caption	Reference No.	Page No.
1.	Sales		
2.	Cost of Sales		
3.	Admin Expense		
4.	Financial Charges		
5.	Other Income		

Audit Program **(a) Sales**	WP Ref.:	
	Prepared by:	
	Date:	
	Reviewed by	
	Date	

Client:	
Period:	
Subject:	■ Sales

		Amount in Rs.
Account balances:		
Classes of transactions:		

S. No.	Audit Procedures	Audit Assertion Addressed	Done by	W. P. Ref.
	TEST OF CONTROLS			
1	Make a selection of sales transactions from independent source records e.g. shipping records, delivery orders, purchase orders etc.	Occurrence		
2	Test the completeness of source records by ensuring their numerical sequences.	Completeness		
3	For each item selected above: (a) Trace it to sales invoice (b) Agree sales invoice prices to a price list / agreements. (c) Determine that the sales was recorded in the correct period. (d) Trace sales invoice amount to a sales journal (e) Trace sales journal total to the general ledger	Completeness		
4	Make a selection of recorded sales returns and each selected item:	Completeness		

	(a) Trace it to credit notes. (b) Trace credit notes to goods receiving documents and original sales invoices. (c) Determine that credit notes were recorded in the correct period.			
5	Check that sales data is input only once and is subject to validation.			
6	Access to sales system is restricted by user ID and password.			
7.	Check that prices charged in accordance with the approved price list.			
8.	Check that the quantity discounts are in accordance with the approved limits.			

S. No.	Audit Procedures	Audit Assertion Addressed	Done by	W. P. Ref.
	ANALYTICAL PROCEDURES			
1.	Have the client prepare a comparative monthly analysis of sales by product line, division or other business segment, including gross sales, returns and allowances and discounts. Verify the clerical accuracy of the analysis.			
2	Perform analytical procedures on sales by developing an expected amount of sales based on prior years figures or current period economic conditions and then comparing it with actual amount any significant differences should be enquired into and corroborated.	Occurrence Completeness		
	TEST OF DETAILS			
1.	Have the client reconcile totals for gross sales and sales deductions to the general ledger control accounts.			
2.	Trace selected monthly totals for sales and sales deductions to the sales journal or similar record. Investigate significant differences. (Scope/Sample: ___________.)			
3.	Select a sample of individual sales transactions from the sales journal to determine the propriety of their recognition during the period. Scope/Sample: • Transactions over Rs. ___________ to provide ___________ % coverage, and/or Representative sample of ___________ transactions.			
4.	Verify the sales invoices and check that the customer name, product description and quantities and price are mentioned on the invoice and compare it with the description of sales order.			
5.	Review applicable sales invoices and shipping documents to determine the accuracy and validity			

	of each selected sales transaction and sales tax charged thereof, if applicable.			
6.	Document the criteria for selection of sales invoices for verification purposes and ensure that sample is representative both for volume and amount of transaction.			
7.	Scan the sales journal to check whether there is any duplication of sales invoice numbers or gap in the sequence of invoice numbers to identify invoices cancelled, if any.			
8.	Review significant sales returns and credit memos issued during the period as well as subsequent to the balance sheet date to determine whether they were properly authorized and recorded in the proper period.			
9.	Discuss with appropriate client's personnel the existence of significant uncertainties at the time of sales, if any, like recoverability, warranty and other obligations, price protection agreement or revenue limitation.			
10.	10.1 Make a selection of transactions from recorded sales and shipping records for prior and after period-end and ensure proper cut-off.	Completeness Occurrence		
	10.2 Judgmentally select _____ shipping transactions each before and after the physical inventory date to test the client's inventory cutoff procedures and controls to be tested on Firm's Standard Form. The items selected should be selected from the transactions ___________ days before and after the physical inventory date.			
	10.3 Using PBC or cutoff documents, trace cutoff data recorded before and after the physical inventory date into the accounting records to determine if proper cutoff was obtained. (Scope/Sample: ___________.)			
	10.4 Scan the sales register and the			

	purchases / receipts journal for periods before and after the physical inventory date for unusual items. (Scope/Sample: ___________.)			
	10.5 Consider responses to accounts receivable confirmations that might indicate potential inventory cutoff problems.			
	10.6 Review sales returns subsequent to the year-end to ensure that it does not exceed the industry norms and client's past practice. (Scope/Sample ________)			
11.	Ensure that all sales in foreign currencies are translated using exchange rate prevailing at the date of sale (a rate that approximates the actual rate for example, weekly / monthly average is also acceptable).			
12.	Consider reasonableness of revenue by multiplying the number of units with the average selling price			
13.	Determine that the accounting policies and methods of revenue recognition are appropriate and are applied consistently.	Valuation Measurement		
14.	Determine that disclosures have been made in accordance with the requirement of Companies Ordinance, 1984 and relevant accounting pronouncements.	Presentation / Disclosure		
15.	Conclude on the result of the work performed.			

Audit Program **(b) Cost of Sales**	WP Ref.:	
	Prepared by:	
	Date:	
	Reviewed by	
	Date	

Client:	
Period:	
Subject:	■ Cost of Sales

		Amount in Rs.
Account balances:		
Classes of transactions:		

S. No.	**Audit Procedures**	**Audit Assertion Addressed**	**Done by**	**W. P. Ref.**
TEST OF CONTROLS				
1.	Select a sample of transactions from each of the cost of sales transactions and check the following: ■ Expenses are approved in accordance with the company's policy ■ Expenses are supported by documentation. ■ Tax is deducted at source in accordance with the Income Tax Ordinance, 2001.			

S. No.	Audit Procedures	Audit Assertion Addressed	Done by	W. P. Ref.
	■ Payments are made only through crossed cheques other than those allowed by Income Tax Ordinance. ■ Expenses are posted in the correct account code.			
ANALYTICAL PROCEDURES				
1.	Perform analytical review of cost of sales and inquire and corroborate significant variations from prior period and budgeted amounts.	Completeness Occurrence		
2.	Compare gross profit margins with comparable margins for the preceding period with comparable margins for industry and with budgeted margins for the current period and investigate unusual fluctuations.			
3.	Using PBC, compare gross profit ratios by product line, division or period to those of the prior year and obtain explanation for unusual variations. (Scope/Sample: ___________.)			
4.	For other items in cost of sales: a) Review all heads analytically and document reasons for significant variations. b) Examine supporting documents for selected items to ensure their validity.	Occurrence		
TEST OF DETAILS				
1.	Perform a predictive test of cost of sales by product line, division or other business segment by reference to details of units shipped and average unit costs. Investigate significant variances between the predicted and recorded amounts.			
2.	Expand the vouching test of revenue transactions to also test the related cost of sales transactions by tracing the unit costs used to relieve inventory to			

	cost records tested in the audit of inventory.			
3.	Cross-reference the overhead and variance accounts to the analytical reviews performed in conjunction with the audit of standard inventory costs.			
4.	Cross-reference provisions for depreciation, depletion and amortization included in cost of sales to the tests performed in the audit of accumulated depreciation.			
5.	Select sample of purchases during the year and verify through inspection of ordering, receiving and disbursement documents.			
6.	Perform predictive tests based on the agreed/average prices and received quantity.			
7.	Review significant purchase/supply agreements and investigate any significant matter identified.			
8.	Ensure purchase price in case of imports are translated in accordance with IAS-21 and IAS-39 as applicable.			
9.	Perform tests of details as under: a) Reconcile recorded cost of sales to corresponding credits in inventory accounts. b) Make a selection of debits to inventory accounts (i.e. purchases) during the year. For each items selected: (i) Trace the item to a purchases journal total.	Completeness		
	(ii) Make a selection of individual purchases from the journal. (iii) Trace the selected purchases to a supplier invoice and receiving records. (iv) Determine that the purchases were recorded in the correct period. c) Ensure proper cut-off of	Completeness Occurrence		

	purchases by performing the following procedures: i) Judgmentally select ___________ receiving transactions each before and after the physical inventory date to test the client's inventory cutoff procedures and controls. The items selected should be selected from the transactions ___________ days before and after the physical inventory date. ii) Using PBC or cutoff documents, trace cutoff data recorded before and after the physical inventory date into the accounting records to determine if proper cutoff was obtained. (Scope/Sample: ___________.) iii) Scan the purchases / receipts journal for periods before and after the physical inventory date for unusual items. (Scope/Sample: ___________.) iv) Consider responses to accounts payable confirmations that might indicate potential inventory cutoff problems.			
10.	Basis of allocating Overheads will be as follows: 10.1 For fixed overheads:			

	• In case of under utilization of normal capacity, the unabsorbed overheads should be charged as an expense for the period In case of abnormally high production, the allocated overheads should not exceed the actual amount as this may result in over valuation of inventory. 10.2 For variable overheads allocation should be made on actual production, the basis of which should be consistent. 10.3 Check the policy for allocation of cost to joint products e.g. on the basis of selling price or quantities produced after the point of separation.			
2.	Determine that disclosures have been in accordance with the requirements of Companies Ordinance, 1984 and relevant accounting pronouncements.	Presentation/ Disclosure		
3.	Conclude on the results of work performed.			

Audit Program **(c) Admin Expense**	WP Ref.:	
	Prepared by:	
	Date:	
	Reviewed by	
	Date	

Client:	
Period:	
Subject:	Admin Expense

		Amount in Rs.
Account balances:		
Classes of transactions:		

S. No.	Audit Procedures	Audit Assertion Addressed	Performed by	Reference
TEST OF CONTROLS				
1.	For salaries and other benefits perform the test of details stated in the salaries work programme.			
2.	Select a sample of transactions and check the following:			
	■ Expenses are approved in accordance with the company's policy ■ Expenses are supported by documentation.			

S. No.	Audit Procedures	Audit Assertion Addressed	Performed by	Reference
	■ Tax is deducted at source in accordance with the Income Tax Ordinance, 2001. ■ Payments are made only through crossed cheques other than those allowed by Income Tax Ordinance. ■ Expenses are posted in the correct account code.			
ANALYTICAL PROCEDURES				
1.	Perform analytical procedures to evaluate administration / selling / marketing expenses: a) Develop expectations of significant expenses. b) Compare the expected amounts with actual recorded amounts. c) Inquire and document reasons for major variations.	Completeness		
TEST OF DETAILS				
1.	Select a sample of recorded expenses and examine proper supporting documents for relevant expenses e.g. rent agreements for rent expenses, personal files and payroll for salaries and other allowances etc.	Occurrence Completeness Measurement		
2.	Scan general ledger of expenses and investigate large and unusual items and expenses were incurred for the purposes of the business.	Completeness		
3.	Obtain a PBC which compares each significant category of employee compensation (per the payroll register) and significant payroll-related expenses (by month between years). Include calculation of average payroll per full-time equivalents of employees. Verify the clerical accuracy of the analysis.			
4.	Review all significant rent agreements and note: • The respective expiry/			

	maturity dates; • The provisions for renewal of agreement; • Amount of deposit; • Amount of rent and the period of payment; • Rent escalation clauses; and • Any other significant			
5.	Have the client prepare a schedule of all legal and professional expenses incurred during the period showing: • The name of lawyer /tax advisor or other consultant; • A description of professional services rendered to the entity; and • The amount of professional fee / charges. Tie up the total of such schedule with the General Ledger.			
6.	Based on the schedule of legal and professional expenses, ensure that all expenses were: • Authorized by the appropriate level of authority; • Properly supported by bills / invoices and other relevant documents; • For business purposes; and Verified by the entity's internal audit department, where applicable.			
7.	Determine that disclosures have been made in accordance with the requirements of Companies Ordinance, 1984 and relevant accounting pronouncements.	Presentation/ Disclosure		
8.	Conclude on the result of the work performed.			

Audit Program **(d) Financial Charges**	WP Ref.:	
	Prepared by:	
	Date:	
	Reviewed by	
	Date	

Client:	
Period:	
Subject:	Financial charges

		Amount in Rs.
Account balances:		
Classes of transactions:		

S. No.	Audit Procedures	Audit Assertion Addressed	Done by	W. P. Ref.
TEST OF CONTROLS				
1	Check that the company itself recalculates the financial charges levied by the bank. Check that such calculation is reviewed by an authorised personnel.			
2.	Check that before obtaining financing rates of financing are obtained from different banks and financing is obtained on most economical and other terms.			
3.	Carry out company's search at registrars office to ensure that all financings and their related finance charges are appearing in the books of accounts for which charge has been registered.			
ANALYTICAL PROCEDURES				
	Compare current year with prior year and budgeted amounts to analyse the variation in the expenses. Inquire and document the reasons for variation.			

TEST OF DETAILS				
1	Select a sample of recorded financial charges and perform the following: a) Examine supporting documents to verify rates of financial charges. b) Re-calculate amount of financial charges on the basis of amounts, number of days and rates of financial charges.	Occurrence Measurement Completeness		
2	Ensure that charge on WPPF, WWF and CRF are calculated as per the rules.. Check that the payment of prior year have been made within the stipulated time.	Valuation		
3	Determine that all loans, borrowings, leases etc. have been considered to ensure that there are no unrecorded or under recorded financial charges.	Completeness		
4	Determine that disclosures are in accordance with the requirements of Companies Ordinance, 1984 and relevant accounting pronouncements and no netting of is performed of income and expenses.	Presentation/ Disclosure		
5	Conclude on the result of the performed.			

Audit Program **(e) Other Income**	WP Ref.:	
	Prepared by:	
	Date:	
	Reviewed by	
	Date	

Client:	
Period:	
Subject:	Other Income

		Amount in Rs.
Account balances:		
Classes of transactions:		

S. No.	Audit Procedures	Audit Assertion Addressed	Done by	W. P. Ref.
TEST OF CONTROLS				
1	Obtain a sample of investments made by the company and check that the: ■ Investments made are authorised and in accordance with the company's objects. ■ Check that the income on the investments is checked and accrued on a timely basis			
2.	For scrap sales check that the sales are made on the most economic terms.			
3.	Check that procedures are in place to ensure that good material is not transferred to scrap yard.			
ANALYTICAL PROCEDURES				
	Compare current year with prior year and budgeted amounts to analyse the variation in the expenses. Inquire and document the reasons for variation			

TEST OF DETAILS				
1	Review the marketable securities and related accounts (e.g., interest and dividend income) in the general ledger for unusual items.	Existence		
2	Test accrued interest and interest earned during the period on receivables; determine whether interest should be imputed on long-term receivables arising during the period.	Valuation and Measurement		
3	Verify interest and dividend income on marketable securities, investments, and equity in earnings (losses) of investees by calculating interest earned or by referring to published records of dividends paid or to the financial statements of investees.	Valuation & Measurement		
4	Verify computations of gains and losses from sales of marketable securities and investments.	Measurement		
5	Select a sample of assets retired during the period and check: ▪ Authorisation; ▪ Computation of gain or loss on disposal of fixed assets ▪ Timely deletion from fixed assets records.	Existence		
6	Select a sample of scrap sales, and check for:	Measurement		
	▪ Authorisation; ▪ Proper recording of gain; and ▪ Receipt of scrap proceeds.			
7	Check that all material items have been presented and disclosed in accordance with the requirements of Companies Ordinance, 1984 and IASs.	Presentation & Disclosure		
8	Conclude on the results of work performed.			

IV. Others

S. No.	Caption	Reference No.	Page No.
1.	WWF		
2.	Laws and Regulations		

Audit Program **(a) WWF / WPPF**	WP Ref.:	
	Prepared by:	
	Date:	
	Reviewed by	
	Date	

Client:	
Period:	
Subject:	WWF / WPPF

		Amount in Rs.
Account balances:		
Classes of transactions:		

S. No.	Audit Procedures	Audit Assertion Addressed	Performed by	Reference
	TEST OF CONTROLS			
	ANALYTICAL PROCEDURES			
1.	Compare current year with prior year and budgeted amounts to analyse the variation in the expenses. Inquire and document the reasons for variation	Measurement		
	TEST OF DETAILS			
1.	Obtain computation of WWF charge and check its appropriateness.	Measurement		
2.	Obtain computation of WPPF and check its appropriateness.	Measurement		
3.	Check that all material items have been presented and disclosed in accordance with the requirements of Companies Ordinance, 1984 and IASs.	Presentation & Disclosure		
4.	Conclude on the results of work performed.			

Audit Program (b) Laws and Regulations		WP Ref.:	
		Prepared by:	
		Date:	
		Reviewed by	
		Date	
Client:			
Period:			
Subject:	■ Laws and Regulations		

Purpose

The purpose of this Audit Program is to facilitate adherence to International Standard on Auditing regarding laws and regulations. It is to be completed throughout the audit. Professional judgment and discretion are to be utilized in preparing the Audit Program. The Audit Program is to be tailored to the specific circumstances of the entity to include specific procedures to be performed, as determined by the engagement team.

The purpose of this document is to obtain an understanding of the entity's legal and regulatory framework and obtain sufficient and appropriate audit evidence regarding non-compliance by the entity with laws and regulations that may materially affect the financial statements. It is recognized that some laws and regulations may have a fundamental effect on the operations of the entity. Non-compliance with certain laws and regulations may cause the entity to cease operations, or calls into question the entity's continuance as a going concern. The laws and regulations that affect the determination of material amounts and disclosures in the financial statements may relate to, for example:

- the form and content of financial statements
- industry specific requirements
- accounting for transactions under government contracts
- the accrual or recognition of expenses for income taxes
- the accrual or recognition of expenses for pension costs.

The Audit Program - Laws and Regulations includes the following sections:

I Summary of Business Understanding

II Audit Procedures

I Summary of Business Understanding

If applicable, summarize the business understanding and those instances of non-compliance identified at initial planning stage below to assist in focusing the procedures to be performed in this Audit Program on the appropriate audit objectives. Obtain understanding of the laws and regulations applicable to the client by discussing the management about the procedures for ensuring compliance with applicable laws and regulations.

List of applicable laws

- Companies Ordinance, 1984
- Income Tax Ordinance, 2001
- International Accounting Standards
- The Workmen's Compensation Act, 1923
- The Factories Act, 1934
- The Payment of Wages Act, 1936
- The Minimum Wages Ordinance, 1961
- The Provincial Employees' Social Security Ordinance, 1965
- The West Pakistan Industrial and Commercial Employment (Standing Orders) Ordinance, 1968
- The Industrial Relation Ordinance, 1969
- The West Pakistan Shop Establishment Ordinance, 1969
- The Employees' Old Age Benefit Act, 1976
- Workers Profit Participation Fund,
- Workers' Welfare Fund,
- (Others laws relevant to specific business e.g. Insurance Ordinance etc.)

Instances of non-compliance with laws and regulations

II Audit Procedures

S. No.	Nature and extent of audit procedures	Done by and date	W/P ref
1.	Obtain a general understanding of the legal and regulatory framework applicable to the entity and the industry and how the entity complies with that framework.		
2.	Identify instances of non-compliance with laws and regulations where non-compliance may be considered when preparing financial statements. ■ Enquire of management as to whether the entity is in compliance with such laws and regulations. ■ Inspect correspondence with relevant licensing or regulatory authorities. ■ Remain alert for instances of non-compliance while applying all audit procedures.		
3.	Set out any other procedures relating to identifying instances of non-compliance. List planned procedures below:		
4	When there is an awareness of information concerning a possible instance of non-compliance, perform the following procedures: ■ obtain an understanding of the nature of the act and the circumstances in which it has occurred ■ set out any other procedures necessary to obtain sufficient other information to evaluate the possible effect on the financial statements. List planned procedures below:		
5.	When it is believed that there may be non-compliance, perform the following procedures: ■ document the findings ■ discuss the findings with management ■ consider the effects of non-compliance in relation to other aspects of the audit, particularly the reliability of management representations ■ as soon as practicable, either communicate with the audit committee, the board of directors and senior management or obtain evidence that they are appropriately informed.		

S. No.	Nature and extent of audit procedures	Done by and date	W/P ref
6.	Obtain a written representation from management that they have disclosed to us all known actual or possible non-compliance with laws and regulations whose effects may be considered when preparing financial statements.		
7.	Other steps as decided by the engagement team.		

Chapter 16 Lead Schedules

Significant Components of Balance Sheet and P&L Account

MAIN INDEX

Name of Client ____

Year end____

CAPITAL AND LIABILITIES

AA SHARE CAPITAL

BB RESERVES, OTHER COMPREHENSIVE INCOME AND ACCUMULATED PROFIT

CC SURPLUS ON REVALUATION OF FIXED ASSETS

DD REDEEMABLE CAPITAL

EE DEBENTURES AND LONG - TERM LOANS

FF LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

GG DEFERRED LIABILITIES

HH LONG - TERM DEPOSITS

JJ SHORT - TERM LOANS AND FINANCIAL ARRANGEMENTS

MM CURRENT PORTION OF LONG TERM LIABILITIES

NN CREDITORS, ACCRUED AND OTHER LIABILITIES

PP TAXATION

RR DIVIDENDS

SS CONTINGENCIES AND COMMITMENTS

MAIN INDEX

Name of Client ____

Year end____

A S S E T S

A	OPERATING ASSETS
B	ASSETS SUBJECT TO FINANCE LEASE
C	CAPITAL WORK - IN - PROGRESS
D	STORES AND SPARES HELD FOR CAPITAL EXPENDITURE
E	INTANGIBLE ASSETS
K	LONG - TERM INVESTMENTS
L	LONG - TERM LOANS AND ADVANCES
M	LONG - TERM DEPOSITS, PREPAYMENTS
N	STORES, SPARES AND LOOSE TOOLS
R	STOCK - IN - TRADE
S	TRADE DEBTS
V	TRADE DEPOSITS, SHORT TERM PREPAYMENTS, LOANS, ADVANCES AND OTHER RECEIVABLES
W	MARKETABLE SECURITIES / SHORT - TERM INVESTMENTS
X	CASH AND BANK BALANCES

MAIN INDEX

PROFIT AND LOSS ACCOUNT

PL 1 SALES

PL 2 COST OF SALES

PL 3 GENERAL AND ADMINISTRATIVE EXPENSES

PL 4 SELLING AND DISTRIBUTION EXPENSES

PL 5 FINANCIAL CHARGES

PL 6 OTHER CHARGES

PL 7 OTHER INCOME

PL 8 APPROPRIATIONS

Index

Client:	
Lead Schedule:	**Share Capital**

File No.		**Reference**	**AA**
Prepared by		**Date**	
Reviewed by		**Date**	
Accounting Period			

	Reference	*Whether placed in File*	*Initial of Reviewer*
SHARE CAPITAL	**AA**		
Audit program	AA/AP		
Lead schedule	AA/LS		
Supporting Schedules	AA1-19		
Form "A", supporting schedules and other forms	AA/20		
as applicable			
List of shareholders alongwith workings.	AA-21		
Minutes representation letter.	AA-22		
Summary, extracts or copies of minutes	AA-23		

Client:	
Lead Schedule:	**Share Capital**

	Reference	*Current Period* *Rupees*	*Previous Period* *Rupees*
- AUTHORISED CAPITAL			
Number of shares			
Shares' face value (per share)			
Total Authorised Capital			
Types of shares		B/S	B/S
- ISSUED, SUBSCRIBED AND PAID UP CAPITAL			
Shares issued for cash			
Number of shares			
Amount (Total)			
Types of shares		B/S	B/S
Value of each share			
Shares issued for consideration other than cash (please specify)			
Number of shares			
Amount (Total)			
Types of shares		B/S	B/S
Value of each share			
MOVEMENT DURING THE YEAR			
Numbers			
Beginning of the year (a)			
Issued during the year			
Cash (b)			
Kind (c)			
Bonus/Right (d)			
(b) + (c) + (d)= (e)			
At the end of the year a+e			
		B/S	B/S

CONCLUSION

1. The audit has been completed in accordance with Audit program.
2. The working papers demonstrate that adequate work has been undertaken.
3. The working papers contain sufficient information, details of significant features and notes of unusual matters to enable us to form an opinion on financial statements.
4. In my opinion above amounts are fairly stated and on a consistent basis with the previous period.

Job Supervisor :________________ Date ________________

Index

Client:			**File No.**		**Reference**	**BB**
Lead Schedule:	**Reserves and**		**Prepared by**		**Date**	
	accumulated profit		**Reviewed by**		**Date**	
			Accounting Period			

	Reference	*Whether Placed in File*				*Initial of Reviewer*			
RESERVES, OTHER COMPREHENSIVE INCOME AND A(	**BB**								
PROFIT									
Audit program	BB/AP								
Lead schedule (capital and revenues)	BB/LS								
Supporting Schedules									
- Revenue reserves	BB-1								
- Capital reserves	BB-2								
- Accumulated Profit/(Loss)	BB-3								
Board Minutes	BB4								
Advance against future issue of capital *	BB5								
Movement schedule for disclosure purposes.	BB10								
* To be placed after net worth									

Client:	
Lead Schedule:	**Reserves and accumulated profit**

	Reference	*Current Period* *Rupees*				*Previous Period* *Rupees*			
Capital Reserves	BB-1								
- Capital redemption reserve									
- share premium account									
- profit prior to incorporation									
- other (to be specified)									
- ----- reserve not regarded free for distribution									
Revenue Reserves	BB-2								
- General reserve									
- dividend equalisation reserve									
- other reserve (to be specified)									
- unappropriated profit									
- Accumulated Profit/(Loss)	BB-3								
Surplus on revaluation of fixed assets (section 235)									
Total									
		B/S				B/S			

CONCLUSION

1. The audit has been completed in accordance with Audit program.
2. The working papers demonstrate that adequate work has been undertaken.
3. The working papers contain sufficient information, details of significant features and notes of unusual matter to enable us to form an opinion on financial statements.
4. In my opinion above amounts are fairly stated and on a consistent basis with the previous period.

