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| --- | --- | --- | --- |
| **Client:** XYZ Limited | **Year end:** 31-12-2014 | **File no:** | **Ref:** C6.2 |

**RISK RESPONSE SUMMARY**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | ***Major risk factors (See C6.3)*** | ***Other Risks*** | |  |
| ***Audit programme reference*** | ***Risk H, M, L*** | ***Justification of risks*** | ***Audit approach and reference to programme*** |
| E Intangible assets | * No major risk | L | * Intangible assets contain no complex transactions and the amount is very insignificant | * Standard audit programme |
| F Property, plant and equipment | * Property, plant and equipment may be materially misstated. | M | * Property, plant and equipmentis susceptible to material misstatements due to misappropriation of assets. Moreover, it is very significant in amount and nature of transaction is complex including revaluation with regular interval | * Obtain movement schedule of property, plant and equipment and Capital work-in-progress both for cost and accumulated depreciation. Check casting and cross casting of the schedule. * Trace opening balances from fixed assets register, general ledger and last year’s working papers. * Make a selection of fixed assets held by client at year-end and physically inspect them to ensure that:   (a) Asset is owned and held by client.  (b) Remaining useful life appears to be correct  **-** Vouching selected addition during the current period  **-** For selected assets disposed of during the current period:  (a) Examine documents authorizing disposal.  (b) Examine documents supporting amounts for which assets were sold e.g. cash receipts  (c) Calculate gain or loss on disposal of fixed assets  - To check depreciation expense:  (a) Determine the reasonableness of accounting policy and depreciation method, rates and their consistency with prior years.  (b) Check calculation of depreciation of selected assets.  (c) Assess the reasonableness of allocation to manufacturing costs, admin cost etc.  - Ensure that none of the assets is impaired or the recoverable amount of an asset is not less than its carrying amount. If the carrying amount of an asset is more than its recoverable amount, that same should be reduced to recoverable amount recognising the reduction as impairment loss.  - Ensure that any subsequent addition should be depreciated over remaining life and not simply depreciated by applying the depreciation rate.  - Inspect evidence of ownership e.g. vehicle registration, property documents, machinery import documents etc.  - Ensure that revenue expenditures such as repairs and maintenance were not capitalized.  - For additions in leased assets during the year, check from lease agreements that the lease is a finance lease in substance.  - Ensure that depreciation on leased assets is calculated on the same rates as for owned assets.  - If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the assets should be fully depreciated over the shorter of the lease term or its useful life.  - For selected additions to CWIP during the year: -  (a) Check supporting documents like vendors' invoices, contractor bills, and other evidences.  (b) Check proper authorization and approval.  - For selected transfers to fixed assets during the year, check contractor certificates of completion of project and proper approval thereof and examine the stage of completion.  - For items stuck-up for considerable period of time, inquire about its status from the management. Compute provisions if required and ask for management representations.  - In case of revalued assets ensure that  (a) Entire class of assets has been revalued on periodical basis  (b) Any asset's revaluation results in deficit should not be adjusted against other assets' surplus but should be immediately charged.  - Ensure that closing balances as per our working paper file are in match with general ledger.  - Determine that disclosures have been made in accordance with the requirements of the applicable BASs. |
| G Investments in group and associated undertakings and others | * No major risk | L | * No significant investment during the current year | * Obtain a movement schedule of investments both for numbers and amounts. * Trace the opening balances from the general ledger, subsidiary records, and last year working papers.   - Trace the carrying value of selected investments to supporting documents e.g.  Broker's notes for investments purchased in the current year, to confirm date of purchase description and number of shares.  - Check the computation of valuation of investments in subsidiaries, joint ventures and associates is made as per the accounting policies of the company.  - Where any lien marked on the investments, check the disclosure thereof.  - Perform cut-off at year-end.  - Check that brokerage expenses are accurately recorded.  - For selected shares disposed of during the year:  (a) Examine supporting documents of investments sold e.g. brokers notes and cash receipts records.  (b) Confirm the date of disposal, description, and number of shares.  (c) Calculate the gain or loss on sale of investment and trace the amount transferred to the profit and loss account.  - Test the casting and cross casting of the schedule.  - Check the accrual of interest and amortization of premium / discount on fixed income securities with the one calculated on IRR basis.  - Ensure that closing balances of investments in working papers agree with the general ledger.  - For selected investments, compute market value as under:  (a) For quoted investments, trace market value from independent published quotations.  (b) For unquoted investments, calculate NAV per share from respective company's financial statements.  - Ensure that investments are presented and all disclosures have been given in accordance with relevant IASs. As per IAS 39 all investments should be properly classified in Held for trading, available for sale and held to maturity.  No audit procedure for income from investment. |
