The Institute of
Chartered Accountants
of Pakistan

CA PAKISTAN

QAB REPORT 2017

QUALITY ASSURANCE BOARD

Table of Contents

1. Introduction

This Report provides an overview of the activities of the Quality Assurance Department (QAD) and contribution of the Quality Assurance Board (QAB) of the Institute of Chartered Accountants of Pakistan (the Institute) for the year ended June 30, 2017.

Section 2	provides an overview of the strategic goals and objectives of Quality Assurance
Section 3	provides a snap shot about the review process adopted by the QAD
Section 4	includes the information about the strengths of the QAD and the QAB
Section 5	Includes a message from the QAB about the quality assurance
Section 6	provides an overview of the reviews conducted during the year, and an analysis of the audit engagements, which were considered as 'satisfactory' and those considered 'as unsatisfactory' to assess the overall quality of audits conducted.
Section 7	provides a summary of the key observations noted during the review.

Please note that the information contained in this Report is not intended to set out how a firm should structure its audit working paper files and policies and practices as there is no 'one-size-fits-all' approach. Audit practioners are encouraged to seek guidance from the observations summarised in the Report in the light of their own facts and circumstances.

2. Strategic Goals and Role of the Quality Assurance Board

Strategic Goals

As spelled out in the Framework of Quality Control Review Program, 2015 (the Framework) the strategic goals of the QCR program are to enhance the quality of audit report and credibility of accountancy profession in public interest by ensuring:

i The audit engagements are conducted in accordance with the applicable ISAs and legal and regulatory requirements as applicable in Pakistan
ii The system of quality control has been appropriately designed and effectively implemented in accordance with the requirements of ISQC-1.
iii The Firm's quality control policies and procedures have been appropriately applied so that reports issued are appropriate in the circumstances.

Roles and responsibilities of the QAB

The roles and responsibilities of the Board as defined in the Framework are the following:

- To decide on QCR Rating of a Firm.
- To monitor the QCR Program to ensure its adequate and effective implementation in accordance with the framework.
- To raise Firms' awareness of the objective of quality control and the related quality control standards by publishing specific explanatory documents about quality control and quality assurance.
- To assist, recommend or coordinate the training programs and workshops to help improve quality control system of the Firms.
- To set policies for the implementation of the framework and to decide on all matters relating thereto.
- To carry out a comprehensive review of the operations of QAD of which among other things shall include evaluation of the QCR procedures and work carried out as regards to QCR of the Firms, adequacy of resources available for the QCR Program and recommend appropriate steps to the Council in this regard.
- To prepare annual report summarising the performance of the Board and the results of the QCR Program. The annual report shall be published by the ICAP.
- The Board shall appoint a third party with three fourth majority of the members present in a meeting to conduct a review of the adequacy and efficiency of QCR Program after every two years in accordance with the criteria established by the Board. The third party shall prepare a report for the Board and the nominating authorities.
- To recommend the Firms appropriate guidelines in relation to audit practice of the Firms or system of quality control within the Firms that are considered essential and in the interest of the profession and the public interest.
- Provide feedback to HR Committee of the ICAP about the performance of staff members of QAD. In carrying out the above functions, the Board shall be assisted by the QAD.

3. How we do

The QAD discharges its responsibilities in terms of reviewing the engagements using the following review process

Step 1 – Submission of the list of audit engagements on prescribed format.

Step 2 – Fixation of the QCR date with mutual agreement.

Step 3 – Reviewer visits the firm for review.

Step 4 – Selection of the audit engagement(s) from the list provided, at the time of reviewer's visit.

Step 5 – Review of the working papers of the audit engagements and the firm's system of quality control under ISQC-1.

Step 6 – Reviewer takes note of the observations and obtains comments of the engagement partner on the "Review Findings Form (RFF)", which is signed by both the reviewer and the engagement partner.

Step 7 – The draft QCR report is prepared and sent to the firm for comments.

Step 8 – After incorporation of comments submitted by the firm, if any, the draft QCR report is presented to the QAB for approval.