Job Supervisor :________________ Date ________________

Index

Client:		**File No.**		**Reference**	**CC**
Lead Schedule:	**Surplus on revaluation of**	**Prepared by**		**Date**	
	Fixed assets	**Reviewed by**		**Date**	
		Accounting Period			

	Reference	*Whether Placed in File*				*Initial of Reviewer*			
SURPLUS ON REVALUATION OF	**CC**								
FIXED ASSETS									
Audit program	CC/AP								
Lead schedule	CC/LS								
Basic information and summary of revaluation report *	CC-21								
Procedure for release of reserve. Tests including reconciliation with disposal of assets schedule	CC-22								
* Description as per respective fourth / fifth schedule									

Client:	
Lead Schedule:	**Surplus on revaluation of**
	Fixed assets

File No.	**Reference CC/LS**
Prepared by	**Date**
Reviewed by	**Date**
Accounting Period	

	Reference	*Current Period* *Rupees*	*Previous Period* *Rupees*
- Surplus on Revaluation of Fixed Assets			
Opening Balance			
Surplus on revaluation during the year			
Utilization on disposal of Final Assets		< >	< >
* Increamental Value / Reduction in Value			
Revalued or reduced carriying value			
* **Data of Revaluation**			
- Name & Revaluation			
- Ban's of Revaluation			
- Nature of indiecs used			
* After revaluation of Assets, these items should be			
shown in each subsequent balance sheet			
		B/S	B/S

CONCLUSION

1. The audit has been completed in accordance with Audit program.
2. The working papers demonstrate that adequate work has been undertaken.
3. The working papers contain sufficient information, details of significant features and notes of unusual matters to enable us to form an opinion on financial statements.
4. In my opinion above amounts are fairly stated and on a consistent basis with the previous period.

Job Supervisor :________________ Date ________________

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Client:	
Lead Schedule:	**Redeemable Capital**

File No.		**Reference**	**DD**
Prepared by		**Date**	
Reviewed by		**Date**	
Accounting Period			

	Reference	*Whether Placed in File*	*Initial of Reviewer*
REDEEMABLE CAPITAL	**DD**		
Audit program	DD/AP		
Lead schedule	DD/LS		
Supporting Schedules	DD1-19		
Confirmations summary, reconciliation and documents	DD-20		
Related information in respect of redeemable capital	DD-21		
Board minutes	DD-22		
Extracts/Copies of agreements	DD-23		

Client	
Lead Schedule : REDEEMABLE CAPITAL	
Year End :	

File No.	REFERENCE DD/LS		
	Name	Initial	Date
Prepared by			
Checked by Job Incharge			
Reviewed by Manager / Partner			

Account No.		Ref.	P. T. C.		Musharika arrangement		T. F. C.		Long term running finance under markup arrangement		Current Period Rupees	Previous Period Rupees
	Participatory / Non - Participatory											
	Secured / Unsecured											
	Opening balance											
	Obtained/adjustment during the period											
	Redeemed during the year		< >	< >	< >	< >	< >	< >	< >	< >	< >	< >
	Current Portion Shown under current Liabilities											
	Instalment due											
	Redemption within one year											
			< >	< >	< >	< >	< >	< >	< >	< >	< >	< >
	Principal amount											
	Marked up price											
	Markup											
	Rebate on timely payment											
	Instalment Payment Rest											
	Instalment amount											
	Number of Instalments											
	Installment commenced from											
	Interest / Markup rate per annum											
	Sub Note :											
	(Securities arrangement for sharing profit and loss, provision/ creation of reserve, features of conversion, events of default in payments)											

CONCLUSION

1. The audit has been completed in accordance with Audit Program.
2. The working papers demonstrate that adequate work has been undertaken.
3. The working papers contain sufficient information, details of significant features and notes of unusual matters to enable us to from and opinion on financial statements.
4. In my opinion ________________ of Rs. _____________________ are fairly stated and on a consistent basis with the previous period.

Job Supervisor : ______________________ Date : ________________

Index

Client:			**File No.**	**Reference**	**EE**
Lead Schedule:	**Long**		**Prepared by**	**Date**	
	Term loans		**Reviewed by**	**Date**	
			Accounting Period		

	Reference	*Whether Placed in File*	*Initial of Reviewer*
LONG - TERM LOANS	**EE**		
Audit program	EE/AP		
Lead schedule	EE/LS		
Supporting Schedules	EE1-19		
Confirmation summary, reconciliation and documents	EE-20		
Related information	EE-21		
Board minutes	EE-22		
Extracts/Copies of agreements	EE-23		
Copies of ledger accounts	EE-24		
(if related parties)			

Client		File No.	Reference EE/LS	
			Name	Date
Lead Schedule : LONG TERM LOANS		Prepared by		
		Checked by Job Incharge		
Year End :		Reviewed by Manager / Partner		

Account No.		Ref.	Banking Companies and other financial institution TOTAL				From subsidiaries controlled firm managed modarabas and other associated undertakings TOTAL		From directors (including Chief Executives) TOTAL	Current Period Rupees TOTAL	Previous Period Banking Companies and other financial institution TOTAL	From subsidiaries controlled firm managed modarabas and other associated undertakings TOTAL	From directors (including Chief Executives) TOTAL
	Secured / Unsecured												
	Opening balance												
	Obtained / adjusted during the period												
	Repaid / adjustment / transferred during the period												
	Current portion shown under current liabilities												
	Instalment due												
	Payable within one year												
	Number of equal instalments												
	Amount of Instalments												
	Instalment payment rest												
	Date of commencement of first instalment												
	Interest % per annum/Mark-up paisas per Rs. 1,000/- per day												
	Foreign Currency												
	Sub Note : (Securities, priority in payment, Conversion features, recognition of exchange differences and other material terms)												

CONCLUSION

1. The audit has been completed in accordance with Audit Program.
2. The working papers demonstrate that adequate work has been undertaken.
3. The working papers contain sufficient information, details of significant features and notes of unusual matters to enable us to from and opinion on financial statements.
4. In my opinion _________________ of Rs. ______________________ are fairly stated and on a consistent basis with the previous period.

Job Supervisor : _ ______________________ Date : ________________

Index

Client:		**File No.**	**Reference FF**
Lead Schedule:	**Liabilities against assets**	**Prepared by**	**Date**
	subject to finance lease.	**Reviewed by**	**Date**
		Accounting Period	

	Reference	*Whether Placed in File*	*Initial of Reviewer*
LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE	**FF**		
Audit program	FF/AP		
Lead schedule	FF/LS		
Working schedules	FF-1		
Confirmations summary, reconciliation and documents	FF-20		
Copies of Lease Agreements/extracts summary	FF-21		

Index

Client:		**File No.**	**Reference**	**GG**
Lead Schedule:	**Deferred Liabilities**	**Prepared by**	**Date**	
		Reviewed by	**Date**	
		Accounting Period		

	Reference	*Whether Placed in File*				*Initial of Reviewer*			
DEFERRED LIABILITIES	**GG**								
Audit program	GG/AP								
Lead schedule	GG/LS								
Supporting schedules (gratuity / deferred taxation)	GG-1-19								
Actuary's reports.	GG-20								
Copies of lease agreements / other agreements	GG-21								
Board of Directors' approval	GG-22								

Client:			File No.	Reference GG/LS
Lead Schedule:	Deferred liabilities		Prepared by	Date
			Reviewed by	Date
			Accounting Period	

	Reference	*Current Period* *Rupees*	*Previous Period* *Rupees*
Deferred Taxation			
- On account of :-	GG-1		
Accelerated Depreciation			
Gratuity/Retirement Funds			
Others			
- Others	GG2-19		
		B/S	B/S

CONCLUSION

1. The audit has been completed in accordance with Audit program.
2. The working papers demonstrate that adequate work has been undertaken.
3. The working papers contain sufficient information, details of significant features and notes of unusual matters to enable us to form an opinion on financial statements.
4. In my opinion above amounts are fairly stated and on a consistent basis with the previous period.

Job Supervisor :________________ Date ________________

Index

Client:	
Lead Schedule:	**Long-term deposits**

File No.		**Reference**	**HH**
Prepared by		**Date**	
Reviewed by		**Date**	
Accounting Period			

	Reference	*Whether Placed in File*	*Initial of Reviewer*
LONG - TERM DEPOSITS	**HH**		
Audit program	HH/AP		
Lead schedule	HH/LS		
Supporting Schedules	HH-1-19		
Confirmations summary, reconciliation and documents	HH-20		
Compliance to S.226 of Companies Ordinance, 1984	HH-21		
(Note)			

Client:		File No.	Reference HH/LS	
Lead Schedule:	Long-term Deposits	Prepared by	Date	
		Reviewed by	Date	
		Accounting Period		

	Reference	Current Period Rupees	Previous Period Rupees
- Customers	HH-1		
- Employees	HH-2		
- Others(Due to related party, if any)	HH3-19		
* Following items should be shown seperatily			
- Nature			
- Repayment Period			
- Rate of interest			
- Other Material Term			
		B/S	B/S

CONCLUSION

1. The audit has been completed in accordance with Audit program.
2. The working papers demonstrate that adequate work has been undertaken.
3. The working papers contain sufficient information, details of significant features and notes of unusual matters to enable us to form an opinion on financial statements.
4. In my opinion above amounts are fairly stated and on a consistent basis with the previous period.

Job Supervisor :________________ Date ________________

Index

Client:			
Lead Schedule:	**Short-term loans and**		
	Financial arrangements		

File No.		**Reference**	**JJ**
Prepared by		**Date**	
Reviewed by		**Date**	
Accounting Period			

	Reference	*Whether Placed in File*				*Initial of Reviewer*			
SHORT - TERM LOANS AND	**JJ**								
FINANCIAL ARRANGEMENTS									
Audit program	JJ/AP								
Lead schedule	JJ/LS								
Supporting Schedules and bank reconciliations	JJ1-19								
Confirmations summary, reconciliation and									
documents	JJ-20								
Copies of agreements	JJ-21								
Copies of ledger accounts	JJ-22								
(if related parties)									
Resolution/Power of attorney from									
Board of Directors	JJ-23								

Client:		File No.	Reference JJ/LS
Lead Schedule:	Short-term loans and	Prepared by	Date
	Financial arrangements	Reviewed by	Date
		Accounting Period	

	Reference	Current Period Rupees	Previous Period Rupees
Secured/Un Secured			
- Banking Companies and Financial Institutions	JJ-1		
- Subsidiary Companies	JJ-2		
- Controlled Firms	JJ-3		
- Managed Modarabas	JJ-4		
- Other Associated Undertakings	JJ-5		
- Directors' including Chief Executive	JJ-6		
- Others	JJ7-19		
* Sub-note			
- Rate of interest			
- Nature of security			
- Un-availed credit facility			
- Other material terms			
		B/S	B/S

CONCLUSION

1. The audit has been completed in accordance with Audit program.
2. The working papers demonstrate that adequate work has been undertaken.
3. The working papers contain sufficient information, details of significant features and notes of unusual matters to enable us to form an opinion on financial statements.
4. In my opinion above amounts are fairly stated and on a consistent basis with the previous period.

Job Supervisor :________________ Date ________________

Index

		File No.		Reference	MM
Client:		Prepared by		Date	
Lead Schedule:	Current portion of Long	Reviewed by		Date	
	Term liabilities	Accounting			
		Period			

	Reference	*Whether Placed in File*				*Initial of Reviewer*			
Audit program	MM/UP								
Lead Schedule Current Portion of Long Term									
Liabilities	MM/LS								
Working in respect of Current Maturity	MM-1								

Client:		**File No.**	**Reference MM/LS**
Lead Schedule:	**Current portion of Long**	**Prepared by**	**Date**
	Term liabilities	**Reviewed by**	**Date**
		Accounting Period	

	Reference	*Current Period* *Rupees*				*Previous Period* *Rupees*			
- REDEEMABLE CAPITAL	DD-								
- LONG TERM LOANS	EE-								
- LIABILITIES AGAINST ASSETS SUBJECT									
TO FINANCE LEASE	FF-								
		B/S				B/S			

CONCLUSION

1. The audit has been completed in accordance with Audit program.
2. The working papers demonstrate that adequate work has been undertaken.
3. The working papers contain sufficient information, details of significant features and notes of unusual matters to enable us to form an opinion on financial statements.
4. In my opinion above amounts are fairly stated and on a consistent basis with the previous period.

Job Supervisor :________________ Date ________________

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Client:		File No.	Reference	NN
Lead Schedule:	Creditors,Accrued and	Prepared by	Date	
	Other liabilities	Reviewed by	Date	
		Accounting Period		

	Reference	Whether Placed in File				Initial of Reviewer			
CREDITORS, ACCRUED AND OTHER LIABILITIES	**NN**								
Audit program	NN/AP								
Lead schedule	NN/LS								
Supporting Schedules	NN1-19								
Confirmation of creditors and other liabilities	NN-20								
This area could include the following types of documentation-detailed trial balance of accounts payable and/or reconciliation of details to general ledger control account at confirmation date (if other than year-end)									
Also summarize confirmation responses									
Detailed trial balance of creditors and/or reconciliation of details to general ledger control account at year end	NN-21								
- Reconciliation of confirmation replies	NN-22								
- Alternate procedures	NN-23								
Subsequent position and aging of creditors	NN-24								
Subsequent payments review	NN-25								
Copies of ledger accounts of related parties	NN-26								

Client:	
Lead Schedule:	**Creditors,Accrued and**
	Other liabilities

	Reference	*Current Period* *Rupees*	*Previous Period* *Rupees*
- CREDITORS	NN-1		
- ACCRUED LIABILITIES	NN-2		
- BILLS PAYABLE	NN-3		
- ADVANCE PAYMENTS, UNEXPIRED			
DISCOUNTS AND DEFERRED INCOME	NN-4		
- MARK UP ACCRUED ON SECURED LOANS	NN-5		
- MARK UP ON EACH CLASS OF REDEEMABLE			
CAPITAL			
- MARK UP ACCRUED ON UNSECURED LOANS	NN-6		
- PROFIT, RETURN OR MARKUP ACCRUED	NN-7		
- WORKERS' PROFIT PARTICIPATION FUND	NN-8		
- WORKERS' WELFARE FUND	NN-9		
- PAYABLE TO DEBTOR			
- OTHER LIABILITIES	NN-10		
- OTHER DEPOSITS	NN-11		
- TRADE CREDITORS	NN-12		
- ADVANCES FROM CUSTOMERS	NN-13		
- CUSTOM EXCISE DUTY PAYABLE	NN-14		
- CONTRACTORS EARNEST/PETENTION MONEY	NN-15		
- SALES TAX PAYABLE	NN-16		
- MARK UP ON RUNNING FINANCES	NN-17		
- MARK UP ON TERM FINANCES	NN-18		
- DISTRIBUTORS SECURITY DEPOSITS PAYABLE	NN-19		
ON TERMINATION OF DEALERSHIP	NN-20		
- OTHERS	NN-20-25		
		B/S	B/S

1. The audit has been completed in accordance with Audit program.
2. The working papers demonstrate that adequate work has been undertaken.
3. The working papers contain sufficient information, details of significant features and notes of unusual matters to enable us to form an opinion on financial statements.
4. In my opinion above amounts are fairly stated and on a consistent basis with the previous period.

Job Supervisor :________________ Date ________________

Index

Client:	
Lead Schedule:	**Taxation**

File No.		**Reference**	**PP**
Prepared by		**Date**	
Reviewed by		**Date**	
Accounting Period			

	Reference	*Whether Placed in File*				*Initial of Reviewer*			
TAXATION	**PP**								
Audit program	PP/AP								
Lead schedule	PP/LS								
Tax position-Year wise	PP-1								
Tax computation (computation of income)	PP-2								
Schedule of tax depreciation	PP-3								
Statement of excess perquisites	PP-4								
Statement of liabilities over 3 years U/s 25(i)	PP-5								
Reconciliation of accounting records of tax									
payment with the tax record (IT - 30 year wise)	PP-6								
Schedule of advance payment of taxes	PP-7								
Summary of tax assessments	PP-8								
Summary of Appellate orders	PP-9								
Confirmation from tax advisor*	PP-10								
Test documents is respect of :-									
- Withholding tax	PP-11								
- unexplained credits	PP-12								
- unpaid loans/credits	PP-13								
* Obtain if tax work not handled by the auditing									
firm									

Client:		**File No.**	**Reference PP / LS**
Lead Schedule:	**Taxation**	**Prepared by**	**Date**
		Reviewed by	**Date**
		Accounting Period	

	Reference	*Current Period* *Rupees*	*Previous Period* *Rupees*
PROVISIONS - CUMULATIVE	PP-1		
Opening balance			
Made during the year - Current			
- Prior year			
Total			
PAYMENTS - CUMULATIVE			
Opening balance			
Made during the year - Current			
- Prior year			
- Advance			
Total			
Balance			
Represented by:			
Tax liability			
Tax refundable			
Advance payment of tax			
		B/S	B/S

CONCLUSION

1. The audit has been completed in accordance with Audit program.
2. The working papers demonstrate that adequate work has been undertaken.
3. The working papers contain sufficient information, details of significant features and notes of unusual matters to enable us to form an opinion on financial statements.
4. In my opinion above amounts are fairly stated and on a consistent basis with the previous period.

Job Supervisor :________________ Date ________________

Client		**File No.**	**REFERENCE** PP-1
			Name / **Initial** / **Date**
		Prepared by	
Lead Schedule : : PROVISION FOR TAXATION - YEAR WISE POSITION		**Checked by Job Incharge**	
Year End :		**Reviewed by Manager / Partner**	

Seriol No.	Accounting Year	Assessment Year	Ref.	Tax Expense as per P&L (A)	Provision for Tax as per B/S	Tax paid during the year	T TAX RETURN			ASSESSMENT ORDER/APPEAL EFFECT			Excess/ (Short) Provision (A-B)	Remarks
							Tax Expense	Tax Paid	Payable/ (Refundable)	Tax Assessed (B)	Tax Paid	Payable/ (Refundable)		
	1995-1996	1996-1997												
	1996-1997	1997-1998												
	1997-1998	1998-1999												
	1998-1999	1999-2000												
	1999-2000	2000-2001												
	Note: If tax paid by the company is not													
	accepted by the tax authorities then													
	auditor should consider whether the tax													
	paid would be realized or should be													
	charged as an expense													

	Initials Date
Client :	
Period :	Prepared by ______________ __________
Subject : Taxation	
	Reviewed by ______________ __________

Accounting period / year	Tax Year	Provision				Payments				Balance tax payable / (refundable)[**]	Balance tax liability / (refund) determined by the tax authority[**]	Remarks
		Opening balance	For the period / year	Prior year short / (excess)	Closing balance	Opening balance	During the period / year	Adjustments	Closing balance			
-1	-2	-3	-4	-5	-6	-7	-8	-9	-10	(11) = (6) – (10)	-12	-13
			P/L	P/L			C/F			B/S		

Conclusion

Audit staff: Based on the results of our tests of recorded balances as outlined in the audit programme indicating the work performed, I conclude that the above balances are fairly stated with respect to the financial statements taken as whole and on a basis consistent with that of the preceding period / year, (with the exceptions of the ___ items noted on significant matters) / (with no exception)*

Senior ____________ date: ___________ Reviewed by _______ date: _________

[*]Delete words in brackets if not applicable.

Conclusion

Tax manager: I have reviewed the appended working papers relating to the client's tax position. I conclude that these working papers are adequate in all material respects for preparation and filing of the tax returns and the conclusion expressed by the audit staff is adequately supported.

_______________ date: ___________

[**]Reconciliation between columns 11 &12 should be prepared.

		Initials Date
Client :		
Period :		Prepared by ______________ __________
Subject : Taxation		
		Reviewed by ______________ __________

Accounting period / year	Tax Year	Income / (loss)		Particulars of differences	Tax assessed**	Tax liability**	Provision in the financial statements at the beginning of the period / year	(Short) / excess provision	Amount provided in the current period / year	Net (short) / excess	Remarks
		Returned**	Assessed**								
-14	-15	-16	-17	-18	-19	-20	-21	-22	-23	-24	-25

Conclusion

Audit staff: Based on the results of our tests of recorded balances as outlined in the audit programme indicating the work performed, I conclude that the above balances are fairly stated with respect to the financial statements taken as whole and on a basis consistent with that of the preceding period / year, (with the exceptions of the ___ items noted on significant matters) / (with no exception)*

Senior ____________ date: ___________ Reviewed by _______ date: _________

*Delete words in brackets if not applicable.

Conclusion

Tax manager: I have reviewed the appended working papers relating to the client's tax position. I conclude that these working papers are adequate in all material respects for preparation and filing of the tax returns and the conclusion expressed by the audit staff is adequately supported.

_______________ date: ___________

** Separate reconciliations between columns 16 & 17 and 19 & 20 should be prepared.

Index

		File No.		Reference	RR
Client:		Prepared by		Date	
Lead Schedule:	Dividends	Reviewed by		Date	
		Accounting Period			

	Reference	*Whether Placed in File*	*Initial of Reviewer*
DIVIDENDS	**RR**		
Audit program	RR-AP		
Lead schedule	RR/LS		
Supporting Schedules	RR1-19		
Bank account confirmations	RR-20		
Reconciliation of Zakat/tax deduction at source	RR-21		
Compliance to Sec. 248-251 of Companies			
Ordinance 1984	RR-22		
Board minutes	RR-23		

Client:	
Lead Schedule:	Dividends

File No.	Reference RR/LS
Prepared by	Date
Reviewed by	Date
Accounting Period from	

	Reference	*Current Period* *Rupees*				*Previous Period* *Rupees*			
- Unclaimed Dividend	RR-1								
- Unpaid Dividend	RR-2								
- Proposed Dividend	RR-3								
Year-wise summary alongwith bank reconciliation	RR-20								
statements and bank confirmations.									

CONCLUSION

1. The audit has been completed in accordance with Audit program.
2. The working papers demonstrate that adequate work has been undertaken.
3. The working papers contain sufficient information, details of significant features and notes of unusual matter to enable us to form an opinion on financial statements.
4. In my opinion above amounts are fairly stated and on a consistent basis with the previous period.

Job Supervisor :________________ Date ________________

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Client:			**File No.**		**Reference**	**SS**
Lead Schedule:	**Contingencies and**		**Prepared by**		**Date**	
	Commitments		**Reviewed by**		**Date**	
			Accounting Period			

	Reference	*Whether Placed in File*				*Initial of Reviewer*			
CONTINGENCIES AND COMMITMENTS	**SS**								
(Including subsequent review)									
Audit program	SS-AP								
Lead schedule	SS								
Contingencies	SS1								
Subsequent review/legal matters/contingent									
liabilities	SS-2								
Legal letters and supporting documentation	SS-3								
Bank confirmation contents summary	SS-4								
Capital commitments	SS-II								
Operating lease-agreements summary	SS-12								
Summary of unexecuted contracts in respect of									
capital work in progress	SS-13								
Summary of BOD Meetings - report of									
commitments made	SS-14								
Bonded Stock commitments	SS-15								
Review of subsequent material date of the									
financial statements to the date of the									
auditors' report	SS-21								
Review of subsequent cash receipts	SS-22								
Review of subsequent cash disbursements	SS-23								

Client:	
Lead Schedule:	**Contingencies and**
	Commitments

File No.	**Reference SS/LS**
Prepared by	**Date**
Reviewed by	**Date**
Accounting Period	

	Reference	*Current Period* *Rupees*	*Previous Period* *Rupees*
- Contingencies	SS-1		
- Nature of contingencies	SS-2		
	SS-3		
	SS-4		
	SS-5		
	SS-6		
	SS-7		
- Commitments (Revenue/Capital)	SS-11		
	SS-12		
	SS-13		
- Subsequent Events	SS-21		
	SS-22		
	SS-23		
		Note	Note

<u>CONCLUSION</u>

1. The audit has been completed in accordance with Audit program.
2. The working papers demonstrate that adequate work has been undertaken.
3. The working papers contain sufficient information, details of significant features and notes of unusual matters to enable us to form an opinion on financial statements.
4. In my opinion above amounts are fairly stated and on a consistent basis with the previous period.

Job Supervisor :________________ Date ________________

Index

Client:			**File No.**	**Reference**	**A**
Lead Schedule:	**Operating Assets**		**Prepared by**	**Date**	
			Reviewed by	**Date**	
			Accounting Period		

	Reference	*Whether Placed in File*	*Initial of Reviewer*
OPERATING ASSETS	**A**		
Audit program	A-AP		
Lead schedule	A/LS		
Supporting Schedules	A1-A19		
Related information	A-21		
Additions - vouching schedules	A-22		
Disposals of assets vouching and linkage with	A-23		
tax and profit and loss			
Depreciation	A-24		
Insurance - Coverage schedule	A-25		
Board minutes for major additions/delations	A-26		

Index

Client:		**File No.**	**Reference**	**B**
Lead Schedule:	**Assets subject to finance**	**Prepared by**	**Date**	
	Lease	**Reviewed by**	**Date**	
		Accounting Period		

	Reference	*Whether Placed in File*	*Initial of Reviewer*
ASSETS SUBJECT TO FINANCE LEASE	B		
Audit program	B-AP		
Lead schedule	B/LS		
Supporting Schedules/Lessor wise/ Assets	B1-B19		
categorywise schedules			
Additions check	B-21		
Deletions check	B-22		

Client	
Lead Schedule :	FIXED ASSETS
Year End :	

File No.	Reference A/LS		
	Name	Initial	Date
Prepared by			
Checked by Job Incharge			
Reviewed by Manager / Partner			

Account No.		Ref.	Cost at	Cost addition/ Transfer during the period	Disposal/ Transfer during the period		Cost at	Depreciation: Accumulated Depreciation at	Depreciation: Adjustment Disposal / Transfer	Depreciation: Depreciation for the year	Depreciation: Accumulated Depreciation at	Depreciation: Written down value at	Depreciation: %
	Land - freehold												
	Land - leasehold												
	Building on freehold land												
	Building on leasehold land												
	Plant and Machinery												
	Electric Installation & Equipment												
	Office Equipment												
	Furniture and Fixture												
	Vehicle												
	Others : please specify												
	Under lease :												
	Plant & Machinery												
	Equipment												
	Vehicle												
	Others : please specify												
	Preceding Period												
	Land - freehold												
	Land - leasehold												
	Building on freehold land												
	Building on leasehold land												
	Plant and Machinery												
	Electric Installation & Equipment												
	Office Equipment												
	Furniture and Fixture												
	Vehicle												
	Others : please specify												
	Under lease :												
	Plant & Machinery												
	Equipment												
	Vehicle												
	Others : please specify												
	Depreciation for the perios has been accumulated as under												
	Cost of goods manufactured administrative and selling expenses												

CONCLUSION

1. The audit has been completed in accordance with Audit Program.
2. The working papers demonstrate that adequate work has been undertaken.
3. The working papers contain sufficient information, details of significant features and notes of unusual matters to enable us to from and opinion on financial statements.
4. In my opinion _________________ of Rs. ______________________ are fairly stated and on a consistent basis with the previous period.

