



AUDIT PRACTICE MANUAL

**INSTITUTE OF COST AND MANAGEMENT
ACCOUNTANTS OF PAKISTAN**

TABLE OF CONTENTS

Chapter 1	PRE ENGAGEMENT	1
1.	Pre Engagement Activities.....	1
1.1	Acceptance of New Client.....	1
1.2	Continuance of Existing Client.....	1
2.	Engagement Terms	2
3.	Changes in Terms of Audit Engagement	3
Chapter 2	PLANNING	4
1.	Introduction	4
2.	Risk Statement	5
3.	Information about Client	6
4.	Meetings	6
5.	Business Control Environment	6
6.	Computer Information Systems	7
7.	Financial / Management Reporting Environment	7
7.1	Issues relating to Financial / Management Reporting.....	7
8.	Critical Audit Area	7
9.	Expert Opinion	8
10.	Control Overview	8
10.1	Control Environment.....	8
10.2	Control Activities.....	8
10.3	Control Risk.....	8
10.4	Internal Control.....	8
10.5	Risk Assessment in Small Entity.....	9
10.6	Significant Risks	9
11.	Control Activities of Audit.....	9
11.1	Physical Control.....	9
12.	Audit Materiality	9
13.	Assessment of Fraud Risk.....	10
13.1	Responsibilities of the Auditor's for Fraud Risk	10
14.	Computer Information System Check List.....	11
15.	Analytical Procedure for Risk Assessment.....	12
16.	Evaluation of Internal Audit Functions	12
17.	Conducting Audit of Group of Companies	13
18.	Points Brought Forward from Previous Years	13
19.	Staff Planning and Time Allocation.....	13
Chapter 3	EXECUTION.....	14
1.	Introduction	14
2.	Selection of items for testing	14
3.	Audit Sampling.....	15
4.	Sampling Risk.....	15
4.1	Affecting Audit Effectiveness	15
4.2	Affecting Efficiency of Audit	15
5.	Non-Sampling Risk.....	16
6.	Sampling Approaches.....	16
7.	Planning the Sample Selection.....	16
8.	Sample Selection and Testing.....	18
9.	Evaluating Results of Audit Sampling.....	19
10.	Sample Audit Programs.....	20
11.	Going Concern.....	21
12.	Compliance of Regulatory Framework	21
13.	Physical Counting of Inventory	21
14.	Confirmation and Inquiries.....	22

15. Related Party Transactions	22
16. Compliance of Labour Laws	23
17. Taxation	23
Chapter 4 REPORTING	24
1. Objective of the Audit.....	24
2. Auditor's Report	24
3. Audit Opinion	24
4. Draft Audit Report	26
5. Audit Completion Checklist.....	26
6. Subsequent Events.....	26
7. Letter to Board of Director	28
APPENDICES.....	29

Chapter 1 PRE ENGAGEMENT

1. Pre Engagement Activities

The most important and crucial phase for practicing Cost and Management Accountants (“ CMA Firms / Auditors”) is to decide whether to accept a new client or to reject, on the basis of the information available about the client at that time. Similarly, the decision, whether to continue relations with the existing clients or to terminate the engagements, is also very critical. The decision of client acceptance or continuance, as the case may be, is dependent on the client evaluation, background checks and related ethical considerations.

The CMA Firms need to ensure periodical reviews of their existing clients at least at after every 2-3 Years. Further, the practicing CMAs are also required to ensure that audit engagements are conducted by adhering to the rules prescribed in “Code of Ethics” issued by ICMA Pakistan and the ethical requirement set out in Paragraph 26 of International Standard on Quality Control 1(ISQC-1) and International Standard on Auditing (ISA) 220 issued by IFAC.

1.1 Acceptance of New Client

1.1.1 Similar to other engagements, an auditor needs to be careful about new clients, because of lack of previous experience with management and governing boards, knowledge of business, transactions and the associated risk affecting the financial statements and cost statements / records. The risk associated with the new clients is more vulnerable than existing clients for the reasons stated above.

1.1.2 Though certain assignments, procedures for new and existing clients are common but additional information about the new client is of high significance. Accordingly, while accepting a new client, the auditor must ensure communication with the predecessor auditors, if any.

1.1.3 The auditors shall complete the “Form 001” as specified in Appendix ‘A’ before the engagement has been signed with the new client.

1.2 Continuance of Existing Client

1.2.1 Retaining the existing clients is important for every business. In order to decide whether to continue or not with the existing client, there is needed a sensible deliberation and evaluation of significant matters that have arisen during the current or previous engagements, and their implications for continuing the relationship.

1.2.2 The periodical review shall be made, not exceeding three years, depending upon the relationship with client or lesser when significant information is available. CMF Firms shall complete the “**Form 002**” as specified in Appendix ‘B’, before the continuous engagement has been signed.

2. Engagement Terms

2.1 Once an auditor has decided to accept a new or existing client’s request to conduct the audit, it is necessary to unfold the terms of the audit engagement either through an audit engagement letter or through formal contract. The CMA Firms / Auditors shall formulate the terms in accordance with the ISA 210 on “Agreeing the Terms of Audit Engagements”.

2.2 While formulating the terms of engagement, the CMA Firms / Auditors shall:

2.2.1 Ensure the compliance with the following minimum requirements:-

- a. Objectives and scope of audit.
- b. Responsibilities of the auditor.
- c. Responsibilities of management.
- d. Identification of applicable financial / cost reporting framework
- e. Reference to expected form and contents of reports to be issued

2.2.2 Obtain management acknowledgement for its understanding of responsibilities:

- a. For reparation of financial / cost statements in accordance with applicable framework.
- b. For internal controls necessary to enable the preparation of financial / cost statements

2.2.3 Ensure that management acknowledges providing the auditors with the access to all the relevant information necessary for the preparation of statements and conduct of audit including any additional information which auditors deems necessary from the management.

2.3 When auditor considers that management has imposed any limitations on scope of auditor’s work related to audit engagement, and that the auditor believes that such restriction will lead to disclaiming an opinion on the financial / cost statement, the auditor shall not accept such limited engagement, except if required by law or regulations.

2.4 For recurring audits, the auditor shall evaluate the client whether circumstances stipulate for revision of terms of audit engagements or only presents terms need to be communicated.

3. Changes in Terms of Audit Engagement

- 3.1 When it is considered appropriate to change the terms of the audit engagement, irrespective by the auditor or on the request of the clients' management, the auditor shall critically evaluate the changes and to accept or reject the changes is a matter of professional judgment. It should be done with full justifications and shall be brought in writing.
- 3.2 The auditor may agree to the changes where change is required due to change in circumstances that effects the entity's requirements for an audit or due to a misunderstanding concerning the nature of service originally requested.
- 3.3 The change in terms of an audit engagement would not be justified if it relates to information, which is incorrect, incomplete or unsatisfactory.
- 3.4 If the auditor rejects a change of terms of the audit engagement and the management does not continue with the original audit engagement, the auditor should:
 - a. Withdraw from audit engagement where possible under applicable laws; and
 - b. Determine whether there is any obligation to report the circumstances to stakeholders, such as regulators or executive management.

Chapter 2 PLANNING

1. Introduction

- 1.1 Planning is essential for the successful execution and completion of audit engagement as it enables the auditor to properly organize and manage the audit engagements in an effective and efficient manner, assists in selection of team members with appropriate levels of capabilities and competence, and enables the complete and efficient delivery of professional responsibilities.
- 1.2 The purpose of the planning is to ensure and document:
- a. The auditor's understanding of the entity's business and its industry and environment, its accounting policies and practices, and its financial performance
 - b. assessment of risks of material misstatement relevant to the audit, including error and fraud risks
 - c. audit strategy in response to these risks, and
 - d. the planned audit approach for significant accounts and disclosures
- 1.3 Audit planning includes identifying the audit risks while obtaining the information about business, assessing associated risk and mitigating the identified risk by designing the adequate audit procedures and their application to obtain reasonable assurance to minimize the audit risk to an acceptable level.
- 1.4 Planning also covers consideration of materiality and application of substantive analytical procedures.
- 1.5 Planning continues throughout the audit engagement.
- 1.6 It is mandatory that hierarchy of the engagement team with appropriate level of competences and key management person, point of contact is defined before commencement of the audit.
- 1.7 Planning consists of developing an overall audit strategy and audit plan required for the preparation of detailed audit program.

Overall Audit Strategy

Formulation of overall audit strategy shall consist of:-

- a. Kick off meeting with the client management
- b. Define and agree the scope of engagement
- c. Ascertain reporting objectives
- d. Decide the timing of audit activities.

- e. Assess nature and timing of the communication required with management and those charged with governance
- f. Selecting engagement team, team meetings and other communications among team members
- g. Apply risk assessment procedures.
- h. Use knowledge acquired from preliminary assessment
- i. Decision on involvement of specialists and other external experts
- j. Significant other matters

Overall Audit Plan

- 1.8 In order to understand the entity and its environment, it is important to identify and assess risk of material misstatement, due to fraud and error. Audit risk is the risk of failure to detect material misstatement in the financial / cost statements. The auditor must ensure to identify and assess the risk of material misstatement in accordance with ISA-315.

2. Risk Statement

The auditor shall perform the following procedures for the risk assessment and shall also document the results of the procedures performed in order to arrive at the conclusion of risk assessment:-

- 2.1 Inquiries from those charged with governance and management, internal audit personnel, employees responsible for initiating, processing or recording complex transactions, in house legal counsel etc. about the entity's business and its environment including the internal control.
- 2.2 Analytical procedures to identify the aspects of the entity of which auditor is unaware and the existence of unusual events or transactions. The results of analytical procedures shall be critically evaluated.
- 2.3 Intelligent observations of the entity's environment.
- 2.4 Inspection of the entity's documents and related management reports to obtain in-depth information about the client's environment.
- 2.5 The information obtained from prior period audits. This provides the auditor with the basis for analyzing the corrections made during the current period, significant changes in entity's operations affecting financial / cost statements.
- 2.6 The engagement partner shall discuss the material misstatement in financial / cost statements with other engagement team members. The engagement partner shall determine which matters are required to be communicated to engagement team members not involved in the decision.

- 2.7 Business risk results from significant condition or circumstances, which could adversely affect the entity's ability to achieve its targets. Auditor shall use SWOT (Strength, Weaknesses, Opportunity and Threats) analysis and PEST (Political, Economic, Social and Technological) analysis.
- 2.8 The auditor shall record the processes stated at para 2.7 on "Form 003" (Specimen placed at Appendix "C" at the end of this manual). This form may be modified by the auditor to suit his requirements.

3. Information about Client

- 3.1 Detailed information about clients business and its activities is very important for the audit of the entity. The following information shall be gathered before the commencement of the audit:-
- a. The nature of client's business and history
 - b. Products and services.
 - c. Client's profile.
 - Key customers
 - Key Suppliers
 - Employees
 - Investments
 - Financing
 - Related parties
 - Litigations and claims
 - d. Corporate structure and conduct of operations.
 - e. Objectives of the clients business.
 - f. Entity's industry environment
 - g. Legal and regulatory environment

4. Meetings

The meetings with the management and those charged with governance are important for resolving audit queries, making decisions or deliberating on the difference of opinion between auditor and the management. It is mandatory that agenda of every meeting is prepared and agreed upon in writing. The meetings shall be conducted by the appropriate member of the engagement team depending upon the nature of queries / agenda item. The detailed minutes of the meeting must be prepared and documented.

5. Business Control Environment

To understand the business control environments of the client, the following shall be analyzed and recorded:-

- a. Legal and operating structure.

- b. Culture of the client's entity.
- c. Ethics adapted by the client's entity.
- d. Corporate governance environment.
- e. Remuneration of the Management.
- f. Personal profile of the management.

6. Computer Information Systems

The majority of the business entities are using the Computer Information Systems (CIS) or ERP systems for recording their financial / cost and other records. The dependence of the entity on CIS varies from one to other due to size and operating culture of the entities. . Auditor shall obtain an understanding about:

- level of dependence on CIS by the client,
- CIS personal structure and skills,
- Security and access controls,
- Backups and recovery procedures,
- Reliability of the CIS and data integrity,
- Data processing and reporting control

7. Financial / Management Reporting Environment

The financial and management reporting environment of an entity is critical and plays important role in information flow and decision making. Auditor shall obtain understanding of the applicable financial reporting framework, approved management reporting guidelines, selection and application of accounting policies, critical accounting policies for financial and management reporting, impact of accounting policies upon specific aspects of the financial / cost statements and reconciliations of cost / management reports with financial statements.

7.1 Issues relating to Financial / Management Reporting

While analyzing the issues relating to reporting, the auditor shall consider the following factors for identification of reporting issues to be addressed:-

- a. Clients accounting procedures and policies
- b. New accounting pronouncements
- c. Going concern
- d. Legal and regulatory changes
- e. Analysis of financial / cost statements prepared by management and their results

8. Critical Audit Area

Critical audit areas are those areas of the audit, where judgment process and significant estimations are required. The judgment and resulting impact of the judgment on the financial / cost statements relating to audit shall be documented.

Critical audit areas, where judgment is made, shall be documented on “**Form 004**” as specified in Appendix ‘D’.

9. Expert Opinion

During audit engagement, circumstances may arise necessitating for getting the opinion of the expert or from other parties. When the opinion of an expert or other parties is obtained, the detailed rationale about why it is considered significant to engage the expert or other parties and their potential effect on financial statements, must be recorded.

10. Control Overview

The auditor shall obtain an understanding of the environment and activities being undertaken by an entity. Control overview consists of the following:-

10.1 Control Environment

It is the component of the internal controls. It includes governance, attitudes and awareness of management and those charged with governance and its importance.

10.2 Control Activities

These are the policies and procedures, that being component of internal controls ensures implementation of managements directives.

10.3 Control Risk

This is the risk that a misstatement that could occur in an assertion about a class of transactions, account balance or disclosure, which could be material either individually or when aggregated among other misstatements, will not be prevented, detected or corrected, on a timely basis by the entity’s internal control system.

The auditor shall obtain an understanding of the risk assessment procedures carried out by the management and shall evaluate the results thereof. The auditor shall also evaluate that process undertaken by the entity is appropriate or not.

10.4 Internal Control

It is the process designed, implemented and maintained by management to provide reasonable assurance about the achievement of entity’s objectives with regard to reliability of financial and management reporting, effectiveness and efficiency of operations, and compliance with applicable legal provisions. The auditor shall study and document the internal controls of the entity on “**Form 005**” as specified in Appendix ‘E’.

10.5 Risk Assessment in Small Entity

Generally the small entities identify risks through direct personal involvement rather than established risk assessment processes. The auditor shall assess the risk, irrespective whether verbal or established.

10.6 Significant Risks

Auditor shall pay special attention to the significant risks including:

- Risk of Fraud
- Risk related to recent developments in economic, accounting and other areas
- Risk from related parties transactions
- Risk from uncertainty in measurement and estimates
- Risk from unusual and complex transactions

11. Control Activities of Audit

Understanding the control activities relating to audit are of prime importance for the auditor. He shall obtain details of control activities in order to access the risks related to material misstatement due to fraud and error and shall design the audit procedures directed to respond to the assessed audit risk. The auditor shall evaluate how entity's management responds to the risks arising from information technology.

11.1 Physical Control

Physical Control activities refer to physical security of the assets and their safeguarding. Physical verification of the assets and inventories at specified period and surprise checks are the examples of physical controls.

