

# CMAs be entitled under new Companies Act to become Statutory Auditors of Companies

*“There shall be mandatory Management Accounting Departments in the Manufacturing Concerns”*

In the backdrop of issuance of a new draft Companies Act, 2015 by the Securities and Exchange Commission of Pakistan (SECP) that would repeal the existing Companies Ordinance, 1984, the Research and Publications Directorate of ICMA Pakistan conducted an opinion survey to seek feedback of our members in particular and other stakeholders and professionals in general on the draft Companies Act with special reference to CMA profession and the possible role of cost and management accountants in the proposed legislation.

## Survey Methodology and Statistics

The survey questionnaire was uploaded on Institute's website on 19th January 2016 and also placed on the Google Drive to provide opportunity to the respondents to submit their responses online. The responses were also invited via email to participate in this feedback survey. The survey was closed on 22nd February 2016 after receiving an encouraging response. The R&P Directorate received a total of 260 responses, both online as well on its official email address, all of which have been considered.

## SURVEY RESULT

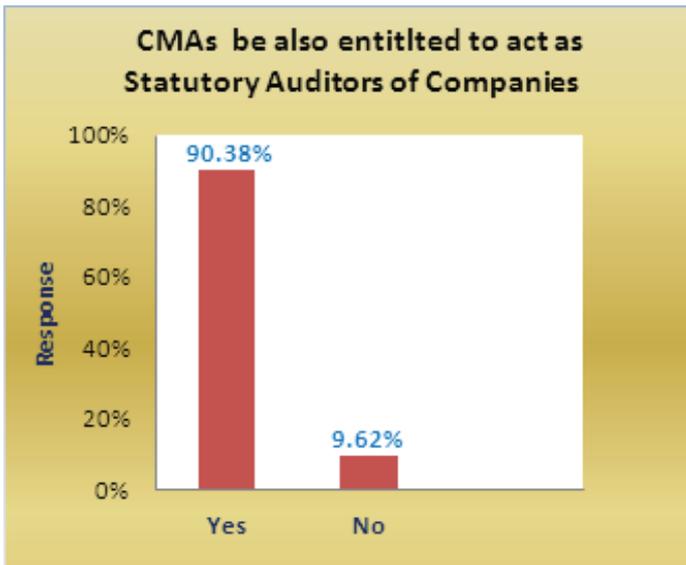
**100%** respondents support SECP's initiative to bring new Companies Act **90%** respondents want CMAs to act as Statutory Auditors of Companies

Almost 99.62 percent of the survey respondents have supported the initiative of the Securities and Exchange Commission of Pakistan (SECP) to bring amendment in existing Companies Ordinance, 1984 and introduce a new draft Companies Act, 2015 to make it relevant to current economic environment. The level of agreement, however, differs as 57.31 percent have responded that they strongly agree; 31.15% have agreed and 11.15 percent have indicated that they somehow agree. Nevertheless, the agreement level shows complete endorsement from the members of ICMA Pakistan and other professionals on the introduction of new corporate legislation by SECP which is the need of hour.

In the above context, around 95.39 percent of the respondents also indicated that the new companies law should be simple so that a layman can also understand the different provisions of the law. The simplification of the companies act would help encourage better understanding by the companies, especially those who intend to bring investment and establish new business in Pakistan.

Over 90 percent of the respondents are of the view that cost and management accountants (CMAs), along with the Chartered Accountants (CAs), should also be entitled to act as 'Statutory Auditors' of companies as they have identical professional qualification and competency.

It may be mentioned that under Section 248 of draft Companies Act, 2015 – "Qualification and Disqualification of Auditors" – only Chartered Accountants are eligible for appointment as statutory auditor of a public company or a private company which is a subsidiary of a public company or a private company having paid up capital of five million rupees or more. Less than ten percent (9.62%) respondents, however, think that CMAs should focus on their core area of cost and management accountancy, rather to mix their work with external auditor. They think that CMAs can flourish only if they manage to strengthen their professional expertise in their specialize area of consultancy, costing and management accountancy with the organization. They should have distinguished job description that add value to the organization.



In the context of Section 248 with regard to audit of private companies having paid up capital of five million rupees or more, around 85.38% of respondents have expressed that giving audit right to only one profession would restrict promotion and limit choices of audit in the country. Around 14.62% of respondents, however, have not agree to this perception.



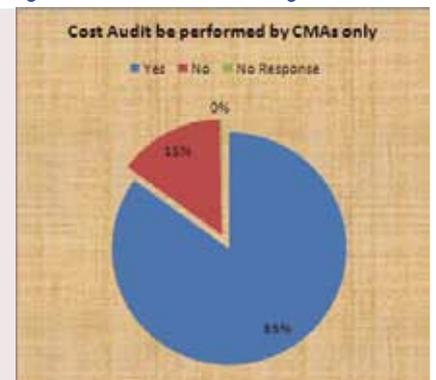
Few respondents have suggested that external audit area must be open to CMAs initially for private limited companies for first three years and on the basis of performance, it may be extended to other companies without an pre-condition. Other respondents are of the opinion that the monopoly of one qualification for audit of companies should be done away with and the restriction of Rs. five million on financial audit of private companies should also be waived.

## 85% say COST AUDIT should be performed by CMAs only

The survey sought feedback of members and other professionals as to whether under Section 252 of draft Companies Act, 2015 (Section 258 under the existing Companies Ordinance, 1984), should the audit of cost accounts of companies be performed by both CMAs and CAs.

**Around 85 percent of survey respondents have categorically indicated that since cost audit is the core area of cost and management accountants, hence only CMAs be allowed to perform cost audit of companies.**

Around 15% of respondents are of the opinion that both CAs and CMAs should continue to have right of cost audit of companies under relevant section of the Companies Act 2015.



## 88% suggest mandatory establishment of 'Management Accounting Departments' in manufacturing concerns

Around 88 percent of the professionals who participated in this survey have suggested that the government should make it mandatory upon all the manufacturing concerns in Pakistan to establish 'Management Accounting Departments' with 'Chief Management Reporting Officers (CMROs) position with eligibility of cost and management accountants. This would greatly benefit the manufacturing industries to bring cost efficiency in their operations and management that would eventually lead to overall growth in the industrial sector that is since qua non for national economic growth. Around 8.46 percent of respondents have not agreed with this idea for which no reasons have been provided.

In the above context, around 91.54 percent respondents have also suggested that the companies may be encouraged to establish a separate section or department on Cost/Management Accounting for better management reporting, internal efficiency and regulatory accounting. Around 8.64 percent of the survey respondents are of different opinion and think this is not imperative.

Survey indicated that around 15 percent of the professionals and members of the Institute also forwarded their comments and suggestions on draft Companies Act, 2015 to the SECP directly.

*The survey is conducted by ICMA Pakistan in the supervision of Mr. Mohammad Iqbal Ghori, FCMA, Chairman Research & Publications Committee facilitated by Mr. Muhammad Kamran Jamil, Director Research & Publications and Mr. Shahid Anwar, Joint Director, Research & Publications and assisted by Mr. Saad Husain, Research Assistant.*

*Disclaimer : This report is based on the personal observations and perceptions of member and other professionals and does not necessarily reflect the views of the Institute and therefore should not be taken as such.*