Job Supervisor : ______________________ Date : _________________

Client	
Lead Schedule : : DISPOSAL OF FIXED ASSETS	
Year End :	

File No.	REFERENCE A/23	
	Name	Date
Prepared by		
Checked by Job Incharge		
Reviewed by Manager / Partner		

Account No.	Discription of assets	Cost	Accumulated Depreciation	Written down Value	Sale proceed	Gain/ (Loss)	Particulars of Buyers	Mode of Disposal

Index

Client:		**File No.**	**Reference**	**C**
Lead Schedule:	**Capital work in progress**	**Prepared by**	**Date**	
		Reviewed by	**Date**	
		Accounting Period		

	Reference	*Whether Placed in File*				*Initial of Reviewer*			
CAPITAL WORK - IN - PROGRESS	C								
Audit program	C-AP								
Lead schedule	C/LS								
Supporting Schedules and related information	C1-C19								
Stage of completion certificate/commencement of	C-20								
commercial production									
Capitalization of work - in - progress	C-21								
Allocation of financial costs	C-24								
Project wise progress position	C-25								

Client:		File No.	Reference C / LS
Lead Schedule:	Capital work in progress	Prepared by	Date
		Reviewed by	Date
		Accounting Period	

	Reference	Current Period Rupees	Previous Period Rupees
- Civil Works	C-1		
- Plant and Machinery	C-2		
- Others	C-3		
- Mobilization and Other Advances for Capital Expenditure	C4-19		
		B/S	B/S

CONCLUSION

1. The audit has been completed in accordance with Audit program.
2. The working papers demonstrate that adequate work has been undertaken.
3. The working papers contain sufficient information, details of significant features and notes of unusual matters to enable us to form an opinion on financial statements.
4. In my opinion above amounts are fairly stated and on a consistent basis with the previous period.

Job Supervisor :________________ Date ________________

Index

Client:		**File No.**	**Reference**	**D**
Lead Schedule:	**Stores and spares held for**	**Prepared by**	**Date**	
	Capital Expenditure	**Reviewed by**	**Date**	
		Accounting Period		

	Reference	*Whether Placed in File*	*Initial of Reviewer*
Audit program	D - AP		
Stores and Spares held for Capital Expenditure	D/LS		
Lists	D1-19		
Discussion paper for Capitalization of these Stores	D-21		

Client:	
Lead Schedule:	**Stores and spares held for**
	Capital Expenditure

File No.	**Reference D/LS**
Prepared by	**Date**
Reviewed by	**Date**
Accounting Period	

	Reference	*Current Period* *Rupees*	*Previous Period* *Rupees*
Stores	D-1		
Spares	D-2		
Advances for Acquisition	D-3		
Others	D4-19		
		B/S	B/S

CONCLUSION

1. The audit has been completed in accordance with Audit program.
2. The working papers demonstrate that adequate work has been undertaken.
3. The working papers contain sufficient information, details of significant features and notes of unusual matters to enable us to form an opinion on financial statements.
4. In my opinion above amounts are fairly stated and on a consistent basis with the previous period.

Job Supervisor :________________ Date ________________

Index

Client:			
Lead Schedule:	**Intangible Assets**		

File No.		**Reference**	**E**
Prepared by		**Date**	
Reviewed by		**Date**	
Accounting Period			

	Reference	*Whether Placed in File*	*Initial of Reviewer*
INTANGIBLE ASSETS	E		
Audit program	E-AP		
Lead schedule	E/LS		
Supporting Schedules	E1-19		
Third party documents	E-20		
Extracts/copies of Agreements	E-21		
Patent documents	E-22		

Client:	
Lead Schedule:	**Intangible Assets**

File No.	**Reference E/LS**
Prepared by	**Date**
Reviewed by	**Date**
Accounting Period	

	Reference	*Current Period* *Rupees*				*Previous Period* *Rupees*			
Goodwill	E-1								
Patent Rights	E-2								
Others	E3-19								
Copy rights									
Trade marks and designs									
		B/S				B/S			

CONCLUSION

1. The audit has been completed in accordance with Audit program.
2. The working papers demonstrate that adequate work has been undertaken.
3. The working papers contain sufficient information, details of significant features and notes of unusual matters to enable us to form an opinion on financial statements.
4. In my opinion above amounts are fairly stated and on a consistent basis with the previous period.

Job Supervisor :________________ Date ________________

Index

Client:		**File No.**	**Reference**	**K**
Lead Schedule:	**Long-Term Investments**	**Prepared by**	**Date**	
		Reviewed by	**Date**	
		Accounting Period		

	Reference	*Whether Placed in File*	*Initial of Reviewer*
LONG - TERM INVESTMENTS	**K**		
Audit program	K-AP		
Lead schedule	K/LS		
Supporting Schedules	K-1-19		
Related information	K-21		
Physical verification summary and documents	K-22		
Stock exchange quotations	K-23		
Break-up value - summary and documents	K-24		
Board minutes	K-25		
Break- up of provision for diminution in value of investments (if any)			

Client:	
Lead Schedule:	**Long-Term Investments**

File No.		**Reference**	**K/LS**
Prepared by		**Date**	
Reviewed by		**Date**	
Accounting Period from			

	Reference	*Current Period* *Rupees*	*Previous Period* *Rupees*
- In Subsidiary Companies	K-1		
- In Controlled Firms	K-2		
- In Managed Modarabas	K-3		
- In other Associated Undertakings	K-4		
- In Listed Companies	K-5		
- Modarba			
- In Unlisted Companies	K-6		
- Modarba			
- In Immoveable Properties	K-7		
- In Redeemable Capital	K-8		
- In Debentures and Bonds issued by government,	K-9		
municipal committee on other local authority			
- In Government securities	K-10		
- Others	K-11		

CONCLUSION

1. The audit has been completed in accordance with Audit program.
2. The working papers demonstrate that adequate work has been undertaken.
3. The working papers contain sufficient information, details of significant features and notes of unusual matter to enable us to form an opinion on financial statements.
4. In my opinion above amounts are fairly stated and on a consistent basis with the previous period.

Job Supervisor :________________ Date ________________

Index

Client:		**File No.**		**Reference**	**L**
Lead Schedule:	**Long Term Loans and**	**Prepared by**		**Date**	
	Advances	**Reviewed by**		**Date**	
		Accounting			
		Period from			

	Reference	*Whether Placed in File*				*Initial of Reviewer*			
LONG - TERM LOANS AND ADVANCES	**L**								
Audit program	L-AP								
Lead schedule	L/LS								
Supporting schedules	L1-L19								
Related information	L-20								
Company's Policy document	L-21								
Evaluation for provision	L-22								
Compliance to section 195 and 208	L-23								
of the Companies Ordinance1984									
Details of maximum month end balances									

Client:		File No.	Reference L/LS
Lead Schedule:	Long Term Loans and Advances	Prepared by	Date
		Reviewed by	Date
		Accounting Period	

	Reference	*Current Period Rupees*				*Previous Period Rupees*			
(Considered good or Doubtful)									
- Subsidiary Companies	L-1								
- Controlled Firms	L-2								
- Managed Modarabas	L-3								
- Other Associated Undertakings	L-4								
		B/S				B/S			

CONCLUSION

1. The audit has been completed in accordance with Audit program.
2. The working papers demonstrate that adequate work has been undertaken.
3. The working papers contain sufficient information, details of significant features and notes of unusual matters to enable us to form an opinion on financial statements.
4. In my opinion above amounts are fairly stated and on a consistent basis with the previous period.

Job Supervisor :________________ Date ________________

Index

Client:	
Lead Schedule:	**Long Term Deposits,**
	Prepayments and
	Deferred costs

File No.	**Reference**	**M**	
Prepared by	**Date**		
Reviewed by	**Date**		
Accounting			
Period			

	Reference	*Whether Placed in File*	*Initial of Reviewer*
LONG - TERM DEPOSITS,	**M**		
PREPAYMENTS AND DEFERRED COSTS			
Audit program	M-AP		
Lead schedule	M/LS		
Supporting Schedules	M1-19		
Confirmation summary, reconciliation and documents	M-20		
Copies of Documents/Summary	M-21		

Lead Schedule:	**Long Term Deposits,**		
	Prepayments		

File No.	**Reference M/LS**
Prepared by	**Date**
Reviewed by	**Date**
Accounting Period	

	Reference	*Current Period* *Rupees*	*Previous Period* *Rupees*
a) Long Term Deposits	M-1		
b) Long Term Prepayments	M-2		
		B/S	B/S

CONCLUSION

1. The audit has been completed in accordance with Audit program.
2. The working papers demonstrate that adequate work has been undertaken.
3. The working papers contain sufficient information, details of significant features and notes of unusual matters to enable us to form an opinion on financial statements.
4. In my opinion above amounts are fairly stated and on a consistent basis with the previous period.

Job Supervisor :________________ Date ________________

Index

Client:		**File No.**	**Reference**	**N**
Lead Schedule:	**Stores,Spares and Loose Tools**	**Prepared by**	**Date**	
		Reviewed by	**Date**	
		Accounting Period		

	Reference	*Whether Placed in File*	*Initial of Reviewer*
STORES, SPARES AND LOOSE TOOLS	N		
Audit program	N-AP		
Lead schedule	N/LS		
Supporting Schedules	N1-19		
Stock held with third parties - including confirmations	N-20		
Test of inventory transactions from physical inventory date to year-end	N-21		
Pricing tests (including tests of net realizable value)	N-22		
Obsolescence review	N-23		
Cutoffs tests	N-24		

Client:	
Lead Schedule:	**Stores,Spares and Loose**
	Tools

	Schedule Reference	*Current Period* *Rupees*				*Previous Period* *Rupees*			
In hand :									
- Stores (includes Rs___ (19_: Rs __) intransit)	N-1								
- Spares (inlcudesRs___ (19_: Rs __) intransit)	N-2								
- Loose Tools --do--	N-3								
- Others --do--	N-4								
Total									
In transit									
- Stores	N-5								
- Spares	N-6								
- Loose Tools	N-7								
- Others	N-8								
	N-10								
	N-11								
	N-12								
	N-13								
	N-14								
	N-15								
	N-16								
	N-17								
	N-18								
	N-18								
- Provision for Obsolescence	N-19	( )				( )			
		B/S				B/S			

CONCLUSION

1. The audit has been completed in accordance with Audit program.
2. The working papers demonstrate that adequate work has been undertaken.
3. The working papers contain sufficient information, details of significant features and notes of unusual matters to enable us to form an opinion on financial statements.
4. In my opinion above amounts are fairly stated and on a consistent basis with the previous period.

Job Supervisor :________________ Date ________________

Index

Client:	
Lead Schedule:	Stock-in Trade

File No.		**Reference**	**R**
Prepared by		**Date**	
Reviewed by		**Date**	
Accounting Period			

	Reference	*Whether Placed in File*	*Initial of Reviewer*
STOCK - IN - TRADE	R		
Audit program	R-AP		
Lead schedule	R/LS		
Supporting Schedules	R1-R19		
Stock held with third parties including confirmations	R-20		
Test of physical inventory	R-21		
Pricing tests (including tests of NRV)	R-22		
Obsolescence review	R-23		
Cut-offs	R-24		

Client:			
Lead Schedule:	Stock-in Trade		

File No.	**Reference R / LS**
Prepared by	**Date**
Reviewed by	**Date**
Accounting Period	

	Reference	*Current Period* *Rupees*	*Previous Period* *Rupees*
- Raw Material and component	R-1		
- Packing Material	R-2		
- Work in Process	R-3		
- Finished Goods	R-4		
- Waste stock	R-5		
- Stock-in-Bond	R-6		
- Stock-in-transit	R-7		
- Other stocks (to be specified)	R-8		
		B/S	B/S

Notes:
(i) Provision , if any, should be disclosed separately
against each items
(2) Disclosure to be made
(a) fixed production overhead excluded as cost compound
(b) FIFO or weighted average cost which is not used

(3) Inventories to be valued at base of cost and net valuable value
(4) Disclosure to be made of stocks valued at NRV (IAS-2 para 34)
(5) Stock held by third parties to be disclosed by way of note
(IAS-2 para 34
(6) Amount and circumstances related to reversals of write-down
recognised as income in the period

CONCLUSION

1. The audit has been completed in accordance with Audit program.
2. The working papers demonstrate that adequate work has been undertaken.
3. The working papers contain sufficient information, details of significant features and notes of unusual matters to enable us to form an opinion on financial statements.
4. In my opinion above amounts are fairly stated and on a consistent basis with the previous period.

Job Supervisor :________________ Date ________________

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Client:	
Lead Schedule:	**Trade Debts**

File No.		**Reference**	**S**
Prepared by		**Date**	
Reviewed by		**Date**	
Accounting			
Period from			

	Reference	*Whether Placed in File*				*Initial of Reviewer*			
TRADE DEBTS	S								
Audit program	S-AP								
Lead schedule	S/LS								
Supporting Schedules	S1-S18								
Detail trial balance and/or reconciliation of details	S-19								
to general ledger control account at year-end									
Confirmations	S-20								
Aging of trade debts	S-22								
Review of activities Subsequent to the year-end	S-23								
Evaluation of allowance for doubtful accounts and	S-24								
supporting Schedules									

Client:	
Lead Schedule:	Trade Debts

File No.		Reference:	S/LS
Prepared by		Date	
Reviewed by		Date	
Accounting Period			

	Reference	*Current Period* *Rupees*	*Previous Period* *Rupees*	Increase/ (decrease) Amount	%	Remarks details of	(including security)
- **Trade Debts**	S-1						
Considered Good (i) secured							
(ii) unsecured(no security other then -----------security)							
Considered Doubtful							
Less: Provision for Doubtful Debts	S-24	( )	( )				
i - specific							
ii- general							
		B/S	B/S				

Amount %

		Current year	Prior
1- Due from:			
	Directors	________	____
	Chief executives	________	____
	Managing agents	________	____
	Other executives	________	____
2- Due from			
	Associated undertakings	________	____
	Controlled firms	________	____
	Managed modarba	________	____
Note:	Maximum amount held at any, time during the year calculated by reference to month end balances. (i) above	________	____

CONCLUSION

1. The audit has been completed in accordance with Audit program.
2. The working papers demonstrate that adequate work has been undertaken.
3. The working papers contain sufficient information, details of significant features and notes of unusual matters to enable us to form an opinion on financial statements.
4. In my opinion above amounts are fairly stated and on a consistent basis with the previous period.

Job Supervisor :________________ Date ________________

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Client:	
Lead Schedule:	**Trade Deposits,Short-Term**
	Prepayments/ Loans,Advances and
	Other Receivables

File No.		**Reference**	**V**
Prepared by		**Date**	
Reviewed by		**Date**	
Accounting Period			

	Reference	*Whether Placed in File*	*Initial of Reviewer*
Trade Deposits, Short-Term Prepayments	**V**		
Loans, Advances and Other Receivables			
Audit program	V-AP		
Lead Schedule	V/LS		
Supporting Schedules	V1-V19		
Confirmations	V-20		
Subsequent receipts against receivables	V-21		

Client:			**File No.**	**Reference** V/LS
Lead Schedule:	**Trade Deposits,Short-Term**		**Prepared by**	**Date**
	Prepayments/ Loans,Advances and		**Reviewed by**	**Date**
	Other Receivables		**Accounting**	
			Period from	

	Reference	*Current Period* *Rupees*				*Previous Period* *Rupees*			
Deposits	V-1								
Prepayments	V-2								
Loans	V-3								
Staff									
Executives									
Chief Executive									
Considered good and bad									
Advances	V-4								
Considered good and bad									
the maximum aggregate amount due from direction/									
managing agents/ associated undertakings / controlled									
firms / managed modarbas.									
Others Receivables	V-5								
Tax Refunds	PP-1								
Others									
Current account balance with statutory authorities	V-6								

CONCLUSION

1. The audit has been completed in accordance with Audit program.
2. The working papers demonstrate that adequate work has been undertaken.
3. The working papers contain sufficient information, details of significant features and notes of unusual matter to enable us to form an opinion on financial statements.
4. In my opinion above amounts are fairly stated and on a consistent basis with the previous period.

Job Supervisor :________________ Date ________________

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Client:		File No.	Reference	W
Lead Schedule:	Marketable Securities/Short-term Investments	Prepared by	Date	
		Reviewed by	Date	
		Accounting Period		

	Reference	*Whether Placed in File*				*Initial of Reviewer*			
MARKETABLE SECURITIES / SHORT - TERM INVESTMENTS	**W**								
Audit program	W-AP								
Lead schedule	W/LS								
Supporting Schedules	W1-19								
Confirmations / physical verification	W-20								
Valuation Tests	W-21								
Stock Exchange Quotations	W-22								
Comparison of cost & market value									
		B/S				B/S			

Client:			File No.	Reference W/LS
Lead Schedule:	Marketable Securities/Short-term Investments		Prepared by	Date
			Reviewed by	Date
			Accounting Period	

	Reference	*Current Period* *Rupees*	*Previous Period* *Rupees*
- In Subsidiary Companies	W-1		
- In Controlled Firms	W-2		
- In Managed Modarabas	W-3		
- In Other Associated Undertakings	W-4		
- In Listed Companies	W-5		
- Modarba			
- In Unlisted Companies	W-6		
- Modarba			
	W-7		
- In Immoveable Properties	W-8		
- In Redeemable Capital	W-9		
- In Bonds issued by government,	W-10		
municipal committee or other local authority			
- In Government Securities	W-11		
- Others	W-12		
		B/S	B/S

CONCLUSION

1. The audit has been completed in accordance with Audit program.
2. The working papers demonstrate that adequate work has been undertaken.
3. The working papers contain sufficient information, details of significant features and notes of unusual matters to enable us to form an opinion on financial statements.
4. In my opinion above amounts are fairly stated and on a consistent basis with the previous period.

Job Supervisor :________________ Date ________________

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		File No.	**Reference**	**X**
Client:		**Prepared by**	**Date**	
Lead Schedule:	**Cash and Bank Balances**	**Reviewed by**	**Date**	
		Accounting Period		

	Reference	*Whether Placed in File*				*Initial of Reviewer*			
CASH AND BANK BALANCES	**X**								
Audit program	X-AP								
Lead schedule	X/LS								
Supporting Schedules/Bank account reconciliation	X1-19								
Bank confirmations	X-20								
Cash count sheets/cash certificates	X-21								
Last document sheets	X-22								
Last document cutoff test	X-23								
Test of Frozen/Blocked accounts	X-24								

Client:	
Lead Schedule:	**Cash and Bank Balances**

File No.	**Reference X/LS**
Prepared by	**Date**
Reviewed by	**Date**
Accounting Period	

	Schedule Reference	*Current Period Rupees*	*Previous Period Rupees*	Remarks
- Cash in Hand	X-1			
- Cash in Transit	X-2			
- Cash at Bank (i) on deposit account				
(ii) on current account				
(iii) other accounts				
a) In Current Accounts				
Local Currency	X-3			
Foreign Currency	X-4			
				Statistics Amount %
b) In Deposit Accounts				Confirmed _______ ____
				Physically _______ ____
Local Currency	X-5			Verified _______ ____
Foreign Currency	X-6			
Balances in hand				
(i) Cash				
(ii) Cheques				
Balances in transit				
Total				
		B/S	B/S	

CONCLUSION

1. The audit has been completed in accordance with Audit program.
2. The working papers demonstrate that adequate work has been undertaken.
3. The working papers contain sufficient information, details of significant features and notes of unusual matters to enable us to form an opinion on financial statements.
4. In my opinion above amounts are fairly stated and on a consistent basis with the previous period.

Job Supervisor :________________ Date ________________

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Client:	
Lead Schedule:	**Sales**

File No.		**Reference**	**PL-1**
Prepared by		**Date**	
Reviewed by		**Date**	
Accounting Period			

	Reference	*Whether Placed in File*	*Initial of Reviewer*
SALES			
Audit program	PL1-AP		
Lead Sehedule	PL-1/LS		
Monthly analysis			
Related information			
Sales cut - off			
Test of Control- Sales			
Quantitative reconciliation			
Significant Customers (80/20) 20 percent customers			
(in numbers who contribute 80 percent sales)			

Client:	
Lead Schedule:	Sales

File No.	Reference PL1/LS
Prepared by	Date
Reviewed by	Date
Accounting Period	

	Schedule Reference	*Current Period Rupees*	*Previous Period Rupees*	*Increase/ (decrease) Amount*	*Increase/ (decrease) %*	*Reasons for variation*
Sales						
- Exports						
- Local						
- Export Quota						
- Waste						
Less:- Commission to sole selling agent and to						
- *Other Selling Agent*						
- *Discount*						
- *Sales Tax*						
- *Export Duty*						
- Brokerage						
- Brokerage and discount						
Net sales						
					Statistics	Amount %
					Vouched	______ ______
					Globally	______ ______
					Verified	______ ______
		P/L	P/L			

(1) The working result of each line of business to be separately given provided the turnover of each line exceed 20% of the total turnover of the company.
(2) Value of items exported during the financial year to be disclosed provided such value exceeds 20% of the total turnover of the company.

CONCLUSION

1. The audit has been completed in accordance with Audit program.
2. The working papers demonstrate that adequate work has been undertaken.
3. The working papers contain sufficient information, details of significant features and notes of unusual matters to enable us to form an opinion on financial statements.
4. In my opinion above amounts are fairly stated and on a consistent basis with the previous period.

Job Supervisor :________________ Date ________________

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Client:	
Lead Schedule:	**Cost of Sales**

File No.		**Reference**	**PL2**
Prepared by		**Date**	
Reviewed by		**Date**	
Accounting			
Period from			

	Reference	*Whether Placed in File*	*Initial of Reviewer*
COST OF SALES			
Audit program	PL2-AP		
Lead schedule	PL2/LS		
Significant Suppliers (80/20) 20% suppliers from whom			
80% purchases are made			
Related Information			
Purchases cut - off			
Tests of Control- Purchases			

Client:		File No.	Reference PL2/LS1
Lead Schedule:	Cost of Sales	Prepared by	Date
		Reviewed by	Date
		Accounting Period	

	Reference	*Current Period* *Rupees*	*Previous Period* *Rupees*
- *Work in Process*			
Opening			
Closing	R-3		
- *Cost of Goods Manufactured*			
- *Finished Goods*			
Opening			
Closing	R-4		
- *Excise Duty*			
		P/L	P/L

CONCLUSION

1. The audit has been completed in accordance with Audit program.
2. The working papers demonstrate that adequate work has been undertaken.
3. The working papers contain sufficient information, details of significant features and notes of unusual matters to enable us to form an opinion on financial statements.
4. In my opinion above amounts are fairly stated and on a consistent basis with the previous period.

Job Supervisor :________________ Date ________________

Client:	
Lead Schedule:	**Cost of Goods Manufactured**

File No.	**Reference PL2/LS2**	
Prepared by	**Date**	
Reviewed by	**Date**	
Accounting Period		

PARTICULAR	***Schedule Reference***	***Current Period Rupees***	***Previous Period Rupees***	*Increase/ (decrease) Amount*	**%**	*Reason for major variation*
- Raw & Packing Material Consumed						
Opening Stock						
Purchases						
Closing Stock	R-1					
- Stores and Spares Consumed	N					
- Fuel and Power						
- Salaries, Wages and Staff Welfare bonus, contribution						
to provident and other funds						
- Rent, Rates, and Taxes						
- Insurance						
- Repairs and Maintenance						
- Patents, Copyrights, Trade Marks,						
Designs						
- Royalties and Technical Fees						
- Amortization of Research and						
Development Costs						
- Vehicle Running and Maintenance						
- Telephone, Telex and Postage						
- Travelling and Conveyance						
- Printing and Stationery						
- Utilities, Rates and Taxes						
- Depreciation						
- Other expense (to be specified)						
- Communications						
- Entertainment						
Total				Statistic	Amount	%
				Vouched	______	______
				Globally	______	______
				Verified	______	______

Index

Client:	
Lead Schedule:	**General and Administrative Expenses**

File No.		**Reference**	**PL3**
Prepared by		**Date**	
Reviewed by		**Date**	
Accounting Period			

	Reference	*Whether Placed in File*				*Initial of Reviewer*			
GENERAL AND ADMINISTRATIVE									
EXPENSES									
Audit program	PL3-AP								
Lead schedule	PL3/LS								
Monthly analysis									
Significant Payments/accruals									
Subsequent Payment Verification-Accrual									
Compliance tests									

Client:	
Lead Schedule:	**General and Administrative Expenses**

	Reference	*Current Period* *Rupees*	*Previous Period* *Rupees*
- Directors Remuneration			
- Salaries pages and Benefits			
- Rent, Rates, and Taxes			
- Vehicle Running and Maintenance			
- Printing and Stationery			
- Telephone, Telex and Postage			
- Fees and Subscriptions			
- Travelling and Conveyance & entertainment			
- Legal and Professional			
- Auditors' Remuneration			
Audit Fee			
Other Services			
Out of Pocket Expenses			
- Advertisement & Sales promotions			
- Entertainment			
- Charities and Donations names and addresses of the			
donees and of directors including their spouses and			
children interested is required IF (--) of 4th schedule			
- Depreciation method of Depreciation			
- Others			
- Insurance			
- Repairs & maintenance			
- Bad debts written off - trade			
- others			
- Provision for doubtful debts			
- trade			
- others			
- Research & development cost included in bad debts			
due by:			
- Directors chief executive, managing agent & executive			
- Associative undertakings			
		P/L	P/L

CONCLUSION

1. The audit has been completed in accordance with Audit program.
2. The working papers demonstrate that adequate work has been undertaken.
3. The working papers contain sufficient information, details of significant features and notes of unusual matters to enable us to form an opinion on financial statements.
4. In my opinion above amounts are fairly stated and on a consistent basis with the previous period.

Job Supervisor :________________ Date ________________

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Client:		**File No.**	**Reference**	**PL4**
Lead Schedule:	**Selling and Distribution Expenses**	**Prepared by**	**Date**	
		Reviewed by	**Date**	
		Accounting Period		

	Reference	*Whether Placed in File*				*Initial of Reviewer*			
Audit program	PL4/AP								
Lead Shedule	PL4/LS								
Monthly Analysis									
Significant Payments/Accrual									
Subsequent Payment Verification									
Test of Control - Payroll									

Client:	
Lead Schedule:	**Selling and Distribution**
	Expenses

File No.	**Reference PL4/LS**
Prepared by	**Date**
Reviewed by	**Date**
Accounting	
Period from	

	Reference	*Current Period* *Rupees*	*Previous Period* *Rupees*
- Ocean Freight			
- Local Freight and Octroi			
- Forwarding Expenses			
- Export Development Surcharge			
- Bank Charges			
- Others			
		P/L	P/L

CONCLUSION

1. The audit has been completed in accordance with Audit program.
2. The working papers demonstrate that adequate work has been undertaken.
3. The working papers contain sufficient information, details of significant features and notes of unusual matters to enable us to form an opinion on financial statements.
4. In my opinion above amounts are fairly stated and on a consistent basis with the previous period.

