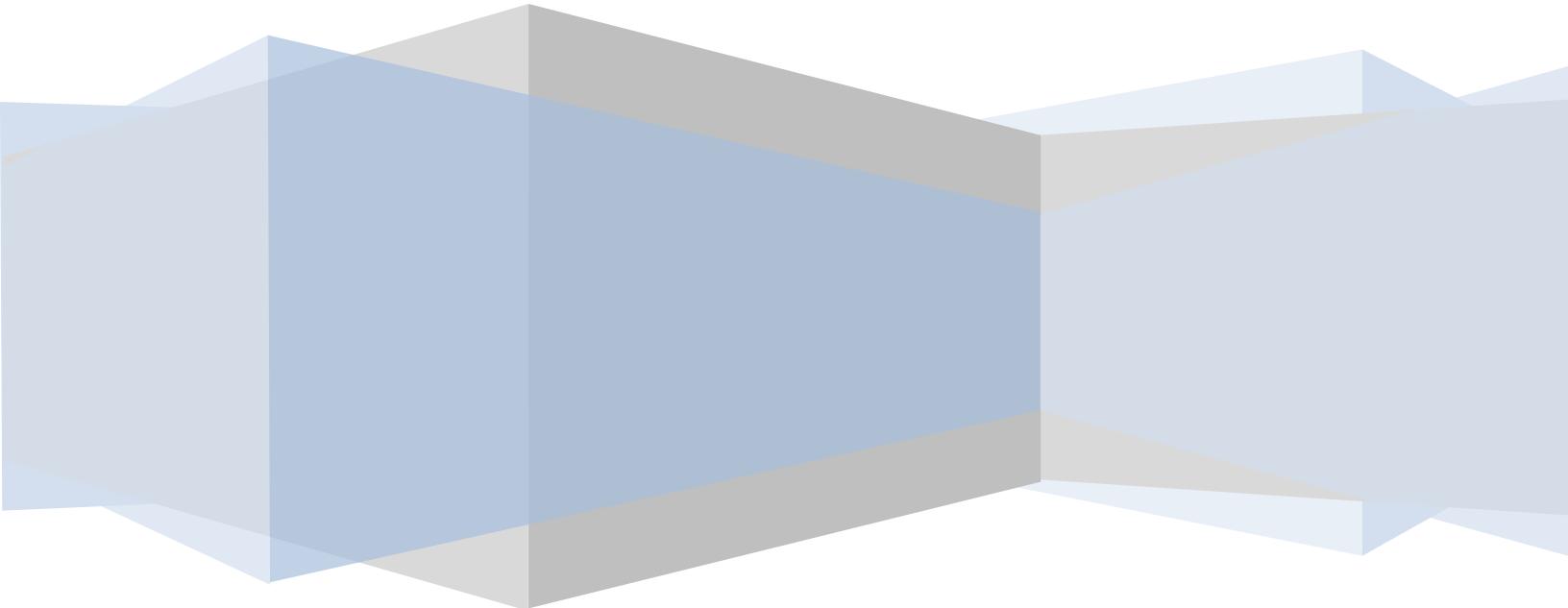




**ICMA**  
Pakistan  
Estd. 1951

# Quality Assurance Board

## Annual Report – (2016)



## **Disclaimer**

This report has been prepared for general information only. The information in this report do not constitute professional advice and should not be acted upon without obtaining specific professional advice.

To the full extent permitted by law, the Institute, the Quality Assurance Board and the Quality Control Department accepts no liability and disclaim all responsibility for the consequences of anyone acting or refraining from acting in reliance on the information contained in this report for any decision based on it.



## **Message from the Chairman**

I am delighted and gratified to present the first ever report of the activities of Quality Assurance Board (hereinafter referred as ‘the Board or QAB’) from the date its inception to June 30, 2016, carried out by the Quality Control Department (QCD) of the Institute of Cost and Management Accountants of Pakistan (“ICMA Pakistan”), towards the growth of audit and assurance practicing profession for the Cost and Management Accountants in Pakistan.

The report covers the activities and output of the Board and its department for the period and provides a glimpse of the up-to-date performance of the Board and its department, and invites your attention to significant and common matters identified through the quality control review and professional standards monitoring programs.

In order to document the scope and objectives of the Quality Control Review (QCR), a detailed Framework of Quality Control Review (QCR) Program had been prepared. The Board became functional during the year 2014 for a period of three years and had its first meeting on October 03, 2014. For the better understanding of the practicing members, the Quality Control Review Program and Checklist were approved and the Quality Control Department was established. In a short period, the department under the guidance of the Board, arranged nationwide awareness workshops on Quality Control Review, to disseminate the knowledge among the members about the purpose, benefits and procedures involved in the QCR.