Step 9 – After the approval of the QAB, the final QCR report is issued to the firm informing the overall conclusion of the QCR.

4. Strengths of Quality Assurance

a) Composition of the Quality Assurance Board

The QAB performs its functions and discharges its responsibilities in accordance with the Framework. During the year 2016-17, the Board held six meetings. QAB membership comprises:

i Mr. Sohail Hasan (Chairman)

Mr. Sohail Hasan resigned as chairman of the Board with effect from April 30, 2017.

Mr Zahid Iqbal Bhatti was appointed as the chairman of the Board with effect from July 01 ,2017.

ii Mr. Ahmed Ali Mitha

Mr. Ahmed Ali Mitha is a Chartered Accountant. He has over 22 years of post-qualification experience currently serving as the CFO of Pakistan Stock Exchange Guarantee Limited.

iii Mr. Ali Azeem Ikram

Mr. Ali Azeem Ikram is a Chartered Accountant with over 15 year of experience. Currently he is serving as the Executive Director in the SECP heading its' Insurance Division.

iv Mr. Ayaz Ahmed

Mr. Ayaz Ahmed is a Chartered Accountant with over 20 years of vast experience. He also served as the CFO of a large commercial bank.

v Mr. Mohammad Almas

Mr. Mohammad Almas is a practicing chartered accountant with over 21 years of practicing experience and is a partner of M. Almas & Co., Chartered Accountants.

vi Syed Ahmed Abid Esq

Syed Ahmed Abid Esq. is a Chartered Accountant with a vast experience of over 40 years. He worked as CFO of a petroleum sector listed company and also worked as a Financial Advisor/Consultant for the Ministry of Petroleum and Natural Resources.

vii Mr. Zulfikar Ali Causer

Mr. Zulfikar Ali Causer is a practicing chartered accountant with practicing experience of over 12 years. He is a partner in BDO Ebrahim & Co.

viii Mr. Muhammad Lukman *

Muhammad Lukman is a Chartered Accountant. He has twenty five years of enriched and diversified experience with national and multinational companies.

ix Mr. Etrat H. Rizvi *

He has over 31 years' experience of working in private and public sectors in the fields of banking, development financing, manufacturing, utility and regulatory organizations.

*SECP nominated Mr. Imran Inayat Butt and Mr. Abdul Samad as members of QAB in place of Mr. Etrat H. Rizvi and Muhammad Lukman with effect from July 1, 2017.

x Mr. Teizoon Kisat

Mr. Teizoon Kisat is a fellow member of the Institute of Chartered Accountant of Pakistan, with a vast experience of over 30 years. He has served as President and Chief Executive Officer of a microfinance bank and was also associated with leasing sector for 15 years.

xi Mr. Amer Aziz

He is Managing Director of the National Institute of Banking & Finance (NIBAF). By profession, Mr. Amer Aziz was a banker.

SBP nominated Mr. Riaz Nazar Ali as member of QAB in place of Mr. Amer Aziz with effect from July 1, 2017.

b) Composition of Quality Assurance Department

Quality Control Reviews are performed by chartered accountants employed on a full time basis by the Institute. Currently, the Quality Assurance Department has the following staff strength:

1.	Shahid Hussain, FCA	Director
2.	Syed Ajlal Hyder, ACA	Deputy Director
3.	Mubashir Shaikh, ACA	Senior Manager
4.	Muhammad Asad Iqbal, ACA	Manager
5.	Muhammad Fahad Parvaiz, ACA	Manager
6.	Mahmood Ahmad	Manager
7.	Arsalan Malik	Officer

5. Message from the Quality Assurance Board

The Board is pleased to present the report of the Quality Assurance Board (QAB) for the year 2017. Quality control plays a crucial role in enhancing the audit quality and boosting the stakeholders' confidence in the services provided by a practicing firm. This could only be achieved by ensuring that the audit engagements are conducted in accordance with the applicable ISAs and regulatory requirements, and the firm's quality control policies and procedures have been appropriately designed and effectively implemented in accordance with the requirements of ISQC -1.