Job Supervisor :________________ Date ________________

			Index	
File No.		**Reference**		**PL5**
Client:		**Prepared by**	**Date**	
Lead Schedule:	**Financial Charges**	**Reviewed by**	**Date**	
		Accounting Period from		

	Reference	*Current Period* *Rupees*	*Previous Period* *Rupees*
FINANCIAL CHARGES			
Audit program	PL5-AP		
Lead Schedule	PL5/LS		
Compliance tests			
Significant Payments/Accruals			
Monthly analysis			

Client:	
Lead Schedule:	Financial Charges

File No.	Reference PL5 / LS
Prepared by	Date
Reviewed by	Date
Accounting	
Period	

	Schedule Reference	*Current Period Rupees*	*Previous Period Rupees*	*Reasons for Major variation*
- On Redeemable Capital	DD			
- On Long Term Loans	EE			
- On Finance Leases	FF			
- On Short Term Loans/Running Finance	JJ			
- On Borrowings from Associated Undertakings	JJ			
- On Borrowings from Directors	JJ			
Mark-up on				
- Term finance				
- Running finance				
Other (to be specified)				

CONCLUSION

1. The audit has been completed in accordance with Audit program.
2. The working papers demonstrate that adequate work has been undertaken.
3. The working papers contain sufficient information, details of significant features and notes of unusual matters to enable us to form an opinion on financial statements.
4. In my opinion above amounts are fairly stated and on a consistent basis with the previous period.

Job Supervisor :________________ Date ________________

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		File No.		Reference	PL6
Client:		Prepared by		Date	
Lead Schedule:	Other Charges	Reviewed by		Date	
		Accounting Period			

	Reference	*Whether Placed in File*	*Initial of Reviewer*
OTHER CHARGES			
Audit program	PL6/AP		
Lead Schedule	PL6/LS		

Client:	
Lead Schedule:	**Other Charges**

File No.	**Reference PL6/LS**
Prepared by	**Date**
Reviewed by	**Date**
Accounting	
Period	

	Schedule Reference	*Current Period Rupees*	*Previous Period Rupees*	*Reasons for Major variation*
Workers Profit Participation Funds				
Workers Welfare Fund				
Provision for Doubtful Debts	S			
Provision for Diminution in Value of Investments	W			
Research and Development Costs				
Amortization of Deferred Costs	M			
Loss on Disposal of Assets				
Loss on Sale of Investments	I &W			
Loss or provision for loss on redeemable capital				
Exchange loss				
Others (specify)				

CONCLUSION

1. The audit has been completed in accordance with Audit program.
2. The working papers demonstrate that adequate work has been undertaken.
3. The working papers contain sufficient information, details of significant features and notes of unusual matters to enable us to form an opinion on financial statements.
4. In my opinion above amounts are fairly stated and on a consistent basis with the previous period.

Job Supervisor :________________ Date ________________

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		File No.		**Reference**	**PL7**
Client:		**Prepared by**		**Date**	
Lead Schedule:	**Other Income**	**Reviewed by**		**Date**	
		Accounting Period			

	Reference	*Whether Placed in File*	*Initial of Reviewer*
OTHER INCOME			
Audit program	PL7/AP		
Lead Schedule	PL7/LS		

Client:	
Lead Schedule:	Other Income

File No.	Reference PL7/LS
Prepared by	Date
Reviewed by	Date
Accounting Period	

PARTICULARS	*Schedule Reference*	*Current Period Rupees*	*Previous Period Rupees*	*Reasons for Major variation*
Income from investments				
Gain on sale of Investments	K/W			
Gain on Disposal of Fixed Assets	A			
Interest Income				
Income from Redeemable Capital income from each	I & W			
class of capital				
Income from Modarabas or modarba certificates	K			
Scrap sale				
Miscellaneous	W			
Income from investments in association undertakings/				
		P/L	P/L	

CONCLUSION

1. The audit has been completed in accordance with Audit program.
2. The working papers demonstrate that adequate work has been undertaken.
3. The working papers contain sufficient information, details of significant features and notes of unusual matters to enable us to form an opinion on financial statements.
4. In my opinion above amounts are fairly stated and on a consistent basis with the previous period.

Job Supervisor :_______________ Date _______________

			Index
Client:		**File No.**	**Reference**	**PL8**
Lead Schedule:	**Provision for Taxation**	**Prepared by**	**Date**	
		Reviewed by	**Date**	
		Accounting Period		

	Reference	*Whether Placed in File*				*Initial of Reviewer*			
PROVISION FOR TAXATION									
Audit program	PL8/AP								
Current									
Deferred									
Lead Schedule	PL8/LS								

		File No.	**Reference PL8/LS**
Client:		**Prepared by**	**Date**
Lead Schedule:	**Provision for Taxation**	**Reviewed by**	**Date**
		Accounting Period	

	Reference	*Current Period* *Rupees*	*Previous Period* *Rupees*
PROVISION FOR TAXATION			
Current Year	PP		
Prior Period	PP		
Deferred	GG-1		
* Deferred taxation not accounted for shall be			
disclosed in notes to the accounts			

CONCLUSION

1. The audit has been completed in accordance with Audit program.
2. The working papers demonstrate that adequate work has been undertaken.
3. The working papers contain sufficient information, details of significant features and notes of unusual matters to enable us to form an opinion on financial statements.
4. In my opinion above amounts are fairly stated and on a consistent basis with the previous period.

Job Supervisor :________________ Date ________________

Client	*File No.*			
Analytical Review-Balance Sheet-Liabilities		*Name*	*Initial*	*Date*
	Prepared by			
	Checked by			
Year End :	*Job Incharge*			
	Reviewed by Manager/Partner			

Account Code		*Ref.*	*Current Period Rupees*				*Previous Period Rupees*				*Increase/Decrease Rupees*				*Increase/ Decrease %*	*Reason for Increase and Decrease*
	Authorized capital															
	issued, subscribed & paid-up capital															
	General Reserves															
	Capital Reserves															
	Unappropriated Profit & Loss															
	Surplus on Revaluation of Fixed Assets															
	Redeemable Capital															
	Long Term Loans															
	Assets subject to finance Lease															
	Defered Liabilities															
	Long Terms Deposits															
	Current Liabilities															
	Short term Loans															
	Current Portion of long term loans															
	Creditors, Accrued & other liabilities															
	Provision for Taxation															
	Proposed Dividend															
	Total Liabilities															

Client	***File No.***			
Analytical Review-Balance Sheet		***Name***	***Initial***	***Date***
Assets	***Prepared by***			
	Checked by			
Year End :	***Job Incharge***			
	Reviewed by Manager/Partner			

Account Code		***Ref.***	***Current Period Rupees***				***Previous Period Rupees***				***Increase/Decrease Rupees***				***Increase/ Decrease %***	***Reason for Increase and Decrease***
	Operating Fixed Assets															
	Capital-work-in-progress															
	Intangible Assets															
	Long Term Investments															
	Long Term Loan & Advances															
	Long Term Deposits , Prepayments &															
	Deferred Cost															
	Current Assets															
	Stores, Spares & Loose Tools															
	Stock-in-trade															
	Trade Debts															
	Short Term Deposits, Prepayments & Other															
	Receivable															
	Short Term Investment															
	Cash & Bank Balances															
	Total Assets															

Client	File No.			
Analytical Review - Sales		Name	Initial	Date
	Prepared by			
	Checked by			
Year End :	Job Incharge			
	Reviewed by Manager/Partner			

Account Code		Ref.	Current Period Rupees	Previous Period Rupees	Increase/Decrease Rupees	Increase/ Decrease %	Reason for Increase and Decrease
	Export						
	Local						
	Add : Export Rebate						
	Less :						
	- Commission						
	- Brokerage and Discount						
	- Excise Duty						
	- Sales Tax						

Client	*File No.*			
Analytical Review - Cost of Goods Sold		***Name***	***Initial***	***Date***
	Prepared by			
	Checked by			
Year End :	***Job Incharge***			
	Reviewed by Manager/Partner			

Account Code		***Ref.***	***Current Period Rupees***	***Previous Period Rupees***	***Increase/Decrease Rupees***	***Increase/ Decrease %***	***Reason for Increase and Decrease***
	Raw material consumed						
	Salaries, wages and benefits						
	Stores and spares consumed						
	Packing material consumed						
	Fuel and power						
	Rent, rates and taxes						
	Insurance						
	Repairs and maintenance						
	Depreciation						
	Other manufacturing overheads :						
	Vehicle Running & Maintenance						
	Telephone and postage						
	Utilities						
	Printing and stationery						
	Travelling and conveyance						
	Legal and professional						
	Others						
	Work in process :						
	Opening stock						
	Closing stock						
	Finished Goods:						
	Opening stock						
	Closing stock						
	Cost of Goods Sold						

Client	***File No.***			
Analytical Review - Administrative Expenses		***Name***	***Initial***	***Date***
	Prepared by			
	Checked by			
Year End :	***Job Incharge***			
	Reviewed by Manager/Partner			

Account Code		***Ref.***	***Current Period Rupees***				***Previous Period Rupees***				***Increase/Decrease Rupees***				***Increase/ Decrease %***	***Reason for Increase and Decrease***
	Directors' remmuneration															
	Staff salaries and benefits															
	Rent, rates and taxes															
	Insurance															
	Repairs and maintenance															
	Travelling and conveyance															
	Legal and professional															
	Vehicle running and maintenance															
	Utilities															
	Printing and stationery															
	Postage, telephone and telex															
	Fees, subscription and periodicals															
	Entertainment															
	Auditors' remmuneration															
	Advertisement															
	Charity and donation															
	Depreciation															
	Bank charges															
	Other															

Client	***File No.***		***Reference PL-I***	
Lead Schedule: SELLING EXPENSES		***Name***	***Initial***	***Date***
	Prepared by			
	Checked by			
Year End :	***Job Incharge***			
	Reviewed by Manager/Partner			

Account Code		***Ref.***	***Current Period Rupees***				***Previous Period Rupees***				***Increase/Decrease Rupees***				***Increase/ Decrease %***	***Reason for Increase and Decrease***
	Salaries and benefits															
	Freight and octroi															
	Clearing and forwarding															
	Travelling															
	Advertisement and sample															
	Others :															
	Export development surcharge															
	Market survey															
	Bank charges															
	Insurance															

Client	File No.			
Analytical Review - Financial Charges		Name	Initial	Date
	Prepared by			
	Checked by			
Year End :	Job Incharge			
	Reviewed by Manager/Partner			

Account Code		Ref.	Current Period Rupees	Previous Period Rupees	Increase/Decrease Rupees	Increase/ Decrease %	Reason for Increase and Decrease
	Markup / interest on :						
	- Redeemable Capital						
	- Debenture						
	- Long Term Loans						
	- Lease Finance						
	- Short Term Borrowings						
	- Loan from Directors & Associated Undertaking						
	- Workers' Profit Participation Fund						
	Excise Duty on Borrowings						
	Bank Charges and Commission						
	Exchange (Gain) / Loss						
	Exchange Risk Fee on Foreign Currency Loan						

Client	***File No.***			
Analytical Review - Other Income		***Name***	***Initial***	***Date***
	Prepared by			
	Checked by			
Year End :	***Job Incharge***			
	Reviewed by Manager/Partner			

Account Code		***Ref.***	***Current Period Rupees***	***Previous Period Rupees***	***Increase/Decrease Rupees***	***Increase/ Decrease %***	***Reason for Increase and Decrease***
	Income from Investments - net of Zakat						
	Income from Redeemable Capital						
	Income from Modaraba or						
	Modaraba Certificates						
	Profit on Sale of Investment						
	Profit on sale of fixed assets						
	Rental Income						
	Scrap sales						
	Others						

DAILY TIME CONTROL / STAFF ATTENDANCE SHEET

NAME: **INITIAL:** **GRADE:** **GROUP:**

NAME OF CLIENT	NATURE OF JOB	Period			DAYS																															NORMAL	OVER TIME	TOTAL HOURS
		DD	MM	YY	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	HOURS		
					Tue	Wed	Thu	Fri	Sat	Sun	Mon	Tue	Wed	Thu	Fri	Sat	Sun	Mon	Tue	Wed	Thu	Fri	Sat	Sun	Mon	Tue	Wed	Thu	Fri	Sat	Sun	Mon	Tue					
TOTAL																																						
OVERTIME HOURS																																						

D E T A I L E D   P E R F O R M A N C E   S U M M A R Y

CLIENT :

STAFF NAME : | DESIGNATION | SECTION: | PERIOD OF ACCOUNT : | MONTH :

	PARTICULARS / DATE	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	TOTAL
	STRATEGIC PLAN																																
	DETAILED AUDIT PROGRAM AND BUDGET																																
INTERIM WORK	COST OF GOODS SOLD/MANUFACTURING EXPENSES																																
	PURCHASES																																
	WAGES AND SALARIES																																
	ADMINISTRATION AND GENERAL EXPENSES																																
	SALES AND OTHER INCOME																																
	P&L - OTHERS																																
	CASH AND BANK																																
	DEBTORS (INCL. CIRCULARISATION)																																
	FIXED ASSETS																																
	STOCK AND WORK-IN-PROGRESS																																
	PHYSICAL STOCK TAKING																																
	GENERAL LEDGER AND JOURNAL																																
	INTERNAL CONTROL MEMORANDUM																																
	TRAVELLING																																
	SUPERVISION																																
	GENERAL																																
TOTLA INTERIM WORK																																	
FINAL WORK	SHARE CAPITAL/DIVISENDS																																
	RESERVES																																
	DEFERRED LIABILITIES																																
	LOANS																																
	CREDITORS-PURCHASES																																
	OUTSTANDING EXPENSES																																
	TAXATION																																
	CONTINGENT LIABILITIES																																
	FIXED ASSETS AND DEPRECIATION																																
	INVESTMENTS																																
	STOCK AND WORK-IN-PROGRESS																																
	TRADE DEBTORS																																
	ADVANCES, DEPOSITS AND PREPAYMENTS																																
	CASH AND BANK BALANCES																																
	SALES AND OTHER ONCOME																																
	MANUFACTURING EXPENSES																																
	SELLING AND ADMINISTRATION EXPENSES																																
	TRAVELLING																																
	SUPERVISON																																
	REPORTS/MEMORANDA																																
	REVIEW MEMORANDUM																																
	STANDARD SCHEDULE FOR AUDIT SUMMARY FILE																																
	GENERAL																																
	CONFERENCE WITH CLIENTS																																
TOTAL FINAL WORK																																	

Chapter 17 Formats of Enquiry and Confirmation

Inquiry and confirmation is defined by ISA as 'Audit evidence obtained as a direct written response to the auditor from a third party (the responding party), in paper form, or by electronic or other medium.'

When using external confirmation procedures as audit evidence, the auditor shall maintain control over external confirmation requests, including:

- Determining the information to be confirmed or requested;
- Selecting the appropriate confirming party;
- Designing the confirmation requests, including determining that requests are properly addressed and contain return information for responses to be sent directly to the auditor; and
- Sending the requests, including follow-up requests when applicable, to the confirming party.

Even when audit evidence is obtained from sources external to the entity, circumstances may exist that affect its reliability. Factors that may indicate doubts about the reliability of a response include that it:

- Was received by the auditor indirectly; or
- Appeared not to come from the originally intended confirming party.

Responses received electronically, for example, by facsimile or electronic mail, involve risks as to reliability because proof of origin and authority of the respondent may be difficult to establish, and alterations may be difficult to detect. A process used by the auditor and the respondent that creates a secure environment for responses received electronically may mitigate these risks. If the auditor is satisfied that such a process is secure and properly controlled, the reliability of the related responses is enhanced. An electronic confirmation process might incorporate various techniques for validating the identity of a sender of information in electronic form, for example, through the use of encryption, electronic digital signatures, and procedures to verify web site authenticity.

If auditor has doubts over the reliability of information to be used as audit evidence, the auditor may choose to verify the source and contents of a response to a confirmation request by contacting the confirming party. For example, when a confirming party responds by electronic mail, the auditor may telephone the confirming party to determine whether the confirming party did, in fact, send the response. When a response has been returned to the auditor indirectly (for example, because the confirming party incorrectly addressed it to the entity rather than to the auditor), the auditor may request the confirming party to respond in writing directly to the auditor.

I. Bank

The Manager Bank's Name and Branch Date: __________

Address

Dear Sir,

Name of Client

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 (**Year end date)** and, in the case of items 2, 4 and 9, during the period since (**Year start date)**.

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.

BANK ACCOUNTS

(1) Full titles of all accounts, including overdrafts and running and term finances under markup arrangements, whether in rupee or in any other currency together with the account numbers and balances thereon, including NIL balances:

- (a) where your customer's name is the sole name in the title;
- (b) where your customer's name is joint with that of other parties;
- (c) where the account is in a trade name.

FULL TITLE OF ACCOUNT	TYPE OF ACCOUNT	ACCOUNT NUMBER	CURR-ENCY	DR / CR	BALANCE		
					IN FIGURES		IN WORDS

NOTES

(i) Where the amount is subject to any restriction (e.g. garnishee order or arrestment) or exchange control consideration (e.g. ‘blocked account’) information regarding nature and extent of 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. If this authority is not forthcoming, please indicate.

(2) Full titles and dates of closure of all accounts closed during the period.

FULL TITLE OF ACCOUNT	TYPE OF ACCOUNT	ACCOUNT NUMBER	DATE OF CLOSURE

(3) Details of amounts accrued but not charged or credited as at the above date; e.g. bank charges, commitment fees, mark-up/interest etc.

DESCRIPTION	PERIOD			AMOUNT
		IN FIGURES		IN WORDS

(4) The amount of mark-up/interest charged during the period, if not specified separately in the customer's statement of account.

DESCRIPTION	PERIOD			AMOUNT
		IN FIGURES		IN WORDS

(5) Particulars (i.e. 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 gurantees/ indemnities, specifying agreed limits, unused facilities, markup/ interest terms, overdue rentals/ installments and in case of term loans and overdrafts, date for repayment or review or expiry;

DESCRIPTION	BALANCE AT ABOVE DATE	AGREED LIMITS	UNUSED LIMITS	MARKUP / INTEREST TERMS	DATE FOR REPAYMENT/ REVIEW / EXPIRY OF FACILITY	DESCRIPTION OF SECURITY CHARGED TO THE BANK	TYPE OF CHARGE	DATE ON WHICH CHARGE WAS CREATED

CONTINGENT LIABILITIES

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

NATURE	CURREN-CY	OUTSTAND-ING AMOUNT	LIMITS	EXPIRY OF LIMITS	DATE FOR REPAYMENT/ REVIEW	DESCRIPTION OF SECURITY CHARGED TO THE BANK	TYPE OF CHARGE	DATE ON WHICH CHARGE WAS CREATED
Total of bills discounted with recourse to the customer or any subsidiary or related party of the customer								

Any guarantees / comfort letters / letters of undertaking / bonds / endorsements or indemnities given by the customer in favour of third parties (other than subsidiary or related party)								
Any guarantees / comfort letters / letters of undertaking / bonds / endorsements or indemnities given by the customer in favour of any subsidiary or related party of the customer								
Any guarantees / bonds or indemnities given by the bank, on the customer's behalf, stating where there is recourse to the customer and/ or to its holding, parent or any other company within the group								
Total of acceptances								

Total of outstanding liabilities under documentary credits								
Others (please give details)								

DERIVATIVES AND COMMODITY TRADING

(8) 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:

NATURE	CURRENCY	NUMBER	DEAL DATE	MATURITY OR VALUE DATE	RATE	TYPE (BUY/ SELL)	DESCRIP-TION OF CHARGE	TYPE OF CHARGE	DATE ON WHICH CHARGE WAS CREATED
Foreign exchange contracts									
Bullions									
Securities									
Others									

SECURITY

(9) Information regarding securities in respect of facilities, contingent liabilities and derivatives and commodity trading. Please give:

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

TYPE OF CHARGE	DESCRIPTION OF SECURITY CHARGED TO THE BANK	DATE ON WHICH CHARGE WAS CREATED

(ii) particulars of any undertaking to assign to the bank any assets. If a security is limited to any borrowing, or if there is a prior *pari passu* or subordinate charge, please indicate.

(iii) Details, whether the security supports facilities granted by the bank to the customer or to another party.

(iv) For any arrangements for setoff 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 account covered)

CUSTODIES: - Investments, bills of exchange, documents of title, or other assets held but not charged. Please give details.

Information in respect of any letter of comfort obtained by the bank from the parent or any other associated concern of the company.

ASSETS UNDER THE ISLAMIC MODES OF FINANCE

(11) Details including 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:

NATURE	AMOUNT	MATURITY DATE	DESCRIPTION OF CHARGE	TYPE OF CHARGE	DATE ON WHICH CHARGE WAS CREATED
Asset repurchase agreement					
Asset resale agreement					
Options outstanding at the relevant date					
Any other arrangement					

CUSTOMER'S OTHER ASSETS HELD

(12) Full details (including description, face value, serial numbers) of investments, bills of exchange, documents of title or other assets including bearer instruments of the customer held but not charged:

ADDITIONAL BANKING RELATIONSHIP

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

OTHER INFORMATION

(14) Other related information, if any is as follows

Yours faithfully,

AUTHORIZED SIGNATORY
(Client's Signature)

II. Debtors / Creditor

Name of debtor/ creditor Date:

____
Address

Dear Sir(s)

Our records show a debit / credit balance of Rs.____________ at the close of business on **(year end date)**.

To ensure an independent verification of this balance, we shall appreciate if you will kindly check this balance with your records and send your confirmation **DIRECT** to our auditors, Messrs. __________, Chartered Accountants, by completing the form below for which an addressed postage paid envelope is enclosed.

Your prompt response to this request will be appreciated.

Yours faithfully,

M/s ________________ Name and address of the debtor/ creditor
Chartered Accountants
Address

Confirmation of balance

I/We confirm that the debit/credit balance of Rs. _________________ as at ________________, in the name of ____ is/are not in agreement with my/our books. The details of difference are as follows:
Yours faithfully,

III. Lease

Name and address of Leasing company / bank
Date_____________

Dear Sir(s)

(Name of client)

REQUEST FOR INFORMATION FOR AUDIT PURPOSES FOR THE YEAR ENDING (year end date)

In accordance with your above-named customer's authorization given below, please provide to us **directly** as auditors of your customer, the information relating to its affairs as at the close of business on **(year end date)**.

Lease No.	Description of leased asset(s)	Lease start Dare	Lease Expiry Date	Cost of leased assets	Security deposit	Rental amount & frequency	Amount in arrears (including contingent payment due)

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

Yours faithfully,

AUTHORIZED SIGNATORY
(Client's Signature)

IV. Legal

Name and Address of the Lawyer

____

____

Date___________

Dear Sirs,

Name of client)

REQUEST FOR INFORMATION FOR AUDIT PURPOSES FOR THE YEAR ENDING (year end date)

We will shortly be required to express our opinion as to the fairness with which the financial statements present the financial position of the company as (year end date) and the results of its operations from **(year end start date) to (year end date)**. In this connection, we shall be grateful if you would please furnish to us directly, the information requested below involving matters as to which you have been engaged and to which you have devoted substantive attention on behalf of the Company in the form of legal consultation or representation. Please provide the information requested below, taking into consideration matters that existed at **(balance sheet date)** and for the period from that date to the effective date of your response if it is other than date of reply.

Pending or Threatened Litigation (give details of existing litigation)

1. The nature of the litigation.
2. The progress of the case to date.
3. How management is responding or intends to respond the litigation; for example to contest the case vigorously or to seek out of court settlement, and
4. Evaluation of the likelihood of an unfavourable outcome and an estimate, if one can be made, of the amount or the range of potential loss.

Also, please identify any pending or threatened litigation in addition to above.

Yours faithfully,

AUTHORIZED SIGNATORY
(Client's Signature)

V. Loan

Name and address of Leasing company / bank Date_____________

Dear Sir(s)

(Name of client)

REQUEST FOR INFORMATION FOR AUDIT PURPOSES FOR THE YEAR ENDING (year end date)

In accordance with your above-named customer's authorization given below, please provide to us **directly** as auditors of your customer, the information relating to its affairs as at the close of business on **(year end date)**.

1 Details of all accounts whether in rupees or in any other currency as at _________________ stating full title, account numbers and balance therein including NIL balances.
2 Details of loans and credit facilities, specifying agreed limits and in case of term loans, dated for repayment and renewals.
3 Amounts of interest, commitment fees, service charges etc., charged during the period.
4 Details of amounts accrued but not charged or credited at the above date: e.g. interest, commitment fees, service charged etc.
5 Details of any security formally charged to you, including the date and type of charge (e.g. pledge, hypothecation etc.). If a security is limited to any borrowing or if there is a prior, equal or subordinate charge, please indicate.
6 Details of customer's assets held as security (other than those mentioned in your response to 5 above) or for other purposes.
7 Details of any guarantees, bonds or indemnities given to or by you, stating where there is a recourse to your customer and/or to its holding, parent or any other company within the group.
8 Any other information that you consider appropriate for the purpose of the audit.

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

Yours faithfully,

AUTHORIZED SIGNATORY
(Client's Signature)

VI. Tax

Name and address of tax adviser Date_____________

____

____

Dear Sir

(Name of client)

REQUEST FOR INFORMATION FOR AUDIT PURPOSES FOR THE YEAR ENDING (year end date)

In connection with the audit of the financial statement of the (name of the company) for the year ending (year end date), we shall be grateful if you would please provide us directly the following information:

- Detailed position of the company's open ended tax years / assessments, if any;
- differences, if any, between income and tax returned and that assessed for each open ended tax year, along with the particulars thereof;
- year wise position of tax refundable / payable;
- status of appeals and the amounts in dispute, and the likely outcome; and
- any other matters that may have an effect on the aforementioned financial statements of the company.

Yours faithfully,

AUTHORIZED SIGNATORY
(Client's Signature)

Chapter 18 Inventory Count Attendance Program

I. Guidelines for observation of physical inventories

1. As per the requirements of ISA 501, if inventory is material to the financial statements, the auditor shall obtain sufficient appropriate audit evidence regarding the existence and condition of inventory by attendance at physical inventory counting, unless impracticable.