Quality control plays vital role in enhancing users’ confidence in the services provided by the practicing Cost and Management Accountants. A robust system of quality control addresses quality with respect to acceptance and continuance of client relationships, compliance with relevant ethical requirements, engagement performance, human resource, monitoring as well as leadership responsibilities for quality within the firm.

What we have discovered during our reviews, has generally been positive. Our members have been extremely cooperative and have hastened to make changes where necessary, and indeed, in some cases have expressed their appreciation for the guidance they have received as a consequence of the review. The QCR Programme is in place and the Board is making utmost efforts to conduct different training programs to keep its members in touch with the requirements of professional standards. In spite of having time constraints and limitation, we have made a good progress.

In all, I am indebted to the National Council, Secretariat and the members of ICMAP for their valuable support and input, which led us to completion of these milestones. I also want to appreciate the efforts of the Technical Support and Practice Development Committee for their initiative and dedicated efforts for the Institute.

**Mehboob Hussain, FCMA**  
Chairman Quality Assurance Board

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# 1. About Quality Assurance Department

## 1.1 Introduction and Brief History

This Report is issued in compliance with Paragraph 73 of Statement of Membership Obligation (SMO)-1 “Quality Assurance” and provides an overview of the activities of the Quality Assurance Board (QAB) and those of QCD of the ICMA Pakistan from the date of its establishment to June 30, 2016.

The concept of Quality Control Review (QCR) for Cost and Management Accountant (CMA) firms, having a valid Certificate of Practice (COP) from the Institute of Cost and Management Accountants of Pakistan (“ICMA Pakistan” or “Institute”), and engaged in the rendering of audit and assurance related services, was given by one of the senior practicing member of the Institute. The need for QCR was emerged on the basis of increasing competition in the profession, recent professional developments, regulatory requirements, with the opportunities to get themselves registered on the panels of auditors notified by various regulators in Pakistan e.g. State Bank of Pakistan, SECP etc. and to provide them with the opportunity of affiliation with the international auditing firms.

The matter was referred to Research, Quality Assurance and Ethics Committee of the Institute. In 253<sup>rd</sup> meeting of the National Council (NC) held on August 9, 2009, the ICMA Pakistan’s Quality Assurance and Ethics Committee proposed the formation of a Quality Control Department (QCD) of the Institute. The approval for establishment of Quality Control Department was given by the National Council on in 261<sup>st</sup> meeting held on April 17, 2010.

In line with the best practices for quality control review of audit and assurance practice, the NC in its 264<sup>th</sup> meeting held on December 31, 2010 approved the Framework for Quality Control Review (QCR) Program and Quality Control Committee was formed, consisting of twelve (12) members.

The Framework for QCR Program was revised by the NC in its 313<sup>th</sup> meeting held on May 24, 2014, in which following arrangements were made:

- Quality Control Committee was renamed to Quality Assurance Board.
- Board members were increased from 12 to 14
- Members of the council increased from two to three.
- Non practicing members increased from two to three.

**Section 2** of this Report contains major highlights of the QCR Framework.

In order to provide guidance to the audit practicing firms about the procedures to be carried out before, during and after the audits of engagements in line with International Standards on Auditing (ISAs), the National Council in its 339<sup>th</sup> meeting held on March 18 & March 26, 2016, on the recommendation of Technical Support and Practice Development (TSPD) Committee, approved the “Model Audit Practice Manual for CMA Firms”.

**Section 3** of this Report contains salient features of the “Audit Practice Manual”.

**Section 4** gives information relating to QCD and highlights the review process and the capacity building of the practicing members and their staff in order to enable to ensure compliance with the Model Audit Practice Manual, ISAs and the best practices. The review activities are governed by the QCR framework approved

by the NC Section 4 also gives highlight on the reviews conducted during the period along with description of review process followed by QCD.

The range of activities discussed in this Report reflect QAB's commitment to enhance the effectiveness of overall review process to achieve further improvements in quality audit.

**Section 5** of this Report contains key observations noted during the review. The findings represent the challenges faced by the CMA firms in interpreting complex requirements of International Financial Reporting Standards (IFRS), Accounting and Financial Reporting Standards for Medium-Size Entities and Small-Sized Entities (AFRS for MSEs and SSEs) and International Standards on Auditing (ISAs).