12. Audit Materiality

When establishing the overall audit strategy, the auditor shall determine materiality as a whole. Any information that influences the decision of user of financial statement is termed as material. To assess, whether information is material or not, is a matter of the professional judgment of the auditor. The decision of the auditor regarding materiality is based on both quantitative and qualitative aspects. The auditor shall calculate materiality using quantitative approach. Following are the few examples of the audit materiality:-

- a. Financial Statements level Materiality
- b. Accounts Balances Materiality
- c. Transaction level Materiality
- d. Performance Materiality
- e. Computing Materiality (Single Rule Approach or Average Method)

The auditor shall seek guidance from ISA – 320 “Materiality in Planning and Performing an Audit”, in determination of materiality.

13. Assessment of Fraud Risk

Misstatement of financial / cost statements can also ascend from fraud or error. Fraud is an act of intentions by one or more individuals, who are trusted with governance, employer or even third party, which involves the use of deception to obtain illegal advantages. Error is always unintentional. The auditor, while planning the audit, must be careful and alert to the possibility of fraud. The risk of error shall be assessed by using appropriate quantitative and qualitative techniques. The auditor shall adhere to ISA-240 assessment of fraud risk, as detailed in following paragraphs.

13.1 Responsibilities of the Auditor’s for Fraud Risk

13.1.1 The auditor’s responsibilities relating to fraud in auditing of Financial Statements are described in ISA-240. ISA-240 supplements as to how ISA-315 and ISA-330, are applied for risks of material misstatement, due to fraud.

13.1.2 The auditor is responsible for forming an opinion of professional skepticism during the entire process of auditing irrespective of the experience. The auditor must ensure the followings:-

- a. Identify and assess the risks of material misstatement in the financial / cost statement due to fraud.
- b. Obtain appropriate audit evidences for assessed risks of material misstatement due fraud.
- c. Respond to fraud or suspected fraud, as appropriate.

13.1.3 Identification and assessment of risks of material misstatement due to fraud in accordance with ISA-315.

Discussion among Engagement Partners

13.1.4 The auditor shall discuss the susceptibility of the financial statements to material statement due to fraud with engagement partner and among other team members. During discussion the particular emphasis shall be placed on how and where the entity’s financial / cost statements may be susceptible to material misstatement, due to fraud, including how fraud might occur. The engagement partner shall determine that which matters are to be communicated to those team members not involved in the discussion. Based on discussion the auditor shall design the additional audit procedures to address the identified fraud risk.

Discussion with Management

- 13.1.5 During the planning phase of an audit, the auditor shall make enquiries from management to address the risk of management override of controls that may lead to or enable fraudulent financial reporting or misappropriation of assets. Whether to perform such procedures should be considered apart from any conclusions regarding the existence of more specifically identifiable risks.
- 13.1.6 The auditor shall document the findings from the procedures performed related to the fraud and error on “**Form 006**”, as specified in Appendix ‘F’.

Written Representation

- 13.1.7 The auditor shall obtain the following written representation from the management about risk of fraud and error:-
- a. Acknowledgement of their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
 - b. Disclosure to the auditor of the results of its assessment of the risk that the financial statements may be materially misstated, as a result of fraud.
 - c. Disclosure to the auditor about their knowledge of fraud or suspected fraud affecting the entity involving management employees, who have significant roles in internal control.
 - d. Disclosure to the auditor about its knowledge of any allegations of fraud, or suspected fraud, affecting the entity’s financial statements communicated by employees, former employees, regulators and others.

14. Computer Information System Check List

Computer Information System (CIS) check list shall be considered during planning phase of the audit for the evaluation of general level controls. The auditor shall use the sample provided in “**Form 007**”, specified in Appendix ‘G’ to this manual. This check list may be modified according to the degree of IT environment operating in the entity. The auditor shall inquire about the answers to the questions management or other responsible person(s) of the entity in writing and shall also perform other audit procedures, where appropriate, to obtain required evidence.

15. Analytical Procedure for Risk Assessment

- 15.1 For assessing the risk, analytical procedure may identify the aspects, which were not apparent in normal audit procedures and which help the auditor in determining that there could risks of material misstatement due to fraud. Analytical procedures to be performed may include both financial and non-financial information.
- 15.2 Analytical procedures may help to identify that the unusual transactions, events, amounts, ratios or trends that might have implications on audit.
- 15.3 Auditor shall obtain evidence that the financial information from appropriate source. Auditor shall identify the source from where data has been obtained for analytical procedures and shall evaluate the underlying data gathering process. The reliability of the data can be assessed by comparing the financial information with ledgers and budgeted amounts.
- 15.4 While planning the detailed audit procedures, the auditor shall perform analytical procedures prescribed in “**Form 008**”, a specimen of which is placed in **Appendix ‘H’** to the manual. The suggested procedures are not exhaustive and the auditor may include additional evaluation, as deem, appropriate in the given circumstances.

16. Evaluation of Internal Audit Functions

- 16.1 Internal audit function provides information to the management about adherence of the policies and procedures defined by those charged with governance. The degree of auditors’ reliance on the data of the entity depends on the effective functioning of the internal audit. The effectiveness of the internal auditor shall be determined in accordance with ISA-315 and the results of the evaluation shall be documented in “**Form 009**”, as referred in **Appendix ‘I’** to the manual.
- 16.2 The external auditor can use the work of internal auditor to modify the nature, timing and extent of audit procedures, to be performed, depending upon the internal audit function’s organizational status and that the relevant policies and procedures adequately support the objectivity of internal auditor, the level of competency of internal audit function, and whether the internal audit function applies a systematic and disciplined approach. .. However, the extent of internal audit effectiveness and use of internal audit work by external auditor does not relieve the external auditor from his responsibility. External auditor is solely responsible for expression of audit opinion. The external auditor shall consider the work of internal auditor in accordance, with ISA-610.
- 16.3 The Auditor shall use the below approach for evaluation of the internal audit function:-
- a. Obtain understanding of the activities of internal audit function

- b. Determination of the extent to which the work of internal auditor is to be relied upon
- c. Evaluation and testing the work of internal auditor

17. Conducting Audit of Group of Companies

17.1 Audit of Group of Companies needs to be conducted in accordance with relevant local laws and ISAs. The auditor may have to rely on the work of other auditor(s). The auditor shall document the details of co-auditors and their components. Before commencement of the audit of a group, auditor shall obtain the following:-

- a. Understanding of the Group, its business and products and services.
- b. Understand the component auditors.
- c. Communication of Group instructions to component auditors.

17.2 Auditor shall record the information obtained for group audit as per **“Form 010”** specified in **Appendix ‘J’** to the Manual.

18. Points Brought Forward from Previous Years

During conduct of audit for any period, certain points require some action(s) to be completed in subsequent year(s). Auditor shall ensure to make the list of all those points, which are required to be brought forward from the previous year’s audit work. The auditor shall ensure that all the points on which action is required in current year are carefully brought forward and shall document the points in **“Form 011”**, provided in **Appendix ‘K’** to the manual.

19. Staff Planning and Time Allocation

19.1 Auditor shall make planning for deployment of staff for carrying out the audit. This is an important activity of the planning phase. Time budgeting provides the auditor to ensure availability of the staff so that audit work is not hampered because of lack of the required human resources. It also enables the auditor to evaluate the efficiency of his staff and future planning for charging of audit fee. While deploying the human resource for an audit assignment, the factors such as qualification, experience and previous performance of the team members and audit in charge are important to consider.

19.2 The auditor shall prepare the time budget for the audit as suggested on **“Form 012”** specimen of which is placed at Appendix ‘L’ to this manual.

Chapter 3 EXECUTION

1. Introduction

Designing and performing audit procedures is the responsibility of the auditor. Auditor shall obtain sufficient appropriate audit evidence to provide reasonable assurance for the purposes of expressing his opinion on the financial statements. The auditor shall ensure compliance of audit procedures outlined in ISA-500 "Audit Evidence".

2. Selection of items for testing

2.1 Besides the consideration that the audit evidence is sufficient, in selecting an item to test, the auditor shall determine the relevance and reliability of information to be used as audit evidence. The available methods for selecting an item for testing are:

- a. Selecting all items (100% examination)
- b. Selection of specific items
- c. Audit sampling

The application of any one or combination of these methods may be appropriate depending upon the particular circumstances and the practicality and efficiency of different methods.

In making decision to select items for testing, the relevant factors include, auditor's understanding of the entity, assessed risk of material misstatement, and the population characteristics.

Selecting All Items

2.2 If the auditor concludes that specific audit areas are required to be fully examined in order to express his opinion on the financial statements, he will evaluate the 100% population that make up of class of transaction or account balance. 100% is unlikely in case of test of controls and more common for test of details.

Selection of Specific Items

2.3 The auditor may decide to select specific items from a population. Specific items may include:

- a. High value or key items
- b. Items above certain amount threshold
- c. Items needed for further information

- 2.4 The judgmental selection of specific items is subject to non-sampling risk. The results of the audit procedures applied to selected items cannot be projected to entire population; accordingly, selective examination of specific items does not provide audit evidence concerning the remainder of the population.
- 2.5 Audit sampling is applied to enable conclusions to be drawn about the entire population on the basis of testing a sample drawn from it in accordance with ISA-530 "Audit Sampling".

3. Audit Sampling

Audit sampling is the application of audit procedures to conduct the audit of less than 100% items. Sampling approach is applied on entire population by ensuring that all units have a chance of selection in order to provide the auditor with a reasonable basis to substantiate the conclusion and to form the audit opinion. Auditor shall ensure that tests and procedures are applied to the items selected through audit sampling,

4. Sampling Risk

Sampling risk is the risk that the auditor's conclusion, in case the entire population is subject to same audit procedures as are selected samples, could be different from the conclusion drawn from audit procedures performed to selected samples. Sampling risk can lead to two types of erroneous conclusions as detailed below:

4.1 Affecting Audit Effectiveness

The following are the elements that impact audit effectiveness:-

4.1.1 Test of Control - Risk of Over Reliance

This is the incorrect conclusion that assessed levels of control risk based on samples supports preliminary assessment of control risk.

4.1.2 Substantive Test of Details - Risk of Incorrect Acceptance

This is the incorrect conclusion that sample estimates of accounts balances or misstatements in accounts balances supports conclusion that the recorded balances are not materially misstated.

4.2 Affecting Efficiency of Audit

Following elements affect the work of an auditor and prompt auditor to do additional work:-

4.2.1 Test of Control - Risk of Under Reliance

This is the incorrect conclusion that assessed levels of control risk based on samples do not supports preliminary assessment of control risk.

4.2.2 Substantive Test of Details - Risk of Incorrect Rejection

This is the incorrect conclusion that sample estimates of accounts balances or misstatements in accounts balances do not supports conclusion that the recorded balances are not materially misstated.

Sampling risk is frequently expressed as a percentage (%). Risk can also be expressed in terms of confidence levels and reliability factors. A confidence level is the degree of assurance that the material error does not exist and it is opposite of risk.

5. Non-Sampling Risk

Component of detection risk, which is not due to examining any portion of the data is called, “non-sampling risk”. Non-sampling risk is due to inappropriate audit procedures, misinterpretation of audit evidence and failure to recognize the misstatements. Following are the few sources of non-sampling risk:-

- a. Non investigation of significant fluctuation in analytical procedures.
- b. Reliance on management representations as alternative source for audit evidence.

6. Sampling Approaches

- 6.1 There are several methods for audit sampling. Audit sampling can be done through statistical or non-statistical sampling approach.

Statistical Sampling Approach

- 6.2 Statistical sampling approach means determining the items to be selected through available statistics. Random selection of items and use of probability theory to evaluate sample results are the examples of statistical sampling approach.

Non Statistical Sampling Approach

- 6.3 The selection of items, which is not based on statistics, is called non statistical sampling approach.

7. Planning the Sample Selection

- 7.1 Following shall be considered for planning the sample account balances and transactions.
- a. Materiality and the number of items in population

- b. Inherent Risk
- c. Cost and time required
- d. Relevance and reliability of evidence

Steps for Planning the Sample

7.2 Following Steps shall be considered for planning the sample audit:-

- a. Determine the objective of the test.
- b. Define errors and deviations being sought.
- c. Decide the size of the sample.
- d. Identify the population and sampling units.

Steps for planning are explained in detail below:

Objectives of the Test

- 7.2.1 It is the responsibility of the auditor to consider the specific objectives to be achieved and the combination of audit procedures that is likely to best achieve the specified objectives. Both tests of control and substantive procedures can be performed to the items of population selected through audit sampling techniques.

Test of Control

- 7.2.2 Sampling is applicable in testing the operation of controls, when there is a trail of documentary or electronic evidence of the performance of control procedures.

Substantive Tests

- 7.2.3 Substantive test for sampling plans may form one of two procedures. The first approach is to obtain evidence that an account balance is not materially misstated. The second approach is to make independent estimates of some amount.
- 7.2.4 Substantive test for sampling plans may form one of two procedures. The first approach is to obtain evidence that an account balance is not materially misstated. The second approach is to make independent

Definition of Error and Deviation

- 7.2.5 The auditor shall consider what constitutes an error by referring to the objectives of the test. The objective of test of control is to identify the deviations from the prescribed control procedures. The objective of test of details or substantive testing is the identification of errors or misstatements in recorded transactions or balances.

Identification of population and sample units

7.2.6 Auditor shall identify the population and the sampling unit strictly in accordance with the objectives of the audit test. While selecting the samples, auditor shall ensure that population is appropriate and complete. For test of controls, the population must have the same control characteristics.

Stratification

7.2.7 Stratification is one of several method of sample selection. Stratification is dividing population in creating relatively homogeneous group. This method is widely used for substantive testing.

Size of the Sample

7.2.8 The auditor shall determine sample size to reduce the sample risk at an acceptable low level. The auditor shall determine the sample size either through use of statistical formula or the exercise of professional judgment.

8. Sample Selection and Testing

8.1 While selecting the item's for audit sampling, the auditor shall ensure that there is every possibility for each sampling unit in the population to be selected. Following are commonly used methods for obtaining representative samples for audit sampling (for details, ISA 530 be referred):-

8.1.1 Statistical

- a. Random selection
- b. Systematic selection
- c. Monitory unit sampling

8.1.2 Non-Statistical

- a. Haphazard Selection
- b. Block Selection

Projection of Error to Population

8.2 If error's or deviation's appear to be consistent with those which were anticipated during the procedure's planning the same can then be projected to consider the effect on the population .

If error's or deviation's appear to be consistent with those which were anticipated during the procedure's planning the same can then be projected to consider the effect on the population.

Both statistical and non-statistical sampling requires sample results to be

projected on the population.

Test of Controls

8.2.1 The rate of errors or deviations in the sample may be taken to be the rate of deviation or error in the population.

Test of Control

8.2.2 There are two quantitative methods of error projections for substantive tests. The use of these methods depends on whether or not the error relates closely to the size of the item.

(a) Routine Methods

This method is used, if errors relates closely to the size of the items. As the monetary value of the items increases, the monetary value of error increase.

(b) Difference Method

The difference method is used, where error does not have direct relationship to the monetary value of the items. These errors will increase in proportion to the number of items in the population.