| H Advances, deposits and prepayments | * No major risk | L | * Most advances, deposits and prepayments are fixed transactions in nature and there is no major change in the balances compared to last year. | * Obtain a party-wise movement schedule of advances, deposits,& prepayments and trace the opening balances from the general ledger, subsidiary records, and last year working papers. Check casting and cross casting of the schedule. * For disbursements made during the year, check disbursements of funds with disbursement register and bank statement.   - For a sample of repayments made during the year: -  (a) Ensure that amount and date of repayment was accordance with repayment schedule or agreement.  (b) Check receipt of funds with receipt records and bank statement.   * Inquire about the nature of trade deposits. Corroborate movements in trade deposits with supporting documents * Obtain age-analysis of advances, deposits & prepayments and perform the following:-   (a) Verify classification in correct categories.  (b) Current maturities of advances, deposits & prepayments has been appropriately calculated and separately disclosed.  (c) Consider the value of securities available if any, for the purpose of calculation of provision for doubtful loans and advances.   * Check subsequent realizations / adjustments etc. * Ensure that all advances to associated undertakings are granted after due compliance with legal requirements. * Ensure that none of the advances, deposits & prepayments are impaired or the recoverable amount is not less than its carrying amount. If the carrying amount is more than its recoverable amount, then same should be reduced to recoverable amount recognising the reduction as impairment loss * For items stuck-up for considerable period of time, inquire about its status from the management. Compute provisions if required and ask for management representations. * For advances to staff, review company’s policies for disbursement and recoveries thereof, and ensure the same with supporting documents. Verify on a test basis deductions from advances to staff from their respective payroll register. * Test check agreement and legal documents to verify the terms and conditions of the advances * Ensure that closing balances as per our working paper file are in match with general ledger. * Determine that disclosures have been made in accordance with the requirements the applicable BASs. |
| I Stock and WIP | * No major risk | M | * Stock and WIP is very significant in amount and nature of transaction is complex. | * Observe physical counting of inventories carried out by the client at year-end or at any other date and perform tests of intervening transactions to ensure existence and conditions unless impracticable. Also check on sample basis some items to ensure reliability. * Check that third party inventories are identified and excluded from physical count. * For items owned by client but not physically held, obtain independent confirmations from custodians.   - Obtain final inventory compilation schedule and perform the following:  (a) Test casting and calculation of schedule.  (b) Trace balances to the general ledger.  (c) Trace quantities from physical stock take working papers.  (d) Trace prices used to build up the average cost to purchase invoices.   * To test check cut-off of inventory, select transactions from purchases, purchase returns and sales (stock outs) of some days before and after the year end and ensure proper recording of transactions in correct period. * Determine that the basis of valuation of e.g. FIFO or average cost is appropriate and followed consistently. * Obtain stock card of some items and ensure that cost formula is correctly applied on receipts and issues. * Compare cost of closing stock with its NRV by comparing raw material with last invoice from supplier, WIP with expected cost to completion and finished goods with market value less expenses necessary to make the sale. * Obtain aging of inventories and compute provision for obsolete, damaged, or slow moving stocks, if any. Ensure that raw material of loss making and discontinued products are adequately provided for. * Ensure that stores and spares related to specific machinery should lie longer than the machine. * Ensure that closing balances as per our working paper file are in match with general ledger. * Determine that disclosures have been made in accordance with the requirements of the applicable BASs. |
| J Trade and other receivables | * No major risk | L | * The account is interrelated to revenue and the nature of the transaction is not complex. | * Obtain a party-wise movement schedule and trace the opening balances from the general ledger, subsidiary records, and last year working papers. Check casting and cross casting of the schedule. * Make a selection of customers' balances and circularize confirmations of selected parties. Compare replies to requests. Ensure that reconciling items, if any, are properly supported and appropriately adjusted. * Prepare confirmation control work sheet * Check subsequent clearance. * Inquire into significant disputed balances, if any. * Obtain a movement schedule of allowance for doubtful debts and ensure completeness. * Obtain aging of debtors and ensure that no unreasonably delayed balances are appearing. * Ensure the recoverability of the debtors considered good. No subsequent event has raised any doubts about their recoverability. * Assess the reasonableness of methods used by management in the business circumstances of the client to estimate that the doubtful debts are appropriate and ensure that the same is applied consistently. * Calculate provision for doubtful debts based on age-analysis of debtors. * Review documents, supporting correspondence and authorization for selected write-offs during the year. Obtain board approval for write-offs. * Select transactions from sales invoices and customer returns notes pertaining to some days prior to and after year-end and ensure that they have been recorded in the correct period. * Obtain a reconciliation of the sub-ledger and GL balances of trade and other receivables and justify the differences * Ensure that closing balances as per our working paper file are in match with general ledger. * Determine that disclosures have been made in accordance with the requirements of the applicable IASs. |
| K Cash and cash equivalents | * No major risk | L | * Existence of higher level control and management monitors the controls very frequently. | * Attend year-end cash count and deposit verification. * Circularize direct confirmations to all banks. * Prepare confirmation control work sheet * Trace opening balance in general ledger from last year working papers. * Obtain and examine bank reconciliations ensure the following: -  1. No long outstanding item should remain unfollowed, 2. No revenue nature item should be appearing 3. All deposit made should be cleared within two days 4. No long outstanding cheques of significant amount are unpresented; if so then check their payment voucher and ensure that no discrepancy is involved.  * Ensure that all balances etc. reported by bank in replies to bank confirmation request are included in records of the client. * Ensure that no balances are subject any encumbrance, if so then disclosure is made. * Convert FCY accounts into BDT (Presentation currency) at year-end rate. * Ensure that all bank accounts are in company's name. * Review the list of authorized signatories for all bank account maintained by the company with different banks * Ensure that closing balances as per our working paper file are in match with general ledger. * Obtained and checked subsequent bank statements and bank reconciliations. * Reviewed the meeting minutes approving the opening of new bank account * Cutoff test of cash and bank transactions. * Determine that disclosures have been made in accordance with the requirements of the applicable IASs. |
