

# AUDIT

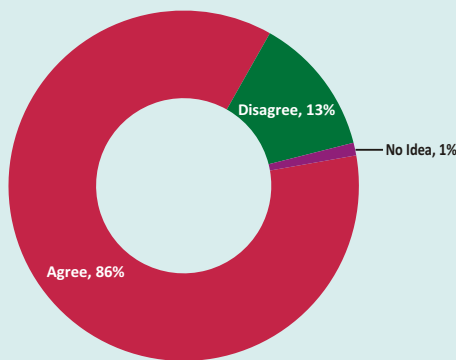
## Profession in Pakistan

By Research and Publications Directorate, ICMA Pakistan

### Majority of Survey participants agree that monopolistic audit rights prevail in Pakistan

**86%**  
says CMAs be also allowed  
audit rights

Do you agree ICMAP should also be allowed  
audit rights in Pakistan?



#### Rationale of Survey

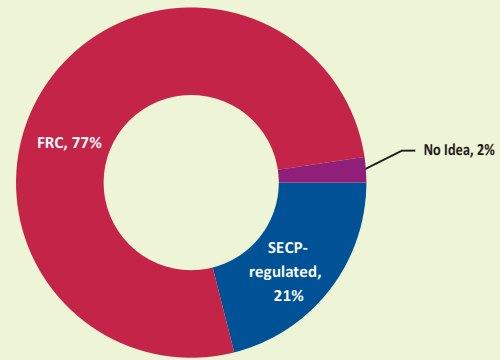
The rationale or underlying objective of this feedback survey was to assess the present status, performance and quality of statutory audit in Pakistan vis-à-vis international auditing standards. Audit quality is an important concept in both public and private sector and is a key to consumer and investors trust and confidence in our market. The feedback was invited from not only the members of the professional accounting bodies in Pakistan but also other relevant stakeholders such as accountants, audit practitioners, business and corporate sector, financial experts etc. This Survey Report is based on the feedback received from all these stakeholders.

#### Survey Methodology

The feedback survey questionnaire was uploaded on Institute's website on 23rd August 2017 with connecting link to Google Drive to provide an opportunity to members to submit their responses online. The deadline for filling-up the online survey was 5th September 2017.

**77%**  
supports forming an Independent  
'Financial Reporting Council'

Audit profession should be regulated by SECP or an  
Independent Financial Reporting Council?



#### Survey Statistics

By the deadline, total 179 participants filled-up the online survey, out of which 8 responses were excluded being redundant for several reasons such as fill-up of survey form twice by one participant.

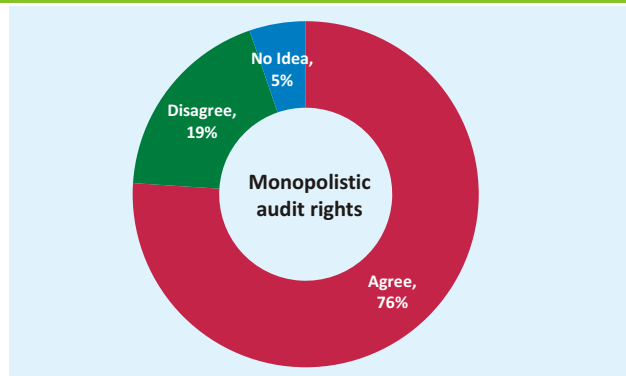
As far as representative sectors of survey participants is concerned, majority of responses have been received from 'professional accountants' i.e. 93 out of 171 which come to 54.39%; followed by 'audit practitioners' (21.05%); corporate sector (11.11%) and financial experts (1.75%). Around 11.70% responses have been received from others which include regulators, government, internal auditors, consultants, academia etc.

With regard to geographical representation, top survey respondents are from Karachi (38%); followed by Lahore and Islamabad (18.7% each) and other cities and foreign countries (24.6%). The outstation responses have been received from London, Saudi Arabia, Canada, Dubai and Australia.

