|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Client:XYZ Limited** |  | **Preparedby: MR:A** | **Date:06 Feb 2015** | **Ref: PAF 1.3** |
| **Yearend:**31December 2014 | **File no:** | **Reviewedby:MR:S** | **Date:06 Feb 2015** |

**KNOW YOUR CLIENT CHECKLIST**

|  |  |  |  |
| --- | --- | --- | --- |
| **Particulars** | ***Y/N N/A*** | | ***PAF Ref*** |
| **1 The sector in which the client operates** |  | |  |
| 1.1 The market and competition, including demand, capacity, and price competition. | Y | |  |
| 1.2 Cyclical or seasonal activity. | N | |  |
| 1.3 Product technology relating to the client’s products. | Y | |  |
| 1.4 Energy supply and cost. | N/A | |  |
| **2 The regulatory environment in which the client operates** | |  |  |
| 2.1 Accounting principles and industry specific practices. | | IAS |  |
| 2.2 Regulatory framework for a regulated industry. | | BSEC |  |
| 2.3 Legislation and regulation that significantly affect the client’s operations.  -regulatory requirements, and  -direct supervisory activities. | |  |  |
| 2.4 Taxation(corporate and other). | | Y |  |
| 2.5 Government policies currently affecting the conduct of the client’s business: | | Y |  |
| - monetary,including foreign exchange controls; | | Y |  |
| - fiscal; | | Y |  |
| - financial incentives (for example, government aid programs), and | | Y |  |
| - tariffs, trade restrictions. | | N/A |  |
| 2.6 Environmental requirements affecting the industry and the client’s business. | | Y |  |
| **3 Other external factors currently affecting the client’s business** | |  |  |
| 3.1 General level of economic activity (for example, recession, growth). | | Y |  |
| 3.2 Interest rates and availability of financing.  3.3 Inflation, currency revaluation. | | Y |  |
| **4 Nature of the client’s operations**  ***Business Operations***  4.1 Nature of revenue sources(for example, manufacturer, wholesaler, banking, insurance or other financial services, import/export trading, utility, transportation, and technology products and services). | | Pharmaceuticals |  |
| 4.2 Products or services and markets (for example, major customers and contracts, terms of payment, profit margins, market share, competitors, exports, pricing policies, reputation of products, warranties, order book, trends, marketing strategy and objectives, manufacturing processes). | | Consumer  Products |  |
| 4.3 Conduct of operations(for example, stages and methods of production, business segments, delivery or products and services, details of declining or expanding operations). | | SBU |  |

|  |  |  |
| --- | --- | --- |
| **Particulars** | ***Y/N N/A*** | ***PAF Ref*** |
| 4.4 Alliances, joint ventures, and outsourcing activities. | Group |  |
| 4.5 Involvement in electronic commerce, including Internet sales and marketing activities. | Y |  |
| 4.6 Geographic dispersion and industry segmentation. | Y |  |
| 4.7 Location of production facilities, warehouses, and offices. | Bangladesh |  |
| 4.8 Key customers. | Dealers/Retail |  |
| 4.9 Important suppliers of goods and services(for example, long-term contracts, stability of supply, terms of payment, imports, methods of delivery such as ‘just-in-time’). | Authirised supplier |  |
| 4.10 Employment (for example, by location, supply, wage levels, union contracts, pension and other post employment benefits, stock option or incentive bonus arrangements, and government regulation related to employment matters). | Y |  |
| 4.11 Research and development activities and expenditures. | Y |  |
| 4.12 Transactions with related parties. | Y |  |
| ***Investments***  4.13 Acquisitions, mergers or disposals of business activities (planned or recently executed). | Y |  |
| 4.14 Investments and dispositions of securities and loans. | Y |  |
| 4.15 Capital investment activities, including investments in plant and equipment and technology, and any recent or planned changes. | Y |  |
| 4.16 Investments in non-consolidated entities, including partnerships, joint ventures and special-purpose entities. | N/A |  |
| ***Financing***  4.17 Group structure — major subsidiaries and associated entities, including consolidated and non-consolidated structures. | Y |  |
| 4.18 Debt structure, including covenants, restrictions, guarantees, and off-balance-sheet financing arrangements. | Y |  |
| 4.19 Leasing of property, plant or equipment for use in the business. | Y |  |
| 4.20 Beneficial owners (local, foreign, business reputation and experience). | Y |  |
| 4.21 Related parties. | Y |  |
| 4.22 Use of derivative financial instruments. | N/A |  |
| ***FinancialReporting***  4.23 Accounting policies and industry specific practices. | Y |  |
| 4.24 Revenue recognition practices. | Y |  |
| 4.25 Accounting for fair values. | Y |  |
| 4.26 Stocks/inventories (for example, locations, and quantities). | Y |  |
| 4.27 Foreign currency assets, liabilities and transactions. | Y |  |
| 4.28Industry-specific significant categories (for example, loans and investments for banks, accounts receivable and inventory for manufacturers, research and development for pharmaceuticals). | Y |  |
| 4.29 Accounting for unusual or complex transactions including those in controversial or emerging areas (for example, accounting for share-based payments). | N/A |  |
| 4.30 Financial statement presentation and disclosure. | Y |  |