2. The purpose of observing the physical inventory is to determine that the client's procedure result in an accurate count. It should be remembered that while the auditor will himself carry out test counts and extract certain cut-off information he is primarily there to observe that the client's procedure are satisfactory.

3. Where the client has an efficient system for inventory records, the physical inventory may be carried out on a continuous basis as opposed to counting everything in one go at the year-end. In the case of a client using the continuous basis, the auditor will still be required to observe a part of this continuous inventory counting.

4. The work of the auditor will normally cover three stages – before, during and after the physical inventory.

5. The following tasks should be carried out before the physical inventory begins:

   (a) Obtain a copy of the client's inventory instructions
   (b) Review adequacy of instructions using the pre-printed checklist and discuss any weaknesses in instruction with the client.
   (c) Arrange for letters to be sent to third parties holding inventories on behalf of client, requesting confirmation of these inventories to be sent direct to the auditors with a copy to the client.

6. The main task during the count to see that the client's employees are carrying out their instructions properly.

   The physical inventory pre-printed checklist should be completed and supporting schedules will be prepared to cover the following:

   Notes of inventory movement during the count.

   Details of last number prior to physical inventory in respect of:

   - Goods received
   - Goods despatched
   - Internal movement of goods

   Details of numbering of inventory sheets used and destroyed and of control of their issue to and return by those carrying out the physical inventory.

Schedules of items counted by the auditor showing their valuation (this valuation may have to be completed at final visit).

Details of any old, obsolete, damaged or excess inventories noted during the attendance.

Comments on adequacy of custody.

7. The working paper should be prepared in such a manner that the information can be easily followed up at the final audit visit. Test counts for example should have been traced to the stock sheets to confirm that they are a proper record of the results of the physical inventory.

8. The auditor should be aware of the approximate value of the various inventory items as he may wish to cover high value items in his test count. The valuation of the items counted by the auditors should be recorded during the count or, if not possible, at the final audit visit.

9. Where it is considered that physical inventory has been unsatisfactory in any major respect that matter should be reported immediately to the manager or partner concerned so that the necessity for a second physical inventory can be considered and discussed with the client.

10. At the final audit the information obtained at the physical inventory will be followed up. The work to be carried out will include:

    (1) An overall review of the working papers to assess the effectiveness of the physical count and whether the final audit programme work should be altered as a result.
    (2) A check of the cut-off using the information obtained or the last goods received and despatched note numbers.
    (3) A check of the auditor's test count items to the final inventory sheets.
    (4) A test that the final inventory sheets include only the inventories counted by reference to the details of numbering of inventory sheets obtained during the observation.
    (5) A follow up of all outstanding queries including obsolete etc items noted at the attendance of the physical inventory.
    (6) A test to ensure that inventory records have been adjusted to agree with the physical inventory.
    (7) A discussion with management of any weakness which arose, and if appropriate include points in the internal control memorandum.

Client ____________________________

Date of count ______________________

II. Inventories

(a) Observation of Physical Inventory Count Checklist

Name of Company	______________________________
Location or Department	______________________________
Date(s) of Inventory Taking	______________________________
Date(s) of Observation	______________________________
Firm Representative(s)	______________________________
Client representatives in charge of inventory (or department)	______________________________

Objectives: The purposes of the physical inventory observation are to determine that (1) the inventory actually exists, (2) the methods of inventory taking are effective in obtaining accurate counts, and (3) the inventory is in a usable and salable condition in the normal course of business (e.g., not damaged or obsolete).

Assertions: E/O, C, V/A

Instructions

This checklist covers information obtained and audit techniques usually employed during a physical inventory observation, including tests of perpetual inventory records. The checklist is not an exhaustive list of considerations for all observations. It should be supplemented by additional procedures whenever appropriate.

Some questions may be inappropriate for some observations. Questions that do not apply should be designated N/A (not applicable). A "no" answer should be explained in an attachment referenced to the related question.

An inventory count has three stages:

- Organisation
- Conduct
- Follow-up

Such counts are carried out by business either:

1. To corroborate information contained in their books and records which is the product of a continuous accounting and control system, or

2. To provide an inventory figure for inclusion in financial statement and to use in calculating profit where there is no system of continuous inventory accounting.

   Attendance at inventory counts by the auditor is a standard verification test which serves to confirm the physical existence of inventories, to corroborate the method of quantification and to ascertain their physical condition.

The staff member is required to:

(1) Observe procedures and complete the following checklist.

(2) Carry out test counts as specified by the scope decisions sheet and record the results on the sheets attached to the checklist.

General Description of Inventory (indicate those that apply):

Types of Inventory	
Raw materials	______
WIP	______
Finished goods	______
Wholesale and/or retail merchandise	______
Other (i.e., supplies, repair parts, etc.)	______

Special Categories of Inventory (if "yes," obtain particulars for audit follow-up):

		Yes	No
On-site --	Goods billed not shipped	______	_____
	Goods received not billed	______	_____
	Inventory owned by others	______	_____
	Consignments in	______	_____
Off-site --	Goods in transit to customers	______	_____
	Goods in transit from vendors	______	_____
	Inventory held by others	______	_____
	Consignments out	______	_____

Special Classes of Inventory:

Obsolete	______	_____
Overstock	______	_____
Slow moving	______	_____
Special order	______	_____
Damaged	______	_____

Discuss with client personnel and describe particulars for any classes listed above:

____

____

____

Checklist

Question	Yes	No	Alternative procedure
<u>Organisation</u> (1) Were adequate written instruction prepared covering each phase of the physical inventory procedures, issued in advance of the count and used (describe issues noted if any). Consider the following in evaluating their adequacy: • Plans for arranging and segregating inventory, including precautions taken to clear work-in-process to cutoff points. • Provisions for control of receiving and shipping during inventory taking period and, if plant is not shut down, provisions for handling inventory movements. • Instructions for recording description of items and how quantities are to be determined (e.g., count, weight, state of completion of WIP, or other measurement). • Instructions for identifying obsolete, damaged, and slow-moving items. • Instructions for use of inventory tags or count sheets (including their distribution, collection, and control). • Plans for determining quantities at outside locations. • Instructions for review and approval of inventory counts by department heads or other supervisory personnel. • Instructions to determine that packaged contents match description of inventory. • Instructions for inventory items to be recounted by persons other than those making the original counts. (2) Was there adequate physical preparation for the count including: ■ Tidying up ■ Stopping work or production ■ Sorting gods out			

■ Identifying and marking goods (3) Were stock sheets prepared before the count. (4) Was cut-off proper organized by: ■ Closing receiving and despatch ■ Recording the last numbers of documents controlling the flow of goods prior to the count ■ Segregating goods in receiving and despatch areas. **Conduct** (1) Was the count carried out by personnel: ■ Not usually involved in the custody of inventories. ■ Able to identify the inventories being counted.			
(2) Was a system of double check carried out by accounts or supervisory personnel. (3) Were inventories marked as counted to avoid omission or duplication in the count. (4) Were damaged or obsolete items specifically noted. (5) Were the contents of sealed packages checked by opening and weighed to see that contents conformed to labels. (6) Was there an adequate procedure to identify goods not belonging to the company. (7) Where amendments to inventory sheets were made were these initialled by a supervisor. **Follow-up** (1) Were all the inventory sheets accounted for. (2) Were rough inventory sheet retained. (3) Is there a proper procedure for authorised amendment of inventory record to agree to the results of the count. (4) To assist in testing cut-off, try to establish and note down the last goods received and issued prior to the physical inventory, and the last transfer between categories of inventory.			

(b) Conclusions

Give below your overall conclusions on the count referring specifically to:

(1) The adequacy of procedures laid down.

(2) Whether these procedures were complied with, and

(3) Whether the results of the counts can be relied upon the properly reflect quantities on hand as of that date and to form the basis of the valuation of inventories.

Document any identified control issues related to the company physical inventory procedures.

Signed ________________________

Client ___________________________

Date of count _____________________

Production Costs and Inventories

RECORD OF TEST COUNTS

Selection items in both directions (full and false inclusion)

Reference (stock sheet number etc)		Description of item		Quantity counted		Condition (i.e. note any damage or obsolescence)

Chapter 19 Going Concern Assessment

Client:		Audit Date	
Prepared by:		Date:	
Reviewed By:		Date	

1. Evaluating Management's Assessment.

ISA 570 paragraph 12 requires an auditor to obtain and evaluate management's assessment of the entity's ability to continue as a going concern.

While evaluating management's assessment, the auditor should cover the same period as that used by management to make its assessment as required by the applicable financial reporting framework, or by law or regulation if it specifies a longer period.

If management's assessment covers less than twelve months from the date of the financial statements, request management to extend its assessment period to at least twelve months from that date.

a. Are any events or conditions which may cast significant doubt on the entity's ability to continue as a going concern has been identified?

Yes Describe ____
No

Examples of conditions and events can be traced from paragraphs A2 of ISA 570

b. Based on our inquiries of management and our review of their assessment, were any events or conditions noted that may occur shortly beyond the management assessment that were so significant that they may cast doubt on the entity's ability to continue as a going concern?

Yes Describe ____
No

IF THE AUDIT TEAM ANSWERS "NO" TO QUESTIONS 1a and 1b ABOVE, STOP HERE AND DISCARD THE REMAINDER OF THE FORM. HOWEVER, IF THE AUDIT TEAM ANSWERS "YES" TO QUESTIONS 1a and 1 b ABOVE, THEY SHOULD COMPLETE THE ASSESSMENT IN STEPS 2 & 3 BELOW.

2. Additional Audit Procedures when event or conditions are identified

When events or conditions which may cast significant doubt on the entity's ability to continue as a going concern have been identified obtain sufficient appropriate audit evidence to determine whether or not a material uncertainty exists through performing the following additional audit procedures.

Consideration of Management's Plans

Evaluate management's plans for future actions in relation to its going concern assessment, whether the outcome of these plans is likely to improve the situation and whether management's plans are feasible in the circumstances.

The following procedures should be performed, as applicable:

1. **Stated plans.** Obtain and discuss with management its plans to deal with the identified risks. Indicate the individuals interviewed.

   Done by: ______________________ Date: ________________
   Interviewed: ______________________ Date: ________________

2. **Supporting evidence overcoming substantial doubt.** Indicate below the elements of management's plans that are particularly significant to overcoming the substantial doubt about the entity's ability to continue as a going concern. Examine and describe evidence that supports those elements.

   - Third-party guarantee (Procedure 3 below)
   - Debt restructuring or new borrowings (Firm policy contains a rebuttable presumption that only an irrevocable, legally binding commitment letter constitutes sufficient evidential matter to overcome a going concern consideration.)
   - Liquidation of assets
   - Reduction or delay of expenditures
   - Increase in revenues
   - Increase in equity
   - Other (describe)

3. **Third party guarantees and other financial restructuring agreements.** If there are significant guarantees of financial support from a third party (such as the entity's parent company, another shareholder, an affiliate or a general partner of a limited partnership):

   a. Describe the nature of the guarantee from the list provided below (and, if the guarantee is limited, describe its amount and duration). In addition, discuss the nature and extent of the audit work performed in this area.

      - Subordination agreement to allow deferral of payment of amounts owed to the parent company and affiliates.
      - Agreement of third party to serve as guarantor of the entity's future borrowings from a lender.
      - Line of credit or provision of funds directly to the entity.
      - Other (describe):

      Are **<u>all</u>** of the following points true?

        - There is a written agreement signed by the guarantor (not just a representation by management of the entity).
        - It is reasonable to assume that the guarantee can be realized, if necessary. (Consider the enforceability of the guarantee, the liquidity of the guarantor, its past record of honouring similar commitments and its risk of losing credibility with the public if it fails to honour its commitment.)

          - Should the entity default, it is reasonable to expect, from a business viewpoint, that creditors would seek recovery from the guarantor.
          - The entity will disclose the existence of the guarantee agreement.

Yes	
No	Little, if any, reliance should be placed on the guarantee.
N/A	A guarantee is not part of management's plans.

Done By: ______________________ Date: __________

4. **Prospective financial information.** Normally, we expect management to have prospective financial information for at least one year from the balance sheet date (budgets, projections, cash flow forecasts, etc.) available to demonstrate the intended outcome of its plans. Although this information is not as persuasive as evidence provided by third parties, we usually consider it as necessary to support management's plans.

   a. Consider the reliability of the system for generating the prospective information.

   b. Read the information and the underlying assumptions to determine whether it is consistent with other plans or evidence.

   c. Compare similarly prepared budget information prepared in prior periods with the actual results achieved in those periods. Compare the prospective information for the current period with results achieved to date.

   d. Consider the adequacy of the support for significant underlying assumptions, based on knowledge of the entity, its business and its management. (We should be skeptical of assumptions that appear to be based on wishful thinking and do not reflect the conditions and course of action that entity management truly anticipates.) Give particular attention to assumptions that are:

      - Material to the prospective financial information.
      - Especially sensitive or susceptible to change.
      - Inconsistent with historical trends.
      - Inconsistent with management's stated plans.

   e. If it appears that important factors are not reflected in the prospective information, discuss their effects with management. If necessary, request that the prospective information be revised (Note: The inability or refusal to make requested revisions ordinarily will prevent us from resolving our going-concern doubt.) In addition, if management's assessment of the entity's ability to continue as a going concern covers less than twelve months from the balance sheet date, the auditor should ask management to extend its assessment period to at least twelve months from the balance sheet date.

   f. Consider whether it would be appropriate to perform other procedures such as those performed in an examination of a forecast *NOTE*: No report should be issued because the work is solely for our use in assessing management's plans.

Can the Firm place any reliance on the prospective information noted above, adjusted as necessary, given the history and specific facts and circumstances of this entity?

Yes ______________________________

No Little, if any, reliance should be placed on the prospective information.

Performed By: ______________________________ Date: __________

Management's representation. Obtain written representation from management and where appropriate from those charged with governance regarding management's plans and conclusion about the appropriateness of the going concern assumption and the reasonableness of related disclosures in the financial statements.

Done By: ______________________________ Date: __________

5. Conclusion

Based on the audit evidence obtained, conclude whether a material uncertainty exists relating to events or conditions, that individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern. A material uncertainty exists when the magnitude of its potential impact and likelihood of occurrence is such that, in our judgment, appropriate disclosure of the nature and implications of the uncertainty is necessary for the fair presentation of the financial statements.

Use of Going Concern Assumption Appropriate but a Material Uncertainty Exists

If the conclusion is reached that the use of the going concern assumption is appropriate in the circumstances but a material uncertainty exists, determine whether the financial statements:

- adequately describe the principal events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and management's plans to deal with these events or conditions
- disclose clearly that there is a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

If adequate disclosure is made in the financial statements, express an unmodified opinion and include an emphasis of matter paragraph in the audit report to highlight the existence of a material uncertainty relating to the event or condition that may cast significant doubt on the entity's ability to continue as a going concern and to draw attention to the note in the financial statements that discloses the related events and uncertainty.

If adequate disclosure is not made in the financial statements, express a qualified or adverse opinion. State in the audit report that there is a material uncertainty that may cast significant doubt about the entity's ability to continue as a going concern.

Use of Going Concern Assumption Inappropriate

a) Financial statements prepared on going concern basis

If, in our judgement, management's use of the going concern assumption in the financial statements is inappropriate, express an adverse opinion.

b) Financial statements prepared on an alternative basis

If the entity's management is required, or elects, to prepare financial statements when the use of the going concern assumption is not appropriate in the circumstances, the financial statements are prepared on an alternative basis (for example, liquidation basis). We may be able to perform an audit of those financial statements provided that we determine that the alternative basis is an acceptable financial reporting framework in the circumstances. We may be able to express an unmodified opinion on those financial statements, provided there is an adequate disclosure therein but we may consider it appropriate or necessary to include an Emphasis of Matter paragraph in the auditor's report to draw the user's attention to that alternative basis and the reasons for its use.

Management Unwilling to Make or Extend Its Assessment

If management is unwilling to make or extend its assessment when requested to do so, consider the implications for the audit report.

When there is significant delay in the approval of the financial statements by management or those charged with governance after the date of the financial statements, inquire about the reasons for the delay. If it is believed that the delay could be related to events or conditions relating to the going concern assessment, perform those additional audit procedures necessary and consider the effect on the conclusion regarding the existence of a material uncertainty.

6. Communication

Unless all those charged with governance are involved in managing the entity, communicate with those charged with governance events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern. Such communication with those charged with governance will include the following:

- Whether the events or conditions constitute a material uncertainty
- Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements
- The adequacy of related disclosures in the financial statements.

7. **Consultation**

The engagement team should consult with the partner in all of the following situations related to making an assessment of an entity's ability to continue as a going concern:

- When the engagement team has identified risks and any related mitigating circumstances and is evaluating whether those circumstances mitigate the risks or whether there is a need to consider management's plans;
- When the engagement team has completed assessing management's plans and is assessing whether a report modification is necessary.
- A going-concern problem is expected to arise shortly after the twelve-month "cutoff" period beyond the date of the financial statements.
- Report modifications
- Engagement retention/resignation. The following should be considered:
  - The quality of the entity's accounting policies and procedures.
  - Prospects for continuation of business for the next two to three years.
  - Quality of management (e.g., ability to control risk)
  - The Firm's vulnerability (litigation risk, risk of damaging reputation, and fee recoverability).

Performed By: ______________________ Date: __________
Documented at: ______________________

8. **Approved:**

Manager ______________________ Date: __________

Partner ______________________ Date: __________

Chapter 20 Related Party Transactions Checklist

Client:	
Period:	

Introduction

		W/P Ref	***Initial***
System Evaluation			
1	Inquire of management regarding: i. The identity of the entity's related parties, including changes from the prior period ii. The nature of relationships between the entity and these related parties iii. Whether the entity entered into any transactions with these related parties during the period and, if so, the type and purpose of the transactions		
2	Inquire of management and others within the entity such as those charged with governance, internal auditors, legal counsel and those dealing with significant transactions outside of normal course of business, to obtain an understanding of the controls, if any that management has established to: i. Identify, account for, and disclose related party relationships and transactions in accordance with the applicable reporting framework ii. Authorise and approve significant transactions and arrangements with related parties iii. Authorise and approve significant transactions and arrangements outside the normal course of business		
Related Parties			
3a	Obtain from management personnel (or prepare) a list of all related parties (detailing the name of related party, relationship with each party) and compare with the previous year's list and the shareholder's records. Distribute the list of relate parties to all staff assigned to the engagement for their consideration while performing various audit tests, and attach copy to this checklist.		
3b	If a coordinating office, distribute the list of RPTs to other offices / firms of auditors participating in the engagement.		
4a	If secondary auditors, consider obtaining representation from parent company management as to the existence of related parties.		
4b	Consider enquiring of predecessor auditors, or other firms involved in the audit, as to their knowledge of RPTs.		
5	Document any affiliations directors or senior management have with other entities.		

		W/P Ref	Initial
Related Party Transactions			
6	Inquire of appropriate management personnel whether there were any transactions with related parties (including significant transactions that occurred but were not given accounting recognition).		
7	Perform procedures to identify additional related parties and significant (over ____), unusual, or nonrecurring transactions or balances involving related parties. Such procedures could include:		
	(a) identifying major customers, suppliers, borrowers, and lenders, and significant changes to these relationships.		
	(c) review of lawyer billings		
	(d) review of bank guarantees		
	(e) review of contract awards		
	(f) review of overdue receivables or payables		
	(g) review of investment transactions		
	(h) transactions at, or near, the year end (refer audit manual Para 5.8.1)		
	(i) review of transactions with unusual terms of trade		
	(j) consider where RPTs may have occurred but not changed		
8	Where RPTs have been identified prepare (or obtain) a schedule, or a summary where appropriate of these and obtain an understanding of the business purpose of the transaction(s)**.**		
	(a) examine invoices, agreements etc.		
	(b) examine approval for the transaction both by management and local shareholders		
	(c) obtain confirmation of any outstanding balances		
	(d) obtain information as to the financial standing of the related parties regarding out		
	(e) indicate whether disclosure is required or not		
	(f) agree with management		
9.	Where it is uncertain if the transaction is a RPT or not consider:		
	(a) obtaining confirmation of significant information directly from third parties		
	(b) obtaining further information and references on supplies or customers that appearing		
10	Transactions outside the Entity's Normal Course of Business		

	For identified significant related party transactions outside the entity's normal course of business: i. Inspect the underlying contracts or agreements, if any, and evaluate whether: • The business rationale (or lack thereof) of the transactions suggests that they may have been entered into to engage in fraudulent financial reporting or to conceal misappropriation of assets. • The terms of the transactions are consistent with management's explanations. • The transactions have been appropriately accounted for and disclosed in accordance with the applicable financial reporting framework. ii. Obtain audit evidence that the transactions have been appropriately authorised and approved.		
11	Arm's Length Assertion If management has made an assertion in the financial statements to the effect that a related party transaction was conducted on terms equivalent to those prevailing in an arm's length transaction, obtain sufficient appropriate audit evidence about the assertion by performing procedures such as: i. Comparing the terms to those with unrelated parties. ii. Engaging an external expert to determine market value and verify market terms and conditions. iii. Comparing the terms to known market terms for similar transactions.		
12	Consider impact on the audit report In forming an opinion, evaluate: i. Whether the identified related party relationships or transactions have been appropriately accounted for and disclosed in accordance with the applicable financial reporting framework. ii. Whether the effects of the related party relationships and transactions prevent the financial statements from achieving fair presentation.		

13	Communication with those charged with governance Unless all of those charged with governance are involved in managing the entity, communicate with those charged with governance significant matters arising during the audit in connection with the entity's related parties			

Signed ____________________________ Date: __________

Partner / Manager ____________________________ Date: __________

Client:	
Period:	
Subject:	Culmination Audit Meeting Agenda And Minutes

Meeting Held on	

Attended by:

Name	Designation	Auditor / Client

Point 1	
Minutes	
Resolution action	
Responsible	

Point 2	
Minutes	
Resolution action	
Responsible	

Note: Add more points as desired.

Chapter 21 Companies Ordinance Compliance Checklist

WP Ref.:	
Prepared by:	
Date	
Reviewed by	
Date:	

Client: ____

Period: ____

Answer YES or NO, where the answer requires any further details, please give that separately, (where not applicable mark N/A).

I. Secretarial Formalities	**Answer**
A. Are the following statutory books maintained by the company, whereby applicable, under the Companies Ordinance, 1984 and are these kept at the registered office of the company.	
(a) Register of transfer of shares and debentures (Section 76)	
(b) Register of mortgages (Section 135)	
(c) Register of members and Index of members. Index required if more than fifty members (Section 147)	
(d) Register of debentures and Index of debentures. Index required if more than fifty members (Section 149)	
(e) Minute books for proceedings of general meetings and meetings of Directors / Committee of Directors A copy of the minutes of meeting of the board of directors shall be furnished to every director within fourteen days of the date of meeting. (Section 173)	
(f) Register of Directors, Officers including Chief Executive, Managing Agent, Secretary, Chief Accountant, Auditors and Legal Adviser containing with respect to each of them such particulars as maybe prescribed.(Section 205)	
(g) Register for shares and securities not held in the name of company (Section 209)	
(h) Register containing particulars of contracts / arrangements or appointments i.e. contracts in which directors and officers interested, contracts for appointment of chief executive, whole time directors, secretary, etc. (Section 219)	
(i) Register in respect of director, chief executive, chief accountant, secretary, managing agent or auditor of company and every other person holding not less than 10 percent beneficial interest in shares and	

	debentures of company, etc. (Applicable to listed companies), (Section 220)	
(j)	Register of Pakistani members, debenture holders, directors, officers, etc. (Applicable to foreign companies and register to be kept at principal place or business), (Section 454)	
B.	Have the following forms, etc., wherever applicable, been filed with the Registrar or other relevant authorities under the Companies Ordinance, 1984.	
(a)	Return of allotments (Section 73)	
(b)	Notice of increase in share capital beyond the registered capital (Section 92 & Section 94)	
(c)	Particulars of mortgages, charges etc. (Section 121/129 & Section 463	
(d)	Particulars of mortgage or charge subject to which property has been acquired (Section 122 and Section 463)	
(e)	Registration of entire series of participation term certificates / term finance certificates / debentures (Section 123/124 & Section)	
(f)	Particulars of an issue of participation term certificates / term finance certificates / debentures in a series when more than one in the series is made. (Proviso to Section 123 / 463)	
(g)	Particular of modification of mortgage, charge, etc. (Section 129 & Section 463)	
(h)	Memorandum of complete satisfaction of mortgage (Section 132 & Section 463)	
(i)	Notice of situation of registered office or of any change therein (Section 142)	
(j)	Declaration of compliance with conditions of Section 146 of the Ordinance before commencing business in case of a company issuing prospectus (Section 146)	
(k)	Declaration before commencing business in case of a company filing statement in lieu of prospectus (Section 146)	
(l)	Notice of modification of register of members (Section 154)	
(m)	Annual return of company having share capital (Section 156)	
(n)	Statutory report (Section 157)	
(o)	Special resolution (Section 172)	
(p)	Consent to act as Director / Chief Executive to be filed within 14 days (Section 184)	
(q)	Particulars of directors and officers including the chief executive, managing agent, secretary, chief accountant, auditors and legal adviser or of any change therein and such particulars as may be prescribed (Section 205)	

(r) Resolution passed by members pursuant to Section 208 of the Ordinance (relating to investments in associated companies and undertakings) (Section 208)	
(s) Return containing particulars of beneficial ownership of listed securities (Section 222)	
(t) Return of change of beneficial ownership of listed securities and making of gains (Section 222 & Section 224)	
(u) Notice of address at which books of accounts are maintained (Section 230 & Section 464)	
(v) Application for extension in period for payment of dividend (Section 251)	
Following applicable only in case of foreign companies	
(w) Documents (Charter / Statute / Memorandum and Articles, etc.) delivered for registration by a foreign company (Section 451)	
(x) Return showing address of registered office or principal office of a foreign company or any change therein (Section 451 & Section 452)	
(y) Return showing particulars of directors, chief executive and secretary (if any) of a foreign company or of any alteration therein (Section 451 & Section 452)	
(z) Return showing particulars of principal officer of a foreign company in Pakistan or of any change therein (Section 451 & section 452)	
(aa) Return showing particulars of persons resident in Pakistan authorised to accept service on behalf of a foreign company or of any alteration therein (Section 451 & Section 452)	
(bb) Return showing address of the principal place of business in Pakistan of a foreign company or any change therein (Section 451 & Section 452)	
(cc) Return of alternation in charter, etc. of a foreign company (Section 452)	
(dd) Notice by a foreign company on ceasing to have any place of business in Pakistan (Section 458)	
II. Disclosure and Other Requirements Under The Companies Ordinance, 1984	
A. The financial statements of listed companies have to comply with the requirements of the Fourth Schedule to the Companies Ordinance, 1984, (Section 234).	