## 1.2 Quality Assurance Board's Meeting Summary

Sr.	Meeting No.	Physical at Islamabad	Video-Link	Total Meetings
1	1 <sup>st</sup> Meeting of QAB	03.10.2014	Through video link at Karachi and Lahore	1
2	2 <sup>nd</sup> Meeting of QAB	22.12.2014		1
3	3 <sup>rd</sup> Meeting of QAB	10.09.2015		1
4	4 <sup>th</sup> Meeting of QAB	22.03.2016		1
5	5 <sup>th</sup> Meeting of QAB	29.06.2016		1
<b>Total Meetings</b>				<b>5</b>

**Key matters considered by the QAB in its meetings are highlighted below:**

### 1<sup>st</sup> Meeting held on October 03, 2014:

- Secretary for Quality Assurance Board was appointed;
- Proposal was given for preparation of Quality Control Review Program required under Clause 7 of the Framework for QCR Program, under which QCR was required to be conduction through a defined QCR Program;
- Proposal was given for preparation of Quality Control Review Checklist to be used by the Reviewer while conducting QCR of CMA firms.

### 2<sup>nd</sup> Meeting held on December 22, 2014:

- Approval of Quality Control Review Program required under Clause 7 of the Framework for QCR Program, under which QCR was required to be conduction through a defined QCR Program;
- Approval of Quality Control Review Checklist to be used by the Reviewer while conducting QCR of CMA firms;
- Concluded to have periodic review and updating of the Quality Control Review Documents.
- QAB decided that QCD be established and Secretary QAB shall inform the Executive Director and sent working paper for approval of the NC. Working paper for establishment of Quality Control Department (QCD) was sent by Secretary QAB on February 19, 2015 and National Council, vide agenda item No. 4390 in its 326<sup>th</sup> meeting held on March 14, 2015, approved the establishment of Quality Control Department (QCD) as under:-

Director	01
Reviewer	01
Assistant	01

### **3<sup>rd</sup> Meeting held on September 10, 2015:**

- This was decided that the workshops on quality control review and audit practice shall be held in major cities of Pakistan in order to create awareness among the members about QCR and for the capacity building of the CMA practicing members and their staff.

#### **- Change of Chairman of Quality Assurance Board (QAB):**

As per the clause 5.1 of the Framework for QCR Program, the Chairman of the QAB cannot be from the National Council. Existing Chairman of the QAB, Mr. Kashif Mateen Ansari, was elected from the National Council, hence debarred to act as Chairman QAB. President ICMAP has nominated Mr. Mehboob Hussain, F-1127 as Chairman of the Quality Assurance Board (QAB) on June 22, 2015.

### **4<sup>th</sup> Meeting held on March 22, 2016:**

- Presentation was given by the Reviewer about the Road Map of the QCR activities to be undertaken and the same were approved by the QAB in order to conduct the QCR and the capacity building for the CMA members. Key features of the road map were as under:
  - o Recommendation for approval of NC for Model Audit Practice Manual for CMA Firms; and
  - o Workshops on QCR to be conducted for briefing the CMA members about process to be undertaken for review.

### **5<sup>th</sup> Meeting held on June 29, 2016:**

- Reports for the QCRs conducted were discussed by the Board and approval was given for award of satisfactory QCR rating of three (3) firms; (*Refer Section 4.3 for details*); and
- Guidelines and topics for the conduct of capacity building workshops for upcoming period were approved.

It is important to ascertain that the information contained in this Report is not intended to set out how the firms should structure their audit working paper files, policies and practices, as there is no “one-size-fits-all” approach. Practicing members are encouraged to seek guidance from the observations summarized in the Report, in light of their facts and circumstances.

## **2. Highlights of the Framework of Quality Control Review Program**

### **2.1 Objectives**

The purpose of this document is to describe the scope and objectives of the Quality Control Review (QCR) framework, responsibilities and functions of QAB policies, procedures and QCR process established by the Institute.

### **2.2 Scope**

This Framework applies to all practicing CMAs holding COP from the Institute, carrying out audits of financial statements, cost audits, special statutory audits, tax audits, public sector audits and review of historical financial information and other assurance and related service engagements.

### **2.3 Quality Assurance Board (Board)**

2.3.1 The Board comprises of 14 members including the Chairperson and Vice Chairperson who shall be appointed by the Council. The Chairperson shall neither be a practicing member nor from the sitting Council.

2.3.2 The composition of the members of the Board shall be as follows:

- (a) Three members from the Council;
- (b) Three members from practicing firms;
- (c) Three non-practicing members of the Institute;
- (d) Five independent nominees including:
  - (i). One member from Security and Exchange Commission of Pakistan (SECP);
  - (ii). One member from Federal Board of Revenue (FBR);
  - (iii). One member from State Bank of Pakistan (SBP);
  - (iv). One member from Federation of Pakistan Chambers of Commerce and Industry (FPCCI);
  - (v). One member from Auditor General of Pakistan (AGP).