|  |  |  |
| --- | --- | --- |
| **Particulars** | ***Y/N N/A*** | ***PAF Ref*** |
| **5 Objectives,strategiesandrelatedbusinessrisks**  *Howdoestheclientaddressesindustry,regulatoryandotherriskfactorsrelatingto,forexample:* | | |
| 5.1 Industry developments (a potential related business risk might be, for example, that the client does not have the personnel or expertise to deal with the changes in the industry). | N |  |
| 5.2 New products and services (a potential related business risk might be, for example, that there is increased product liability). | N/A |  |
| 5.3 Expansion of the business (a potential related business risk might be, for example, that the demand has not been accurately estimated). | N/A |  |
| 5.4 New accounting requirements (a potential related business risk might be, for example, incomplete or improper implementation, or increased costs). | N/A |  |
| 5.5 Regulatory requirements (a potential related business risk might be,for example, that there is increased legal exposure). | Y |  |
| 5.6 Current and prospective financing requirements(a potential related business risk might be, for example, the loss of financing due to the client’s inability to meet requirements). | N/A |  |
| 5.7 Use of IT (a potential related business risk might be, for example, that systems and processes are incompatible). | Y |  |
| 5.8 Effects of implementing a strategy, particularly any effects that will lead to new accounting requirements (a potential related business risk might be, for example, incomplete or improper implementation). | N/A |  |
| **6. Measurement and review of the client’s financial performance** |  |  |
| 6.1 Key ratios and operating statistics. | Y |  |
| 6.2 Key performance indicators. | Y |  |
| 6.3 Employee performance measures and incentive compensation policies. | Y |  |
| 6.4 Trends. | Y |  |
| 6.5 Use of forecasts, budgets and variance analysis. | Y |  |
| 6.6 Analyst reports and credit rating reports. | Y |  |
| 6.7 Competitor analysis. | Y |  |
| 6.8 Period-on-period financial performance (revenue growth, profitability, leverage). | Y |  |
| **7. Accounting Systems** |  |  |
| *The client’s systems should be documented to include the following areas:* |  |  |
| 7.1 The classes of transactions in the client’s operations that are significant to the financial statements. | Y |  |
| 7.2 The procedures, within both IT and manual systems, by which those transactions are initiated, recorded, processed and reported in the financial statements. | Y |  |
| 7.3 The related accounting records, whether electronic or manual, supporting information, and specific accounts in the financial statements, in respect of initiating, recording, processing and reporting transactions. | Y |  |
| 7.4 How the information system captures events and conditions, other than classes of transactions that are significant to the financial statements. | Y |  |
| 7.5 The financial reporting process used to prepare the client’s financial statements, including significant accounting estimates and disclosures. | Y |  |

|  |  |  |
| --- | --- | --- |
| **Particulars** | ***Y/N N/A*** | ***PAF Ref*** |
| 7.6 Roles and responsibilities in relation to financial reporting. | Y |  |
| **8. Controlenvironment?** |  |  |
| *Do we have notes on the attitude of the company to the following matters?* |  |  |
| 8.1 Communication and enforcement of integrity and ethical values. | Y |  |
| 8.2 Commitment to competence. | Y |  |
| 8.3 Participation by those charged with governance. | Y |  |
| 8.4 Management’s philosophy and operating style. | Y |  |
| 8.5 Assignment of authority and responsibility. | Y |  |
| 8.6 Human resource policies and practices. | Y |  |
| **9 Risk of Fraud** |  |  |
| *Do we have notes on the following matters.* |  |  |
| 9.1 Management’s assessment of the risk that the financial statements may be materially misstated due to fraud. | Y |  |
| 9.2 Management’s process for identifying and responding to the risks of fraud, including any specific risks of fraud that management has identified or account balances, classes of transactions or disclosures for which a risk of fraud is likely to exist. | Y |  |
| 9.3 Management’s communication, if any, to those charged with governance regarding its processes for identifying and responding to the risks of fraud in the entity. | Y |  |
| 9.4 Management’s communication, if any, to employees regarding its views on business practices and ethical behavior. | Y |  |
| 9.5 How those charged with governance exercise oversight of management’s processes for identifying and responding to the risks of fraud in the entity and the internal control that management has established to mitigate these risks. | Y |  |
| **10. Controlactivities** |  |  |
| 10.1 For areas where there is a risk of material misstatement do we have notes on relevant control activities? | Y |  |
| *Controlactivitiesinclude:* |  |  |
| D *Authorisation /Performance reviews;* | Y |  |
| D Information *processing;* | Y |  |
| D Physical *controls,and* | Y |  |
| D Segregation *of duties* | Y |  |
| 10.2 Are there any particular issues arising from the use of IT that require documenting? | Y |  |
| **11. Monitoring controls** |  |  |
| 11.1 For areas where there is a risk of material misstatement do we have notes on how the client monitors the operation of controls and control activities in those areas? | N |  |
| *For example monitoring by management or a separate internal audit function.* |  |  |

**Disclaimer: Dummy audit working files have been prepared and published to improve the quality of audit documentation of member firms providing audit services in Bangladesh. Member firms providing audit services should not assume these dummy working files as absolute benchmark for the purpose of preparing and keeping audit documentation. Every audit client has unique characteristics and risks. International Standards on Auditing (ISA) also requires to exercise engagement partner’s judgment on a number of areas in conducting the audit of an entity. Therefore, member firms should use their professional knowledge, skill, experiences along with these dummy working files to keep adequate and appropriate working papers for each audit engagement. The preparers do not assume any liability for drawing an inappropriate audit opinion based on the working papers prepared on the basis of these dummy working files.**