9. Evaluating Results of Audit Sampling

- 9.1 The auditor shall evaluate the results of sample and that the use of audit sampling has provided a reasonable basis for conclusion about the population that has been tested. The auditor while evaluating misstatements should not include, anomalous error(s) from projected misstatement, however, such errors may be considered while evaluation of misstatement within the sample. Auditor shall obtain sufficient appropriate audit evidence to validate the fact that error or deviation is anomalous.
- 9.2 Every error or deviation discovered during audit need to be evaluated for its implementations. Auditor shall consider the following:
- a. Error or deviation has an effect on the whole population.
 - b. Error or deviation has local occurrence.
 - c. Error or deviation has isolated effect.
- 9.3 While analyzing the errors or deviations, their nature, cause and possible impact on the financial statement as whole should be considered. In case errors or deviation have common and potentially significant features, a sub-population of items of that feature may be identified for further testing.

10. Sample Audit Programs

10.1 The main objective of the audit process is to conduct the audit and for that the importance of preparation of steps of audit cannot be over emphasized. The purpose of audit program is to document the procedures planned and to be performed in respect of the class of transactions and account balances. Auditor shall ensure that the audit programs are prepared for key areas of the financial statements in order to determine the planned audit approach for various audit objectives.

10.2 Following are the main areas to be focused by the auditor and list of sample audit programs of key activities are provided below along with detailed model audit program specified in Appendix "M" to "AK" to the manual. The sample audit program may be modified as per requirement of the entity and applicable laws:-

10.2.1 Balance Sheet: Assets

a. Cash and Bank Balances	Form 013	Appendix "M"
b. Investment in Properties	Form 014	Appendix "N"
c. Investment in Subsidiaries	Form 015	Appendix "O"
d. Deposits and Advances	Form 016	Appendix "P"
e. Loan and Allowances	Form 017	Appendix "Q"
f. Inventories	Form 018	Appendix "R"
g. Trade Debts	Form 019	Appendix "S"
h. Fixes Assets	Form 020	Appendix "T"

10.2.2 Balance Sheet: Liabilities

a. Accrued Expenses	Form 021	Appendix "U"
b. Deferred Liabilities	Form 022	Appendix "V"
c. Taxation	Form 023	Appendix "W"
d. Contingencies and Commitments	Form 024	Appendix "X"
e. Payables	Form 025	Appendix "Y"
f. Short term borrowing	Form 026	Appendix "Z"
g. Finance lease Liabilities	Form 027	Appendix "AA"
h. Long Term Liabilities	Form 028	Appendix "AB"
i. Dividend Payable	Form 029	Appendix "AC"
j. Equity	Form 030	Appendix "AD"

10.2.3 Profit & loss Accounts

a. Sales	Form 031	Appendix "AE"
b. Cost of Sales	Form 032	Appendix "AF"
c. Admin Expenses	Form 033	Appendix "AG"
d. Financial Charges	Form 034	Appendix "AH"
e. Other income	Form 035	Appendix "AI"

10.2.4 Others

- | | | |
|----------------------|----------|---------------|
| a. WWF | Form 036 | Appendix "AJ" |
| b. Law & Regulations | Form 037 | Appendix "AK" |

11. Going Concern

- 11.1 Continuation of an entity as a going concern is of prime importance. Ordinarily, information that significantly contradicts the going concern assumption relates to the entity's inability to meet its obligations as they become due without substantial disposition of assets outside the ordinary course of business.
- 11.2 As per Para 12 of ISA 570, an auditor is required to obtain and evaluate the management assessment of the entity's ability to continue as a going concern.
- 11.3 The process for assessment for going concern shall be at least twelve months and the period used for assessment shall also be the same as that of management assessment.
- 11.4 Auditor shall perform the procedures to make assessment as suggested in "**Form 038**" referred in **Appendix, "AL"** to the manual.

12. Compliance of Regulatory Framework

Auditor shall ensure that client has complied with requirements of applicable legal and regulatory framework e.g. Companies Ordinance, 1984, Income Tax Ordinance, SECP Regulations. The auditor shall obtain a general understanding of how the client is complying with the applicable legal and regulatory framework by inquiring of management. To ensure that regulatory requirements are complied with, the auditor shall perform the procedures detailed in "**Form 039**" referred in **Appendix, "AM"** to the manual.

13. Physical Counting of Inventory

- 13.1 ISA 501 describes that if inventory is material to the financial statements, the auditor shall obtain sufficient appropriate evidence for physical existence of the inventory, unless it is impracticable.
- 13.2 Physical verification of the inventory in the presence of the auditor provides assurance that procedures applied for physical count by the client are accurate.
- 13.3 The auditor shall also carry out the test counts on the cutoff date and timing. The inventory count normally covers three stages i.e., before, during and after

physical inventory counting. The auditor shall use both bottom-up and top-down approach for selecting samples for inventory counting.

- 13.4 If the client has efficient inventory counting system, the physical inventory may be carried on continues basis instead of counting all items at year end.
- 13.5 During physical counting, the auditor shall ensure that employees of the entity carry out instructions properly.
- 13.6 Discrepancies observed during the counting shall be documented and notified to management for taking correcting measures.

14. Confirmation and Inquiries

- 14.1 Significant transactions in an entity relates to third party. The balances shown and transactions recorded in the books of accounts relating to other parties can only be authenticated by the concern party. For ensuring that the balances are correct, these be got confirmed from related parties. Confirmation and inquiry is defined by ISA as, "Audit evidence obtained as a direct written response to the auditor from the responding party, in paper form, or by electronic or other medium. While using external confirmation procedure as audit evidence, the auditor shall maintain control over confirmation requests.
- 14.2 The auditor shall ensure that information from third party is received directly from concerned party.
- 14.3 Confirmation received directly from third party in paper form is most authenticated than the evidence received through facsimile or electronic mail. The response recorded electronically involves risks as to reliability because the originator cannot be authenticated. If the auditor feels that response through electronic mean is not authentic, he may ask for authentication through paper. If the response from third party is received through client, auditor may request confirming party to respond directly with auditor, in writing. The letters to be sent to third parties for confirmation of the information are stated below and these sample letters be modified as per the requirements of the auditor or client:-

- (a) Letter to Bank Form 040, Appendix "AN"
- (b) Letter to Debtors/ Creditors Form 041, Appendix "AO"

15. Related Party Transactions

- 15.1 A business deal or arrangement between two parties, who are joined by a special relationship prior to the deal is called related party transaction. For example, a

business transaction between a major shareholder and the corporation, such as a contract for the shareholder's company to perform renovations to the corporation's offices, would be deemed as related-party transaction.

- 15.2 As per IAS 24, entity is to ensure that financial statement contain the disclosure, necessary to draw attention to the possibility that its financial position and profit or loss may have been affected by the existence of related parties transactions and outstanding balances with such parties.
- 15.3 Auditor shall ensure to identify the related party transactions and obtain sufficient appropriate audit evidence by performing the procedures described in, "**Form 043**", as specified in **Appendix 'AQ'** to the manual.

16. Compliance of Labour Laws

- 16.1 Auditor shall ensure that entity under audit, falls under the definition of commercial or industrial establishment, as defined in, "West Pakistan Industrial and Commercial Employment/ (Standing Orders) Ordinance, 1968". If the entity falls under the category of commercial or industrial establishment, auditor shall perform the procedures as per "**Form 044**", specified in **Appendix 'AR'** to the manual.

17. Taxation

Auditor shall ensure that provision for income and deferred taxes are made in accordance with the Income Tax Ordinance, 2001 and recorded as per "**Form 045**", specified in **Appendix 'AS'** to the manual.

Chapter 4 REPORTING

1. Objective of the Audit

- 1.1 The objective of the auditor in conducting the audit of financial / cost statements are:-
- 1.1.1 To obtain reasonable assurance that financial / cost statements are free from misstatement, whether due to fraud or error, which enables auditor to express an audit opinion.
 - 1.1.2 To provide report on the financial statement and communicate as per the requirements of ISAs.

2. Auditor's Report

- 2.1 Auditor's report is the final segment of the auditor's assignment. In fact, auditor's report is the crux of the findings and recommendations of the auditor, therefore, auditor must ensure that auditor's report is free of errors, spelling mistakes and omissions.
- 2.2 Auditor shall be well aware of its reporting responsibilities under the IAS to report on financial statements prepared in accordance with the applicable reporting frameworks. . Below is the list of applicable laws for preparation of financial statement in Pakistan:-
- a. Companies Ordinance, 1984
 - b. The Banking Companies Ordinance, 1962 (for banking companies)
 - c. Insurance Act, 1938 (for insurance companies)

3. Audit Opinion

- 3.1 The purpose of the audit is to enhance the degree of reliance of intended users of the financial statements. Auditor is required to give its opinion whether the financial statement, in all material respects, give a true and fair view, in accordance with applicable financial reporting framework. The audit opinion could be
- a. Clean or Unqualified
 - b. Clean or Unqualified but with an emphasis
 - c. Qualified due to disagreement.
 - d. Disclaimer or Adverse.

The following ISAs shall be applied in forming an audit opinion.

- a. ISA 700 – Forming an Opinion and Reporting on Financial Statements

- b. ISA 705 – Modifications in the Opinion in the Independent Auditor’s Report
- c. ISA 706 - Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor’s Report

3.2 Clean or Unqualified

When the auditor has obtained reasonable assurance the financial statements present, in all material respects, a true and fair view, the opinion is called clean or unqualified.

3.3 Clean or Unqualified but with an emphasis

When auditor considers it necessary to draws user’s attention to the matter prescribed or disclosed in the financial statement, which is fundamental to user’s understanding, shall include an emphasis of matter paragraph in the auditor’s report

3.4 Qualified Report

The auditor shall express a qualified opinion in one of the following form:-

- 3.4.1 When sufficient appropriate audit evidence concludes that misstatement is indirectly or in the aggregate, are material, but not persuasive, to the financial statements.
- 3.4.2 When the auditor is unable to obtain the sufficient appropriate audit evidence, but concludes that the possible effect on the financial statements of undetected misstatement, if any could be material but not persuasive.

3.5 Scope Limitation

This situation arises, when the auditor is unable to obtain sufficient appropriate audit evidence to give an unqualified opinion due to limitation of scope of audit. Following shall be considered in case of inability to obtain sufficient appropriate audit evidence.

- 3.5.1 If the auditor become aware that management has imposed a limitation on his scope, that he considers likely to results his qualified opinion or disclaimer of opinion, the auditor shall request management to remove the limitation.
- 3.5.2 If the management refuses to remove the limitation, the auditor shall communicate the matter to those charged with Governance.

Disclaimer of opinion

- 3.5.3 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 amend the description of the auditor's responsibility paragraph in the auditor's report 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”.

3.6 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.

4. Draft Audit Report

Before issuing the final audit report, auditor shall share the draft audit report along with financial statements and letter to the Board of Directors of the entity with the management and those charged with governance for their review and comments, if any. Auditor shall ensure to perform the steps outlines in “**Form 46**”, specified in **Appendix ‘AT’** to the manual.

5. Audit Completion Checklist

Auditor shall prepare the audit completion checklist as suggested in **Form 47**, specified in **Appendix “AU”**.

The audit completion checklist is to ensure that documentation has been done adhering to International Standards on Auditing and requirements of applicable laws and regulations. This check list requires review and sign by the partner.

6. Subsequent Events

- 6.1 There is a possibility that Auditor becomes aware of certain facts and circumstances after issuance of the auditor's report which may necessitate to amend the auditor's report. Following are the subsequent events which may arise after issuance of audit report:-
- 6.2 **Events identified after the date of the auditors' report but before the financial statement are issued:-**

- 6.2.1 When auditor becomes aware of the facts leading to amendment of the auditor's report after the date of report but before issue of financial statements, the audit shall discuss the matter with the management and with those charged with corporate governance.
- 6.2.2 If management agrees to amend the financial statement, than auditor shall carry out the audit procedures to obtain sufficient appropriate audit evidence that the all events occurring after the date of report that required adjustments, r disclosure in the financial statements, have been identified.
- 6.2.3 In case management does not agree to amend the financial statements, in the events where auditor believes that the adjustment or disclosure in the financial statements is required, the auditor shall amended, it report, provided auditor has not issued the final report and in case audit report has been issued, inform those, charged with governance that not to issue the financial statement and auditor's report to third parties without necessary amendments. If the management has issued the financial statement without considering the request of auditor, then the auditor shall take appropriate actions to prevent reliance on the auditor's report.
- 6.3 Events identified after the issuance of financial statements:-**
- 6.3.1 When auditor becomes aware of the facts and events that require adjustment or disclosure in the financial statements, after the issuance of financial statement, he shall discuss the matter with the management and those charged with governance.
- 6.3.2 If management considers to revise the financial statement audit shall carry out appropriate audit procedures to obtained sufficient appropriate evidence that facts and events necessitating disclosure or adjustments have been identified, and shall review the steps taken by the management and issue new auditor's report on the revised financial statement.
- 6.3.3 If management declines to revise the financial statement and does not take steps to inform the recipient of the financial statement regarding the situation and the impacts of subsequent events, the auditor shall inform those charge with governance. If no action is taken by those charged with governance, the auditor shall take appropriate action to prevent reliance on the auditor's report.
- 6.4 Auditor shall review the audit procedures to be performed for subsequent events which require adjustments or disclosures in the financial statements. The auditor shall take into consideration the auditor's risk assessment in determining the nature and extent of such audit procedures. However, it is not expected that, the auditor shall perform additional audit procedures on the matters on which audit procedures have been

applied previously and the conclusions were satisfactory. Auditor shall document the subsequent events and audit procedures performed in “**Form 48**”, as specified in **Appendix “AV”** to the manual.

7. Letter to Board of Director

The auditor shall submit the auditor’s report to Board of Directors or those charged with governance. Along with the auditor’s report, the auditor shall provide a letter containing details about the auditor’s responsibility, management responsibility and significant matters for specific attention of the board for their review and consideration as well as a management letter pointing out the control deficiencies, not materially affecting financial statements, and the auditor’s recommendation on the same.

A sample of letter has been provided in “**Form 49**”, referred in **Appendix “AW”** to the manual.

APPENDICES

NEW CLIENT AUDIT ENGAGEMENT FORM

Name of CMA Firm / Auditor	
Particulars of the client M/ S----- ----- -----	
Reference No.	Date
Prepared By	
Approved By	

1. Status of the Client (Company, Firm, DFI, etc.):-

2. Auditor's previous experience with the client:-
 - a) -----
 - b) -----
3. How the client is referred:-

4. Risk associated with the client:-
 - a) -----
 - b) -----
5. Information Known about the client:-
 - a) -----
 - b) -----
6. Fact surfaces through inquires with third party:-
 - a) -----
 - b) -----
7. Any condition for audit:-
 - a) -----
 - b) -----
8. Limitation of scope likely to result in disclaimer of opinion and need to accept limitation, if any:-

- a) -----
- b) -----

9. Will the auditor be independent or have some restriction(s):-

- a) -----
- b) -----

10. Are there any conflicts of interest:-

- a) -----
- b) -----

11. Details of estimated fees etc.:-

- a) -----
- b) -----

12. List down the factors that could impair the firm's independence for this audit engagement:-

- a) -----
- b) -----

13. List down other factors considered important:-

- a) -----
- b) -----

14. Conclusion on the basis of the information gathered above:-

- a) -----
- b) -----

We conclude that M/s _____ be accepted/ not to be accepted for audit engagement.