2.3.3 The Chairperson of the Board will be the member of the Institute.

2.3.4 The Board member will be appointed for a period of three years.

2.3.5 Any five members present in a meeting shall constitute a quorum.

### **2.4 Objectives of the Board**

- (a) To establish policies and procedures for the QCR program that ensures that firms carry out audits in accordance with the professional standards as applicable in Pakistan and adopted by the Institute.
- (b) To establish appropriate quality control review and monitoring mechanism, including issuance of standards, directives and guidelines in relation to audit practice carried out by the firms in public interest and to comply with the requirements of Statement of Membership Obligation (SMO-1) on Quality Control issued by the International Federation of Accountants (IFAC).

## 2.5 Quality Control Review

Quality Control Review shall comprise of the following:

- (a) **“Engagement Review”** - A review of the audit engagement performed by the firm to determine whether the audit report(s) issued by the firm in respect of the reviewed client(s) was supported by appropriate audit evidence.
- (b) **“Firm Review”** - A review of the firm’s system of quality control designed to provide it with reasonable assurance that the firm and its personnel comply with the International Standards on Auditing and regulatory and legal requirements as applicable in Pakistan, and that the reports issued by the firm are appropriate in the circumstances.

## 2.6 Selection of Audit Engagements

Firms shall undergo a QCR organized by the Board after every three years. However, an earlier review may be required under special circumstances. These circumstances may include cases where a member is found guilty of professional misconduct by the Institute, or any other circumstances, which in the opinion of the Board warrant an earlier review, in the public interest.

A 10-days’ notice of a visit will be given to the practicing firm/ member at the registered address of the firm/partner. However, in exceptional cases an earlier notice or a surprise visit is also permissible. Such circumstances will be decided by the Board.