The regulatory bodies play a pivotal role in promoting awareness about quality control reviews that help in improving the audit quality. This would also increase public confidence in the audit and the financial reporting process. The QAB with the assistance of the Quality Assurance Department (QAD) has been continuously striving to enhance quality of the audit and assurance services in Pakistan.

A robust system of quality control depends on the policies and procedures addressing elements including the leadership responsibilities for quality within the firm, compliance with the relevant ethical requirements, acceptance and continuance of client relationships and specific engagements, human resources, engagement performance and monitoring.

Audit Oversight Board, an independent audit regulator was formed with the collaboration of the Institute and the Securities and Exchange Commission of Pakistan last year, and the nomination of the board members have been made in the current year.

The report intends to provide a touch base of the existing QCR program, QAB responsibilities and involvement, and summary of the significant and recurring observations identified during the review period i.e. July 01, 2016 to June 30, 2017. During the year ended June 30, 2017, the QAB reviewed 46 audit firms involving reviews of 144 audit engagements. During the year 14 new firms were added on the list of QCR rated firms whereas one firm was removed from the list.

The Board would like to extend its gratitude and appreciation to all those firms and their staff members, who have coordinated and cooperated with our reviewers throughout the QCR process. The Board would like to express its gratitude to all members of the QAD & team without which it would not have been possible to run the quality control program effectively and efficiently.

By order of the Board
Shahid Hussain
Secretary
Quality Assurance Board

6. Summary of QCR reviews

Introduction

This section provides a summary of the review activities undertaken during the year ended June 30, 2017 along with a brief description of the QCR process.

Scope of Review

In reviewing an audit firm, all locations of the firm and at least 50% of the audit partners of the firm are covered. The review includes an engagement review and the review of the system of quality control of the firm. The frequency of the review varies depending upon the result of the last review and the decision of the QAB.

Audit engagements reviews conducted

During the year 46 audit firms were reviewed as compared to 51 audit firms in the previous year. The reviews conducted comprised of the following:

Year	2016-17	2015-16	2014-15
Audit firms reviewed	46	51	52
Number of engagements reviewed	144	228	133
Number of locations covered	58	88	72
Reviews for compliance with the requirements of ISQC-1	44	27	15

Out of 46 firms reviewed, 43 firms were found to be 'Satisfactory' while 3 firms were rated as 'Unsatisfactory'. As on June 30, 2017 QCR Reports of 31 firms were yet to be presented to QAB for their review. As on June 30, 2017, 114 firms were listed on the Institute's website, having satisfactory QCR rating.

During the year, 16 new firms offered their audit working paper files for review and the QCR conclusion of 14 firms was 'satisfactory' while the conclusion of two firms was 'unsatisfactory.

During the year under review one firm was removed from the list of QCR Rated Firms.

Review of Firms under ISQC 1

In addition to the engagement review, overall quality of the firms is also reviewed under ISQC-1 so that a robust system of quality control could be established with respect to leadership responsibilities for quality within the firm, compliance with the relevant ethical requirements, acceptance and continuance of the client relationships and specific engagements, human resources and monitoring. During the period, 44 firms were reviewed under ISQC-1.

Summary of engagement reviews

The following chart summarises our assessment of individual audit engagements reviewed over the last five years:

Year	Listed		Other than listed		Total
	Satisfactory	Unsatisfactory	Satisfactory	Unsatisfactory	
2016-2017	46	4	80	14	144
2015-2016	88	8	107	25	228
2014-2015	20	21	61	31	133
2013-2014	37	9	57	20	123
2012-2013	43	8	57	14	122

7. Summary of significant observations

Introduction

The summary of significant observations is categorized into the following headings:

A. Audit related matters
B. Accounting related matters
C. Disclosure related matters
D. Review of the firm's system of quality control

A. Audit related matters

i. Planning the audit engagement

a. Accepting the engagement

The engagement partner shall be satisfied that appropriate procedures regarding the acceptance and continuance of client relationships and audit engagements have been followed, and shall determine that conclusions reached in this regard are appropriate. (ISA 220.12)