15. Following are the reasons for not accepting the client for audit engagement.

- a) -----
- b) -----

Date

Engagement Partner

Date

Senior Partner

EXISTING CLIENTS AUDIT ENGAGEMENT FORM

Name of CMA Firm / Auditor	
Particulars of the Client M/ S----- ----- -----	
Reference No.	Date
Prepared By	
Approved By	

1. State last year's significant experience with the client:-
 - a) -----
 - b) -----

2. Significant changes in clients business:-
 - a) -----
 - b) -----

3. Any new legal, regulatory or professional requirements that requires changes in planning or performance:-
 - a) -----
 - b) -----

4. Significant changes in the clients management:-
 - a) -----
 - b) -----

5. State the degree of independence experienced during audit engagement:-
 - a) -----
 - b) -----

6. Requirement of experts in exertion of audit engagement:-
 - a) -----
 - b) -----

7. Proposed services to the client in addition to audit engagements:-
 - a) -----
 - b) -----

8. Conclusion on the basis of the above information:-
It is concluded that we should/ should not continue the audit engagement with this client due to:-

- a) -----
- b) -----

Date

Engagement Partner

Date

Senior Partner

PLANING AN AUDIT

Name of CMA Firm / Auditor	
Particulars of the client M/ S----- ----- -----	
Reference No.	Date
Prepared By	
Approved By	

1. Define scope:-
 - (a) -----
 - (b) -----

2. Purpose of the audit:-
 - (a) -----
 - (b) -----

3. Schedule of the audit:-
 - (a) -----
 - (b) -----

4. Value and timing of the communication:-
 - (a) -----
 - (b) -----

5. Engagement terms:-
 - (a) -----
 - (b) -----

6. Management Personal:-
 - (a) -----
 - (b) -----

7. Allocation of work:-
 - (a) -----
 - (b) -----

8. Result of inquiries:-
 - (a) -----
 - (b) -----

9. Results of analytical procedures:-

- (a) -----
- (b) -----

10. Observations and inspection:-

- (a) -----
- (b) -----

11. Information gathered in previous periods for reliance to current period:-

- (a) -----
- (b) -----

12. SWOT analysis:-

- a) Strength
 - (i) -----
 - (ii) -----
 - (iii) -----

- b) Weaknesses
 - (i) -----
 - (ii) -----
 - (iii) -----

- c) Opportunities
 - (i) -----
 - (ii) -----
 - (iii) -----

- d) Threats
 - (i) -----
 - (ii) -----
 - (iii) -----

13. PEST analysis:-

- a) Political
 - (i) -----
 - (ii) -----
 - (iii) -----

- b) Economic
 - (i) -----
 - (ii) -----
 - (iii) -----

- c) Social
 - (i) -----
 - (ii) -----
 - (iii) -----

- d) Technological
 - (i) -----
 - (ii) -----

(iii) -----

14. Conclusion

(a) -----

(b) -----

Date

Engagement Partner

Date

Senior Partner

Critical Audit Areas/ Significant Financial Statement Components

Name of CMA Firm / Auditor	
Particulars of the client M/S----- ----- -----	
Reference No.	Date
Prepared By	
Approved By	

Critical Audit Areas/ Objectives	Management Response	Proposed Audit Approach
Significant estimate made		
New borrowings with extra-ordinary terms and conditions		
Acquisition of a significant asset		
Discontinuation of major supplier		
Discontinuation of a major customer		

Date

Engagement Partner

Date

Senior Partner

CONTROL OVERVIEW & RISK ASSESSMENT FORM

Name of Practicing Cost and Management Accountants/ Firm	
Particulars of the client M/S----- ----- -----	
Reference No.	Date
Prepared By	
Approved By	

1. Control Environment:-

(a) Communication, Integrity and Ethics:-

- (i) -----
- (ii) -----
- (iii) -----

(b) Governance:-

- (i) -----
- (ii) -----
- (iii) -----

(c) Managements Operations:-

- (i) -----
- (ii) -----
- (iii) -----

(d) Competence:-

- (i) -----
- (ii) -----
- (iii) -----

(e) Organization Structure:-

- (i) -----
- (ii) -----
- (iii) -----

(f) Human Resource:-

- (i) -----
- (ii) -----
- (iii) -----

(g) Authority and Responsibilities:-

- (i) -----

- (ii) -----
- (iii) -----

2. Risk Assessment:-

(a) Business Risk

- (i) -----
- (ii) -----
- (iii) -----

(b) Signification of risk:-

- (i) -----
- (ii) -----
- (iii) -----

(c) How to address risk:-

- (i) -----
- (ii) -----
- (iii) -----

(d) Significant Risk:-

- (i) -----
- (ii) -----
- (iii) -----

(e) Information System:-

- (i) -----
- (ii) -----
- (iii) -----

(f) Communication:-

- (i) -----
- (ii) -----
- (iii) -----

(g) Financial Reporting:-

- (i) -----
- (ii) -----
- (iii) -----

3. Control Activities of Audit:-

(a) Risk Relating to Information Technology:-

- (i) -----
- (ii) -----
- (iii) -----

(b) Smaller Entities (Special):-

- (i) -----
- (ii) -----
- (iii) -----

(c) Physical Controls:-

- (i) -----
- (ii) -----
- (iii) -----

(d) Segregation of Duties:-

- (i) -----
- (ii) -----
- (iii) -----

(e) Design and Documentation of Controls:-

- (i) -----
- (ii) -----
- (iii) -----

(f) Others:-

- (i) -----
- (ii) -----
- (iii) -----

Summary of Internal Controls Checklist

Description	Answers
Are entity risk assessment processes satisfactory?	Yes/ No
If risk assessment process is not satisfactory, give reasons	(a) (b)
Is control environment satisfactory?	Yes/ No
If Control environment is not satisfactory, give details	(a) (b)
Are control activities e satisfactory?	Yes/ No
If Control activities are not satisfactory, give details	(a) (b)
Is monitoring of control satisfactory?	Yes/ No
If monitoring of control is not satisfactory, state the reasons.	(a) (b)

Date

Engagement Partner

Date

Senior Partner

ASSESSMENT OF MISSTATEMENT OF FINANCIAL STATEMENTS DUE TO FRAUD

Name of CMA Firm / Auditor	
Particulars of the client M/S----- ----- -----	
Reference No.	Date
Prepared By	
Approved By	

1. Discussion among the engagement team:-

- (a) -----
- (b) -----
- (c) -----

2. **Discussion with Management:-**

(a) Preliminary discussions:-

- (i) -----
- (ii) -----
- (iii) -----

(b) Result of inquiries:-

- (i) -----
- (ii) -----
- (iii) -----

(c) Management fraud risk assessment:-

- (i) -----
- (ii) -----
- (iii) -----

(d) Over sight of Management:-

- (i) -----
- (ii) -----
- (iii) -----

(e) Accounting environment and internal control system:-

- (i) -----
- (ii) -----
- (iii) -----

(f) Internal audit function:-

- (i) -----
- (ii) -----

(iii) -----

(g) Risk of fraud and errors:-

(i) -----

(ii) -----

(iii) -----

3. Discussion with those charged for Governance:-

(a) -----

(b) -----

(c) -----

4. **Fraud risk factors:-**

(a) Financial reporting fraud:-

(i) -----

(ii) -----

(iii) -----

(b) Misappropriation of asset:-

(i) -----

(ii) -----

(iii) -----

(c) Document relating to fraud and risk factors:-

(i) -----

(ii) -----

(iii) -----

(d) Other considerations:-

(i) -----

(ii) -----

(iii) -----

(e) Audit procedures:-

(i) -----

(ii) -----

(iii) -----

Date

Engagement Partner

Date

Senior Partner

GENERAL PURPOSE CHECKLIST FOR COMPUTER INFORMATION SYSTEMS

Name of CMA Firm / Auditor	
Particulars of the client ----- ----- -----	
Reference No.	Date
Prepared By	
Approved By	

	Description	Yes/No	Brief of Findings
1.	Entity's Policies		
a	IT functions are controlled as per IT policies?		
b	Has entity documented plan for the future?		
c	Is there any Committee which controls the IT policy?		
d	Do formal comprehensive IT policies and procedures exist?		
2.	Role of Internal Audit		
a	Does internal audit department review the IT controls?		
b	Does a formal IT security function exist in the entity?		
c	Is the structure of the entity conducive to control structure?		
3.	Segregation of duties		
a	Do proper organizational controls exist?		
b	Are proper segregation of duties within the IT department appropriate according to structure of the organization?		
c	Are the responsibilities of IT department properly defined?		
4.	Logical Access Controls		
a	Is sensitive data defined?		
b	Are appropriate security measure taken for sensitive data?		
c	Does proper control exist for securing passwords?		
d	Is there proper segregation and authorization for proper use IDs for administrative use?		

5.	Physical Access Controls		
a	Are adequate physical security measures taken to avoid theft of computer equipment and data?		
b	Is firewall installed, if using INTRA net?		
c	Are backup copies of data file and programs made regularly?		
d	Are backup copies kept at secure and remote place?		
e	What is the procedure for disaster recovery?		

f	Over all conclusion	(a) (b) (c)
---	---------------------	-------------------------------------

Date

Engagement Partner

Date

Senior Partner

ANALYTICAL PROCEDURES FOR RISK ASSESSMENT

Name of CMA Firm / Auditor	
Particulars of the client ----- ----- -----	
Reference No.	Date
Prepared By	
Approved By	

Ratio Analysis

S No.	Description	Formula	C Y	Y 1	Y 2	Y 3
1. Performance Analysis						
a	Installed Capacity	--				
b	Utilized Capacity	--				
c	Production in Units	--				
d	Gross Sales	$\frac{\text{Local Gross Sales}}{\text{Gross Total Sales}} \times 100$				
	Local sales					
	i)					
	ii)					
	iii)					
	Export	$\frac{\text{Gross Exports}}{\text{Gross Total Sales}} \times 100$				
	i)					
	ii)					
iii)						
e	Gross profit to Net Sales	$\frac{\text{Gross profit}}{\text{Net Sales}} \times 100$				
	i)					
	ii)					
	iii)					

AUDIT PRACTICE MANUAL

f	Direct Raw Material consumption cost to goods manufactured cost	<u>Direct raw material cost</u> Manufacturing cost	X100			
	i)					
	ii)					
	iii)					
g	Direct labour cost to goods manufacturing cost	<u>Direct labor cost</u> Manufacturing cost	X100			
	i)					
	ii)					
	iii)					
h	Conversion cost per unit	Direct raw material cost + Direct labour cost				
	i)					
	ii)					
	iii)					
i	Average conversion cost per unit	<u>Total conversion cost</u> No of units produced	X100			
	i)					
	ii)					
	iii)					
j	Overhead cost per unit of production	<u>Overhead cost</u> No of unit produced				
	i)					
	ii)					
	iii)					
k	Packing material cost per unit	<u>Units of packing material</u> No of units produced				
	i)					
	ii)					
	iii)					
l	Selling expenses per unit	<u>Selling expense</u> No of units sold				
	i)					
	ii)					
	iii)					
m	Financial charges					
n	Average selling price per unit	<u>Local sales</u> No of local units sold				
	Local					
	i)					
	ii)					
	iii)					
	Exports	<u>Exports sales</u> No of export units sold				
	i)					
ii)						
iii)						
o	No of Finished Goods					

Finished Goods Produced						
p	Cost of production	<u>Total cost of goods manufactured</u> No of units produced				

AUDIT PRACTICE MANUAL

q	Net profit(loss)/unit sold					
	Local	<u>Local net profit</u> No of local units sold				
	i)					
	ii)					
	iii)					
	Export	<u>Export net profit</u> No of export unit sold				
	i)					
	ii)					
	iii)					
r	Net profit (loss) per unit sold	<u>Total sales</u> No of units sold				
s	Net profit (loss) % of sales	<u>Net profit (loss) x100</u> Sales				

2. Profitability Ratios

a	Return of assets (ROA)	<u>Net profit after tax</u> Average total assets				
b	Return of Capital Employed (ROCE)	<u>Net profit after tax</u> Total capital employed				
c	Operating Expense Ratio	<u>Operating expense</u> Net sales				
d	Administrative Expense Ratio	<u>Administrative Expense</u> Net Sales				
e	Selling Expense Ratio	<u>Selling Expense</u> Net Sales				
f	Financial Expense Ratio	<u>Financial Expenses</u> Net Sales				
g	Price Earnings Ratio	<u>Market Price of Per Share</u> Earnings Per Share				
h	Earning Yield	<u>Earnings Per Share</u> Market Value Per Share				
i	Earnings Per Share (EPS)	<u>Net Profit Available to Equity Holders</u> Number of Ordinary Shares Outstanding				

Reasons for significant fluctuation in the result of analytical procedures:-

- (a) -----
- (b) -----
- (c) -----
- (d) -----

Activity Ratios						
1.	Inventory Turnover					
	i. Raw Material Turnover	<u>Cost of raw material used</u> Average raw material inventory				
	ii. Work in process turnover	<u>Cost of good manufactured</u> Average work in process inventory				
	iii. Finished goods inventory	<u>Cost of goods sold</u> average finished goods inventory				
2.	Debtor turnover	<u>Credit Sales</u> Debtor				

AUDIT PRACTICE MANUAL

3.	Average debtor collection period	$\frac{\text{Debtor}}{\text{Credit sales}} \quad X365$				
4.	Asset turnover	$\frac{\text{Cost of goods sold}}{\text{Average total assets}}$				
5.	Current assets turnover	$\frac{\text{Cost of goods sold}}{\text{Average current assets}}$				
6.	Fixed assets turnover	$\frac{\text{Cost of goods sold}}{\text{average fixed assets}}$				
7.	Working capital turnover	$\frac{\text{Cost of goods sold}}{\text{Net working capital}}$				

Overall review of Financial Performance of the entity:-

- (a) -----
- (b) -----
- (c) -----
- (d) -----

Date

Engagement Partner

Date

Senior Partner

EVALUATION OF INTERNAL AUDITOR WORK

Name of CMA Firm / Auditor	
Particulars of the client ----- ----- -----	
Reference No.	Date
Prepared By	
Approved By	

Auditor evaluating the work of internal auditor shall ensure the following:-

S No	Description	Answers
1	Is the work of internal auditor performed by the persons who have adequate professional training?	
2	Is the work of assistants of internal auditor properly planned, executed and documented?	
3	Unusual matters pointed out by the internal auditor and remedial actions taken by the management.	

1. Auditor shall test the work of internal auditor in the following manner:-
 - (a) Evaluate the internal audit function in performing audit procedures.
 - (b) Performing different audit procedures.
 - (c) Examine the working papers of the internal auditor.