B.	The financial statements of non-listed companies have to comply with the requirements of the Fifth Schedule to the Companies Ordinance, 1984, Reporting Standards for Medium Sized Entities and Small Sized Entities.	
C.	The following provisions of the Companies Ordinance, 1984 could have a bearing on the financial statements and should be considered during the audit to ensure that the provisions have been complied with, wherever applicable.	
(a)	Prohibition of purchase or grant of financial assistance by a company for purchase of its own shares or the shares of its holding company except under the conditions provided under section 95A (Section 95)	
(b)	Restriction on directors' remuneration for attending meetings and for extra services which may be determined in accordance with provisions of Articles i.e. by directors or company in general meeting (Section 191)	
(c)	Loans to directors (Section 195)	
(d)	Certain matters specified in Section have to be approved by means of resolution passed at the meeting of the Board of Directors (Section 196)	
(e)	Terms of appointment of Chief executive to be determined in accordance with provision in Company's Articles i.e. either by directors or company in general meeting (Section 200)	
(f)	Investments in associated companies and undertakings. (Section 208)	
(g)	Investments of company to be held in its own name (Section 209)	
(h)	Disclosure of interest by director in contract / arrangement entered by or on behalf of the company (Section 214)	
(i)	Disclosure of interest by officers in contract / arrangement other than in Section 214 of Ordinance (Section 215)	
(j)	Securities and deposits, etc. to be kept in special account with scheduled bank etc. (Section 226)	
(k)	Provisions obtaining to employees' provident funds and securities including requirement of keeping amounts in special accounts and payment of contributions within specified time (Section 227)	
(l)	Proper books of accounts to be kept by company (Section 230)	
(m)	Financial statements of listed companies to comply with requirements of Fourth Schedule and the International Accounting Standards (IASs) as specified by SECP in the Gazette. (Section 234)	

(n)	Assets may be revalued, however incremental depreciation is to be charged to surplus on revaluation (Section 235)	
(o)	Directors' report and its contents prescribed including separate requirements for public company or a private company which is a subsidiary of a public company. In case of holding company the directors are required to prepare and attach consolidated financial statements, group affairs and all the applicable sub sections of this section (Section 236)	
(p)	Balance sheet of holding company to include certain particulars as to its subsidiaries and to comply with all requirements of this section (Section 237)	
(q)	Restriction on declaration of dividends. Dividends to be paid only out of profits; dividends not to be paid except to registered shareholders or to their order or to their bankers and dividend to be paid within prescribed period (Section 248 & Section 251)	
D.	Compliance with the approved International Accounting Standards	

Chapter 22 Income Tax Provision Checklist

Important: This checklist may be modified in accordance with the applicable law for the time being in force and in accordance with the law applicable on nature of the business and type/class of the asessee.

Name of Client:		
National Tax Number:		
Income Year Ended:	**Tax Year:**	
Type of Person:	**Tax Status:**	
Industry Segment:	**Current Year**	**Previous Year**
Income Period Ended on:		
Total Income:		
Tax liability / Provision – Total		
Current		
Prior		
Deferred		
Applicable tax rate		
Income taxed at different rates **Others**		

For Tax Return			**For Provision for Tax**		
	Name	**Initial**		**Name**	**Initial**
Prepared by			**Audit In charge**		
Reviewed by			**Audit Manger**		
Approved by			**Tax Manager**		
			Tax Partner		

CLIENT:	
PERIOD/YEAR:	
SUBJECT:	TAXATION CONCLUSION STATEMENT

Objectives

Within the overall objective of ensuring that the financial statements present a fair view of the client's financial position, the objectives regarding taxation are to ensure that:

1. adequate disclosure has been made in the financial statements in respect of company tax liabilities and have been dealt with properly.

2. any amounts shown in the appropriation account and notes are properly computed and disclosed.

3. adequate provision has been made for any withholding taxes on non-resident third party payments being borne by the company.

Work done

The previous year's tax computation, annual returns, assessment orders, appeals statements and subsequent letters have been reviewed together with the estimates for the current period to achieve the above objective. The file contains a copy of the previous year's return and a memorandum signed by a tax manager/partner of work done in the tax review.

Conclusion

It is my opinion that subject to the matters listed on the list of outstanding items.

1. Adequate provision has been for company tax and withholding taxes liabilities.

2. Appropriate disclosures have been made of the overall taxation position on a basis consistent with the previous period.

3. All effects pertaining to tax appeals decided in the favour of taxpayer has been recorded.

Signed ....…......................... Date ....

Partner/Manager (Tax).............................. Date ....

Legal requirement		Section	Yes	No	N/A
1	**General**				
1.1	Audited accounts for the period are available or working of provision for tax is based on latest updated draft of the accounts.	118			
1.2	Where a person's tax year is other than "normal tax year" i.e. ending on 30 June, it has Commissioner's / FBR's approval for that purpose.	74 (5)			
1.3	Details of income and expenditure classified and apportioned under each of the following heads of income: I. Income from Business II. Income from property III. Income under the head capital gains IV. Income from other sources	11			
1.4	Details of income and expenditure have been further classified and apportioned between Pakistan source income and foreign source income.	67			
1.5	In case of a company, income from business has been accounted for on accrual basis. Cash or hybrid basis is not allowed to companies except where prescribed by FBR.	32 (2)			
1.6	In case of long term contracts percentage of completion method has been used. Long term contract is a contract for manufacture, installation or construction etc. which is not completed within tax year and is for a period of more than six months.	36			
1.7	Liabilities which were charged against the profits in earlier years and remained outstanding at the end of the year under consideration have been offered for tax.	34(5)			

Legal requirement		Section	Yes	No	N/A
1.8	Liabilities which were added to the income under section 34(5) of the Ordinance in any of the preceding years and were discharged during the year have been claimed as deduction.	34 (6)			
1.9	Provisions made for gratuity / pension etc. have been added to income and amounts of gratuity / pension paid during the year have been claimed as admissible deduction.				
1.10	Provision for bad debts made during the year has been offered for tax.	29			
1.11	Bad debts written off against provisions disallowed during preceding years have been claimed as admissible deduction.	29			
1.12	Recoveries against provisions for bad debts not allowed during the preceding years have been claimed as a deduction.	29			
1.13	Any other provisions made during the year have been offered for tax.	29			
1.14	Payments made against any other provision taxed in earlier years have been claimed as admissible deduction. .				
1.15	Where the transactions between associates are not at arm's length, these have been adjusted to arm's length value.	108			
1.16	The impact of the provisions of the Ordinance in respect of re-characterization of income and deductions has been considered in the following cases: a) Tax avoidance schemes; b) Transactions not having substantial economic effect; or c) Transaction, where the form of the transaction does not reflect the substance.	109			

Legal requirement		Section	Yes	No	N/A
1.17	Where a foreign controlled resident company (other than financial institution or a banking company) has a foreign debt-to-foreign equity ratio in excess of 3:1 ***at any time during a tax year***, deduction in respect of profit on debts has not been claimed on the part of the debt which exceeds 3:1 ratio.	106			
1.18	All exemption from tax, reduction in the rate of tax, reduction in tax liability or exemption from any provision of this Ordinance claimed are either provided in the Income Tax Ordinance, 2001 or were introduced in the relevant law prior to 01 July 2002.	54			
1.19	Where the assessee is a resident person, both Pakistan source income and foreign source income have been offered for tax.	11(5)			
1.20	Where expenditure relates to: a) the derivation of more than one head of income; or b) derivation of income comprising of taxable income and any class of income which falls under the presumptive tax regime (PTR); or c) derivation of income chargeable to tax under a head of income and to some other purpose (e.g. exempt income) The expenditure has been apportioned on any reasonable basis taking account of the relative nature and size of the activities to which the amount relates or as per rules specified by the FBR. For this purpose details of income need to be further classified and apportioned between Pakistan source income and foreign source income.	67			

Legal requirement		Section	Yes	No	N/A
1.21	All transactions relating to property, rent, asset, service, benefit or perquisites are at fair market value i.e. the value in the open market at that time.	68			
1.22	Where a person has been allowed deduction in respect of an expenditure or loss and subsequently receives any amount in respect of such expenditure or loss, the amount so received has been offered for tax.	70			
1.23	Where any amount is received during the year from a source of income which has been ceased in the preceding years, such amount has been offered for tax during the year	72			
1.24	All currency conversions are at SBP rate prevailing on the date the amount is taken into account.	71			
1.25	Application of a business asset to the personal use has been treated as disposal of the asset.	75			
1.26	Application of a personal asset to business use has been treated as acquisition of the asset.	75			
1.27	Where an asset has been acquired by a person with a foreign currency loan, any exchange gain or loss and interest on the loan has been adjusted against the cost of the asset.	76			
1.28	Where acquisition of an asset is the derivation of an amount chargeable to tax or exempt from tax, the cost of the asset has been calculated to be the amount so charged or exempted plus any amount paid by such person.	76			
1.29	The cost of asset does not include the amount of any grant, subsidy, rebate, commission or any other assistance, other than a loan payable with or without profit.	76			

Legal requirement		Section	Yes	No	N/A
1.30	Where an asset has been disposed off under a non-arm's length transaction, the fair market value of the asset at the time of disposal has been treated as its sale price of the seller and cost for the purchaser.	78			
1.31	No gain or loss has been considered on the disposal of an asset by: a) transmission of an asset on death of a person; b) a gift of the asset; c) Compulsory acquisition of asset under the law, where the consideration received by the recipient is reinvested in an asset of a like kind within one year of the disposal; d) A company to its shareholders on its liquidation; e) An AOP on its dissolution where the assets are distributed to members in accordance with its interest in the capital of AOP.	79			
1.32	In case of a resident company and AOP the tax payable, where for any reason whatsoever, tax payable is less than 1 % of the turnover, the tax liability has been increased to the level of 1 % of the turnover in view of the provisions of minimum tax.	113			
1.33	Head Office expenditure admissible under law have been claimed.	105(2)			
1.34	Zakat paid under the Zakat and Ushr Ordinance 1980, if any, has been claimed as admissible deduction.	60			
1.35	Tax credit in respect of donations made during the year to non-profit organizations specified under Section 2(36) of the Income Tax Ordinance, 2001 has been claimed.	61			

Legal requirement		Section	Yes	No	N/A
1.36	Tax credit in respect of investment in new listed shares has been claimed.	62			
1.37	Assessed business loss and unabsorbed depreciation has been brought forward from preceding years.	57 (2) & (4)			
1.38	Where there is a change of fifty percent or more in the underlying ownership of an entity, any loss incurred before the change has not been claimed as deduction after the change unless the entity: a) Continues to conduct the same business after the change until the loss has been fully setoff; and b) Does not engage in any other business or investment until the loss has been fully set off.	98			
1.39	Foreign losses are set off and carried forward separately from Pakistan source losses and are not set off against Pakistan source income.	104			
1.40	In case of non-resident assessee, the provisions of ***Agreement for Avoidance of Double Taxation***, if applicable, have been considered.	107			
1.41	Credit for advance tax paid under Section 147 and taxes deducted/paid at source has been claimed on tax year basis and not on financial year basis.	147 to 156 & 233			
1.42	Credit for any amounts refundable from preceding years has been taken.	170			
1.43	Credit for taxes paid outside Pakistan, if any, in respect of any income chargeable to tax in Pakistan has been claimed.	103			

Legal requirement		Section	Yes	No	N/A
2	**Income from Business**				
2.1	Any profit on debt derived where the business of the assessee is to derive such income has been offered for tax as "Income from Business" and not under the head "Income from Other Sources".	18 (2)			
2.2	Where a person carries on a speculation business: (a) that business has been treated as distinct and separate from any other business carried on by the person; (b) section 67 (apportionment of expenses) has been applied as if the profits and gains arising from a speculation business were a separate head of income; (c) any profits and gains arising from the speculation business for a tax year have been included in the person's income chargeable to tax under the head "Income from Business" for that year; and (d) any loss of the person arising from the speculation business sustained for a tax has been carried forward separately from "business loss".	19			
2.3	***Admissible deductions against business income*** *Whether or not the following expenses have been claimed.*				
2.3.1	All expenditure incurred for the purpose of deriving income from business chargeable to tax under the Ordinance have been claimed as an admissible expenditure.	20			
2.3.2	Expenditure incurred by an amalgamated company on legal and financial advisory services and other administrative cost relating to planning and implementation of amalgamation.	20(3)			

Legal requirement		Section	Yes	No	N/A
2.3.3	Depreciation (on the basis of number of months used).	22			
2.3.4	Initial allowance on eligible assets used for the first time in Pakistan.	23			
2.3.5	Has normal depreciation allowance been calculated on WDV arrived at after deducting the initial allowance as per section 23.	22(5)			
2.3.6	Intangibles	24			
2.3.7	Pre-commencement expenditure	25			
2.3.8	Scientific research expenditure (research in Pakistan).	26			
2.3.9	Employee training and facilities	27			
2.3.10	Profit on debt, financial costs, lease payments and securitisation cost.	28			
2.3.11	Bad debts in respect of debts written off.	29			
2.3.12	Provision for bad debts (3%) in respect of consumer loans	29A			
2.3.13	Profit on non-performing debts of a bank or DFI.	30			
2.3.14	Transfer to participatory reserve as per section 120 of the Companies Ordinance, 1984.	31			
2.4	***Inadmissible deductions against business income*** *Whether the following expenses have NOT been claimed*	21			
2.4.1	Any cases, rate or tax paid or payable that is levied on the profits or gains of the business or assessed as a percentage or otherwise on the basis of such profits or gains.	21(a)			

Legal requirement		Section	Yes	No	N/A
2.4.2	Any amount of tax deducted at source under the provisions of this Ordinance.	21(b)			
2.4.3	Any salary, rent, brokerage or commission, profit on debt, payment to non-resident, payment for services or fee from which tax required to be deducted at source has not been deducted.	21(c)			
2.4.4	Any entertainment expenditure in excess of prescribed limits.	21(d)			
2.4.5	Any contribution made to a fund that is **not** a recognized provident fund, an approved superannuation fund, or an approved gratuity fund;	21(e)			
2.4.6	Any contribution made to any provident or other fund established for the benefit of employees of the person, where the person **has not made effective arrangements** to secure that tax is deducted under section 149 from any payments made by the fund in respect of which the recipient is chargeable to tax under the head "Salary";	21(f)			
2.4.7	Any fine or penalty paid or payable for the violation of any law, rule or regulation;	21(g)			
2.4.8	Any personal expenditure incurred.	21(h)			
2.4.9	Any amount carried to a reserve fund or capitalized in any way;	21(i)			

Legal requirement		Section	Yes	No	N/A
2.4.10	Any expenditure paid or payable under a single account head which, in aggregate, exceeds fifty thousand rupees paid other than by a crossed bank cheque or crossed bank draft except: ■ expenditures not exceeding five thousand rupees, or ■ on account of freight charges, travel fare, postage, utilities or payment of taxes, duties, fees, fines or any other statutory obligation	21(l)			
2.4.11	Any salary paid or payable exceeding fifteen thousand rupees per month paid other than by a crossed cheque or direct transfer of funds to the employee's bank account.	21(m)			
2.4.12	Except as provided in 2.1 above, any expenditure of a capital nature.	21(n)			
2.4.13	Amounts charged to profit and loss accounts as finance charge.				
3	**Income from Property**				
3.1	"Rent" includes any forfeited deposit paid under a contract for the sale of land or a building. Whether such deposit has been included in Rent.	15(2)			
3.2	Any rent received or receivable in respect of the lease of a building together with plant and machinery has been offered for tax under the head "Income from Other Sources".	15(3)			
3.3	Where the property has owned by two or more persons and their respective shares are definite and ascertainable: a) the persons shall not be assessed as an association of persons in respect of property; and b) share of each person in the income from property shall be included in his income.	66			
3.4	Non-adjustable amounts like *pugree* etc. received in relation to buildings have been treated as rent chargeable to tax under the head 'income from property' in the tax year in which it was received and the following nine tax years in equal proportion.	16			
4	**Income under the head Capital Gain**				
4.1	Gain arising on the disposal of a capital asset by a person in a tax year, other than a	37(1)			

Legal requirement		Section	Yes	No	N/A
	gain that is exempt from tax, has been offered for tax under the head "Capital Gains".				
4.2	Gain from sale of following assets of "personal" nature has been offered for tax under the head "Capital Gains": ■ a painting, sculpture, drawing, or other work of art; ■ jewelry; ■ a rare manuscript; ■ a postage stamp or first day cover; ■ a coin or medallion an antique.	37(5)			
4.3	The cost of acquisition of the capital asset and any expenditure incurred wholly and exclusively for acquiring such asset have been claimed as deduction against income under the head capital gains.	37(2)			
4.4	Where the capital asset has been held for more than one year, only 75% of the capital gains has been offered for tax.	37(3)			

Legal requirement		Section	Yes	No	N/A
5	**Income from other sources**				
5.1	Income of every kind received by a person in a tax year, if it is not included in any other head, other than income exempt from tax, or has not been offered on PTR basis, has been offered for tax in that year under the head "Income from Other Sources", including the following namely: (a) dividend; (b) profit on debt; (c) ground rent; (d) rent from the sub-lease of land or a building; (e) income from the lease of any building together with plant or machinery; (f) any annuity or pension; (fa) any amount received by the owner of a property in respect of provision of amenities, utilities and any other services in respect of that property. (g) any prize bond, or winnings from a raffle, lottery or crossword puzzle; (h) any other amount received as consideration for the provision, use or exploitation of property, including from the grant of a right to explore for, or exploit, natural resources; (i) the fair market value of any benefit, whether convertible to money or not, received in connection with the provision, use or exploitation of property; and (j) any amount received by a person as consideration for vacating the possession of a building or part thereof, reduced by any amount paid by the person to acquire possession of such building or part thereof.	39			

Legal requirement		Section	Yes	No	N/A
5.2	Where a person receives an amount referred to in 5.1 (j) above, the amount has been offered for tax under the head “Income from Other Sources” in the tax year in which it was received and the following nine tax years in equal proportion.	39(2)			
5.3	Any amount received as a loan, advance, deposit for issuance of shares or gift by a person in a tax year from another person (not being a banking company or financial institution) ***otherwise than by a crossed cheque drawn on a bank or through a banking channel from a person holding a National Tax Number*** has been treated as income chargeable to tax under the head “Income from Other Sources” for the tax year in which it was received. This clause does not apply to an advance payment for the sale of goods or supply of services.	39(3)			
5.4	Deduction has been claimed in respect of expenditure (not being in the nature of capital expenditure) laid out or expended wholly and exclusively for the purpose of deriving income chargeable to tax under the head ‘income from other sources’.	40			
6	**Income falling under Presumptive Tax Regime**				
6.1	Dividend	5			
6.2	Royalty	6			
6.3	Fee for technical services received by a non-resident	6			
6.4	Shipping and air transport income of a non-resident	7			
6.5	Income of the importer arising from the imports except in the cases of clauses (a) through (d) of this section.	148 (7)			

Legal requirement		Section	Yes	No	N/A
6.6	Income of a resident company arising from the sale of goods and on the execution of a contract, other than a contract for the supply of goods or the rendering of services and subject to the provision of section 6A.	153(6)			
6.7	The tax deducted under section 153 shall be a final tax on the income of a **non-resident** person arising from: (i) a turnkey contract; (ii) a contract or sub-contract for the design, construction or supply of plant and equipment under a power project; (iii) a contract or sub-contract under a construction, assembly or installation project in Pakistan, including a contract for the sale of supervisory activities in relation to such project; or (iv) any other contract for construction or services rendered, other than a contract to which section 152 (Royalty and fee for technical services) applies,	153(7)			
6.8	Realization of foreign exchange proceeds on account of the export of goods by an exporter.	154(1)			
6.9	Proceeds on account of a sale of goods to an exporter under an inland back-to-back letter of credit.	154(3)			
6.10	Prize on a prize bond, or cash and non-cash (in kind) winnings from a raffle, lottery, or cross-word puzzle	156			
6.11	Prize on winning a quiz or prize for promotion of sale offered by companies.	156			
6.12	Tax collected from any person being the owner of goods transport vehicle shall be the final tax on the income of such person from plying or hiring out of such vehicles.	234			

Legal requirement		Section	Yes	No	N/A
6.14	Where all the income derived by a person in a tax year is subject to final taxation under Presumptive Tax Regime, a return of income under section 114 for the year has not been filed instead a statement under section 115(4) has been filed.	115(4)			
6.15	Where the presumptive tax regime applies – (a) the income has not be charged to tax under any head of income in computing the taxable income of the person; (b) no deduction has been claimed for any expenditure incurred in deriving the income; (c) the amount of the income has not be reduced by (i) any deductible allowance under Part IX of Chapter III, i.e. zakat (ii) the set off of any loss; (d) the tax deducted has not been reduced by any tax credit allowed under this Ordinance; and (e) no refund has been claimed in respect of tax collected or deducted unless the tax so collected or deducted is in excess of the amount for which the taxpayer is chargeable,	169(2)			

Chapter 23 Labour Laws Compliance Checklist

Important: This checklist may be modified in accordance with the applicable law for the time bein in force.

Index

I. Gratuity

II. Workers' Profit Participation Fund

I. Gratuity

S. No.		YES	NO	N/A
1.	**Scope of the Scheme** Does the status of the employer come under the definition of commercial or industrial establishment as defined in West Pakistan Industrial and Commercial Employment (Standing Orders) Ordinance, 1968 (the Ordinance)?			
2.	If the answer to 1 above is 'Yes', does it satisfy the following conditions: 2.1 The number of workmen employed is ____or more in case of commercial establishment; or 2.2 The number of workmen employed is ____or more in case of industrial establishment.			
3.	If the answer to 1 and 2 above are 'Yes' does the employer pay gratuity to workman on his retirement, resignation or termination of service due to any reason other than misconduct?			
4.	Is gratuity payable only to a person who is a workman as defined in the Ordinance?			
5.	Is gratuity payable in addition to any other benefit which the worker may be entitled in accordance with the terms of his employment or any custom, usage settlement or award? [Note that, no gratuity is payable during the period an employer has established a provident fund in his establishment with equal contribution by the employer and workman, and both these contribution being payable to the workman even if he dismissed from service due to any reason including misconduct.]			
6.	Is the rate of gratuity 30 days wages for every completed year of service or for any period in excess of six months in the same establishment?			

S. No.		YES	NO	N/A
7.	If answer to 6 above is 'Yes' is gratuity calculated in the following manner: 7.1 Wages admissible to workman in the last month of service in case of fixed rated workman and highest pay drawn during the last twelve months in case of piece rated workman. 7.2 Wages include basic wage plus cost of living allowance and any other allowance being part of wages under the relevant law.			
8.	Does the employer maintain funded gratuity?			
9.	If answer to the above is 'Yes', is it an approved gratuity fund as defined under section 2(3) of the Income Tax Ordinance, 2001 (ITO).			
10.	If answers to 8 to 9 are 'Yes', has the employer established a fund under an irrevocable trust?			
11.	Does the gratuity fund satisfy the following conditions: a) not less than ninety percent employees of the Company are employed in Pakistan; b) the beneficiaries belong to the class of persons qualified in terms of sub-clause (b) of clause 2 of Part III of the sixth schedule of the Income Tax Ordinance, 2001; c) the employer contributes to the fund; and d) all benefits granted by the fund are payable only in Pakistan.			
12.	Is the annual contribution by the employer in respect of any particular employee made on a reasonable definite basis as approved by the Commissioner of Income Tax?			
13.	Has the employer furnished returns, statements, etc., as required by notice from Commissioner of Income Tax under rule 7 of part III of the Sixth Schedule of ITO?			

S. No.		YES	NO	N/A
14.	Are all moneys contributed to the fund and interest / return on the accumulated balances of such contribution invested as per Rule 102 of the Income Tax Rules, 2002 (ITR) together with section 227 of the Companies Ordinance, 1984?			
15.	Has the prior approval of the Commissioner of Income Tax been obtained to make a special contribution to the fund to meet the deficit?			
16.	Has effective arrangement been made to deduct tax at source from any payments made from gratuity which is chargeable to tax?			
17.	Have the rules of gratuity fund formulated by the trustees been complied with? Note that if there is a repugnance between any rule of an approved gratuity fund and any provision of part III of Sixth Schedule of the Income Tax Ordinance, 2001, the said rule shall, to the extent of repugnance, be of no effect and the Commissioner of Income Tax, at any time require that, such repugnance shall be removed from the rules of the fund.			
18.	Does the employer cause to carry out actuarial valuation to determine cost and liability on account of retirement benefit?			
19.	Has the company made full provision in the financial statements in accordance with IAS-19.			
20.	If answer to 19 is No (a) has it been disclosed in the notes to the accounts any shortfall or reason etc? (b) have been made reference in the auditors' report?			
21.	In case of outstanding balance of an eligible employee who is retired, has the company / fund shown the balance payable to him in current liability under outgoing members?			
22.	In case of unfunded gratuity. Is the liability to existing employees shown as deferred liability in the financial statements of the company?			

II. Workers' Profit Participation Fund

S. No.		YES	NO	N/A
1.	**Applicability** Is the status of the client a "Company" and engaged in "Industrial undertaking".			
2.	If yes, does the company satisfy any one of the following three conditions: a) the number of workers employed by the Company at any time during a year is 50 or more; or b) the paid-up capital of the Company as on the last day of its accounting year is Rs. 2 million or more; or c) the cost of the fixed assets of Company as on the last day of the accounting year is Rs. 4.00 million or more.			
3.	*Establishment of the Fund* Has the company to which the Act becomes applicable, established WPPF within nine months of the close of the year in respect of which the Act became so applicable.			
4.	Does the Company pay 5% of its 'profits', as defined in the Act, for the year to the Fund within 9 months after close of the year.			
5.	*Investment of Fund* Is the amount allocated or accruing to the fund: a) made available to the Company; or b) invested at the request of the Company by the Board.			
6.	If the amount is invested by the Board, has the investment been made in the following recognised certificates / securities only: a) ________________________ b)_________________________ c)_________________________ d)_________________________			
7.	If the amount allocated, was made available to the Company, does Company pay interest thereon to the Fund starting from the first day of the next succeeding year to the date of payment to workers at higher of (i) 2.5% plus bank rate; and (ii) 75% of dividend declared on its ordinary shares.			