Information such as the following assists the engagement partner in determining whether the conclusions reached regarding the acceptance and continuance of the client relationships and the audit engagements are appropriate:

- The integrity of the principal owners, key management and those charged with governance of the entity;
- Whether the engagement team is competent to perform the audit engagement and has the necessary capabilities, including time and resources;
- Whether the firm complies with the ethical requirements Code of Ethics for Chartered Accountants issued by ICAP; and
- Significant matters that have arisen during the current or previous audit engagement, and their implications for continuing the relationship. (ISA 220.A8)

Generally, the firms were compliant in this area however observations were noted in few firms where they did not perform procedures regarding the acceptance and continuance of the client relationship.

b. Agreeing the audit engagement terms

The auditor shall agree the terms of the audit engagement with management or those charged with governance, as appropriate. (ISA 210.9)

The agreed terms of the audit engagement shall be recorded in an audit engagement letter or other suitable form of written agreement and shall include:

a) The objective and scope of the audit of the financial statements;
b) The responsibilities of the auditor;
c) The responsibilities of management;
d) Identification of the applicable financial reporting framework for the preparation of the financial statements; and
e) Reference to the expected form and content of any reports to be issued by the auditor and a statement that there may be circumstances in which a report may differ from its expected form and content. (ISA 210.10)

In certain cases, it was observed that the engagement letter was either not available in the audit file or was not acknowledged by the client to ensure that the terms of the engagements were agreed with the client's management.

c. Determining Audit Materiality

When establishing the overall audit strategy, the auditor shall determine materiality for the financial statements as a whole. If, in the specific circumstances of the entity, there is one or more particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements, the auditor shall also determine the materiality level or levels to be applied to those particular classes of transactions, account balances or disclosures. (ISA 320.10)

The auditor shall determine performance materiality for purposes of assessing the risks of material misstatement and determining the nature, timing and extent of further audit procedures. (ISA 320.11)

With respect to determining materiality following observations were noted during engagement reviews:

- Not considering financial information needs of users while selecting benchmark for calculation of materiality.
- Setting materiality at much higher levels considering overall financial performance and financial position of the entity.
- Not determining performance materiality level.
- Not documenting factors considered while determining materiality and performance materiality level.
- Setting separate materiality level for each account balance and transaction while completely ignoring the materiality level for the financial statements as a whole.

d. Audit Sampling

The auditor shall determine a sample size sufficient to reduce sampling risk to an acceptably low level. (ISA 530.7)

The auditor shall select items for the sample in such a way that each sampling unit in the population has a chance of selection. (ISA 530.8)

With respect to audit sampling it was observed that sample size was not determined and sample was not selected in accordance with ISA 530 considering the purpose of the audit procedure and the characteristics of the population from which the sample was drawn.

In some cases, it was also observed that auditor did not verify the sample completely and concluded on the fair presentation of the account balances and transaction without obtaining sufficient appropriate audit evidence.

ii. Execution of the audit

a. Going concern assessment

If events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern, the auditor shall obtain sufficient appropriate audit evidence to determine whether or not a material uncertainty exists through performing additional audit procedures, including consideration of mitigating factors. These procedures shall include:

a) Where management has not yet performed an assessment of the entity's ability to continue as a going concern, requesting management to make its assessment.
b) Evaluating management's plans for future actions in relation to its going concern assessment, whether the outcome of these plans is likely to improve the situation and whether management's plans are feasible in the circumstances.
c) Where the entity has prepared a cash flow forecast, and analysis of the forecast is a significant factor in considering the future outcome of events or conditions in the evaluation of management's plans for future action:
    i. Evaluating the reliability of the underlying data generated to prepare the forecast; and
    ii. Determining whether there is adequate support for the assumptions underlying the forecast.
d) Considering whether any additional facts or information have become available since the date on which management made its assessment.
e) Requesting written representations from management and, where appropriate, those charged with governance, regarding their plans for future actions and the feasibility of these plans. (ISA 570.16)

Instances were noted where events or conditions that may cast significant doubt on the entity's ability to continue as going concern were identified; however, no further audit procedures were performed to determine the existence of material uncertainty.