2. Results of the evaluation and testing the internal auditor are
 - (a) -----
 - (b) -----
 - (c) -----

3. Summary of the evaluation of the internal auditor work and its reliance.
 - (i) -----
 - (ii) -----
 - (iii) -----

Date
Date

Engagement Partner
Senior Partner

GROUP AUDIT

Name of CMA Firm / Auditor	
Particulars of the client ----- ----- -----	
Reference No.	Date
Prepared By	
Approved By	
Description	Answers
Group Structure.	(a) (b)
Significant component for the group audit.	(a) (b)
Financial reporting framework.	
Group consists of:-	(a) (b) (c)
Significance of the components including materiality to financial statements of the group	(a) (b) (c)
Results of quality reviews:-	
(a) Internal	(a) (b) (c)
(b) External	(a) (b) (c)
Remedial actions taken by the management on quality reviews.	
Written confirmation of compliance with ethical requirements.	
What is previous experience with respect to Group audit?	(a) (b) (c)
Timetable for completion of audit.	
Applicable financial reporting framework and auditing standards	

Date

Engagement Partner

Date

Senior Partner

POINTS BROUGHT FORWARD FROM PRIOR PERIODS AUDITS

Name of CMA Firm / Auditor	
Particulars of the client ----- ----- -----	
Reference No.	Date
Prepared By	
Approved By	

S No.	Description of Issue	Action Required	Action Taken
01			
02			
03			
04			
05			
06			
07			

Date

Engagement Partner

Date

Senior Partner

STAFF PLANING FOR AUDIT WORK

Name CMA Firm / Auditor	
Particulars of the client ----- ----- -----	
Reference No.	Date
Prepared By	
Approved By	

Description	HOURS				
	Super Visor	Senior		Junior	
		B	A	B	A
Planning					
Testing of Control					
Manufacturing Cost					
Direct Material Cost					
Direct Labour Cost					
Purchases					
Admin Expenses					
Selling Expenses & Other items					
Profit & Loss Account					
Test of Journal Entries					
Cash in Hand/ Bank					
Stock and Work in Process					
Physical Stocks Taking					
Debtors					
Creditors					
Other Areas					
Substantive Audit Procedures					
Shareholder's Equity/ Dividend					
Liabilities					
Creditors					
Investments					
Stock (all types)					
Overhead Expenses					
Trade Debtors					
Advances					
Sales and Other Income					
Selling Expenses					
Admin Expenses					

Date

Engagement Partner

Date

Senior Partner

AUDIT PROGRAM: CASH AND BANK BALANCES

Name of CMA Firm / Auditor	
Particulars of the client M/s----- ----- -----	
Reference No.	
Prepared By	
Approved By	
Client	
Period	
Prepared by	Dated-----

Lead Schedule

Description	Amount (Rs.)
Cash at Main Office	
Petty cash	
(a)	
(b)	
(c)	
Total cash	
Cash at Bank	
Current Accounts	
Savings Accounts	
Deposit Accounts	
Total cash at Bank	
Total cash and bank balances	

Audit Objectives

S No.	Description	Remarks
01	Records of cash in hand and bank balances are complete and accurate.	
02	Balance shown in books of accounts, physically exist.	
03	Titles of the bank balances are same as of the client.	
04	Balance of cash in hand and bank presented and disclosed in accordance with the requirements of IFRS and the Companies Ordinance, 1984	

Audit Procedures

S No.	Description	Done by
Test of controls		
01	Check sample of selected transactions covering the whole period that all preventive controls are exercised.	

AUDIT PRACTICE MANUAL

02	Check sample transactions that detective controls have been properly exercised.	
03	Check that, in case of detection of fraud or error proper steps have been taken to avoid recurrence of the fraud and error.	
04	Check that proper bank reconciliation statements are prepared and approved.	
05	Check that duties are properly segregated among custodian of cash, accounting personal and approving authority.	
06	Check that payment vouchers are prepared and approved properly by designated personal.	
07	Document the conclusion after performing tests of controls.	
08	Obtain list of authorized signatories for bank and check that the same have been consistently applied for all designated transactions.	
Analytical Procedures		
01	Check logical commercial reasons for opening of new bank accounts and closing of the bank accounts during the period under audit.	
02	Compare the balances of current year with previous year and note significant variation	
Test of Details		
01	Physical counting of cash and verification of deposits.	
02	Get confirmation of bank balance from all banks.	
03	Examine the bank reconciliation statement for the following:- (a) Long outstanding cheques are properly followed. (b) Deposits are cleared within two working days. (c) Cheques of significant amount are prescribed and there is no cheque of significant amount lying un-presented.	
04	Check that opening balances of the ledgers conform with the working paper file of the previous period,	

Date

Engagement Partner

Date

Senior Partner

INVESTMENT IN PROPERTIES

Name of CMA Firm / Auditor	
Particulars of the client M/s----- ----- -----	
Reference No.	
Prepared By	
Approved By	
Client	
Period	
Prepared by	Dated-----

Lead Schedule

S No.	Description	Amount in Rs.
01		
02		
03		
04		
Total		

Audit Objectives

S No.	Description	Remarks
01	Check that investment in properties are properly and accurately recorded and physically held.	
02	Transactions relating to properties completely recorded and appropriately disclosed in accordance IFRS and the Companies Ordinance, 1984.	

Tests of Control

No.	Description	Done by
01	Assess the reasonableness of designed system of internal control through inquiry from the client personal and walk through test.	
02	Check selected transactions to ensure that preventive controls are exercised by the client's management.	
03	Check maintenance of subsidiary records and reconcile with general ledger.	

Analytical Procedures

01	Access the appropriateness of depreciation/ amortization methods.	
02	Check logical commercial reasons for major additions, deletion and disposals during the audit period.	
03	Reconcile the balances.	
Test of Details		
01	Check schedule of investment in properties both for Cost and Accumulated depreciation.	
02	Reconcile the balances with subsidiaries account ledgers and working papers of previous period.	
03	Ensure that properties are owned and held by the client.	
04	For partially owned property, check ownership and check compliance in accordance with IAS 16 and IAS 40.	
05	Check approval and documentation of property disposed during the period of audit.	
06	Determine the reasonableness of accounting policies and depreciation method and their consistency.	
07	Ensure that disclosure have been made in accordance IFRS and the Companies Ordinance, 1984.	

Date

Engagement Partner

Date

Senior Partner

INVESTMENT IN SUBSIDIARIES AND OTHERS

Name of CMA Firm / Auditors	
Particulars of the client ----- ----- -----	
Reference No.	Date
Prepared By	
Approved By	

Lead Schedule

Description	Amount
Investments	
Subsidiaries	
Held to maturity	
Available for sale	
Classes of Transaction	
Dividend	
Interest	
Gain/ (loss) on Revaluation	
Gain/ (loss) on Disposal	
Impairment loss	

Audit Objectives

S No	Description	Remarks
01	Complete and accurate record of investments is physically available.	
02	Investments are owned by the entity in their own title.	
03	Income on account of interest and dividend has been accurately calculated, recorded and appropriately disclosed.	
04	Disclosures have been made in accordance Companies Ordinance 1984 and related IASs.	

Audit Procedures

S No	Description	Done by
Test of controls		
01	Check selected transactions covering the whole period that all preventive controls are exercised.	
02	Assess the reasonableness of design of system of internal control by enquiring from relevant client personnel and document the same.	
03	Check subsidiary records for proper maintenance.	
04	Check sample transaction to ensure exercise of detective controls.	
05	Check that investments are made after specific approval	
Analytical Procedures		
01	Check logical commercial reasons for major additions and disposal during the audit period.	
Test Of Details		
01	Check movement schedule of investment and record.	
02	Compare the records of current with previous year investments.	
03	Check if any investment is under lien and proper disclosure accorded.	
04	Check that brokerage expenses are recorded properly.	
05	Check selected shares disposal during the period for supporting documents.	
06	Test the costing and cross costing of the general ledger.	
07	Check opening and closing balances with general ledger and working papers of previous audit period.	
Investment Income		
01	Obtain a Schedule for opening and closing balances of income earned and revenue during the period.	
02	Check that proper accounting treatment of bonus share received and right shares subscribed.	

Date

Engagement Partner

Date

Senior Partner

DEPOSITS AND ADVANCES

Name of CMA Firm / Auditor	
Particulars of the client ----- ----- -----	
Reference No.	Date
Prepared By	
Approved By	

Lead Schedule

Description	Amount in Rs.
Advances	
Deposits	
Prepayments	
Other _____	
Previous adjustments	
(a) Advances	
(b) Deposits	
(c) Prepayments	
(d) Misc.	

Audit Objectives

S No.	Description	Remarks
01	Check that advances, deposits and other recoverable are properly recorded and actually exists.	
02	Advances, deposits and other recoverable are recorded at appropriate value and are owned by the company.	
03	Advances are in accordance with legal provisions.	
04	Proper disclosure is given for advance deposits and other recoverable in accordance with IASs and the Companies Ordinance, 1984.	

Test Of Controls

S No.	Description	Done by
01	Access the reasonableness of design of system for internal control.	
02	Check sample of selected transaction of the audit period for ensuring that all preventive controls are exercised.	
03	Reconcile subsidiary records with general ledger and working papers of previous period.	

04	Document the conclusion after performing test of controls and required level of assurance from substantive procedures.	
----	--	--

Analytical Procedures

01	Compare current year balances and expenses with last year balances and ensure that any significant variation is properly and logically reasoned.	
----	--	--

AUDIT PRACTICE MANUAL

Test of Details		
01	Obtain party wise movement schedule of advances/ deposits and other recoverable.	
02	Reconcile the balances with ledger and working papers of previous audit period.	
03	Check costing and cross casting of the schedule.	
04	Check register and bank statements to verify the disbursements.	
05	Obtain age-analysis of advances and other recoverable to verify classification current maturates etc.	
06	Check that all loans and advances to associate's are granted after due diligence with compliance of legal requirements.	
07	Check that none of the advances and other recoverable are impaired or the recoverable amount is not less than its carrying amount.	

Date

Engagement Partner

Date

Senior Partner

LOANS AND ADVANCES

Name of CMA Firm / Auditor	
Particulars of the client ----- ----- -----	
Reference No.	Date
Prepared By	
Approved By	

Lead Schedule

S No.	Description	Amount in Rs.
Long term		
01	Loan	
02	Provision against loan	
03	Advances	
04	Provision against advances	
Short term		
01	Loan	
02	Advances	

Audit Objectives

S No.	Description
01	Check that loans, advances and prepayments are recorded accurately and completely.
02	Verify that loans, advances and prepayments physically exist.
03	Ensure that loans, advances and prepayments are recorded at appropriate value.
04	Verify that loans, advances and prepayments fulfill the legal requirement and disclosure is given in accordance with Companies Ordinance, 1984 and relevant IASs.

Test of Controls

S No.	Description	Done by
01	Assess the reasonableness of design of system of internal control through inquiry from the employees of the client.	
02	Check sample of selected transactions covering the whole period.	
03	Verify that subsidiary records are properly maintained.	
04	Reconcile the balances with ledger, subsidiary ledger and working papers of the previous audit period.	
05	Verify that loans, advances and prepayments are regulated after due diligence and proper approval.	
06	Document the results after performing tests of controls.	

Analytical Procedures

01	Compare current year balances and expense with last year balances and expenses. Evaluate the significant variations.	
----	--	--

Test of Details

01	Obtain employee-wise movement schedule of loans, advances and verify details with ledgers, bank statements and other documents.	
02	Get confirmation from certain (selective) relative parties.	
03	Analyze the advances and rationale for approvals.	
04	Check that loans and advances are granted after proper approvals.	
05	Verify that disclosure is made in accordance with Companies Ordinance, 1984 and the applicable IASs.	

Date

Engagement Partner

Date

Senior Partner

INVENTORIES

Name of CMA Firm / Auditors	
Particulars of the client ----- ----- -----	
Reference No.	Date
Prepared By	
Approved By	

Lead Schedule

S No.	Description	Amount in Rs.
01	Stores	
02	Spares	
03	Supplies	
04	Stationary	
05	Raw material	
06	Work in Process	
07	Finished Goods	

Audit Objectives

01	Check inventories are recorded completely and accurately.	
02	Check that inventories are physically exist and owned by the client.	
03	Verify that disclosure have been given in accordance with the Companies Ordinance, 1984 and Relevant IASs.	

Test of Controls

S No	Description	Done by
01	Assess the reasonableness of design of system of internal control by inquiring from client personal.	
02	Verify that selected transactions of the period under that all preventive controls are exercised.	
03	Reconcile the balances with ledger, balance sheet and working papers of the previous period.	
04	Ensure that entries are recorded consistently and properly.	
05	Ensure that management does not override the designed controls through enquiring from Clint's staff.	
06	Document the conclusion after performing test of control.	

Analytical Procedures

01	Assess the appropriateness of purchases and consumptions method and rate, in view of the flow of economic benefits.	
02	Ensure that purchases are made economically and consumptions are logical.	
03	Reconcile the balances with ledger, balance sheet and working papers of the last audit periods.	

Test of Details		
01	Verify that periodical physical counting of the inventories is done by the client.	
02	Check the inventories on sample basis to ensure reliability.	
03	Get independent confirmation for the items owned by the client but physically not held.	
04	Check selected transactions for purchases, returns and sales.	
05	Check that basis of valuation of inventory (FIFO or Average) is appropriate and consistently followed.	
06	Verify cost of closing stock with Net Reliable Value (NRV) by comparing raw material with last invoice from supplier.	
07	Get aging of inventories and computer provisions of obsolete, damage etc.	
08	Verify that spares of the machines are held for which machines are still in use.	
09	Determine that disclosures are given as per the requirements of the Companies Ordinance, 1984 and applicable IAS's.	

Date

Engagement Partner

Date

Senior Partner

TRADE DEBTORS

Name of CMA Firm / Auditor	
Particulars of the client ----- ----- -----	
Reference No.	Date
Prepared By	
Approved By	

Lead Schedule

Description	Amount in Rs.
Trade Debtors	
Provision for doubtful debt	
Others	

Audit Objectives

S No.	Description	Remarks
01	Check that trade debts are recorded completely and accurately.	
02	Verify that trade debts are owned by the client and valued correctly.	
03	Trade debts are presentation and disclosure has been given in accordance with the the Companies Ordinance, 1984 and related IASs.	

Audit Procedures

S No.	Description	Done by
Test of Controls		
01	Assess the reasonableness of design of internal control system through inquiries from client's staff.	
02	Check that selected transactions of the period under audit to ensure that preventive controls are exercised by the management.	
03	Verify the party wise sub ledgers for proper maintenance and also ensure that transactions are recorded properly and consistently.	
04	Verify the balances from ledger, subsidiary accounts, balance sheets and working papers of the last audit period.	
05	Ensure that management does not override the designed controls through inquiries, from the clients' staff.	
06	Document the conclusion after performing the audit.	

Analytical Procedures

AUDIT PRACTICE MANUAL

01	Access the appropriateness of discount and credit policy keeping in view flow of economic benefits.	
02	Check reasonableness of impairment expenses.	
03	Document logical reason for major addition or deletion.	
04	Make comparison with current year expenses with last year expenses and analyse significant changes.	

Test of Details

01	Obtain party wise schedule and verify the balances from ledger, subsidiary ledgers and working papers of last audit period.	
02	Check the clearance of debtors.	
03	Analyze the aging of debtors.	
04	Calculate provisions of doubtful debts based on age analysis.	
05	Get third party verification from the concern parties and evaluate the results.	
06	Check that no undue favour to the aging debtors is accorded.	
07	Verify approvals for write-off of the debtors.	
08	Verify that disclosure is given in accordance with the Companies Ordinance, 1984 and applicable IASs.	

Date

Engagement Partner

Date

Senior Partner

FIXED ASSESTS

Name of CMA Firm / Auditor	
Particulars of the client ----- ----- -----	
Reference No.	Date
Prepared By	
Approved By	

Lead Schedule

Description	Amount in Rs.
Machinery	
Jigs and fixture	
Building	
Furniture	
Building	
Land	
Other	

Audit Objectives

S No.	Description	Remarks
01	Check that fixed assets are completely recorded.	
02	Verify that fixed assets physically exist and owned by the client.	
03	Access that fixed assets are recorded at appropriate value.	
04	Check that depreciation, amortization or impairment expenses are calculated correctly and disclosures are given as per existing law.	