| L Trade and other payables | * No major risk | L | * The account is interrelated to purchase and the nature of the transaction is not complex. | * Obtain the trade and other payables trial balance. Test the summarization and the reconciliation of the total to the general ledger. Trace significant reconciling items, if any, to supporting documents. * Make a selection of cash disbursements from subsequent cash disbursement records during an appropriate period following the date of the payables trial balance (usually at least one trade payables cycle, or, if payables are tested at year end, to the end of field work):  1. Trace selected disbursements to receiving documents, purchase invoices, and/or other supporting documents. 2. Determine whether those selected disbursements that indicate a liability as of the trial balance date are recorded in the trial balance or the reconciliation to the general ledger.  * Make a selection of unpaid suppliers' invoices and unmatched receiving reports. Determine whether those that indicate a liability as of the trial balance date are recorded in the trial balance or the reconciliation to the general ledger. * Review the year-end accounts payable trial balance to determine whether significant debits are included in the account balance. For material debit balances that are included in the year-end balance consider whether reclassification is appropriate. * Determine that the following balances, if any, are properly classified:  1. Debit balances in payables. 2. Non-current or non-trade payables.  * Determine that the following balances, if any, are properly valued, classified, and/or disclosed, as appropriate:  1. Old, disputed, or questionable payables. 2. Payables to related parties. 3. Purchase commitments.  * Inquire into any significant disputed balances and investigate disputed balances as necessary. * Inquire into any long outstanding balances and investigate the reason thereof * Make a selection of suppliers' balances and circularize confirmations of selected parties. Compare replies to requests. Ensure that reconciling items, if any, are properly supported and appropriately adjusted. * For non-replies of confirmation, examine subsequent cash disbursements to the suppliers and/or unpaid supplier invoices, and receiving records. Determine that any items representing liabilities as of the trial balance date are recorded at that date. * Make a selection of purchase invoices recorded in the 3 days period before and after year end. Trace the selected invoices to receiving records. Determine that the payables were recorded in the correct period. * Inquire and consider other available evidence, if any, to identify all related parties from which purchases were made during the year. Obtain a schedule of related-party payables and determine that all identified related parties to which payables are owed at year end are included in the schedule. Trace the amounts in the schedule to the payables trial balance. * Determine that the economic substance of the related-party payables supports their recording. * Inquire and consider other available evidence, if any, to identify foreign suppliers from which purchases were transacted in foreign currencies. Identify payables to such suppliers. Identify applicable exchange rates and agree them to an independent source. Re-compute foreign currency payable amounts in local currency. * Investigate journal entries from sources that are typically not associated with this account. * Obtain a reconciliation of the sub-ledger and GL balances of trade and other payables and justify the differences. * Ensure that closing balances as per our working paper file are in match with general ledger. * Determine that disclosures have been made in accordance with the requirements of the applicable BASs. * Creditors ageing schedules, |
| M Employee benefit and other noncurrent liabilities and accrual interest expense | * No major risk | L | * No major addition in the current year. | * Obtain the schedule of principal amount of loans & borrowings and interest thereon and trace the opening balances from the general ledger, subsidiary records, and last year working papers. Check casting and cross casting of the schedule. * For disbursements made during the year check disbursements of funds with disbursement register and bank statement. * For a sample of repayments made during the year: -   (a) Ensure that amount and date of repayment was accordance with repayment schedule or agreement.  (b) Check payment of funds with payment records and bank statement.  (c) Payment of interest is in accordance with the agreements.   * Circularize confirmations to selected parties. Match replies with the amounts outstanding against each party. * Obtain age-analysis of the loans and advances and perform the following:-   (a) Verify that loans have been classified in correct categories.  (b) Current maturity has been appropriately calculated and separately disclosed.   * Check subsequent payment of loans. * Ensure that all loans are taken after due compliance with legal requirements. * Re-perform calculation of interest expense on test basis: -   (a) Verify rate of interest from agreement/ policy.  (b) Check the number of days for which interest is to be charged.   * Test check loan agreement and legal documents to verify the terms and conditions of the loans * Ensure that closing balances as per our working paper file are in match with general ledger. * Determine that disclosures have been made in accordance with the requirements of the applicable IASs. |
| O Equity and reserves | * No major risk | L | * No significant change in the current year. | * Obtain a schedule of all equity accounts showing number of shares authorized, issued, and outstanding at the beginning and end of the year and all transactions affecting equity (e.g., dividends, retained earnings) occurring during the year. * Test the summarization of the schedule. * Trace totals to the general ledger. * Check the number of shares and amount of issued, subscribed and paid up capital from schedule X (Annual summary of share capital and list of shareholders). * For shares issued as bonus shares  1. Check board resolution 2. Check member’s register to ensure that changes have been made in number of shares of each member.  * Test entries to retained earnings other than from net income, dividends, and treasury shares. * Determine that dividend payment and liability have been correctly recorded. * Review extracts of board minutes for dividends proposed and paid. * Re-compute calculation of dividends and trace total dividends to earnings statement. * Re-compute the liability for dividends. * Agree changes in retained earnings (e.g., income, dividends) to supporting documentation and trace ending balance to general ledger and equity accounts. * Determine that for each class of authorised shares, the title of issue, par or stated value per share, and the number of shares authorized, issued, and outstanding are properly recorded and disclosed. * Determine that all transactions affecting shareholders' equity are properly recorded in conformity with applicable state laws. * Obtain a schedule of Revaluation of fixed assets showing assets wise detail, cost of the assets, revalued amount. * Check incremental depreciation transferred from surplus to unappropriated profit / accumulated loss. * Check compliance with the requirement of IFRS 12 “Income Taxes (Revised)” in respect of deferred Tax on surplus on revaluation of fixed assets. |