b. Verification of stock in trade

If inventory is material to the financial statements, the auditor shall obtain sufficient appropriate audit evidence regarding the existence and condition of inventory by:

a. Attendance at physical inventory counting, unless impracticable, to:

    i. Evaluate management's instructions and procedures for recording and controlling the results of the entity's physical inventory counting;
    ii. Observe the performance of management's count procedures;
    iii. Inspect the inventory; and
    iv. Perform test counts; and

b. Performing audit procedures over the entity's final inventory records to determine whether they accurately reflect actual inventory count results. (ISA 501.4)

During engagement reviews few instances were noted where the auditor merely relied on a management certificate showing quantity of stock in hand without performing audit procedures to verify the existence and condition of inventory.

Instances were also noted where the auditor while verifying valuation of stock relied on the reports of inventory management system provided by management without obtaining assurance over the authenticity, effectiveness, completeness and reliability of the system and the reports generated therefrom.

It was also observed that audit evidence to ensure that inventory is valued at lower of cost and NRV was also not available in the audit file.

c. Revenue verification

When identifying and assessing the risks of material misstatement due to fraud, the auditor shall, based on a presumption that there are risks of fraud in revenue recognition, evaluate which types of revenue, revenue transactions or assertions give rise to such risks. (ISA 240.26)

The auditor shall treat those assessed risks of material misstatement due to fraud as significant risks and accordingly, to the extent not already done so, the auditor shall obtain an understanding of the entity's related controls, including control activities, relevant to such risks. (ISA 240.27)

During reviews instances were noted where the auditor merely relied on analytical procedures such as sales tax reconciliation and test of detail of recorded revenue without assessing the risk of material misstatement due to fraud and error.

In addition to above audit procedures to verify completeness and cut-off assertions of revenue were also deficient.

d. External Confirmations

The auditor uses external confirmation procedures to obtain relevant and reliable audit evidence with respect to verification of significant account balances including bank, debtors, creditor, loans and receivable.

In accordance with paragraph 7 of ISA 505, when using external confirmation procedures, the auditor shall maintain control over external confirmation requests, including:

a. Determining the information to be confirmed or requested;
b. Selecting the appropriate confirming party;
c. Designing the confirmation requests, including determining that requests are properly addressed and contain return information for responses to be sent directly to the auditor; and
d. Sending the requests, including follow-up requests when applicable, to the confirming party.

If the auditor identifies factors that give rise to doubts about the reliability of the response to a confirmation request, the auditor shall obtain further audit evidence to resolve those doubts. (ISA 505.10)

If the auditor determines that a response to a confirmation request is not reliable, the auditor shall evaluate the implications on the assessment of the relevant risks of material misstatement, including the risk of fraud, and on the related nature, timing and extent of other audit procedures. (ISA 505.11)

In case of each non-response, the auditor shall perform alternative audit procedures to obtain relevant and reliable audit evidence. (ISA 505.12)

During our review of the audit engagements following deficiencies were noted with respect to use of external confirmations to obtain audit evidence:

- No control over external confirmation requests such as no documentation in respect of whether the confirmations were sent and received directly by the auditor and the date they were sent and received. There was also no documentation of how the confirming parties were selected.
- No documentation as to how the auditor obtain audit evidence to resolve the doubts on the reliability of the response to a confirmation request.
- No documentation of alternative audit procedure in case of non-response of the confirmation.

e. Related party transactions

If management has made an assertion in the financial statements to the effect that a related party transaction was conducted on terms equivalent to those prevailing in an arm's length transaction, the auditor shall obtain sufficient appropriate audit evidence about the assertion. (IAS 550.24)

In many instances during our review it was observed that financial statements stated that related party transactions are carried at arm's length however, no audit evidence was available to corroborate this management assertion.

f. Evaluation of work of expert

ISA 500 requires that before relying on expert work, audit firms should at least perform the following audit work:

a) Evaluate whether the professional valuation is adequate for the audit purposes;
b) Evaluate competence, capabilities and objectivity of the expert;
c) Obtain an understanding of the expert work;
d) Evaluate appropriateness of the expert work (including key assumptions and valuation methods);
e) Review or test data used by the expert; and
f) Properly document all work performed.