Test of Controls

S No.	Description	Done by
01	Assess the reasonableness of design of system of internal control through inquiries from client's staff.	
02	Check sample of selected transaction to verify that preventive controls are exercised on all transactions.	
03	Check that Fixed Assets Register is maintained and entries are recorded properly and consistently.	

AUDIT PRACTICE MANUAL

04	Check sample transactions that detective controls are exercised by the management and appropriate action taken in case of detection of error/ fraud.	
05	Verify that management does not override the designated controls.	

Analytical Procedures

01	Assess the appropriateness of depreciation/ amortization method with regards to flow of economic benefits and useful life of the assets.	
02	Document logical commercial reason(s) for major addition or disposal of the fixed assets.	
03	Make analysis for expenses of current period with previous period.	

Test of Details

01	Get Schedule of fixed assets including capital work-in-process and check costing and cross costing of the schedule.	
02	Reconcile balances of fixed assets register, general ledger, subsidiary ledger and working papers of last year's audit.	
03	Check that fixed assets are procured after proper approval from the management.	
04	Check the following:- <ul style="list-style-type: none"> - Capital expenditure does not contain any portion of revenue expenditure. - Proper invoices of the vendor's. - Revenue of client's capitalization policy. 	
05	Examine documents authorizing disposal.	
06	Reconcile depreciation expense and verify the reasonableness of the accounting policy regarding depreciation.	
07	Check certain fixed assets transfer contractor certificates for completion etc.	
08	Reconcile the balances with fixed assets register, ledger, subsidiary ledger and working papers of audit of previous periods.	

Date

Engagement Partner

Date

Senior Partner

ACCRUED EXPENSES

Name of CMA Firm / Auditor	
Particulars of the client ----- ----- -----	
Reference No.	Date
Prepared By	
Approved By	

Lead Schedule

Description	Amount in Rs.
Accrued Expenses	

Audit Objectives

S No.	Description	Remarks
01	To ensure that accrued expenses are valid claims of suppliers for the store or services received.	
02	To ensure that goods or services received by the entity are accounted properly.	
03	To ensure that liabilities are presented, classified and disclosed in the financial statements in accordance with Companies Ordinance, 1984 and applicable IASs.	

Test of Controls

S No.	Description	Done by
01	Verify that purchase orders are approved by appropriate authority and are serially numbered.	
02	Goods received are recorded in appropriate register after receipt of approved Goods Received Note (GRN).	
03	Check invoice of the suppliers for accuracy.	
04	Ensure that independent person compares the purchase orders, goods received notes and suppliers invoice, for consistency.	
05	Verify credit notes for correctness.	

Analytical Procedures

01	Analyze the accrued expenses and compare with prior periods for unusual items.	
----	--	--

Test of details

01	Get reasons for significant changes in the accrued expenses, in any.	
02	Evaluate the policy for recording accrued expenses and give comments.	

AUDIT PRACTICE MANUAL

03	Reconcile the balance of accrued expenses liabilities with ledger, subsidiary ledgers and working papers of the previous period.	
04	Check the selected accruals for correctness.	
05	Get independent confirmation of the outstanding balances from the related parties.	

Date

Engagement Partner

Date

Senior Partner

DEFERRED LIABILITIES

Name of CMA Firm / Auditor	
Particulars of the client ----- ----- -----	
Reference No.	Date
Prepared By	
Approved By	

Lead Schedule

Account Balance	Amount in Rs.

Audit Objectives

S No.	Description	Remarks
01	All deferred liabilities on the balance sheet, represent amounts owned by the entity to tax authorities, employer or other parties.	
02	The deferred liabilities represent obligations of the entity and are owned by the entity.	
03	Deferred liabilities have accrued at the balance sheet date and are recorded accurately and completely.	
04	Deferred liabilities have been classified and disclosure is accorded in accordance with Companies Ordinance 1984, and IRFS.	

Audit Procedure

S No.	Description	Done By
01	Compare the balances of current period with prior periods and observe any significant change.	
02	Analyse the unusual changes & obtain explanation from the concern staff of the client.	
03	Reconcile the balances of current audit period with ledgers, subsidiary ledger and working papers of last audit period.	

Test of Details

S No.	Description	Done By
01	Obtain Schedule of deferred liabilities and reconcile the balances. with ledgers, financial statements, and working papers of the last audit period.	
02	Check deferred liabilities against taxation, as follows:- - Reconcile the balances with ledgers and working papers of the previous audit period.	

	<ul style="list-style-type: none"> - Obtain schedule of tax base of each component of balance sheet along with workings. - Review cumulative temporary differences as of the balances sheet date. - Review reversal of cumulative temporary differences and obtain managements representations regarding scheduled reversal. - Review the tax-planning strategy of the client and ensure that all valid strategies that could materially affect deferred taxes, have been identified and accounted for. 	
03	<p>Deferred Assets regarding taxation:-</p> <ul style="list-style-type: none"> - 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. - Calculate taxable and deductible timing difference as per IAS 12. 	
04	<p>Check deferred liabilities regarding pension, as under:-</p> <ul style="list-style-type: none"> - Obtain copy of the pension policy of the company. - Check payment of contribution of client towards fund as per policy. - Check that requirements of IAS-19 are complied with. 	
05	<p>Check deferred liabilities regarding gratuity:-</p> <ul style="list-style-type: none"> - Obtain copy of gratuity policy of the company. - Verify that contributions are verified with last salary. - Verify date of appointment and reconcile the date relating to gratuity. - Ensure compliance of IAS-19 for deferred liabilities relating to gratuity. 	
06	<p>Ensure that disclosures are in accordance with Companies Ordinance, 1984 and relevant accounting pronouncements.</p>	

Date

Engagement Partner

Date

Senior Partner

DIRECT TAXATION

Name of CMA Firm / Auditor	
Particulars of the client ----- ----- -----	
Reference No.	Date
Prepared By	
Approved By	

Lead Schedule

Account Balance	Amount in Rs.

Audit Objectives

S No.	Description	Remarks
01	All liabilities for income taxes on the balance sheet date, represent amount owed to Income Tax authorities by the Client.	
02	Income taxes payable are included in the balance sheet at appropriate amount.	
03	Ensure that liabilities for taxation have been presented, classified and disclosure is given in accordance with Companies Ordinance 1984, and Applicable IFRS.	

Audit Procedures:-

S No.	Description	Done By
Analytical Procedures		
01	Reconcile the current year balances with prior year balances.	
02	Ensure reasonableness of changes during the year and inquire about any unusual change during the audit period.	

Test of Details

S No.	Description	Done By
01	Obtain movement schedule of taxation liabilities showing opening/ ending balances and reconcile with ledger and working papers of the previous audit period.	
02	Check the status of last year's returns.	
03	Check list of assessments pending finalization and verify the correspondence from tax authorities for indication that the actual liabilities may differ significantly for the figures provided.	
04	Consult tax department for complex tax matters.	
05	Reconcile the tax payments with the advance tax. Verify for tax payments with tax challans.	

Date

Engagement Partner

Date

Senior Partner

CONTINGENCIES & COMMENTMENTS

Name of CMA Firm / Auditor	
Particulars of the client ----- ----- -----	
Reference No.	Date
Prepared By	
Approved By	

Lead Schedule

Description	Amount in Rs.

Audit Objectives

S No.	Description	Remarks
01	The contingent liabilities include all contingencies where-in, it is not yet confirmed whether the entity has a present obligation that cannot be measured till its occurrence.	
02	All the future commitments represents out flow of economic benefits against committed transactions have been identified, classified and disclosed in the Financial Statements as per the requirements of Companies Ordinance, 1984 and applicable IFRS.	

Audit Procedures

S No.	Description	Done by
Analytical Procedure		
01	Review the contingencies and commandments appearing in the accounts of previous audit period and check status of current period and reconcile.	
Test of Details		
01	Obtain clients policy for contingency and commitments for identifying, evaluation and accounting.	
02	Obtain confirmation from legal advisor of the company regarding litigation and claims that are disclosed in the financial statements.	
03	Verify the documents concerning litigation, claims and un asserted claims.	
04	Review bank confirmation for contingent liabilities, letters of credit and compensating balance arrangements.	
05	For tax contingencies, get professional opinion of the tax consultant of client to ensure the degree and extent of exposure.	
06	Review the bank guarantee letter agreement and prepare summary as per confirmations received from the banks.	
07	Obtain the client's representation for contingencies and commitments as part of the financial statement representations letter.	

Date

Engagement Partner

Date

Senior Partner

PAYABLES

Name of CMA Firm / Auditor	
Particulars of the client ----- ----- -----	
Reference No.	Date
Prepared By	
Approved By	

Lead Schedule

Description	Amount in Rs.
Accounts Payables	

Audit Objectives

S No.	Description	Remarks
01	To ensure that payables are valid claims of the vendor's, for which goods/ services have been received by the client and are properly accounted for.	
02	To ensure that liability is shown in financial statement at correct balances.	
03	To ensure that payables are presented, classified and disclosed as per Companies Ordinance, 1984 and applicable IFRs.	

Audit Procedures

S No.	Description	Done by
Test of Controls		
01	Ensure that purchase orders are approved by the authorized persons and are serially numbered.	
02	Ensure that purchases are recorded as per approved Goods Received Note (GRN).	
03	Ensure that activities of approving the price list/ quotations, issuing purchase orders, receiving the goods and issuance of GRN and processing the invoice are dealt by independent persons.	
04	Entries to account payable are approved at an applicable level.	
05	Verify the credit note for correctness and are entered in the period related to the purchase.	
Analytical Procedures		
01	Reconcile balances of trade creditors, purchases, payments, with ledger etc. and get explanation for unusual items.	
02	Calculate trade creditor's turnover and compare with previous periods.	
03	Critically check the payments at the close of the fiscal year.	
Test of Details		
01	Reconcile the balances with ledger, subsidiary ledger and working papers of the previous period.	

AUDIT PRACTICE MANUAL

02	Analyze the trade creditor's ratio and compare with last audit period and evaluate any significant variation.	
03	Check that if there are any significant purchases, at the close of fiscal Year. Investigate for any abnormality.	
04	Check the invoices, for recording at appropriate timing.	
05	Trace selected disbursements, from receiving documents, purchase invoices and other supplementary documents.	
06	Ensure that liabilities are owed by the company and disclosure is given in the Financial Statements in accordance with Companies Ordinance, 1984 and relevant IFRSs.	
07	Trace few invoices (selected) for checking complete process.	
08	Consider requesting positive confirmation of material balances with related parties.	

Date

Engagement Partner

Date

Senior Partner

SHORT TERM BORROWING

Name of CMA Firm / Auditor	
Particulars of the client ----- ----- -----	
Reference No.	Date
Prepared By	
Approved By	

Lead Schedule

Description	Amount in Rs.
Short Term Borrowing	

Audit Objectives

S No.	Description	Remarks
01	Check that short term borrowing represent true and fair value of valid claims of banks and other parties.	
02	To ensure that short term borrowing are accounted for in the books of the company and liabilities are recorded correctly.	
03	To ensure that proper disclosure is given for short term borrowing in the Financial Statements in accordance with Companies Ordinance, 1984 and related IFRS.	

Analytical Procedures

S No.	Description	Done by
01	Compare current year balance with prior year and ensure reasonableness of changes during the year.	
02	Evaluate the unusual changes and obtain explanations regarding unusual changes.	

Test of Details

01	Obtain complete schedule of short term borrowing, opening balance, transitions and closing balance.	
02	Reconcile the balances with ledgers, financial statements and working papers of previous period.	
03	Get confirmation from the lender's for the specific amounts.	
04	Ensure that interest is calculated according to approved terms and condition and are recorded timely and accurately.	

Date

Engagement Partner

Date

Senior Partner

LIABILITIES AGAINST FINANCE LEASE

Name of CMA Firm / Auditor	
Particulars of the client ----- ----- -----	
Reference No.	Date
Prepared By	
Approved By	

Lead Schedule

Description	Amount in Rupees

Audit Objectives

S No.	Description	Remarks
01	To ensure that liabilities represent true claims of lesser against assets leased to the entity under financial lease.	
02	To ensure that liabilities against financial lease are accurately recorded in the books on timely basis.	
03	To ensure that liabilities are disclosed in the financial statement as per the requirements of Companies Ordinance, 1984 and relevant IFRS.	

Audit Procedures

S No.	Description	Done by
Analytical Procedures		
01	Reconcile the balances of prior period and obtain explanation for any unusual items and significant variation.	
Test of Details		
01	Obtain schedule showing complete details of finance and operating leases of current and prior years for evaluation.	
02	Ensure that schedule is complete through inquiries from management.	
03	Reconcile the balance and transactions relating to leases.	
04	Get the confirmation to ascertain the correctness of the data. Confirmation shall be done by the auditor itself.	
05	Review new lease agreements for approval and ensure that principal portion has been recorded as liability, against assets.	
06	Review the security of documents	
07	Check that rental of the lease is paid according to amortization schedule.	

AUDIT PRACTICE MANUAL

08	Ensure that payments are made through banking channel.	
09	Ensure that lease liabilities are properly bifurcated into current and non-current.	
10	Ensure that proper disclosure is given in the Financial Statements in accordance with Company Ordinance, 1984 and related IFRS/ IAS.	

Date

Engagement Partner

Date

Senior Partner

LONG TERM DEBTS

Name of CMA Firm / Auditor	
Particulars of the client ----- ----- -----	
Reference No.	Date
Prepared By	
Approved By	

Lead Schedule

Description	Amount in Rs.
Account Payables	

Audit Objectives

S No.	Description	Remarks
01	To ensure that liabilities are recorded at current amount and are valid claims of the other parties.	
02	To ensure that long term debts have been recorded, classified and disclosed in the financial statement according to the requirement laid down in Companies Ordinance, 1984 and relevant IAS.	

Audit Procedures

S No.	Description	Done by
Analytical Procedure		
01	Reconcile the balances of current audit period with prior periods.	
02	Enquire for any substantial or unusual change and get management explanation for reason of such change.	
Test of Details		
01	Obtain schedule of long term debts showing balance and transactions accrued during the audit period.	
02	Make sure that schedule is complete, information be obtained through inquiries from management.	
03	Check few selected transactions for ascertaining the correctness of the schedule.	
04	Get independent confirmation from the parties for the balances shown in the books of accounts.	
05	Ensure that interest is calculated strictly according to the terms and conditions, approved by the management.	
06	Ensure that disclosure is given in Financial Statements as for the requirements of Companies Ordinance, 1984 and relevant IAS.	

Date

Engagement Partner

Date

Senior Partner

DIVIDEND PAYABLES

Name of CMA Firm / Auditor	
Particulars of the client ----- ----- -----	
Reference No.	Date
Prepared By	
Approved By	

Lead Schedule

Description	Amount in Rs.
Dividend Payables	

Audit Objectives

S No.	Description	Remarks
01	To ensure that amount of dividend payables, represent the liability of the Company.	
02	To ensure that liability is accurately and completely recorded in the books of account.	
03	To ensure that balances of dividend payable is disclosed in the Financial Statements as per the requirements, laid down in Companies Ordinance, 1984 and applicable IAS.	