| P Taxation | * No major risk | L | * Existence of no major unusual transactions. | * Obtain (or prepare) a movement schedule of taxation liabilities, showing beginning balance, activity during the year, and ending balance by tax jurisdiction and tax years. Agree opening and closing balances to the general ledger. Test transactions for the year, and investigate unusual items. * Review status of previous years' returns, and examine related correspondence from tax authorities for indications that the actual liability may differ significantly from the amount provided. * Where liabilities have been finalized, verify appropriate payment or refund. Determine that adjustments have been made for any difference between the final liability and the amount provided, and consider the effect of any such adjustments on subsequent tax years and taxes imposed by other jurisdictions. * Obtain calculation of the tax liability identifying all items constituting the difference between net pretax income and taxable income, and compare calculation to that of the previous year. Review calculation to determine that correct tax rates have been used and that all significant tax matters have been addressed. Agree with tax returns, if prepared. * If applicable, ensure that any tax losses have been correctly calculated and appropriately dealt with. * If applicable, consider whether any provisions for deferred taxes have been appropriately dealt with. Test calculation of deferred taxes and whether timing differences have been appropriately considered. |
| R Revenue | * Revenue may be materially misstated. | H | * Revenue is susceptible to material misstatements due to fraudulent financial reporting. Moreover, it is very significant in amount and nature of transaction is complex. | * Make a selection of transactions from recorded sales and shipping records for prior and after period-end and ensure proper cut-off. * Consider reasonableness of revenue by multiplying the number of units with the average selling price. * Vouching the selected transactions from the population. * Determine that the accounting policies and methods of revenue recognition are appropriate and are applied consistently. * Determine that disclosures have been made in accordance with the requirements of the applicable IASs. * Fraud related audit procedure |
| S Expenditure | * No major risks | L | * Existence of no major unusual transactions. | **Cost of Sales:**   * Reconcile recorded cost of sales to corresponding credits in inventory accounts. * Make a selection of debits to inventory accounts (i.e. purchases) during the year. For each items selected:  1. Trace the item to a purchases journal total. 2. Make a selection of individual purchases from the journal. 3. Trace the selected purchases to a supplier invoice and receiving records. 4. Determine that the purchases were recorded in the correct period.  * Make vouching of sampled purchases * Ensure proper cut-off of purchases. * Determine that disclosures have been made in accordance with the requirements of the applicable IASs.   **Administrative, selling and distribution expenses**   * Select a sample of recorded expenses and examine proper supporting documents for relevant expenses e.g. rent agreements for rent expenses, personal files and payroll for salaries and other allowances etc. * Scan general ledger of expenses and investigate large and unusual items and expenses were incurred for the purposes of the business. * Determine that disclosures have been made in accordance with the requirements of the applicable IASs.   **Finance costs:**   * Select a sample of recorded financial charges and perform the following:  1. Examine supporting documents to verify rates of financial charges. 2. Re-calculate amount of financial charges on the basis of amounts, number of days and rates of financial charges.  * Ensure that charge on WPPF, WWF and CRF are calculated as per the rules of WPPF. Check that the payments of prior year was made within the stipulated time. * Determine that all loans, borrowings, leases etc. have been considered to ensure that there are no unrecorded or under recorded financial charges. * Determine that disclosures have been made in accordance with the requirements of the applicable BASs. |
| --Related party transactions | * No major risk | M | * Susceptible to management manipulation. | * Confirm opening balance from last year audited accounts. * Circularize confirmations to all entities. Match replies with the amounts outstanding against each entity. * Review nature of transaction. * Checked addition and adjustments. * Confirm closing balance with General Ledger and Trial Balance. * Determine that disclosures have been made in accordance with the requirements of the applicable IASs. |
| T – Post balance sheet events | * No major risk | L | * Usually no major adjusting entries exist. | * Obtain an understanding of any procedures management has established to ensure that subsequent events are identified. * Inquire of management and, where appropriate, those charged with governance as to whether any subsequent events have occurred which might affect the financial statements. * Read minutes, if any, of the meetings of the entity's owners, management and those charged with governance that have been held after the date of the financial statements and inquiring about matters discussed at any such meetings for which minutes are not yet available. * Reading the entity's latest subsequent interim financial statements, if any. |
| Opening balances and comparatives | * No major risk | L | * The balances are already audited. | * Confirm opening balances from previous audited accounts. * Circularize confirmations to the parties for the opening balances. * Roll backward the transactions for the income statement items (i.e. revenue, cost of sales, admin exp. Etc.) to track and match the opening balances. * Check the comparative figures are appropriately given, where applicable, as per the requirements of IASs. |