As valuation always involves significant judgments, which can have a material impact on the outcome of the valuation, firms should apply sufficient professional skepticism in reviewing the work of experts. It is not uncommon for firms to record only audit evidence that corroborates the expert work. However, to make a critical assessment, firms also need to appropriately challenge the valuation. Firms are expected to have considered all reasonably available evidence for and against the assumptions made by an expert when verifying the valuation.

Instances were noted where firms did not make adequate efforts to comply with the requirements of ISA 500 with regard to gathering audit evidence on work of management's experts. Firms merely relied on valuation report of the experts and apply appropriate audit procedures to verify the authenticity of the valuations/information of the experts.

g. Impairment testing of financial assets

Generally, an entity has following types of financial assets on its balance sheet: Investments, Loans and advances, Trade debtors, Other receivables, Cash and bank balances. IAS 39, "Financial Instruments: Recognition and Measurement" require entities to perform impairment testing over the financial assets on a periodic basis. During reviews, it was noted that the auditors have not performed adequate procedures to support the performance of impairment testing over the financial assets.

h. Audit Documentation

Significant deficiencies were noted in preparation of audit documentation. It was noted that some of the firms relied on a statement of the audit procedure performed with a tick mark, while completely skipping requirement of para 9 of ISA 230 'Audit Documentation' which requires the auditor to document:

- The identifying characteristics of the specific items or matters tested;
- Who performed the audit work and the date such work was completed; and
- Who reviewed the audit work performed and the date and extent of such review.

Deficiencies were also noted in documenting the results of the audit procedures performed and significant matters arisen during the audit.

iii. Concluding the audit

a. Date of Auditor's report

In accordance with paragraph 49 of ISA 700 (Revised), "Forming an Opinion and Reporting on Financial Statements", the auditor's report shall be dated no earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the auditor's opinion on the financial statements. However, during our review, instances were noted where either auditor's report was not dated or dated earlier than the date of authorization of the financial statements.

b. Drafting of auditor's report

Instances were noted where the auditor's report was not drafted in accordance with the form 35A of the Companies Ordinance, 1984.

B. Accounting related matters

i. Taxation

IAS 12 Income Taxes continued to be a perplexing issue while accounting for future tax consequences of the recovery (settlement) of the carrying amount of assets (liabilities) that are recognized in an entity's financial statements. Observations noted with respect to recognition of deferred tax were as follows:

- Non-provisioning of deferred tax.
- Incorrect computation of deferred tax.
- No evidence to support utilization of unused tax losses.

- Non-apportioning of temporary difference when part of the income of company is chargeable under FTR.
- Non recognizing of income tax for the current year.
- Calculation of deferred tax on non-depreciable asset such as land measured under revaluation model which has no tax consequences even on sale.

ii. Revaluation of property, plant and equipment (owned or investment property)

IAS 16.29 states that an entity shall choose either the cost model in paragraph 30 or the revaluation model in paragraph 31 as its accounting policy, and shall apply that policy to an entire class of property, plant and equipment.

Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. The frequency of revaluations depends upon the changes in fair values of the items of property, plant and equipment being revalued. When the fair value of a revalued asset differs materially from its carrying amount, a further revaluation is required. Some items of property, plant and equipment experience significant and volatile changes in fair value, thus necessitating annual revaluation. Such frequent revaluations are unnecessary for items of property, plant and equipment with only insignificant changes in fair value. Instead, it may be necessary to revalue the item only every three or five years.

Instances were noted where the revaluation were not carried out even after the lapse of five (5) years and no documentation was available in the audit file to conclude that carrying value of the asset did not differ materially from its fair value.

IAS 16.36 states that if an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs shall be revalued.

During review few instances were noted where one class of asset such as Land was carried at revalued amount but another piece of Land was carried at cost.