S. No.		YES	NO	N/A
8.	Has the computation and allocation of interest: ■ correctly done; ■ properly allocated to workers; ■ fully provided in the accounts; and ■ where applicable properly segregated as between WPPF and WWF except in those cases where company has filed petition with High Court in respect thereof.			
9.	*Distribution of Benefits to Workers* Have you ensured eligibility of the workers to the Fund benefits by considering that the list of workers prepared by the Secretary (Rule 4 (A)(b)) is complete and does not include workers: a) whose employment period is less than 6 months except in case of retired / deceased employees; or b) whose average monthly wages exceed Rs.__________ .			
10.	a) Have you ensured that no worker gets more than Rs.________ as his annual share out of the Fund (All categories inclusive)? b) Ensure that units are properly allocated to employees as per their respective category.			
11.	Have you ensured that the “average monthly wages” do not include any overtime allowance or bonus or cost of living allowance or any other part of compensation not covered by the definition of “wages” as defined in the Act.			
12.	Has the Fund transferred any left out amount out of the annual allocation to the WWF, within 15 days after the allocation.			
13.	*Disbursement of Benefits* Has every worker been distributed the annual income of Fund including capital gains, if any, realized in prorata to his units of entitlements. After entitlements he holds as at the commencement of such year in line with example B in annexure II of mode procedure for the maintenance of accounts of the fund.			
14.	In case a worker leaves his employment or his service is terminated, have you ensured that he has received 100% of the net asset value of the units standing in his name as on that date.			
15.	*Management of the Fund* Have you obtained a list of Trustees.			

S. No.		YES	NO	N/A
16.	Have you ensured that the appointment of Chairman to the Board is for one year and alternatively from workers and management.			
17.	Have you obtained copies of: ■ special Audit Report (by Federal Government); ■ board minutes; if any ■ regulations for governing the fund; ■ audited accounts with auditors report thereon of the fund; and ■ contract for management of the fund with ICP, NIT or NBP, if any.			
18.	Have you ensured that the secretary to the fund is the management trustee from the accounts department.			
19.	Is office of the Board located at the factory premises?			
20.	*Miscellaneous* Allocations to the fund by Companies is treated as allowable deduction to arrive at the taxable income of the Company.			
21.	All the income of the fund including capital gains are exempt from income tax.			
22.	All the sums paid by the fund to workers are exempt from income tax in the hands of the workers.			
23.	All expenses of the Board including the cost of maintaining accounts shall be borne by the Company.			
24.	The Trustees shall not take any remuneration for their services except the reasonable cost of their travel for attending Board meeting.			
25.	Ensure that the Trustees of Fund have opened the bank account of Fund.			
26.	Ensure that no income tax was deducted at source on the income of the Fund. If it is deducted at source, inform the trustees through covering letter addressed to them for sending the initialled financial statements.			

S. No.		YES	NO	N/A
27.	Obtain the copy of the audited financial statements of the company to confirm the amount of the allocation of the fund.			
28.	Obtain the copy of challan showing the left over amount deposited into bank.			
29.	Obtain the schedule of details of interest accrued on total allocated Workers' Profit Participation Fund and copy of the statement for its distribution amongst workers and the left over amount as per Annexure-IIIA required to be submitted to Section Officer of Ministry of Labour, Manpower and Overseas Pakistanis – Federal Government of Pakistan.			
30.	Examine on test basis name-wise payment vouchers / sheets as per Annexure-III and Annexure-IIIA required to be submitted to Section Officer of Ministry of Labour, Manpower and Overseas Pakistanis – Federal Government of Pakistan.			
31.	Note that any difference arising between the board and company relating to the administration of the scheme has been referred to the Federal Government because the decision of the Federal Government would be final on any matter referred to the Federal Government. Obtain the copy of the decision.			

Chapter 24 Tax Position

- Provision for Taxation – Year Wise Position

Provision for Taxation					
		CY	Y1	Y2	Y3

Chapter 25 Summary of corrected misstatements

Client:		**Prepared by**	**Reviewed by**
Subject:			
Period / Year:			

S. No.	Date	Narration	Nature of misstatement	Account No.	Amount in Rs.	Adjusted
						Y/N/NFAR*

* *No further action required.*

PART IV REPORTING

Charter 26 Final Review of Financial Statements

- On the financial statements and supporting schedules, perform the following:

  - Agree or reconcile the financial statements with the underlying accounting records including:

    - Agreeing amounts from the financial statements to the trial balance.
    - Testing the mathematical accuracy of the trial balance
    - Confirming that the grouping of accounts for inclusion in the financial statements is appropriate and consistent with that of prior years.
    - Obtain supporting documentation for inconsistencies in the grouping of accounts and determine the effect on prior year balances.

  - Determine whether the financial statements include the comparative information required by the applicable financial reporting framework, that it is appropriately classified, and that the comparative information agrees with the amounts and other disclosures presented in the prior period, or when appropriate, have been restated.

  - Confirm the accounting policies reflected in the comparative information are consistent with those applied in the current period, or if there have been changes in accounting policies, those changes have been properly accounted for and adequately presented and disclosed.

  - If a possible material misstatement in the comparative information has been identified while performing the current year audit:

    - Perform additional audit procedures as necessary in the circumstances to obtain sufficient appropriate audit evidence to determine whether a material misstatement exists
    - Where the prior period's financial statements were audited by us, identify and assess the impact of the facts which became known after the financial statements have been issued
    - If the prior period financial statements are amended, determine that the comparative information agrees with the amended financial statements.

  - Check the financial statements for mathematical accuracy and for consistency and internal cross-referencing.

  - Review for spelling and typographical errors.

  - Retain a copy of the financial statements on file to demonstrate the financial statements agree or reconcile with the underlying accounting records.

  - Test the supporting schedules for disclosures with underlying evidence as deemed appropriate when the schedules have not been previously tested in the audit area to which they relate.

- Perform audit procedures to evaluate whether the overall presentation of the financial statements, including the related disclosures, is in accordance with the applicable financial reporting framework.

- Complete a relevant Financial Statement Disclosure Checklist tailored to the entity's circumstances and addressing the relevant auditing, accounting and other issues.

- Retain a copy of the checklist in the audit file including any additional documentation for specific identified risk areas or specific identified different disclosures for certain matters. Update the checklist for new pronouncements and other literature issued after the cut-off date of the checklist.

- Evaluate whether the financial statements are prepared, in all material respects, in accordance with the requirements of the applicable financial reporting framework, in particular: whether the significant accounting policies selected are disclosed and are consistent with the financial reporting framework, whether accounting estimates are reasonable, the qualitative aspects of the entity’s accounting practices, including indicators of possible bias in management’s judgments

After completion of the above steps, issue a draft audit report accompanying the financial statements and the letter to the board.

Chapter 27 Working of Cash Flow Statement

Obtain the statement of cash flows and a detailed schedule supporting the statement of cash flows and perform the following:

a) Verify that the cash flow statement reports cash flows during the period classified by operating, investing and financing activities.

b) Ascertain that the cash flows from operating activities are properly presented using either the direct or indirect method.

c) Check the mathematical accuracy of the schedule and trace amounts to the appropriate lines on statement of cash flows.

Chapter 28 Overall Conclusion Analytical Procedures

The term "analytical procedures" means evaluations of financial information through analysis of plausible relationships among both financial and non-financial data. Analytical procedures also encompass such investigation as is necessary of identified fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount.

Overall conclusion analytical procedures are typically performed at the financial statement level, not disaggregated. They include reading the financial statements and notes and considering (a) the adequacy of evidence gathered in response to unusual or unexpected balances identified in planning the audit or in the course of the audit, and (b) unusual or unexpected balances or relationships that were not previously identified.

The conclusions drawn from the results of the overall conclusion analytics are intended to verify that:

- All significant differences and other unusual items have been adequately explained
- We have gained a comprehensive understanding of the financial statements, including the inter-relationships between items
- The overall financial statement presentation makes sense based on the audit results, performance of the entity's underlying businesses and our knowledge of the business and industry

Performing overall conclusion analytical procedures

The purpose of overall conclusion analytical procedures is not to obtain additional audit evidence for significant accounts; therefore, they do not need to be performed with the same level of rigor as substantive analytical procedures

Develop an independent expectation

When performing overall conclusion analytical procedures, we are assessing whether we have reached an appropriate conclusion about the financial statement presentation considering our audit work performed as a basis for our expectation. Accordingly, our focus in performing overall conclusion analytical procedures is on identifying unusual relationships or balances in the financial statements taken as a whole and our expectation is formed by the results of audit work already performed (e.g., we may consider that revenues and operating expenses as reported in the financial statements are consistent with the results of other audit procedures and as such no additional work is needed).

Data used for overall conclusion analytical procedures

Assess the reliability of the information obtained to perform the analysis (for example, if using the entity's balance sheet and income statement, check that the information agrees or reconciles to the trial balance or general ledger).

Considering the results

When investigating unusual patterns and differences identified by our overall conclusion analytical procedures, evaluate whether the work performed provides sufficient assurance that the financial statements are fairly stated, and whether the financial statements appropriately reflect the entity's performance, based on our audit. If overall conclusion analytical procedures identify a need for additional assurance, perform further substantive testing.

If we identify a previously unrecognized risk of material misstatement, we may need to re-evaluate the audit procedures conducted based on our revised consideration of assessed risks for all or some of the classes of transactions, account balances, or disclosures and related assertions. This may lead to the need to perform further controls and/or substantive testing. If the need for greater clarity in reporting is identified, it may be necessary to recommend additional disclosures to management.

The overall conclusion analytical procedures may be similar to those that we use as risk assessment procedures, if performed at a level equivalent to the financial statements as a whole. A template has been set forth below, which can be used for documentation of the overall conclusion analytics.

	(in thousands)			
	Current 12/31/200X	Prior 12/31/200X	Variance in Rs	Explanation
BALANCE SHEET				
Cash				
Accounts receivable				
Inventories				
Other current assets				
Total current assets				
Property, plant and equipment				
Other assets				
Total assets				
Line of credit				
Current portion of long-term debt				
Accounts payable				
Accrued expenses				
Other current liabilities				
Total current liabilities				
Long-term debt				
Owners' equity				
Common stock				
Additional paid in capital				
Retained earnings				
Other				

comprehensive income				
Total liabilities and owners' equity				
PROFIT AND LOSS				
Sales and revenues				
Cost of sales and revenues				
Gross margin				
Gross margin %				
Selling, general and administrative expenses				
Other expenses				
Operating income				
Interest expense				
Income before income taxes				
Provision for income taxes			-	
Net income				

Chapter 29 Summary Review Memorandum for Partner

Name of client:		**Year ended**	
Prepared by:		**Date**	
Reviewed by:		**Date**	

Following are the examples of items that may be reported in the Summary Review Memorandum for the review of the partner:

Major Accounting or Auditing Issues

Change in accounting policy with financial impact

Major acquisitions/disposal of Fixed Assets/Investments

Provisions

Acquisition of Long Term Loan/Leases

Major Contingencies/litigations including Tax etc.

Chapter 30 Significant Matters Documentation

Name of client:		Period	
Subject			

International Standard on auditing 265 “Communicating deficiencies in internal control to those charged with governance and management” deals with the auditor's responsibility to communicate appropriately to those charged with governance and management deficiencies in internal control that the auditor has identified in an audit of financial statements. Any matter, the impact of which exceeds our overall materiality level will also impact our opinion and will simultaneously be reported to those charged with governance.

- Deficiency in internal control – This exists when:
  - A control is designed, implemented or operated in such a way that it is unable to prevent, or detect and correct, misstatements in the financial statements on a timely basis; or
  - A control necessary to prevent, or detect and correct, misstatements in the financial statements on a timely basis is missing.
- Significant deficiency in internal control – A deficiency or combination of deficiencies in internal control that, in the auditor's professional judgment, is of sufficient importance to merit the attention of those charged with governance.

According to ISA 265, if the auditor has identified one or more deficiencies in internal control, the auditor shall determine, on the basis of the audit work performed, whether, individually or in combination, they constitute significant deficiencies. The auditor shall communicate in writing significant deficiencies in internal control identified during the audit to those charged with governance on a timely basis.

Further, the auditor shall also communicate to management at an appropriate level of responsibility on a timely basis:

- In writing, significant deficiencies in internal control that the auditor has communicated or intends to communicate to those charged with governance, unless it would be inappropriate to communicate directly to management in the circumstances; and
- Other deficiencies in internal control identified during the audit that have not been communicated to management by other parties and that, in the auditor's professional judgment, are of sufficient importance to merit management's attention.

The auditor shall include in the written communication of significant deficiencies in internal control:

- A description of the deficiencies and an explanation of their potential effects; and
- Sufficient information to enable those charged with governance and management to understand the context of the communication. In particular, the auditor shall explain that:
  - The purpose of the audit was for the auditor to express an opinion on the financial statements;

- The audit included consideration of internal control relevant to the preparation 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 internal control; and
- The matters being reported are limited to those deficiencies that the auditor has identified during the audit and that the auditor has concluded are of sufficient importance to merit being reported to those charged with governance.

For documentation of all matters in the audit working papers following template may be used to ensure that all matters are adequately documented. Further, all matters are to be appropriately classified as to whether they represent a significant deficiency in internal control or any other control deficiency, with sign-off by manager and partner and EQCR, if applicable.

Issue

<u>Description of the matter</u> *Provide a brief description of the issue or a succinct problem statement of not more than one or two sentences.*
<u>Background facts and circumstances</u> *Describe the facts and circumstances underlying the matter.*
<u>Evidence obtained</u> *Describe the audit procedures performed by the team and summarise all evidence obtained on the matter including supporting or opposing evidence.*
<u>Technical reference and analysis, including implication(s) of the matter</u>
<u>Record of discussion</u> *Summarise discussion with management and others on the issue, including when and with whom the matter was discussed.*
<u>Final conclusions</u>

Reported to those charged with governance (Significant deficiency in internal control) (Reported through Board Letter)	Reported to management (Other deficiency in internal control -) (Reported through –Internal Control Report)

Manager Signoff	Partner signoff	EQCR signoff(if applicable)

Chapter 31 Points for Next Year

Client:		Prepared By	Approved By
Period:			
Subject:			

Ref.	Items	Discussed with Audit Staff	Disposition process

Chapter 32 Evaluate Team Performance, Assess Client Satisfaction and Team Debriefing

- Discuss engagement team members' performance evaluations, including status of development objectives, and identify future development needs.

- We should review annually our relationship with those charged with governance or the Audit Committee, covering our and their performance. Review the summary audit strategy (or equivalent document) and obtain feedback from the Audit Committee or those charged with governance about the following:

    i) Service delivery;
    ii) Conduct of the engagement;
    iii) The nature of recommendations made; and
    iv) Suggestions for next year.

Chapter 33   Subsequent Events Review Checklist

Client:			Initial Date
		Completed By:	
Year end:		Reviewed By:	

	Yes / No / N.A. (Any note on separate sheets)		
Perform audit procedures designed to obtain sufficient appropriate audit evidence that all events up to the date of the audit report that may require adjustment of, or disclosure in, the financial statements have been identified by performing the steps below. Note that we are not expected to perform additional audit procedures on matters to which previously applied audit procedures have provided satisfactory conclusions. a) Consider changes in the following areas which may affect the financial statements and other information in the annual report: i) banking arrangements; ii) currency and interest rates; iii) key markets; iv) key products, customers or vendors; v) key management or employees; vi) government regulation or policy; and vii) the ratio of orders to sales and cash receipts and the position of the order book. b) Consider other significant knowledge gained, for example: i) press comment; ii) internal audit reports; iii) changes in client trading patterns; iv) changes in laws or regulations; v) currency devaluations; vi) major fires or catastrophes, or technology failures (e.g. computer operations failures); and vii) security incidents. c) Evaluate procedures management has established to ensure that subsequent events are identified. Consider the risk that significant items may not be identified and develop tailored audit steps accordingly. d) Inquire of management and, where appropriate, those charged with governance as to whether any subsequent events have			

occurred which might affect the financial statements. Examples of such inquiries are: i) The reversal of any transactions entered into prior to the balance sheet date that might indicate window dressing. ii) The current status of items involving subjective judgement, which were accounted for on the basis of preliminary or inconclusive data, e.g., litigation in progress. iii) Whether new commitments, borrowing or guarantees have been entered into. iv) Whether sales or acquisition of significant assets have occurred or are planned. v) Whether the issue of new shares or debentures or an agreement to merge or liquidate has been made or is planned. vi) Whether any assets have been appropriated by government or destroyed, for example by fire or flood. vii) Whether there have been any developments regarding risk areas and contingencies. viii) Whether there have been announcements of major security weakness (this implies also deficiencies in internal controls) or errors of system providers. ix) Whether a service organization auditors' report for third party involvement (e.g. outsourced IT-operations) has been issued. x) Whether any unusual accounting adjustments have been made or are contemplated. xi) Whether any events have occurred or are likely to occur which might bring into question the appropriateness of accounting policies used in the financial statements, e.g., if an event might call into question the validity of the going concern presumption. e) Review the results of the review of minutes of meetings of the entity's owners, management and those charged with governance, including audit, executive and other Board committees since the balance sheet date. Inquire about matters dealt with at meetings after the balance sheet date, for which no minutes are available. f) Consider reviewing invoices from lawyers received after the year-end to determine whether any litigation, claims or assessments exist that were not previously identified in our analysis of legal expenses and other procedures. g) Review the latest available interim financial statements and, as considered necessary and appropriate, budgets, cash flow forecasts and other related management reports. Consider whether they reveal any adverse trends or significant movements in balance sheet headings compared to the audited financial statements. Consider whether the management			

information is reliable.			
Where a material subsequent event has been identified, determine whether it is reflected in the financial statements in accordance with the applicable financial reporting framework by adequate disclosure and, where appropriate, adjustment of the account balances and transactions affected. Consider also its effect on the audit report. **Subsequent events identified after the date of the audit report but before the financial statements are issued** a) When we become aware of a fact that may have caused us to amend our audit report, had it been known to us at the date of our audit report: i. Discuss the matter with management and, where appropriate, those charged with governance; ii. Consider whether the financial statements need amendment; and iii. And, if so, inquire how management intends to address the matter in the financial statements c) If management amends the financial statements i. Carry out the audit procedures necessary in the circumstances on the amendment ii. Extend the audit procedures to the date of our new audit report and provide a new audit report on the amended financial statements. Do not date our new audit report earlier than the date of approval of the amended financial statements If amendment is restricted to the effects of the subsequent events, refer to procedure g) below. d) When management does not amend the financial statements in circumstances where we believe they need to be amended, then (ISA 560.13): i. If we have not yet issued the audit report, modify the opinion and then provide our audit report ii. Where we have issued the audit report, notify those charged with governance not to issue the financial statements and audit report to third parties before the necessary amendments have been made. If the financial statements are subsequently issued, take appropriate action to prevent reliance on the audit report.			

Subsequent events identified after the financial statements are issued e) When we become aware of a fact that existed at the date of the audit report and which, if known at that date, may have caused us to modify the report. Discuss the matter with management and, where appropriate, those charged with governance; i. Consider whether the financial statements need amendment; and ii. And, if so, inquire how management intends to address the matter in the financial statements When management revises the financial statements: i. carry out appropriate audit procedures; ii. review the steps taken by management to ensure that anyone in receipt of the previously issued financial statements together with our audit report thereon is informed of the situation; iii. extend the audit procedures to the date of our new audit report, and date our new audit report no earlier than the date of approval of the amended financial statements iv. issue a new report on the revised financial statements Include in our new or amended audit report an emphasis of matter paragraph referring to a note in the financial statements that more extensively discusses the reason for the revision of the previously issued financial statements and to our earlier report. If amendment is restricted to the effects of the subsequent events, refer to procedure g) below. f) When management does not revise the financial statements and does not take the necessary steps to ensure that anyone in receipt of the previously issued financial statements is informed of the situation, notify those persons ultimately responsible for governance of the entity that action will be taken by us to prevent reliance on our report. If, despite such notification, management or those charged with governance do not take these necessary steps, take appropriate action to seek to prevent reliance on our audit report. Amendment restricted to effects of subsequent events g) In some cases law, regulation and the financial reporting framework allow: management to restrict the amendment of the financial statements to the effects of the subsequent event or events causing that amendment; and those responsible for approving the financial statements to restrict their approval to			

that amendment. Then we are also permitted to restrict our audit procedures on subsequent events to that amendment: i. Amend our audit report to include an additional date restricted to that amendment that indicates that our procedures on subsequent events are restricted solely to the amendment of the financial statements described in the relevant note to the financial statements, or ii. Provide a new or amended audit report that includes a statement in an Emphasis of Matter paragraph or Other Matter(s) paragraph that conveys that our procedures on subsequent events are restricted solely to the amendment of the financial statements as described in the relevant note to the financial statements Documentation requirements h) When exceptional circumstances arise after the date of the audit report that require us to perform new or additional audit procedures or that lead us to reach new conclusions, document: i. The circumstances encountered; ii. The new or additional audit procedures performed, audit evidence obtained, and conclusions reached; and iii. When and by whom the resulting changes to audit documentation were made, and (where applicable) reviewed. Note: such exceptional circumstances include the discovery of facts regarding the audited financial information that existed at the date of the audit report that might have affected the audit report had we then been aware of them.			

Chapter 34 Audit Completion Checklist

WP Ref.:	
Date	

Client: ____________________

Period: ____________________

Purpose

The purpose of this checklist is to document adherence to International Standard on Auditing. This document requires, at a minimum, review and sign-off by the partner.

The working paper is divided into the following sections:

I. Considerations and Procedures
II. Engagement Manager and Partner Sign-off
III. EQCR sign-off (if applicable)

The engagement partner signs and date the Audit Completion Checklist sections I throughout each phase of the audit workflow and prior to issuance of the report.

Section II provides a list of procedures to be performed by the EQCR, if applicable Section III provides a list of policies and professional standards to be considered by the audit team throughout each phase of the audit workflow. Its primary purpose is to serve as a memory jogger for the audit team and is reviewed prior to engagement partner sign-off. Additional considerations may be added to the list based on specific circumstances of each engagement. In addition, some procedures in the list may not be applicable to every engagement (e.g., use of internal audit or service organisation auditors).

I. Considerations and Procedures

This section provides a list of policies and professional standards to be considered by the audit team throughout each phase of the audit workflow. Its primary purpose is to serve as a memory jogger for the audit team. It is to be reviewed throughout the audit prior to partner sign-off. Additional considerations may be added to the list based on specific circumstances of each engagement.

The note column provides an opportunity to indicate consideration of each step as either applicable **(✓)** or not applicable **(N)**. In addition, audit teams may choose to make additional references in the notes column as considered appropriate.

Procedures	Notes
■ **Engagement management**	
We have reviewed the suitability of accepting the audit and have accepted the appointment as auditor	
We have reviewed the suitability of continuing with the audit engagement and have performed formal re-evaluation procedures as appropriate. Consent letter has been sent to the client.	
We have followed the appropriate procedures to determine the independence of partners, managers and professional staff with respect to the entity on whose financial statements we express an opinion	
We have set the terms of the engagement and obtained an engagement letter	
We have considered materiality in the audit and determined and used materiality for planning purposes in planning our audit procedures	
■ **Working papers**	
We have appropriately managed the working papers including preparing them, utilising current and continuing use working papers, reviewing working papers, restricting access to working papers and retaining working papers including: ■ Points raised during the review of the working papers have been cleared and where appropriate the working papers have been revised. Review notes have not been retained. ■ The engagement partner has reviewed audit working papers related to critical audit objectives and determined that all audit working papers meet requirements of International Auditing Standards. ■ Someone other than the preparer has reviewed each working paper.	

Procedures	Notes
■ Upon completion of the audit, we have determined that the working papers and other documents are in proper order and complete. Working papers and other documents are properly filed and carefully maintained so they can be readily located. Specifically working papers and other documents on electronic media, finalised working papers and other documents on disk drives maintained by the audit team, including support staff, have been moved to either the appropriate file server or to disks for storage with the working paper files. Additional electronic copies of entity-related information have not been retained, except as set forth in this paragraph. The professional staff assigned a re in possession of no audit-specific information, whether on their personal computers, on their support staff's computers or otherwise. ■ We have and will only make working papers available to third parties (excluding joint auditors and principal auditors) after consultation with the engagement partner.	
■ **Workflow activities**	
We have obtained and / or updated our understanding of the entity's environment, including: ■ preparing a Strategy and Planning Document ■ performing and documenting analytical procedures in planning the audit, including follow-up actions for variances where appropriate.	
We have determined and documented materiality for planning purposes.	
We have obtained an understanding of the strategic business risks and significant classes of transactions, identified the potential financial statement effects and documented our analysis in Control Overview and Risk Assessment Document	
We have considered all issues raised during the planning phase, summarised those considered significant and appropriately identified planned audit procedures in Strategy and Planning Document.	
Others	

Fraud and error	
In planning the audit, we have assessed the risk that fraud or error may cause the financial statements to contain material misstatements, and have enquired of management regarding their understanding of the risk of fraud in the entity, their knowledge of fraud or suspected fraud that the entity is investigating or whether they have discovered material errors. We have also enquired of management regarding the accounting and internal control systems put in place to address fraud risk and prevent and detect error. We have documented our understanding of management's fraud risk assessment, the accounting and internal control systems in place, and known fraud and material error in the Fraud Risk Assessment Document.	
We have documented fraud risk factors that have been identified as being present in the Fraud Risk Document.	
Communications to management and those charged with governance	
We have communicated with management to confirm our understanding of the entity's business and to discuss other issues as appropriate.	
We have considered with whom in governance to communicate. We have also considered audit matters of governance interest arising from the audit of financial statements and communicated them with those charged with governance on a timely basis.	
We have obtained an understanding of the financial statement risks and financial statement controls and made a preliminary assessment of the risk of significant misstatement as documented in the appropriate Audit Programmes.	
We have performed appropriate audit procedures to obtain sufficient audit evidence to support, and planned appropriate audit procedures to respond to, our assessment of the risk of significant misstatement for each audit objective as documented in the Audit Programmes. We have also addressed the fraud risk factors, as documented in the Fraud Risk Assessment Document, in designing these audit procedures.	
We have obtained an understanding of the accounting system sufficient to identify and understand the accounting and financial reporting process from the initiation of significant transactions and other events to their inclusion in the financial statements, including how journal entries are prepared, processed and approved.	
We have identified, documented and considered the significant issues and updated planned procedures and findings as appropriate.	
■ **Substantive Procedures, Evaluation and Reporting**	
Workflow activities	
We have performed substantive audit procedures as planned and documented them in the Audit Programme including substantive analytical procedures, and / or tests of details as appropriate.	