**Note**

*Where the specific risk assessment is low for a major transaction cycle you should consider whether this includes an expectation that controls in that area will be operating effectively. Where this is the case BSA 330.23 requires that tests on the effectiveness of those controls be performed.*

*TABLE OF* ***INHERENT RISK***

*ASSESSMENT FACTORS*

*Test of Detail Only*

*Highlight level of risk (see above)*

|  |  |  |  |
| --- | --- | --- | --- |
|  | **L** | **M** | **H** |
| **L** | **1.2** | **1.4** | **1.6** |
| **M** | **1.4** | **1.8** | **2.1** |
| **H** | **1.6** | **2.1** | **2.5** |

*Planning conclusion*

I am satisfied that the planned audit will produce sufficient appropriate audit evidence. **Financial**

Prepared by: \_\_\_\_\_Mr.\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Date: \_\_\_\_\_\_DD/MM/YY\_\_\_\_\_\_\_ **Statement risk**

Reviewed by: \_\_\_\_\_\_\_\_\_\_\_\_Mr, X\_\_\_\_\_\_\_\_\_\_\_\_ Date: \_\_\_\_\_DD/MM/YY\_\_\_\_\_\_\_\_ (See C6.2)

*Final conclusion*

I have reconsidered specific risks and: no changes are needed\*/the following changes have been implemented\* (specify):

Prepared by: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Date: \_\_\_\_\_\_\_\_\_\_\_\_\_

Reviewed by: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Date: \_\_\_\_\_\_\_\_\_\_\_\_\_

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