Further in some cases where property, plant, and equipment was stated at revalued amounts, the disclosures required under IAS 16.77 were not made:

- the effective date of the revaluation
- whether an independent valuer was involved
- for each revalued class of property, the carrying amount that would have been recognized had the assets been carried under the cost model

iii. Amortization of interest free loan

Similar to previous years during the year it was also noted that interest free long term loans and liabilities from related parties were not measured at amortized cost using effective interest rate and auditors did not modify the report where amount was above materiality level.

To provide guidance the Institute issued Technical Release 'TR – 32: Accounting Directors' loan' which specifies the accounting treatments and the related disclosures of loan according to the terms of the loan.

iv. Ijarah financing

During review instances were noted where the entities i.e. lessors/lessees entered into an Ijarah agreement but the transactions were accounted for as finance lease in accordance with IAS 17. The auditors neither asked the management to rectify the transactions nor modified the report where the impact on the financial statements was material

v. Retirement benefits

Under the Industrial and Commercial Employment (Standing Orders) Ordinance, 1968, a company falling under the definition of industrial or commercial establishment meeting a minimum threshold of number of employees is liable to pay either provident fund or gratuity.

In quite a few cases especially while reviewing financial statements of medium and small sized companies selected for QCR, it was observed that the companies did not operate any retirement benefit plan for its employees and no audit evidence was available to conclude whether provision for retirement benefit was required in accordance with Industrial and Commercial Employment (Standing Orders) Ordinance, 1968.

vi. Valuation of investment in associates

In accordance with IAS 28 an associate is an entity over which the investor has significant influence.

In accordance with IAS 28.5 if an entity holds, directly or indirectly (e.g. through subsidiaries), 20 per cent or more of the voting power of the investee, it is presumed that the entity has significant influence, unless it can be clearly demonstrated that this is not the case. Conversely, if the entity holds, directly or indirectly (e.g. through subsidiaries), less than 20 per cent of the voting power of the investee, it is presumed that the entity does not have significant influence, unless such influence can be clearly demonstrated. A substantial or majority ownership by another investor does not necessarily preclude an entity from having significant influence.

In accordance with IAS 28.10, under the equity method, on initial recognition the investment in an associate or a joint venture is recognized at cost, and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investee after the date of acquisition. The investor's share of the investee's profit or loss is recognized in the investor's profit or loss. Distributions received from an investee reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the investor's proportionate interest in the investee arising from changes in the investee's other comprehensive income. Such changes include those arising from the revaluation of property, plant and equipment and from foreign exchange translation differences. The investor's share of those changes is recognized in the investor's other comprehensive income.

During review instances were noted where the investment in associates were either carried at cost or fair value instead of equity method as required under IAS 28.

C. Disclosure related matters

i. Going concern assumption

Under paragraph 18 of ISA 570, where there are events or conditions identified which cast doubts about the entity's ability to continue as a going concern but the auditor concludes that the use of the going concern assumption is appropriate in the circumstances, the auditor is required to determine that the financial statements:

(a) adequately describe the principal conditions that may cast significant doubt on the entity's ability to continue as a going concern and management's plans to deal with those events or conditions; and

(b) disclose clearly that there is a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and therefore it may be unable to realize its assets or discharge its liabilities in the normal course of business

Under paragraph 19 of the ISA, if adequate disclosure is made in the financial statements, the auditor is to express an unmodified opinion and include an emphasis of matter paragraph in the auditor's report to:

(a) highlight the existence of a material uncertainty relating to the events or conditions that may cast significant doubt on the entity's ability to continue as a going concern; and

(b) draw attention to the note in the financial statements that disclose the matter relating to the uncertainty.

It was observed in many instances that the financial statements did not state in the note disclosing the events relating to the uncertainty that the entity may be unable to realize its assets or discharge its liabilities in the normal course of business.

ii. Deferred Taxation

IAS 12, Income Taxes, has certain disclosure requirements, which assist the user to understand about the movement of deferred tax and income tax. In this regard following disclosures were missing:

a) Tax reconciliation showing relationship between tax expense (income) and accounting profit;
b) Explanation of changes in the applicable tax rate; and
c) Deferred tax assets and liabilities computation showing each significant elements of deferred tax arising either from deductible temporary differences or taxable temporary differences.

iii. Related party transactions

IAS 24.13, "Related Party Disclosures", states that the relationships between a parent and its subsidiaries shall be disclosed irrespective of whether there have been transactions between them. An entity shall disclose the name of its parent and, if different, the ultimate controlling party. If neither the entity's parent nor the ultimate controlling party produces consolidated financial statements available for public use, the name of the next most senior parent that does so shall also be disclosed.