We have identified and investigated audit differences and have: ■ prepared a Summary of Unadjusted Audit Differences ■ considered materiality in evaluating the effect of audit differences ■ considered the aggregate of unadjusted audit differences in evaluating the fair presentation of the financial statements.	
We have discussed identified audit differences with management during the audit and considered their nature and cause. In instances where management refused to adjust the financial statements and the results of extended audit procedures did not enable us to conclude that the aggregate of unadjusted audit differences was not material, we considered the appropriate modification to our report in accordance with ISA 700 the Auditor's Report on Financial Statements. We have also informed those charged with governance of unadjusted audit differences aggregated by us during the audit that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole.	
We have evaluated our findings, including performing analytical procedures at the overall review stage of the audit.	
We have reviewed the reconciliation of amounts audited in the working papers to the amounts reported in the financial statements and have documented in the working papers that we have performed this review.	
■ We have checked all adjusting entries that have been made.	
■ We have obtained final Trial Balance from client and ensured that it is updated for all adjusting entries, reclassifications etc.	
We have obtained sufficient audit evidence to form our audit opinion and have reported our findings.	
We have obtained written management representations. At a minimum these representation include those specified by the ISAs.	
Fraud and error	
For circumstances encountered that may indicate that there is a material misstatement in the financial statements resulting from fraud or error, we have performed procedures to determine whether the financial statements are materially misstated. We have documented the circumstances identified together with the audit procedures performed in the Fraud Risk Assessment Document.	
For audit differences identified, we have considered whether such audit differences may be indicative of fraud and if there is such an indication, we have considered the implications in relation to other aspects of the audit, particularly the reliability of management representation.	

Communications to management and those charged with governance	
We have included in engagement deliverables caveats, disclaimers and restrictions relevant to the circumstances, and also restricted reliance on engagement deliverables to clients or any other party specifically identified in the engagement letter.	
We have communicated to management, if applicable, fraud or error, non-compliance with laws and regulations and material weaknesses that have come to our attention.	
If we suspect that members of senior management, including members of the board of directors, are involved in non-compliance, we have reported the matter to the next higher level of authority at the entity, if it exists, such as an audit committee or a supervisory board.	
If a material weakness in the design or operation of the accounting and internal control systems has come to our attention, we have made management aware of the weakness as soon as practical and at an appropriate level of responsibility.	
If a material weakness in internal control related to the prevention and detection of fraud and error has come to our attention, we have communicated it to management in writing. We are satisfied that those charged with governance have been informed of these weaknesses that have been brought to our attention by management, or that have been identified by us during the audit.	

Procedures	Notes
We have considered with whom in governance to communicate and appropriately communicated audit matters of governance interest arising from the audit of the financial statements.	
We have also informed those charged with governance of uncorrected misstatements aggregated by us during the audit that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole.	
■ **Need of Specialists**	
We have determined the need for a specialist (such as CIS Specialist and tax specialists etc.) and defined the role and responsibility of the specialist.	
We have obtained feedback from the specialists on issues arising from their work and appropriately considered the results of their work in the audit.	
We have obtained feedback from the specialists on issues arising from their work and appropriately considered the results of their work in the audit.	
Other independent auditor	
When the work of another independent auditor has been used, we have: ■ considered our participation in the audit (as principal auditor or other auditor) ■ determined how the work of the other auditor will affect the audit ■ considered the professional competence and independence of the other auditor in the context of the specific assignment ■ shared information with the other auditor	
When the work of another independent auditor has been used we have: ■ obtained sufficient appropriate audit evidence that the work of the other independent auditor is adequate for our purpose, in the context of the specific assignment ■ considered significant findings from the other independent auditor and other matters affecting the financial information of the component and appropriately addressed the findings	
We have considered the significant findings of the other independent auditor and other matters affecting the financial information of the component and determined whether the work of the other auditor can be used.	
We have obtained written representation from the other independent auditor regarding their compliance with the independence, accounting, auditing and reporting requirements.	

If it was concluded that the work of the other auditor cannot be used and we have not been able to perform sufficient additional audit procedures regarding the financial information of the component audited by the other auditors we have expressed a qualified opinion or disclaimer of opinion because there is a limitation in the scope of the audit.	
If our audit opinion on the financial statements as a whole is based solely on the audit report of another auditor regarding the audit of one or more components, we have stated in our report that fact clearly and have indicated the magnitude of the portion of financial statements audited by the other auditor.	
External expert	
We have considered the need for use of an external expert, assessed the professional competence and objectivity of the expert, documented our decision to rely on the work of the expert and obtained audit evidence regarding the scope of the expert's work.	
We have obtained sufficient appropriate audit evidence that the work of the external expert was adequate for our purpose, in the context of the specific assignment. If the results of the expert's work did not provide sufficient appropriate audit evidence or if the results were not consistent with other audit evidence, we have resolved the matter.	
We have made appropriate reference to the work of an expert based on whether the report is modified.	
Internal audit	
We have obtained an understanding of the activities of internal audit and performed a preliminary assessment of the internal audit function sufficient to identify those activities that are relevant to planning our audit. Where relevant, we have documented our decision to rely on the work of the internal auditors, including a discussion of our assessment of the competence and objectivity of the internal audit department and the planned use of internal audit and considered use of the 'Internal Audit Function Evaluation' working paper.	
If the work of internal audit has been used, we have obtained sufficient appropriate audit evidence that their work is adequate for our purpose, in the context of the specific assignment and we have completed the 'Internal Audit Function Evaluation' working paper.	
When we used the specific work of internal audit, we evaluated and tested that work to confirm its adequacy for our purposes and completed the 'Internal Audit Function Evaluation' working paper.	

Specific topics	
Consideration has been given to other specific topics. Such topics include: ■ long -term investments ■ segment information ■ comparative financial statements ■ corresponding figures ■ opening balances ■ attendance at physical inventory counting ■ environmental matters ■ derivative financial instruments	
Consideration has been given to other specific topics and procedures appropriate for the process analysis performed.	
Consideration has been given to other specific topics and procedures appropriate for substantive procedures, evaluation and reporting performed and appropriate conclusions reached.	
Other Information	
We have read the other information to identify material inconsistencies with the audited financial statements.	

Job In-charge **Audit Manager**

II. Engagement Manager and Partner Sign-off

	Manager sign-off and date	Partner sign-off and date
Engagement leader sign-off Based on my consideration of the matters set out below, supported by sufficient review of relevant and significant audit documentation, I confirm that: • The engagement has been appropriately executed in accordance with the policies, sufficient appropriate evidence has been obtained to support our opinion, and the audit report to be issued is appropriate in the circumstances. • I have been sufficiently involved in the audit process, including in key meetings with the client and the team. • The extent and timing of my review of the items and matters referred to below is sufficiently evidenced, either in the audit file or through comments below and through this completion sign-off. Further, all significant matters have been evidenced as reviewed		
a) Financial statements I have read the final financial statements [and other information as appropriate] and am satisfied that the disclosure and presentation is appropriate.		
b) I have read the audit report and am satisfied that it is appropriate The date of audit report is not earlier than date on which financial statements were authorized for issue by the Board.		
c) Consultation and significant matters There has been appropriate consultation on difficult or contentious matters, and conclusions from consultation have been agreed, documented and implemented. All significant matters identified, including matters that include information inconsistent with the final conclusions, significant professional judgments, matters included the Summary of Unadjusted Misstatements and justified departures from the ISAs, have been resolved, communicated to management and documented to my satisfaction		
d) Client communications are appropriate and cover, at least, those matters specified by ISA 260 and ISA 265 for communication		

with those charged with governance.		
e) Sufficient appropriate audit evidence about the assessed risks of material misstatement due to fraud has been obtained through designing and implementing the appropriate responses. Identified or suspected fraud has been appropriately responded to.		
f) Sufficient appropriate audit evidence about the assessed risks of material misstatement has been obtained through designing and implementing appropriate responses to those risks. Sufficient appropriate evidence has been obtained in relation to financial statement assertions for each significant financial statement area, including disclosures, allowing us to draw reasonable conclusions on which to base our audit opinion		
g) Significant changes to the audit strategy and audit plan All significant changes made to the audit strategy and audit plan since planning sign-off have been documented appropriately and to my satisfaction		
h) The materiality values as assessed in the planning phase, represents the final materiality values and are considered appropriate. I am not aware of any other information arising from the audit that requires those materiality values to be revised further.		
i) Client representations have been obtained sufficient to support the audit report.		
j) The EQCR has been sufficiently involved in the completion process		
k) Independence Since planning sign-off, no other matters have arisen that affect the independence of the firm and the objectivity of the engagement leader and audit staff, or any such matters arising have been satisfactorily dealt with.		
l) Compliance with ethical requirements Since planning sign-off, no other matters have arisen that affect compliance of members of the engagement team with ethical requirements, or if any matters have arisen, these have been satisfactorily dealt with.		
m) Where procedures additional to the original audit strategy and plan were deemed necessary to achieve the stated objectives of an ISA these have been included within the audit file and documented to my satisfaction		
n) All necessary audit procedures have been completed, reviewed,		

and sufficiently and appropriately documented.		
o) Where matters have arisen after the date of the audit report, which required additional procedures to be performed or resulted in a change to previous conclusions drawn.		

III. Engagement Quality Control Review (EQCR) Reviewer Sign-off (if applicable)

Discuss and agree the working practices to be adopted by the engagement team for the timely involvement of the EQCR, including in any new matters affecting independence, any new significant matters, the review of the financial statements and draft audit report, the review of any client communications, and to ensure the timely sign-off of this required completion step by the EQCR.

A meeting involving the EQCR, engagement leader and team manager may be held to enable these matters to be discussed. The EQCR's satisfaction that there is an adequate record of his/her involvement is evidenced by his/her sign off of this working paper.

An adequate record of involvement includes, as a minimum, a record that the EQCR is satisfied with the matters referred to in the left hand column in the table below. The EQCR considers performing additional procedures, where there are specific client risks.

	EQCR sign-off and date
I confirm that I have read and assessed at least the documents indicated below. I have included additional comments, where necessary to refer to key meetings attended, any further steps taken and/or any additional documentation reviewed by me.	
• All significant matters • Documents reviewed on a selective basis to review work performed in significant areas (specify those documents or indicate if none is selected) • The record in the completion sign-off of the engagement leader's involvement in the audit	
• Records of internal consultations on significant matters • Records of important discussions with the client (significant matters)	

• Summary of Uncorrected Misstatements (SUM) • Sufficient review of the draft financial statements and disclosures • Proposed draft audit report and other public reports by the firm, as necessary, in particular where report modifications are proposed Where relevant: • Related commentary included in the same document (e.g. annual report, prospectus or similar document) as the engagement report; consider clarity and consistency with the financial statements	
• The key reports to the entity, including the audit committee	

Chapter 35 Completion Checklist

Client:	
Period covered by examination:	

S. No.	**D E S C R I P T I O N**	**Check in Appropriate Column**		
		Yes	**No**	**N/A**
1.	After receiving all requirements as stated in the covering letter, ensure that the required number of copies of audited financial statements along with the auditors' report have been despatched to the client.			
2.	Management letter has been sent to the client. (CCG compliance for all listed companies and preferably for unlisted companies).			
3.	Willingness letter" has been sent to the client preferably in response to client's letter.			
4.	Fee bills have been prepared and sent to the client.			
5.	Fee revision letter, if required this year, is sent.			
6.	Ensure that the auditors' report is dated before presenting for signature to the Partner. This date should not be earlier than the date financial statements were approved by the Board.			

The above steps are common for both public and private companies.
In addition to the above the following steps are exclusive for public companies:

7.	Ensure that Notice of Annual General Meeting (AGM) has been received and noted for attendance.			
8.	Ensure that all formalities of Code of Corporate Governance have been complied with and the checklist for Code of Corporate Governance compliance has been filled and reviewed by Engagement Manager and Engagement Partner.			

Date

Engagement Manager

Date

Engagement Manager

Chapter 36 Summary of Uncorrected Misstatements Client: Period:	Prepared by: Date: Reviewed by: Date:

Tax Rate	Overall materiality:	

Impact on Dr/(Cr)			**BALANCE SHEET**						**Profit and Loss Account**				**CASH FLOWS**			INTERNAL CONTROL IMPLICATION Yes or No.	FRAUD IMPLICATIONS Yes or No
W/P Ref.	Sr. #	Description	Adjusted	Assets		Liabilities		Equity	Factual	Judgmental	Projected	Total	operating	Investing	Financing		
			Yes/No	Current	Non-Current	Current	Non-Current		Differences	Differences	Differences						
	1																
	2																
	3																
	4																
	5																
	6																
	7																
	8																
	9																
	10																
	11																
	12																
	13																
	14																
	15																
Total Corrected Misstatements			Yes														
Total Uncorrected Misstatements			No														

Tax Effect of Pretax Uncorrected Misstatements											
After Tax Impact of Uncorrected Misstatements											
Total After Tax Impact of Uncorrected Misstatements on Equity											
Financial Statement (FS) Amounts											
Percentage of After Tax Uncorrected Misstatements to FS Amounts											

Note: The total impact of uncorrected adjustments should be below materiality. The summary of uncorrected misstatements should also be included in the representation letter.

Summary of Uncorrected Misstatements – Disclosures

Description of Disclosure Misstatement	Required / Best practice	Value (if applicable)	Management Response / Action	Disclosed (Yes/No)

Chapter 37 Suggested Letter to the Board of Directors (BOD)

Board of Directors, Date:
ABC Company Limited,
Karachi

Dear Sir,

We are pleased to inform you that we have completed the audit of your financial statements for the year ended 30 June 20XX, and are enclosing the X copies of the financial statements initialled by us for identification purposes only together with the auditors' report thereon. The auditors report would be issued in its present or amended form after we have received the following:

i) The board resolution approving the financial statements and financial statements duly signed by the Chief Executive and director authorised in this behalf;
ii) A signed management representation letter, draft of which has been handed over to the accounting management of the company
iii) Approval of the Board regarding the following:

- All additions to assets (including investments) (over the limits in Companies Ordinance)
- All disposals of assets
- Bonuses
- Level of provisions
- Transfers
- Items of management estimates and judgement
- Deferral or Capitalisation of expenditure
- Revaluation of assets
- Change in accounting policy or significant estimate

2. RESPONSIBILITIES OF THE AUDITORS AND THE BOARD IN RELATION TO THE FINANCIAL STATEMENTS

The responsibilities of the independent auditors, in an audit of financial statements, are explained in International Standard on Auditing 200 "Overall objectives of the independent auditor and the conduct of an audit in accordance with international standards on auditing." While the auditors are responsible for forming and expressing their opinion on the financial statements, the responsibility for the preparation of the financial statements is primarily that of the management in accordance with applicable financial reporting framework, which includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of financial statements that are free from material misstatement, whether due to fraud or error. The management's responsibilities include to provide the auditor with (i) all information, such as records and documentation, and other matters that are relevant to the preparation and presentation of the financial statements; (ii) any additional information that the auditor may request from the company and, where appropriate, those charged with governance; and (iii) unrestricted access to those within the entity from whom the auditor determines it necessary to obtain audit evidence. The audit of the financial statements does not relieve the management of its responsibilities. Accordingly, our examination of the books of accounts and records should not be relied upon to disclose all the errors or irregularities in relation to the financial statements.

We would like to inform the management that unless we have signed the auditors' report on these financial statements, the same shall remain and be deemed unaudited.

*(Further significant observations relating to legal/tax advisor, large outstanding balances, confirmations outstanding and other significant matters that require attention of the Board of Directors, may also be included in this letter.)

____

____

____

(Name of the Auditor)
sd

Chapter 38 The Audit Report

The overall objectives of the auditor are:

(a) To obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, thereby enabling the auditor to express an opinion on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework; and

(b) To report on the financial statements, and communicate as required by the ISAs, in accordance with the auditor's findings.

Having achieved the first objective, the auditor shall now move to meet the above second objective to conclude his audit assignment. The final phase of the auditing process is reporting the findings. To meet his reporting responsibility, the auditor must have a through understanding of the reporting requirements of International Auditing Standards and the requirements of the relevant reporting laws (if any), in a particular jurisdiction. In Pakistan, the relevant legislations are the Companies Ordinance, 1984, the Banking Companies Ordinance, 1962, the Insurance Act 1938. Furthermore, the auditor is also bound by any specific requirements of the Charter of the Entity or special legislation governing the entity subject to audit.

The purpose of an audit is to enhance the degree of confidence of intended users in the financial statements. This is achieved by the expression of an opinion by the auditor on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework. In the case of most general purpose frameworks, that opinion is on whether the financial statements are presented fairly, in all material respects, or give a true and fair view in accordance with the framework.

An audit opinion may be:

- Unqualified or Clean (ISA-700), where the Audit Report is not modified at all.
- Unqualified or Clean but with an Emphasis of Matter Paragraph or Other Matter Paragraph (ISA-706).
- Qualified due to disagreement with the responsible party or scope limitation.
- Disclaimer or Adverse.

Unqualified or Clean Opinion (ISA-700)

Follow ISA-700 and the relevant provisions of the Companies Ordinance or any other legislation(s), charters governing the entity, which are for the time being in force are applicable to the reporting of audit of financial statements of the entity as regards the form, contents, and matters to be communicated to the users of the financial statements.

Unqualified or Clean but with an Emphasis of Matter Paragraph or Other Matter Paragraph (ISA-706)

In addition to the general requirements described in the preceding paragraph, follow the following further requirements and apply your professional judgement.

Emphasis of matter paragraph (ISA-706)

If the auditor considers it necessary to draw users' attention to a matter presented or disclosed in the financial statements which is fundamental to users' understanding of the financial statements, the auditor shall include an Emphasis of Matter paragraph in the auditor's report as per ISA-700 provided that the matter is not materially misstated in the financial statements.

Do not include more information in an Emphasis of Matter paragraph than is presented or disclosed in the financial statements lest it may imply that the matter has not been appropriately presented or disclosed.

Form, Contents and placement: in the Audit Report

(a) Include it immediately after the Opinion paragraph in the auditor's report;
(b) Use the heading "Emphasis of Matter," or other appropriate heading;
(c) Include in the paragraph a clear reference to the matter being emphasized and to where relevant disclosures that fully describe the matter; and
(d) Indicate that the auditor's opinion is not modified.

The following are the instances of circumstances where an Emphasis of Matter Paragraph may be necessary.

- An uncertainty relating to the future outcome of exceptional litigation or regulatory action or uncertainty relating to going concern assumption used.

- In highlighting the uncertainty, the auditor uses the same terminology that is used in the note to the financial statements.

- Early application (where permitted) of a new accounting standard that has a pervasive effect on the financial statements.

- A major catastrophe that has had, or continues to have, a significant effect on the entity's financial position.

Any other disclosure by the management to which an emphasis of the matter may be necessary in auditor's professional judgement.

<u>Other Matter Paragraphs in the Auditor's Report</u>

If the auditor considers it necessary to communicate a matter other than those that are presented or disclosed in the financial statements that is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report and this is not prohibited by law or regulation, the auditor shall do so in a paragraph in the auditor's report, with the heading "Other Matter," or other appropriate heading.

Form, Contents, and Placement in the Audit Report

The content of an Other Matter paragraph reflects clearly that such other matter is not required to be presented and disclosed in the financial statements. Accordingly, an Other Matter paragraph also does not include information that is required to be provided by management.

The auditor shall include this paragraph immediately after the Opinion paragraph and any Emphasis of Matter paragraph, or elsewhere in the auditor's report if the content of the Other Matter paragraph is relevant.

Other Reporting Responsibilities section

The placement of an Other Matter paragraph depends on the nature of the information to be communicated. When an Other Matter paragraph is included to draw users' attention to a matter relevant to their understanding of the audit of the financial statements, the paragraph is included immediately after the Opinion paragraph and any Emphasis of Matter paragraph. When an Other Matter paragraph is included to draw users' attention to a matter relating to Other Reporting Responsibilities addressed in the auditor's report, the paragraph may be included in the section subtitled "Report on Other Legal and Regulatory Requirements." Alternatively, when relevant to all the auditor's responsibilities or users' understanding of the auditor's report, the Other Matter paragraph may be included as a separate section following the Report on the Financial Statements and the Report on Other Legal and Regulatory Requirements.

Circumstances in Which an Other Matter Paragraph May Be Necessary

Relevant to Users' Understanding of the Audit

In the rare circumstance where the auditor is unable to withdraw from an engagement even though the possible effect of an inability to obtain sufficient appropriate audit evidence due to a limitation on the scope of the audit imposed by management is pervasive, the auditor may consider it necessary to include an Other Matter paragraph in the auditor's report to explain why it is not possible for the auditor to withdraw from the engagement.

Reporting on more than one set of financial statements

An entity may prepare one set of financial statements in accordance with a general purpose framework (for example, the national framework) and another set of financial statements in accordance with another general purpose framework (for example, International Financial Reporting Standards), and engage the auditor to report on both sets of financial statements.

Restriction on distribution or use of the auditor's report

The auditor may consider it necessary in certain circumstances to include an Other Matter paragraph, stating that the auditor's report is intended solely for the intended users, and should not be distributed to or used by other parties.

Any other circumstances where the auditor exercise his professional judgement that a matter shall be conveyed in other matter paragraph.

Communication with Those Charged with Governance

If the auditor expects to include an Emphasis of Matter or an Other Matter paragraph in the auditor's report, the auditor shall communicate with those charged with governance regarding this expectation and the proposed wording of this paragraph.

Qualified Opinions

The auditor shall express a qualified opinion when:

a) On the basis of sufficient appropriate audit evidence concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements

b) the auditor is unable to obtain sufficient appropriate audit evidence, but concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive.

Pervasive effects on the financial statements are those that, in the auditor's judgment:

(a) Are not confined to specific elements, accounts or items of the financial statements;
(b) If so confined, represent or could represent a substantial proportion of the financial statements; or
(c) In relation to disclosures, are fundamental to users' understanding of the financial statements.

Scope Limitation

Limitation on scope could be caused by the circumstances or by the management. This is the situation where the auditor is unable to obtain sufficient appropriate audit evidence to give an unqualified opinion. If the effect of limitation on auditors opinion is material but not pervasive, he gives a qualified opinion. The qualification relates to such adjustments as might have been determined to be necessary had the auditor been able to obtain sufficient appropriate audit evidence.

Consequence of an Inability to Obtain Sufficient Appropriate Audit Evidence Due to a Management-Imposed Limitation after the Auditor Has Accepted the Engagement

If the auditor becomes aware that management has imposed a limitation on the scope of the audit that the auditor considers likely to result in the need to express a qualified opinion or to disclaim an opinion on the financial statements, the auditor shall request that management remove the limitation.

If management refuses to remove the limitation, the auditor shall communicate the matter to those charged with governance, and determine whether it is possible to perform alternative procedures to obtain sufficient appropriate audit evidence.

If the auditor is unable to obtain sufficient appropriate audit evidence, the auditor shall determine the implications as follows:

(a) If the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive, the auditor shall qualify the opinion; or

(b) If the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive so that a qualification of the opinion would be inadequate to communicate the gravity of the situation, the auditor shall:

   (i) **Withdraw** from the audit, where practicable and possible under applicable law or regulation;

   If the auditor withdraws, before withdrawing, the auditor shall communicate to those charged with governance any matters regarding misstatements identified during the audit that would have given rise to a modification of the opinion.

   (ii) **If withdrawal from the audit before issuing the auditor's report is not practicable or possible,** disclaim an opinion on the financial statements.

Disagreement

Disagreements can arise through a variety of circumstances. Examples are where:

- Inappropriate accounting policies used by the management.
- Disagreement over the facts or amounts included in the financial statements.
- The manner or extent of disclosure of facts or amounts in the financial statements.
- Failure to comply with relevant legislation, standard, or other requirements.

If there is a material misstatement of the financial statements that relates to the non-disclosure of information required to be disclosed, the auditor shall:

(a) Discuss the non-disclosure with those charged with governance;
(b) Describe in the basis for modification paragraph the nature of the omitted information; and
(c) Unless prohibited by law or regulation, **include the omitted disclosures**, provided it is practicable to do so and the auditor has obtained sufficient appropriate audit evidence about the omitted information.

Disclaimer of Opinion

Where the auditor is unable to obtain sufficient appropriate audit evidence to provide basis for his audit opinion and he concludes that due to such limitation of scope, the possible effects on the financial statements of the probable misstatements, if any, could be material and pervasive.

The auditor shall bear in mind that if the effect of limitation of scope imposed by the management is material and pervasive, he must decline or withdraw from the audit engagement as the case may be unless he is bound to complete the audit engagement under the relevant legislation or any other requirements for the time being in force. In this situation the auditor shall explain in Other Matter Paragraph the reasons for giving a disclaimer of opinion instead of withdrawing from the engagement.

It is also worth mentioning that in case of disclaimer of opinion, it is inappropriate to give an 'An Emphasis of Matter Paragraph' as it would undermine the integrity of the Audit Report and would reflect lack of auditor's understanding of the significance of the disclaimer of opinion.

When you disclaim, you disown everything about the financial statements. This is the reason we modify the introductory paragraph of the report to state that “We were engaged to audit” instead of “We have audited”.

The auditor shall also amend the description of the auditor’s responsibility and the description of the scope of the audit to state only the following:

“Our responsibility is to express an opinion on the financial statements based on conducting the audit in accordance with International Standards on Auditing. Because of the matter(s) described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.”

Adverse Opinion

An adverse opinion shall be expressed when the effect of a disagreement is so material and pervasive to the financial statements that the auditor considers that a qualified opinion would be inadequate to disclose the misleading or incomplete nature of the financial statements.

As discussed above it is also inappropriate to give ‘An Emphasis of Matter Paragraph where the auditor has expressed an adverse opinion.

The auditor shall exercise extra caution when giving a modified audit report since any deficiency in his audit report might expose him to an action against him against him by the regulatory authority, independent reviewers and client.