



**The Institute of
Chartered Accountants
of Pakistan**

HEAD OFFICE

ICAP/PSC/2006/Circular No. 03

November 15, 2006

ALL PRACTICING MEMBERS OF THE INSTITUTE

Dear Member

**CIRCULATION OF CONFIRMATIONS TO LEGAL ADVISOR DURING THE AUDIT OF
FINANCIAL STATEMENTS**

During the quality control reviews conducted by the Institute it has been noted that some of the members while conducting audits are not giving due weightage to obtaining of confirmations from the Legal Advisors where risk of misstatement regarding litigation or claims has been identified.

In this regard we would like to draw your attention towards the following paragraphs of ISA 501 'Audit Evidence – Additional Considerations for Specific Items':

“The auditor should carry out audit procedures in order to become aware of any litigation and claims involving the entity which may result in a material misstatement of the financial statements.” (Paragraph 32)

“When the auditor assesses a risk of material misstatement regarding litigation or claims that have been identified or when the auditor believes they may exist, the auditor should seek direct communication with the entity’s lawyers.” (Paragraph 33)

“The auditor considers the status of legal matters up to the date of the audit report. In some instances, the auditor may need to obtain updated information from lawyers”. (Paragraph 35)

Sending confirmation requests to legal advisors of the company will assist in obtaining sufficient appropriate audit evidence as to whether potentially material litigation and claims are known and management’s estimates of the financial implications, including costs are reliable. Where the company refuses to send confirmation letters as desired by the auditor or where no reply is received by the auditor from legal counsel, the auditor should obtain sufficient appropriate audit evidence by applying alternative procedures as mentioned in paragraph 32 of ISA 501, which normally include:

- a) Inquiries of the management.
- b) Review minutes of those charged with governance and entities correspondence with legal counsel.

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- c) Examine legal expense accounts in detail.
- d) Use any information obtained regarding the entity's business.
- e) Obtaining appropriate representations from the management.

If the auditor is unable to obtain sufficient appropriate audit evidence by applying alternative procedures, the auditor should consider whether there is a scope limitation which may lead to a qualified opinion or a disclaimer of opinion.

Paragraph 37 of ISA 501 states that ***“If management refuses to give the auditor permission to communicate with the entity’s lawyers, this would be a scope limitation and should ordinarily lead to a qualified opinion or a disclaimer of opinion.”***

Members may also seek evidence by reviewing the compliance of ‘The Companies Appointment of Legal Advisers Act, 1974’, which requires that every company having paid up capital of Rs. 500,000 or more has to appoint at least one Legal Adviser on retainer to advise such company in the performance of its functions and the discharge of its duties in accordance with law. Further, Form-29 should also be reviewed by the auditors to identify any change in legal advisor.

For detailed guidance, on the matter, members are advised to refer **Part C ‘Procedures Regarding Litigation and Claims’ of ISA 501 ‘Audit Evidence – Additional Considerations for Specific Items’ and ‘The Companies Appointment of Legal Advisers Act, 1974’** .

Thanking you.

Yours truly,

Muhammad Asif Iqbal
Director
Professional Standards Compliance & Evaluation

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