## Survey Findings & Analysis

### 76% agrees monopolistic audit rights prevail in Pakistan

The survey participants were questioned whether they agree or otherwise that monopolistic audit rights prevail in Pakistan. Majority of them i.e. 76% agreed that monopolistic rights exist which is tantamount to compromising the scope of audit and accounting practice in the country. Only 19 percent differed with this view point and denied any sort of monopolistic rights of audit by any profession. 5% had no idea.



### 77% supports idea to form a Financial Reporting Council

The respondents were asked to share their opinion as to whether the audit profession should continue to be regulated by the Securities and Exchange Commission of Pakistan (SECP) or else an independent financial regulatory body may be formed for this purpose. Almost 77 percent of participants endorsed that an independent Financial Reporting Council (FRC) may be established to ensure good corporate governance and quality of auditing. However, 21 percent respondents favored SECP- regulated audit profession in Pakistan.

The representative sector-wise survey statistics of this question (see below) indicates that almost all the stakeholders have supported the idea for establishing an independent Financial Reporting Council (FRC):

Segment	Favour SECP-Regulated Model	Support Independent FRC
Professional Accountants	18%	82%
Audit Practitioners	29%	71%
Industry/corporate sector	33%	67%
Financial Experts	33%	67%
Other Stakeholders	16%	84%

## AUDIT RIGHTS

The survey outcomes reveal that there is a general consensus among all the stakeholders that only Chartered Accountant (CAs) and Cost and Management Accountant (CMAs) should have financial audit rights in Pakistan, whereas other qualifications such as CIMA, ACCA, and CPA etc should not be allowed these rights. Let's have a look at the statistics that emerge as a result of this survey with regard to audit rights for other qualifications.

### 86% endorses financial audit rights for CMA's

The survey participants were asked to share their opinion as to whether financial audit rights be allowed to the cost and management accountants (CMAs). Majority of respondents (86%) agreed that CMAs qualified from ICMA Pakistan be allowed statutory audit rights along with Chartered Accountants. Only 13 percent disagreed.

### 63% disagrees on giving audit rights to ACCA

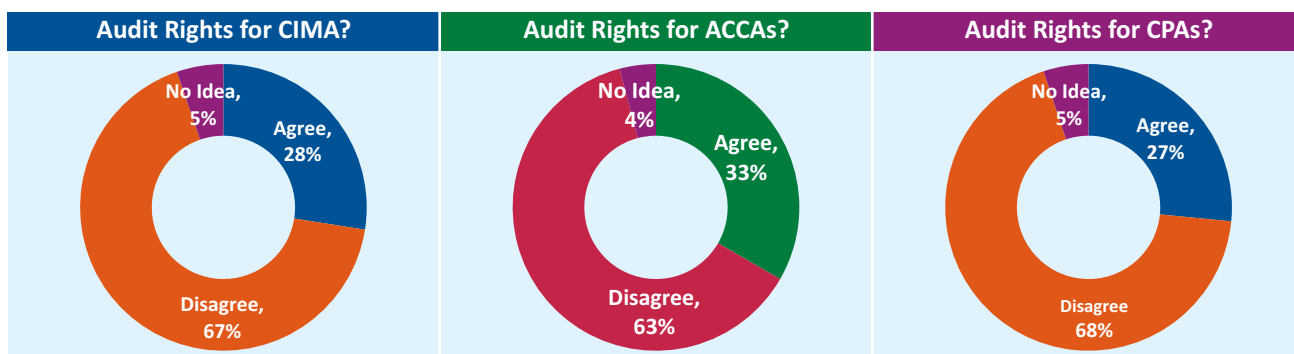
Almost 63 percent of respondents do not agree on allowing financial audit rights in Pakistan to ACCAs. However, 33 percent are in favor of providing audit rights to ACCAs.

### 67% disfavours audit rights to CIMA

Survey outcomes reveal that almost 67 percent of respondents are not in favour of allowing CIMA to carry out financial audits of companies in Pakistan. However, 28 percent suggest CIMA should also have audit rights.