Audit Procedures

S No.	Description	Done by
Analytical Procedures		
01	Reconcile percentage of dividend declared for current audit period with previous audit period.	
02	Ensure that declaration of dividend is consistent with the profits of the organization.	
Test of Details		
01	Obtain list of members of the company, as of the book closure date and copy of board resolution, to verify the rate of dividend declared.	
02	Check the movement of the dividend payable, during the audit period and ensure that unpaid dividends are accounted properly.	
03	Ensure that Zakat has been deducted and deposited with Central Zakat Fund in accordance with Zakat and Usher Ordinance, 1980.	
04	Ensure that Income Tax is deducted in accordance with Income Tax Ordinance, 2001.	
05	Ensure that dividend warrants are issued to entitled persons and payment is made within period, specified by Companies Ordinance, 1984.	

AUDIT PRACTICE MANUAL

06	Check that unpaid/ unclaimed dividend amount is properly disclosed.	
07	Check that dividend is not paid out of sale proceeds and paid out of profit.	
08	For remittance of dividend to foreigners ensure the compliance of Foreign Exchange Act, 1947.	
09	Ensure that disclosure is given in the Financial Statements as per Companies Ordinance, 1984 and relevant Accounting pronouncements.	

Date

Engagement Partner

Date

Senior Partner

EQUITY

Name of CMA Firm / Auditor	
Particulars of the client ----- ----- -----	
Reference No.	Date
Prepared By	
Approved By	

Lead Schedule

Description	Amount in Rs.

Audit Objectives

S No.	Description	Remarks
01	To ensure that equity accounts are properly authorized and issued and changes in equity accounts have been accounted for in the books of accounts.	

Audit Procedures

S No.	Description	Remarks
Analytical Procedures		
01	Reconcile the balances of equity of current audit period, with prior period and ensure reasonableness regarding changes during the audit period.	
02	Analyze the unusual changes and get management explanation to clarify the state.	
03	Obtain a schedule of equity stating number of shares authorized, issued and outstanding.	
04	Ensure that number of shares and amount of issued, authorized and paid, are strictly according to memorandum of association and Form "A."	

AUDIT PRACTICE MANUAL

05	Check board resolution for issuing bonus shares.	
06	Ensure that all the transactions are through banking channel.	
07	Ensure compliance of Capital of Company (issue of Capital) Rules, 1996.	
08	Ensure that disclosure is given in the Financial Statements in accordance with Companies Ordinance, 1984 and IAS.	

Date

Engagement Partner

Date

Senior Partner

SALES

Name of CMA Firm / Auditor	
Particulars of the client ----- ----- -----	
Reference No.	Date
Prepared By	
Approved By	

Lead Schedule

Description	Amount in Rs.

Audit Objectives

S No.	Description	Remarks
01	To ensure that the revenue is completely and accurately recorded in the books of accounts of the company. Also that the sales recorded are existing for the current accounting period only	

Audit Procedures

S No.	Procedure	Done by
Test of Controls		
01	Select sales transactions including sales return from the independent records (Shipping, Delivery and Purchase Orders) for verification.	
02	Ensure completeness of the records by numerical sequence.	
03	Ensure price on the sales invoices agrees with price agreements.	
04	Trace the sales invoices with sales' journal general ledger.	
05	Check credit notes for sale items.	
06	Check that prices charged are in accordance with approved price list, by the management.	
07	Ensure that only authorized persons have access to sales system.	
08	Ensure that discounts are given as per approved list.	
Analytical Procedures		
01	Get comparative monthly analysis of sales from the client.	
02	Analytical procedures be performed on sales, based on sales by developing an expected amount of sales based on previous year's figures or current period economic conditions, significant difference be evaluated.	
Test of Details		

AUDIT PRACTICE MANUAL

01	Reconcile the balance of sales/ sales returns with ledgers and working papers of the last audit report.	
02	Check complete process of few selected invoices to ensure reasonableness for proper recording.	
03	Ensure that sales are made and recorded in accordance with approved sales policy.	
04	Reconcile the sales invoices with sales orders for particular of the customer, product description, quantities and price of the product.	
05	Review selected sales invoices and shipping documents to ensure the accuracy and validity of purchases/ Receipt.	
06	Ensure that disclosure is given in the Financial Statement in accordance with Companies Ordinance, 1984 and IASs.	

Date

Engagement Partner

Date

Senior Partner

COST OF SALES

Name of CMA Firm / Auditor	
Particulars of the client ----- ----- -----	
Reference No.	Date
Prepared By	
Approved By	

Lead Schedule

Description	Amount in Rs.

Audit Objectives

S No.	Description	Remarks
01	To ensure that the cost of revenue is completely and accurately recorded in the books of accounts of the company. Also that the costs recorded are existing for the current accounting period only	

Audit Procedures

S No.	Procedure	Done by
Test of Controls		
01	Select sample transaction from each component of cost of sales transaction and ensure that expenses are approved as per company's policy and are supported with complete documents.	
02	Ensure that payments are made through cross cheque for the limits prescribed by Income Tax Ordinance, 2001 and withholding tax is deducted at the prevailing rates.	
Analytical Procedures		
01	Reconcile the cost of sales of current period with previous audit period and analyze the unusual variation.	
02	Compare gross profit margin with comparable margins for preceding periods with comparable margins of industry and with budget and margins of the current period. Investigate unusual fluctuations of the profits.	
03	Review the gross profit ratio's and evaluate the results	
Test of Details		

AUDIT PRACTICE MANUAL

01	Check cost of sales by product line and division or other business segments.	
02	Review the budget expenses with actual expected and evaluate the variances. For unusual changes investigate the reasons and obtain explanation from the management for remedial action.	
03	Review purchase/ supply agreement for charging the prices and investigate any unusual transaction.	
04	Reconcile cost of sales recorded in the book of accounts with corresponding credit to inventory accounts.	
05	Ensure that purchase price of imported items are translated and recorded in according with IAS 21 and IAS 39, as applicable.	
06	Select few to check client's inventory cut off procedures and controls transactions (few after physical inventory data and few before physical inventory data).	
07	Check that disclosures are in accordance with Companies Ordinance, 1984 and relevant IAS.	
08	Check that basis for allocation of overheads is rational.	
09	Check the treatment of overhead variance and obtain reasons for abnormal variances.	
10	Ensure that basis for allocation of overhead is consistently applied.	

Date

Engagement Partner

Date

Senior Partner

ADMIN EXPENSES

Name of CMA Firm / Auditor	
Particulars of the client ----- ----- -----	
Reference No.	Date
Prepared By	
Approved By	

Lead Schedule

Description	Amount in Rs.

Audit Objectives

S No.	Description	Remarks
01	To ensure that the expenses are completely and accurately recorded in the books of accounts of the company and that the expenses recorded are existing for the current accounting period only.	

Audit Procedures

S No.	Procedure	Done by
Test of Controls		
01	Ensure that payrolls are prepared as per the attendance sheet, received from HR Department.	
02	Select sample transactions that expenses are approved as per company's policy and approved by appropriate authority.	
03	Verify that expense vouchers are supported with complete documents as per company's policy.	
Analytical Procedures.		
01	Reconcile admin expenses of the current period with previous period to evaluate any unusual change.	
02	Reconcile the budget and amount with actual expenses and inquire the circumstances for unusual variation.	

Test of Details		
01	Obtain and review rent agreement and ensure that payments are made, strictly according to the approved agreement.	
02	Get schedule of legal and professional expenses and ensure that payments are made for the services rendered according to approved contract agreements.	
03	Ensure that disclosures in the financial statements is accorded as per Companies Ordinance, 1984 and relevant laws.	

Date

Engagement Partner

Date

Senior Partner

FINANCIAL CHARGES

Name of CMA Firm / Auditor	
Particulars of the client ----- ----- -----	
Reference No.	Date
Prepared By	
Approved By	

Lead Schedule

Description	Amount in Rs.

Audit Objectives

S No.	Description	Remarks
01	To ensure that the expenses are completely and accurately recorded in the books of accounts of the company and that the expenses recorded are existing for the current accounting period only.	

Audit Procedures

S No.	Procedure	Done by
Test of Controls		
01	Ensure that client recalculate the financial charges, levied by the bank. Check few transactions by calculating the financial charges.	
02	Check that before obtaining finances, rates from different banks were obtained. Ensure that finances are obtained from the bank/ DFI offering most economical rates and better terms.	
03	Reconcile the financial charges levied by bank/ DFI with the books of accounts, for accuracy of recording the transaction.	
Analytical Procedures		
01	Reconcile the current period balances with budgeted amount. Analyze the variation, if any.	

Test of Details		
01	Examine the supporting documents, to verify the financial charges from selected transactions.	
02	Recalculate the financial charges of few transactions for ensuring the accuracy.	
03	Ensure that netting is not performed for income and expenses.	
04	Ensure that disclosure is accorded as per Companies Ordinance, 1984 and the applicable IAS and relevant clauses of the loan agreements.	

Date

Engagement Partner

Date

Senior Partner

OTHER INCOME

Name of CMA Firm / Auditor	
Particulars of the client ----- ----- -----	
Reference No.	Date
Prepared By	
Approved By	

Lead Schedule

Description	Amount in Rs.

Audit Objectives

S No.	Description	Remarks
01	To ensure that the other incomes have been completely and accurately recorded in the books of accounts of the company.	

Audit Procedures

S No.	Procedure	Done by
Test of Controls		
01	Ensure that normal sales are not included in the other income and other income items do not appear in normal sales.	
02	Check that selected transaction that investments are made after proper approval.	
03	For scale of scrap ensure that a good material is not sold along with scrap and scrap is sold on the most economic terms.	
Analytical Procedures.		
01	Reconcile the balances of the current period with budgeted amount and inquire for excessive variation.	
02	Calculate interest and ensure that income received from Banks/ DFI's is as per the approved documents.	
03	Review income received from marketable securities and investigate any abnormality.	

AUDIT PRACTICE MANUAL

04	Verify selected transactions of sale of scrap for authorization, proper recording of gain and receipt from vendors for sale of scrap.	
05	Check that proper disclosure is accorded in the financial statement in accordance with Companies Ordinance, 1984 and IAS and other applicable laws and regulations, if any.	

Date

Engagement Partner

Date

Senior Partner

Workers Welfare Fund / Workers Profit Participation Fund

Name of CMA Firm / Auditor	
Particulars of the client ----- ----- -----	
Reference No.	Date
Prepared By	
Approved By	

Lead Schedule

Description	Amount in Rs.

Audit Objective

S No.	Procedure	Done by / Remarks
01	To ensure that contributions of Workers Welfare Fund (WWF) / Workers Profit Participation Fund are calculated and paid as per worker's Welfare's Fund Ordinance, 1971 and The Companies Profits (Workers' Participation) Act 1968, respectively.	
Audit procedure		
01	Reconcile the balances of WWF/WPPF with budgeted amount and investigate for any unusual variation.	
Test of Details		
01	Check that computation of WWF/WPPF charges is appropriate.	
02	Check that proper disclosures are accorded in accordance with Company's Ordinance 1984 and IAS.	
03	Check that contributions to WWF / WPPF is calculated and paid in accordance with the applicable Ordinance / Act.	

Date

Engagement Partner

Date

Senior Partner

LAWS AND REGULATIONS

Name of CMA Firm / Auditor	
Particulars of the client ----- ----- -----	
Reference No.	Date
Prepared By	
Approved By	

Audit Objective

S No.	Procedure	Remarks
01	Obtain a general understanding of entity's legal and regulatory framework applicable to the entity and its industry by obtaining sufficient and appropriate audit evidence.	
0w	Client is complying with the applicable legal and regulatory framework.	

Audit Procedures

S No.	Procedure	Done by
01	Understand the legal and regulatory frame work of the entity and industry.	
02	Ensure compliance of the laws and regulations.	
03	If there is any instance of non-compliance of law or regulation, enquire from management for the reasons, Inspect the correspondence for any exception.	
04	When non-compliance of law and regulation is conformed, document the findings after discussion with the management. Communicate the non-compliance to audit committee, Board of Directors and senior management. Obtain evidence that they have been informed about the non-compliance of laws and regulations.	

Applicable Laws in Pakistan

1. Companies Ordinance, 1984
2. Listing Regulations (Applicable to listed entities only)
3. Income Tax Ordinance, 2001
4. Worker's Welfare's Fund Ordinance, 1971
5. The Payment of Wages Act, 1939
6. The Factories Act, 1934
7. The Workmen's Compensation Act, 1923
8. The Provisional Employees' Social Security Ordinance, 1969
9. The Minimum Wages Act, 1961

10. The West Pakistan Industrial and Commercial Employment(Standing Order) Ordinance, 1968
11. The West Pakistan Shop Establishment Ordinance, 1969
12. The Industrial Relation Ordinance, 1969
13. The Employees 'Old Age Benefit Act, 1976
14. Companies Profit (Workers' Participation) Act 1968,
15. (Others laws relevant to specific business e.g., Insurance Ordinance etc.

Instance relating to non- compliance

1. _____
2. _____
3. _____

Date

Engagement Partner

Date

Senior Partner

GOING CONCERN

Name of CMA Firm / Auditor	
Particulars of the client ----- ----- -----	
Reference No.	Date
Prepared By	
Approved By	

Audit Objective

S No.	Procedure	Remarks
Test of Controls		
01	Determine that the entity is able to continue as a going concern and the management assumption about entity's ability to continue as going concern is appropriate.	

Audit Procedures

S No.	Procedure	Done by
Test of Controls		
01	Evaluate management's assessment of the entity's ability to continue as a going concern, if such an assessment has been performed.	
02	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 the date of the financial statements, or to the longer period of time that may be required by the applicable financial reporting framework, by law or regulation or by auditing standards.	
03	Evaluating management's assessment may include an evaluation of the process management followed to make its assessment, the assumptions on which the assessment is based and management's plans for future action.	
04	If management has not yet performed such an assessment, discuss with management the basis for its intended use of the going concern assumption and request management to make such an assessment.	
05	Consider whether management has taken into account all relevant information of which the engagement team is aware as a result of the audit.	

AUDIT PRACTICE MANUAL

06	Consider whether to corroborate management's assessment by review of budgets and forecasts for the period covered by the management's assessment, including the ability to comply with debt covenants.	
07	Obtain sufficient appropriate audit evidence to determine whether or not a material uncertainty exists through performing additional audit procedures.	
08	<p>In assessing management's plans for dealing with the adverse effect of the conditions or events giving rise to going concern uncertainty, consider and discuss with management the following:</p> <ul style="list-style-type: none"> • prospective operating and financial information (e.g., cash flow, profit and other relevant forecasts) • plans to dispose of assets • plans to borrow money or restructure debt • plans to reduce or delay expenditures (e.g., workforce reductions and plant closures) • plans to increase ownership equity • plans involving significant revenue growth or increases in gross margin, and • plans that involve support by a parent company or other related party. 	