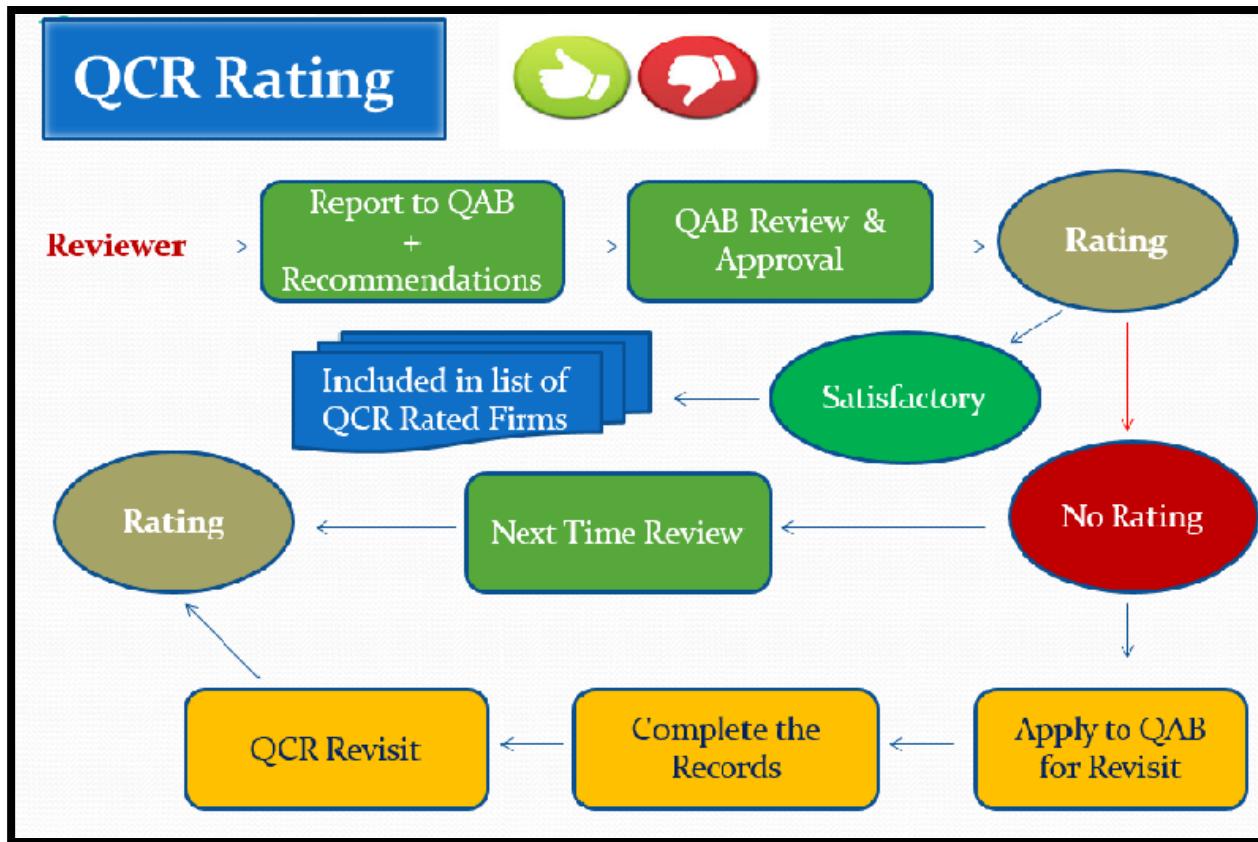
## 2.7 Satisfactory QCR Rating

- 2.7.1 When all the office locations carrying out audit and assurance engagement have been reviewed and the firm has received a “supported by appropriate audit evidence” conclusion, the firm shall be issued a report indicating its eligibility to be included in the list of firms with satisfactory QCR rating.
- 2.7.2 In order to carry out timely reviews of the firms which are already on the list of firms with satisfactory QCR rating, the Quality Control Department shall initiate communication with such firms at least six months before the expiry of two and half years. This list will be available on the Institute’s website and will be updated on a monthly basis or as and when any change occurs.

## 2.8 Investigation Committee

The Board may refer a practicing member or a firm to Investigation Committee, constituted by it, if it finds that the practicing member or firm is *prima facie* grossly negligent in issuing an audit report or performance of an audit. The Investigation Committee shall submit its report to the Board within 60 days of such referral.

The Board shall issue a notice to the practicing member or firm within two weeks of constitution of Investigation Committee.



### 3. Salient Features of Model Audit Practice Manual

The objective of the Model Audit Practice Manual is to provide guidance to the practicing members through all the stages of an audit (financial as well as cost audit) from planning audit to assessment of risk, determination materiality, analytical reviews, detailed audit programs and finally the reporting.

- This Manual provides guidance in support of audit assignments, with the objective of providing a description of the processes and issues to be considered during the planning, conduct and management of audit assignments.
- This Manual has been prepared primarily to support the conduct of assurance assignments, which contribute to the audit opinion, but the generic principles are applicable to all assignments likely to be conducted by CMA firms.
- This Manual also provides good practice guidance to improve the likelihood of successful delivery of audit objectives through awareness and management of risks specific to audits and, as a consequence, is addressed primarily to firms that undertake audit assignments.
- This provides samples of Forms to be filled during various stages of audit assignments.
- The Manual is not intended to be a substitute for the ISAs themselves. The Manual is merely a guide and does not replace the need to refer to the ISAs.

## 3.1 Activities Covered by Model Audit Practice Manual

### 3.1.1 Pre-engagement activities

- (a) Client acceptance and client continuance activities
- (b) Agreeing on terms of engagements
- (c) Dealing with changes in terms of engagement

### 3.1.2 Planning of audits

- (a) Understanding entity and risk assessment
- (b) Understanding internal controls
- (c) Determination of materiality
- (d) Planning and selection of audit procedures
- (e) Assessment of fraud risk
- (f) Evaluation of computer information system
- (g) Evaluation of internal audits
- (h) Evaluation of involvement of others
- (i) Staff planning

### 3.1.3 Execution

- (a) Audit sampling
- (b) Sampling and non-sampling risk
- (c) Sampling methods
- (d) Model audit programs for various heads of accounts, class of transactions and disclosures
- (e) Audit procedures for evaluation of going concern assumption
- (f) Audit procedures on related party transactions
- (g) Audit procedures to check compliance with laws and regulations
- (h) Third party confirmations and inquiries

### 3.1.4 Reporting

- (a) Auditor's report and forms of audit opinion
- (b) Procedures on issuance of draft audit report
- (c) Sample audit completion checklist
- (d) Audit procedures on subsequent events and transactions
- (e) Communication with Board or those charged with governance (Sample letter)

Model Audit Practice Manual includes annexures containing sample forms and model audit programs to provide detailed guidance to practicing members and their staff in order to ensure compliance.

## 4. Summary of QCD's Activities

### 4.1 Introduction

This section provides summary of review activities undertaken during the period since July 01, 2015 to June 30, 2016 along with a brief description of QCR process.

## 4.2 Awareness Workshops on Quality Control Review of CMA Firms

In order to bring awareness among members in general and practicing members in particular, Institute's Quality Control Department organized nationwide awareness seminars on Quality Control Review of CMA Firms. These full day seminars of 06 CPD hours each, were conducted as follows:-

Islamabad	02.04.2016
Lahore	05.04.2016
Karachi	12.04.2016

The workshops were organized to equip the practicing members and their staff with the knowledge about:

- History of establishment of Quality Control Department of the Institute
- QCR Requirements including having satisfactory rating for cost audits of public limited companies
- QCR Objectives
- Features of Quality Audit
- Framework on Quality Control Review Program of the Institute
- Quality Control Review Program of the Institute
- Silent features of the Model Audit Practice Manual
- Start-up Approach to QCR adopted by the Institute

## 4.3 Scope of Review

We have undertaken full scope review of the CMA firms involved in carrying out audit and assurance engagements including both financial statements as well as cost audits. In review of CMA firms all locations of firm are reviewed and 100% audit engagement partners of the firm, since this was the first time QCR of the CMA firms.