### 68% do not endorse audit rights to CPA

Around 68 percent survey participants do not endorse allowing financial audit rights in Pakistan to CPA, whereas 27 percent voted in favor of providing audit rights to CPAs.



From the above statistics, it can be observed that respondents who are inclined towards giving audit rights to other qualifications in Pakistan, have ranked ACCAs with 33% as the first preference; followed by CPAs (27%) and CIMA (28%). However, as already indicated before, the general consensus is that only CAs and CMAs qualified from ICMA Pakistan should have statutory audit rights in Pakistan.

The detailed analysis of survey responses received from different stakeholders to this question as **to whether they agree or disagree on giving audit rights to ICMA Pakistan**, reveals the following outcomes:

- o Professional Accountants - 89% agree and 11% disagree
- o Audit Practitioners - 77% agree and 23% disagree
- o Industry/corporate sector - 84% agree and 16% disagree
- o Financial expert - 67% agree and 33% disagree
- o Other stakeholders - 96% agree and 4% disagree

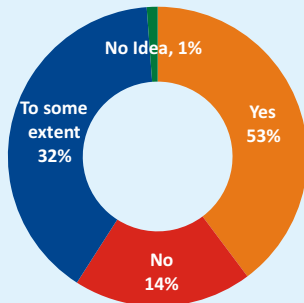
**The above responses clearly indicate that almost all the stakeholders, including the audit practitioners and the business and corporate sector are in favour of allowing financial audit rights to management accountants.**

## AUDIT SERVICES

**85%** says audit firms providing advisory services to their clients signifies a 'conflict of interest'

A major segment of survey participants has agreed that audit firms providing advisory services to their clients is a 'conflict of interest'. Around 53 participants view it wholly a matter of conflict of interest, whereas 32 percent thinks there is partial conflict of interest. Only 14 percent respondents did not agree and forwarded their opinion that provision of advisory services by audit firms does not signify a conflict of Interest.

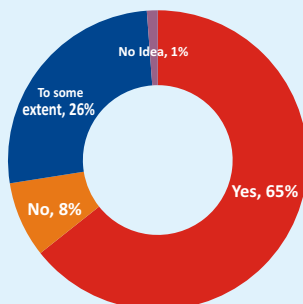
**Does providing advisory services to clients by audit firms signify 'conflict of Interest'?**



**91%** says long-term relationship with client influence auditors' judgment

More than 90 percent of survey participants have endorsed that long term relationship between the auditor and his client i.e. employer influences the judgment of auditor, either wholly or to some extent. Only eight percent respondents think that auditors' judgment is not influenced by long-term relationship.

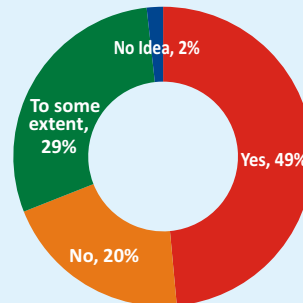
**Does auditors' judgment influenced by employer-auditor long-term relationship?**



**78%** recognizes value-added services by auditors

Around 78 percent of the survey respondents have indicated that statutory auditors are rendering value added services to the national economy. Out of 78%, about 29% thinks the value-added contributed to some extent. Twenty percent of participants, however, are of the opinion that auditors are not contributing towards economic value-addition.

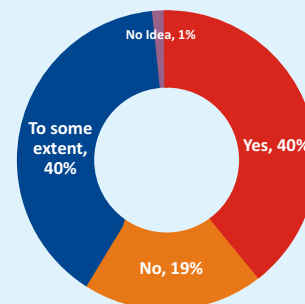
**Are auditors providing any value-added services to the national economy?**



**80%** says audit firms providing useful insights to managements of companies

Around 80 percent respondents have agreed that the auditing firms are providing useful insights and suggestions to their clients which are benefiting the managements of companies. Around 19 percent respondents do not agree with this view.