Date

Engagement Partner

Date

Senior Partner

COMPLIANCE OF COMPANIES ORDINANCE, 1984

Name of CMA Firm / Auditor	
Particulars of the client ----- ----- -----	
Reference No.	Date
Prepared By	
Approved By	

Ensure that following documents, regulators are properly maintained by the client in accordance with Companies Ordinance, 1984:-

S. No	Description	Section
01	Register of the Directors and other officers and its employees	205
02	Register of shares and securities not held in the name of the company	209
03	Minutes books of all meetings	173
04	Register of transfer of shares and debentures	76
05	Register of mortgages	135
06	Register of debentures and index of debentures	149
07	Register of contracts, engagement or applicant	219
08	Ensure the following forms are filled with SECP in accordance with Companies Ordinances, 1984	
09	Return of allotment of shares	73
10	Annual return for shares capital	156
11	Special resolution particulars	172
12	Memorandum of complete stratification of mortgage	129 & 463
13	Notice of change of registered office (if any)	142
14	Increase in share capital	92 & 94
15	Particulars of mortgage or change in mortgage	122 & 463
16	Register for participation term certificate, term finance certificates and debentures	123,124 & 463

AUDIT PRACTICE MANUAL

17	Statutory Report	157
18	Consents of Directors /CE	184
19	Notice of modification of register of members	154
20	Issuance of prospectus and commencement of business	146
21	Other statutory requirements	208,222, 224,230, 251 & 464

Ensure following, in case of Foreign Companies:-

01	Documents submitted for registration	451
02	Particulars of Directors CEO and other Officers.	451, 452
03	Return showing registered office address.	451, 452
04	Check that disclosures are in accordance with companies ordinance, 1984	
05	Compliances of 4 th schedule in financial statement of listed companies	234
06	Compliance of 5 th schedule in financial statement for non-listed companies.	234
07	Auditor shall ensure provisions of the section.	95, 191, 196, 200, 208, 209, 214, 215, 226, 227, 230, 234, 237 and 257

Date

Engagement Partner

Date

Senior Partner

**SUGGESTED LETTER FOR CONFIRMATION OF BANK BALANCES AND OTHER
RELATED TRANSACTIONS**

The Manager,

_____ (Bank Address)

Client Name

Standard request for bank report for audit purposes

Dear Sir,

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

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

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

Information Requested

Response

Bank accounts

- (1) Full titles of all accounts together with the account numbers and balances therein, including NIL balances:
 - (a) where your customer's name is the sole name in the title;
 - (b) where your customer's name is joined with that of other parties;
 - (c) Where the account is in a trade name.
- (2) Full titles and dates of closure of all accounts closed during the period.
- (3) The separate amounts accrued but not charged or credited as at the above date, of:
 - (a) mark-up / interest; and
 - (b) provisional charges (including commitment fees)

Facilities and Securities

- (4) Details of leasing facilities, loans, overdrafts, cash

credit facilities (including standby facilities), and associated guarantees / indemnities specifying agreed limits, unused facilities, mark-up/ interest terms, overdue rentals / instalments and in the case of term loans, date for repayment or review.

- (5) In respect of facilities, contingent liabilities and derivatives, please give details of any security formally charged in favor of bank including the date and type of charge (i.e. pledge or hypothecation etc)
- (6) Details of contingent liabilities
- (7) Details of assets under lease etc.
- (8) Any other relevant information

(a) .

(b)

Address of the auditor is as under:-

M/ S _____

Yours sincerely

(_____)
Authorized Client

Signature

SPECIMEN LETTER FOR CONFIRMATION OF DEBIT/ CREDIT BALANCE

Name of Debtor/ Creditor

Confirmation of Balances

Dear Sir,

As part of their normal audit procedures, we have been requested by our auditors M/S _____ to ask you to confirm direct to them balance payable to / receivable from you of Rs. _____ as at _____.

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

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

For your reply to be of assistance to our auditors please give this request your early attention.

Yours faithfully,

For and on behalf of

PLEASE DO NOT DETACH
Name of Debtor / Creditor

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

Authorized Signature & Stamp
Title of Position

* Delete as appropriate

RELATED PARTIES TRANSACTIONS

Name of CMA Firm / Auditor	
Particulars of the client	
Reference No.	Date
Prepared By	
Approved By	

Lead Schedule

Description	Amount in Rs.

1. Evaluate the design and implementation of the entity’s controls for:
 - identifying, accounting for, and disclosing related party relationships and transactions in accordance with the applicable financial reporting framework
 - authorizing and approving significant transactions and arrangements with related parties, and
 - authorizing and approving significant transactions and arrangements outside the normal course of business.
2. In order to identify related parties and transactions with such parties, obtain from management a list of related parties, transactions (including transactions not given accounting recognition) with such parties and, if relevant, the business rationale for such transactions.
3. To test the completeness of the above lists, perform the following specific procedures:
 - inspect other information obtained during the audit that may indicate the existence of related parties or related party transactions including bank confirmations and legal letters.
 - review transactions that the entity may have entered into that, because of their nature, may indicate the existence of related parties or related party transactions.
4. Consider whether fraud risks may arise from the identified related party relationships and transactions (including circumstances relating to the existence of a dominant party) and whether additional risk assessment procedures should be performed.

5. As a result of our further audit procedures, if we identify related parties or related party transactions that management has not previously identified or disclosed:
- promptly communicate any newly identified related parties to the other members of the engagement team to enable them to determine whether this information affects the results of, and conclusions drawn from, audit procedures already performed, including whether the risks of material misstatement, including the risks of fraud, need to be reassessed;
 - request management to identify all transactions with the newly identified related parties for our further evaluation;
 - inquire as to why the entity's controls over related party relationships and transactions failed to enable the identification or disclosure of the newly identified related party relationships or transactions.

Date

Engagement Partner

Date

Senior Partner

COMPLIANCE OF LABOUR LAWS

Name of CMA Firm / Auditor		
Particulars of the client		
Reference No.	Date	
Prepared By		
Approved By		
	Establishment	No of employees
(a)	Commercial	
(b)	Industrial	

Gratuity

S. No	Description	
1	Does employer pay gratuity to his worker's in case of retired, resignation or termination of services except removed in account of misconduct?	
2	Does Employer pay benefits other than gratuity?	
3	What is method of calculation of gratuity?	
4	Does employer maintain fund of gratuity?	
5	Is gratuity fund maintained in accordance section 2(3) of Income Tax Ordinance, 2001	
6	Has the gratuity fund satisfied the condition set in 6 th schedule of the Income Tax Ordinance, 2001	
7	Had employer furnished the return as per Rule 7 of Part III of 6 th schedule of Income Tax Ordinance, 2001	
8	Check that disclosure in the financial statement as per IAS -19	
9	Check compliance of Worker's Profit Participation Fund	
11	No of worker's in the company	
11	Does the company pay 5% of its profit to the fund?	
12	The amount allocated to the fund is (a) Available to company	

	(b) Invested according to board of Director's decision	
13	Investment made in the following. (i) _____ (ii) _____ (iii) _____	
14	In case amount allocated was made available to the company, does company pay interest on dividend? (i) _____ (ii) _____	
15	Is list of trustee obtained?	
16	Has the company ensured compliance of Companies' Profits (Workers' Participation) Act?	

Date

Engagement Partner

Date

Senior Partner

PROVISION OF INCOME TAX

Name of CMA Firm / Auditor	
Particulars of the client	
Reference No.	Date
Prepared By	
Approved By	

NTN NO
Income year end
Tax year
Tax Deducted

Description	Current year	Previous year
Total Income		
Tax liability / provision –total		
- Current		
- Prior		
- Deferred		
- Applicable tax rates		
- Taxed at deferred rate		

Tax Returns

		Initials
Prepared by		
Revised by		
Approved by		

Provision of Tax

	Particulars	Initials
Audit In charge		
Audit Manager		
Tax Manager		
Tax Returns		

S. No	Description	Amount

1	Has adequate provision been made for company's tax and withholding tax liabilities?	
2	Appropriate disclosures have been made for overall taxes?	
3	Check compliance of following clauses of Income Tax Ordinance, 2001:-	
	Description	Sections
	Dividend	5
	Royalty	6
	Shipping and Transportation Fee	7
	Income from Business/ Property	11
	Income from property	15
	Rent received	15
	No adjustable amount	16
	Income from business	18
	Speculation Business	19
	Admissible deduction	20
	Inadmissible deduction	21
	Deprecation	22
	Initial allowance on eligible assessment	23
	Intangibles	24
	Pre commencement Expenditures	25
	Scientific Research Expenditure	26
	Trading	27
	Profit on debts- Lease payment etc.	28
	Profit on non-performing debts of bank	30
	Transfer of participatory resources	31
	Income from accrual basis	32
	Liabilities charged against profit	34
	Percentage of completion Long term contracts	36
	Capital Gains	37
	Income of other source	39
	Deduction against expenditures	40
	Examples of taxes	54
	Assessed business losses and depreciation	57
	Tax credit on deduction of zakat	60
	Tax credit on donations	61
	Tax credit on investment	62
	Property owned by two or more person	66
	Explanation relates to derivation	67
	Classification of income and expense	67
	Transaction related to property rent etc.	68
	Allowed deduction	70
	Currency conversions	71
	Amount received foreign source income ceased	72
	Personal case of business assets	75
	Assets acquired with foreign currency loan	76
	Assets disposed of under arm's length transaction	78
	NO gain /loss on disposal of asset	79
	Percentage of ownership	98
	Credit for taxes paid outside Pakistan	103
	Separation of foreign losses	104
	Admissibility Head Office Expenditure	105
	Foreign Resident controlled company	106
	Avoidance of Double taxation	107

AUDIT PRACTICE MANUAL

	Transaction with Associates	108	
	Categorization of income and donations	109	
	Tax payment for resident company or AOP	113	
	Presumptive Tax Regime	115	
	Available of audited accounts provisioning for tax	118	
	Credit for advance tax paid	147-156	
	Income from Import	148	
	Income of resident companies	153	
	Realization of foreign exchange procedures	154	
	Prize on prize bond	156	
	Presumptive Tax Regime	169	
	Credit of proceeding year refundable	170	
	Credit of Advance Tax	233	
	Tax collected from owner of good transport vehicle	238	

Date

Engagement Partner

Date

Senior Partner

CHECK LIST BEFORE ISSUANCE OF DRAFT AUDIT REPORT

Name of CMA Firm / Auditor	
Particulars of the client	
Reference No.	Date
Prepared By	
Approved By	

1. Reconcile the financial statement with the following:-
 - (a) Amount in trial balance
 - (b) Ensure mathematical accuracy of the trial balance.
 - (c) Ensure that grouping of the accounts is appropriate.
2. Ensure that accounting policies are reflected in comparative information are consistent.
3. In case material misstatement have been identified then perform additional audit procedures.
4. Review the report for spelling and typing error.
5. Check mathematical accuracy for consistency and cross referring.
6. Check supporting schedules for disclosures.
7. Perform audit procedures to evaluate the overall presentation of financial statements and relevant disclosures.

Date Engagement Partner

Date Senior Partner

AUDIT COMPLETION CHECKSLISTS

Name of CMA Firm	
Particulars of the client	
Reference No.	Date
Prepared By	
Approved By	

Date of the auditor's report (dd/mm/yy):

Prior to the date of the auditor's report, all necessary auditing procedures were completed and sufficient appropriate audit evidence was obtained to support the representations in our report.

Signature and date (dd/mm/yy):

Partner: _____

Manager: _____

Audit file assembly date (dd/mm/yy): 20/07/2010

When undertaking an audit under ISAs, the audit file assembly date is the date by which an engagement team assembles a complete and final set of working papers for retention.

A complete and final set of audit documentation has been assembled as of the audit file assembly date.

Signature and date (dd/mm/yy):

Partner: _____

Manager: _____

Consideration and procedures

S. No	Procedures	Partner / Manager Sign off
	We have performed and documented appropriate evaluation procedures prior to commencement of the engagement and determined the suitability of accepting or continuing the audit engagement. In determining the suitability we have considered all risks, including fraud risks that were identified during the acceptance / continuance process.	

	We have sent consent letter to client and obtained an appropriate engagement letter confirmed by the client.	
	Appropriate procedures have been followed to express the opinion in financial statement.	
	The engagement team collectively has the appropriate capabilities, competence and time to perform the audit engagement in accordance with professional standards and regulatory and legal requirements, and to issue an auditor's report that is appropriate in the circumstances.	
	Determining the materiality in audit is planned.	
	Working papers are appropriately managed.	
	Obtained the understanding about environment of the entity.	
	Obtained assessment regarding risk that fraud or error which may cause material misstatement in the financial statements.	
	Documentation of fraud risk factors, which were identified to be present during audit.	
	Conformation from the management regarding auditors understanding about entity.	
	Obtained the understanding of financial statement risk and financial statements controls.	
	Obtained sufficient audit evidence to support and planned appropriate audit procedures.	
	Performed substantive procedures as planned and documented in the audit program.	
	Reviewed and reconcile the amounts audited in the working paper to the amounts to reported in the financial statements.	
	Check all adjusting entries.	
	Obtained sufficient audit evidence to form audit opinion and had reported the finding to the management.	
	Requirement of specialist evaluated.	
	Role of specialist defined.	
	Obtained feedback from specialist, considered the results and document the findings.	
	Obtained sufficient appropriate audit evidence that work of independent auditor is adequate as per a specific arrangement.	
	Considered the need for use of an external expert, properly addressed his professional competence and documented the details.	
	Obtained sufficient understanding of internal auditor activities, performed preliminary assessment for planning of audit.	
	Obtained sufficient appropriate audit evidence for use of internal auditor work.	
	Engagement has been appropriately executed in accordance with the policies.	

	<p>Auditor shall clarify the following:-</p> <ul style="list-style-type: none">(a) I been sufficiently involved in the audit process, including key meeting with entity's management.(b) I have the financial statements and am satisfied that the disclosures and presentation is appropriate.(c) I have read the audit report at satisfied that it is appropriate.	
--	--	--

CHECKLIST FOR SUBSEQUENT EVENTS REVIEW

Name of CMA Firm / Auditor	
Particulars of the client	
Reference No.	Date
Prepared By	
Approved By	

1. Auditor shall consider the changes in following as they affect the financial statements and other information in the annual report of the entity.
 - (a) Management significant decisions
 - (b) Interest and currency rates.
 - (c) Banking arrangements.
 - (d) Key product, customers and vendors.
 - (e) Government policies and regulations.
 - (f) Key management or employees.

2. Significant knowledge through
 - (a) Review of minutes of meetings
 - (b) Press comments.
 - (c) Internal audit report.
 - (d) Changing in client trading partner.
 - (e) Major changes in technology.
 - (f) Security incidents.
 - (g) Any other matter of significant importance.

Date Engagement Partner

Date Senior Partner

SAMPLE LETTER TO MANAGEMENT / BOARD

M/s _____

AUDIT OF FINANCIAL STATEMENTS FOR THE THE YEAR_____

Dear Sir,

We are pleased to enclose herewith the financial statements of **ABC** ("the Company") for the period from _____ prepared by the management, together with our audit report thereon duly initialed by us for the purpose of identification only.

We shall be pleased to sign the audit report in its present or amended form after you have approved the financial statements and we have received the following:

- a) the audited financial statements duly signed by the CEO and Chief Financial Officer duly authorized in this behalf;
- b) a representation letter signed by the CEO and Chief Financial Officer; (draft enclosed)
- c) Outstanding information (if any) as outlined in Para 3 below.

1 Management's Responsibility for the Financial Statements

The Company's management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards (IFRSs) and the Companies Ordinance, 1984. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

2 Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements prepared by the Company's management based on our audit.

3 Outstanding Information

3.1 (Include here)

4 Matters for Specific Attention

4.1 (Include here)

We take this opportunity to express our appreciation for the courtesy and cooperation extended

to us during the course of our audit by the management of the Company.

Sincerely Yours,

XYZ
Cost and Management Accountants