Step-wise review process followed by QCD for review of files is as follows:

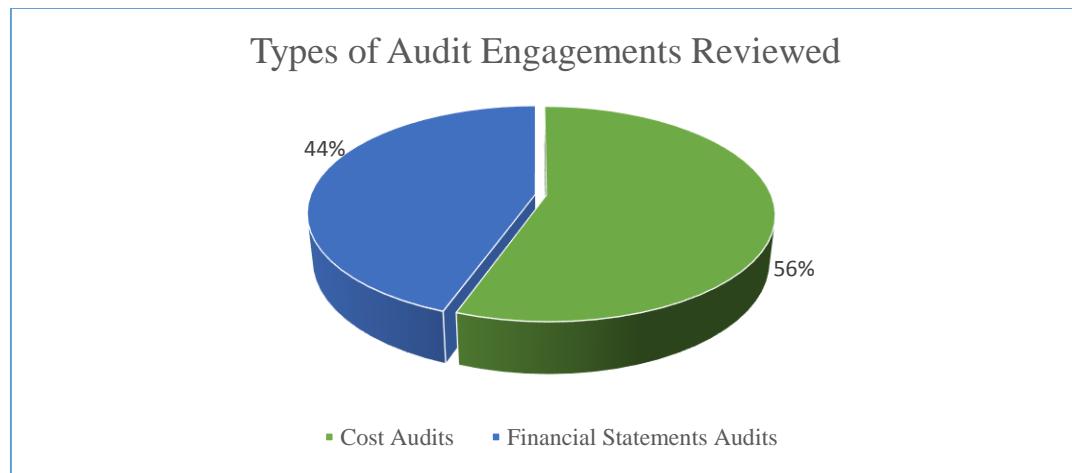
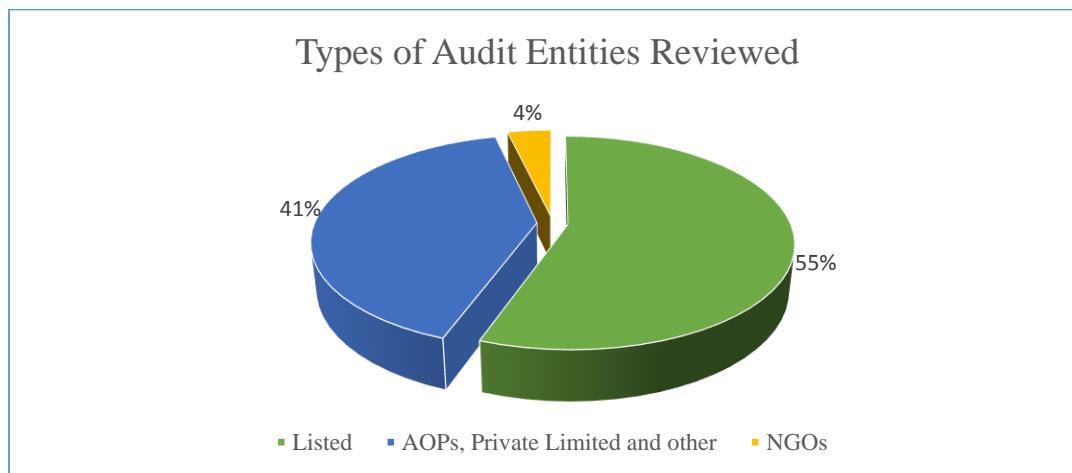
- (1) CMA firm desirous to have QCR rating apply to QAB along with submission of list of audit engagements on prescribed format.
- (2) After approval of Chairman QAB, QCD maintains the list of CMA firms.
- (3) CMA firm is informed of tentative engagements to be reviewed from the list submitted
- (4) Preparation of review schedule with mutual agreement of the QCD and the CMA firm.
- (5) Director QCD and Reviewer QCD visits the firm for review.
- (6) Selection of engagements from list for review, at time of reviewer's visit.
- (7) Review of working papers of audit engagements and firm's system of quality control under ISQC-1.
- (8) Reviewer notes the observations and discusses with the engagement partner.
- (9) Draft QCR report is prepared and sent to the firm for their comments and responses in writing.
- (10) After incorporating comments of the firm, if any, the QCR report is presented to the QAB for approval, without any indication of the firm's identity.
- (11) After QAB approval, the final QCR report is issued to the firm informing the overall conclusion of QCR.