**Are the auditors providing useful insights and suggestions to the managements?**

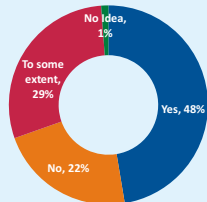


## AUDIT PERFORMANCE

### 77% says audit profession has improved corporate governance

Around 48 percent respondents have pointed out that audit profession has improved corporate governance in Pakistan; whereas 29 percent thinks it has improved to some extent. This view point is differed by 22 percent of participants in whose opinion corporate governance has not enhanced.

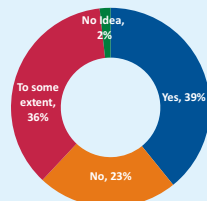
Has the audit profession improved corporate governance in Pakistan?



### 75% says audit profession has improved business performance

The survey participants were questioned whether the audit profession has improved performance of businesses in Pakistan. A mixed response has been received with 39 percent in complete agreement whereas 36 percent saying that improvement is to some extent. Around 23 percent of participants have altogether rejected this viewpoint and said that audit profession has not improved business performance.

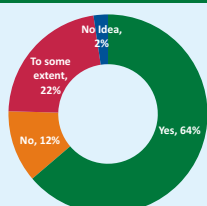
Has the audit profession improved performance of businesses in Pakistan?



### 86% says audit quality has improved financial disclosures

A majority of survey participants have agreed that the audit quality has brought considerable improvement in the financial statements' disclosures i.e. 64 percent fully agreeing whereas 22 percent saying improvement is to some extent. Around 12 percent respondents do not agree with any improvement.

Has the audit quality improved disclosures in financial statements?



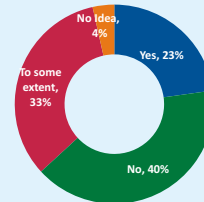
### 50% thinks audit fee ratio to total revenue of audit firm should be 5% maximum

The survey respondents were asked about their opinion as to what should be the ratio in percentage of audit fee to total revenue of audit firm from one sector. The responses received are quite mixed, with majority i.e. 50 percent saying 5 percent; followed by 22 percent respondents indicating 10 percent ratio.

### 40% indicates audit quality in Pakistan not meeting international standards

Almost 40 percent of respondents have indicated that the audit quality in Pakistan is not meeting the international auditing standards, whereas 33 percent says that global standards are being met to some extent. Only 23 percent participants have completely agreed that audit quality is as per international standards.

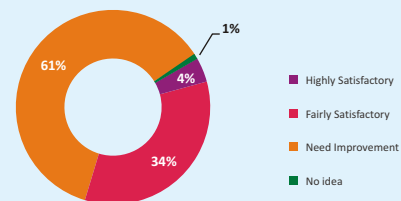
Do you think audit quality in Pakistan is as per the international standards?



### 61% thinks auditors' risk assessment need improvement

The participants of the survey were enquired about their level of satisfaction on auditors' focus, approach and risk assessment in auditing. Majority of respondents (61%) does not seem to be satisfied and say that this need improvement for better audit quality and process. Only 4 percent respondents have rated auditors focus, approach and risk assessment as highly satisfactory, whereas 34 percent have termed them as fairly satisfactory.

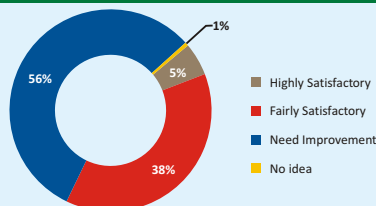
How do you rate auditors' focus, approach and risk assessment in auditing?



### 56% thinks auditors' objectivity and independence need improvement

The respondents were asked to rate auditors' objectivity and independence in audit work. Only 5 percent respondents have rated 'highly satisfactory' whereas 38 percent have rated 'fairly satisfactory'. Almost 56 percent of the survey participants have indicated that there is need to bring improvement in the objectivity of auditors.

How do you rate auditors' objectivity and independence in audit work?



What should be ratio of audit fee to total revenue of audit firm from one sector?