#### 4.4 Audit Engagements Reviews Conducted

During the period we reviewed four (4) audit firms. Our review comprises as follows:

Year	<b>2015-16</b>
Audit firm's reviewed	04
Number of engagements reviewed	27
Number of locations covered	05

The audit engagements reviewed were mostly related to the financial year ending June 30, 2015. The composition of audit engagements consists of the financial statements audits of diversified industries and cost audits of sugar and cement industries.



Out of four (4) firms reviewed during the period, conclusion of three (3) firms were “supported by appropriate audit evidence” while the conclusion of one (1) firm was “not supported by appropriate audit evidence”. Since, this was first time QCR Program of ICMA Pakistan, the firms with the conclusion of “supported by appropriate audit evidence” will be subject to mandatory QCR after one (1) year under the Framework of QCR program.

As of June 29, 2016, three (3) CMA firms were having Satisfactory QCR Rating.

## 4.5 CMA Firm Review

Quality control plays a vital role in enhancing the financial statements users' confidence in the services provided by a firm of Cost and Management Accountants. A robust system of quality control addresses quality control with respect to engagement performance as well as leadership responsibilities for quality within the firm, compliance with relevant ethical requirements, acceptance and continuance of client relationships and specific engagements, human resource and monitoring. During the period under review the CMA firms in Islamabad, Karachi and Lahore are provided with extensive trainings to ensure compliance with the requirements of ISQC-1 with respect to quality control.

## 5. Summary of Observations

### 5.1 Introduction

This section provides a summary of assessment of individual audit files review during the period under review and highlights the key findings arising from the reviews and the matters of significant improvement, for which the attention of CMA firms is drawn.

### 5.2 Key Findings

#### 5.2.1 Planning the Audit Engagement

##### **Client Acceptance Procedures**

This was observed that in some cases the firm failed to obtain the No Objection Certificate (NOC) from predecessor auditors and has accepted the engagement without NOC from predecessor auditors. The firm should have emphasized the client for arrangement of NOC from the predecessor auditor before accepting the engagement, as there could be instance of significant matters which the predecessor auditor may highlight to the coming auditors relevant to the engagement.

##### **Agreeing to the Terms of Engagement**

In some cases the engagement letter was not available in the audit working paper files in order to ensure that the terms of engagement were agreed with the client's management.

##### **Risk Assessment and Responses to Risk**

Since this was the first time QCR of the ICMA Pakistan, the firms mostly adopted and followed the standard planning, risk assessment forms and model audit programs available as annexure to the Model Audit Practice Manual of ICMA Pakistan. The firms did not make any serious efforts in understanding of the requirements and to tailor the forms and audit programs with respect to the nature of engagements, client's business and circumstances.

##### **Audit Materiality and Sampling**

While determining audit materiality, in some cases, the consideration was not given to financial information needs of users while selecting benchmark for calculation of materiality and that the factors considered while determining materiality were not documented.

Further, it was noted that there was no criteria for determining and selecting samples and for samples selected (mostly on high-value items), the misstatements found in the selected samples were not projected to the entire population.

## 5.2.2 Audit Evidence and Documentation

### Verification of Trade Debtors/Creditors

- (a) In number of cases it was observed that for verifying trade debtors/creditors, the copy of ledger accounts of receivables and payables along with management representations were considered as the primary source of audit evidence. Either confirmation was not circulated or if circulated and not responded the alternate audit procedures, including testing subsequent clearance or position, verification of related sales or purchases, were not performed to verify the existence of balances.

The practicing members are required to take guidance from ISA 500 “Audit Evidence” while performing the nature, timing and extent of audit procedures for appropriate audit evidence.

- (b) In some instances, trade receivables were overdue for more than one (1) year. However, there was no document in the working paper file to determine that the matter of long outstanding receivables and proposal for provisioning of the receivables was highlighted to the management. The matter was verbally discussed with the management and minutes of meetings were not filed.

ISA 230 requires the documentation of significant matters and communications and the management representations.

### Verification of Cash and Bank Balances

This was noted that, in instances, where the cash count at year end was not performed by the auditors, the reliance was placed on the cash in hand certificates obtained from management and no other alternative procedures including cash count on subsequent dates, were performed to corroborate the audit evidence.

Further, it was noted that, in some instances, independent direct confirmation from banks for balances with banks and the related disclosures were not obtained rather the conclusion was based on alternate procedures and specific representations from management of the company.

This is suggested that cash counts be performed and independent confirmations from banks for balances and related exposures should be obtained to corroborate the audit evidence obtained through other alternate procedures.

### Verification of General or Reserve Fund

This was noted that in some instances there was no audit evidence / document available in the working paper files to determine the composition and purposes of the reserve funds other than accumulated profit/loss. The balances were relied upon being a balancing figures and the management representations.

### **Verification of Expenses**

In some instances, the financial statements contained legal and professional charges which were paid to the legal advisors of the company as retainer-ship fee. However, the legal confirmation was not circulated to the legal advisors in order to obtain their independent opinion about the contingencies and commitments of the company arising out of pending cases by or against the company, if any.

### **Analytical Procedures**

It was observed that analytical procedures both at the start of audit at risk assessment stage and while concluding audits to ascertain reasonableness of financial statements were not adequately performed or documented.

Analytical procedures should be performed at planning stage as risk assessment procedure in order to identify the aspects of the entity of which the auditor was unaware and may assist in assessing the risk of material misstatement. It may also identify the existence of transactions or events having audit implications. At final stage, the analytical procedures assist in concluding whether the financial statements correspond with the auditor's understanding of the entity.

## **5.2.3 Measurement and Recognition**

### **Deferred Taxation**

In some financial statements, it was observed that the company has amounts of deductible or taxable temporary differences e.g. arising from accounting and tax depreciation and carry forward of tax losses etc.; however, there was no evidence of calculation of deferred taxation in accordance with Section 11 "Income Taxes" of the Accounting and Financial Reporting Standards for Medium Sized Entities (AFRS for MSEs). The disclosure was neither made in the financial statements nor was it documented in the audit working paper files for reasons of non-provisioning of deferred taxation.

## **5.2.4 Presentation and Disclosures**

### **Statement of Compliance**

It was observed that, in some instances of financial statements audits, the statement of compliance referred to inaccurate financial reporting framework for preparation of the financial statements, such as reference to International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS), whereas the financial statements of the company were actually prepared under the Accounting and Financial Reporting Standards (AFRS) for Medium-Sized Entities (MSEs) and Small-Sized Entities (SSEs).

The practicing members are advised to ensure that the management has referred to the appropriate financial reporting framework in preparing the financial statements of the company.

### **Related Party Transactions**

This was noted that the related party transactions were not disclosed as required by the applicable reporting framework i.e. IFRS or AFRS. There was not separate disclosure made in the financial statements containing the nature and amounts of all transactions with related parties rather only

outstanding balances were disclosed in notes to the financial statements under varying heads of accounts of the balance sheet. The lack of appropriate disclosures reflects the auditors' inability to identify the related party relationships when they exist.

### **Number of Employees**

In case of some of the financial statements, the disclosure related to number of employees, as required under 5<sup>th</sup> Schedule to the Companies Ordinance, 1984, was missing.

### **Stamping of Financial Statements**

In some cases, the financial statements were affixed with the stamp of the auditors, mostly on all pages of the financial statements. The preparation of the financial statements is the responsibility of the company's management and there should be no stamp or any other mark of the auditor on the financial statements, except as required under any applicable law, rules and regulations.

## **5.2.5 Reporting of Significant Matters**

### **Foreign Currency Translation Adjustments**

This was noted that the foreign currency loans and advances were translated at historical rate instead of fair value rate resulting in huge amount of exchange gain/loss not recognized in the financial statements nor any disclosure made to the fact. The matter was highlighted in the letter to Board of Directors and verbal representations were obtained. However, due to significance of the amount at the current rates, the same was not reported in the auditor report.

### **Compliance with Memorandum of Understanding**

The not-for-profit organizations ("NPO or NGO") established under specific Memorandum of Understanding or Association ("MOU or MOA") are required to ensure compliance with respect to the terms of their operations and activities. In some instances, the organizations were engaged in commercial activities in contradiction with their objectives specified related MOA. There were no audit evidence / document available in the working paper file to corroborate the conclusion of NPO being charitable entity instead of commercial based, on the basis of activities engaged and sources of fund. The matters were neither disclosed in the financial statements nor highlighted to those charged with governance and were also not reported in the auditors' report.

### **Ownership and Legal Title of Assets**

Instances were noted where the fixed assets and bank accounts were on names of individual instead of the name of entity. Further, the facts that the financial statements include assets which were not under direct legal ownership of the entity were also not disclosed.

Keeping in view the significance of the amounts involved, the matter was not properly disclosed, and supported by proper working or documentary evidence and was not highlighted to those charged with governance nor reported in auditors' report.

## **6. QAB Recommendations**

QAB is entrusted with quality assurance of the profession. Regular workshops on audit practice manual, auditing standards and other significant matters of audit profession are conducted by QAB at Karachi, Lahore and Islamabad centers of ICMA Pakistan to provide training and guidance to the CMA practicing members and their staff. Therefore, the practicing members should demonstrate the high level of professional values, ethics and attitudes at all times, and set the tone at top, in order to establish environment for ensuring quality of audit and assurance engagements the working paper files.

Members are strongly encouraged to take proactive actions to remediate deficiencies, effectively participate in training and development workshops and ensure quality of their work to improve the audit profession in a competitive environment.