In most of the cases under review the related parties' disclosure in the financial statements had the following deficiencies:

- Relationship with the related parties are not clearly identified i.e. definition or name of related parties were missing;
- Nature of the related parties' transactions i.e. either capital expenditure or revenue expenditure in nature;
- In case of loan and advances disbursed to or received from related parties, there was no disclosure of total amount received and/or disbursed in the related parties' transaction note; and
- Balance with respect to each related parties are not disclosed i.e. amount outstanding against each individual related parties.

iv. Segment reporting

According to the fourth schedule to the Companies Ordinance, 1984, entities are required to disclose information relating to the operating segment. However, it was noted that entities have not disclosed any information about the segment in the financial statements.

v. Statement of changes in equity

IAS 1 requires to disclose total comprehensive income as a single line item in the statement of changes in equity instead of disclosing separate line items in the statement of changes in equity.

vi. Third balance sheet presentation – restatement or major reclassification:

As per IAS 1.40A, an entity shall present a third statement of financial position as at the beginning of the preceding period in addition to the minimum comparative financial statements required in paragraph 38A if, it applies an accounting policy retrospectively, makes a retrospective restatement of items in its financial statements or reclassifies items in its financial statements; and the retrospective application, retrospective restatement or the reclassification has a material effect on the information in the statement of financial position at the beginning of the preceding period.

However, instances were noted where companies did not present third balance sheet. There was nothing in the audit working papers how this matter was addressed by the auditors.

vii. IFRS 13 – fair value hierarchy disclosure:

IFRS 13.93 require an entity to disclose, at a minimum, information about each class of assets and liabilities which are measured at fair value in the statement of financial position after initial recognition. It was noticed during the review process that entities did not disclose information about each class of assets and liabilities measured at fair value in accordance with the requirements of IFRS.

viii. IFRS 7 – qualitative and quantitative disclosures:

IFRS 7.33 and 7.34 requires management to disclose information about the qualitative and quantitative disclosures. These disclosures provide a clear picture about the risk that the entities may carry, and management steps to manage these risks. It was observed during review that the company did not disclose complete information in the financial statements, and most common observation was about the non-disclosure of sensitivity analysis.

ix. Framework

There were instances noted where the entity falls under classes / category different to the one mentioned in the financial statements as per the S.R.O 929 (I)/2015.

x. Number of employees

There were instances noted where numbers of employees at year end as well as average number of employees were not disclosed as required in fourth and fifth schedule to the Companies Ordinance, 1984.

xi. Stamping of financial statements

There were instances noted where all pages of the financial statements were stamped by audit firms. Since the preparation and presentation of financial statements is the responsibility of management and the auditor is only responsible to form and express an opinion on the financial statements prepared by the management. Therefore, financial statements should not be stamped by the auditors.

xii. Directors / chief executive remuneration not disclosed

There were instances noted where remuneration in terms of bonus, commission, managerial remuneration, bonus and any perquisites paid to the directors / chief executive during the year however, the same was not disclosed in the financial statements.

xiii. IFRS issued but not yet effective

With regard to new IFRS that has been issued but is not yet effective, the entities did not disclose that fact and any and known or reasonably estimable information relevant to assessing the possible impact that the new pronouncement will have in the year, it is applied as required by paragraph 30 of IAS 8.

D. Review of the firm's system of quality control

Instances were noted where documentation was not available for the design and implementation of one or more of the following elements of ISQC 1:

- Leadership responsibilities for quality within the firm.
- Relevant ethical requirements.
- Acceptance and continuance of client relationships and specific engagements.
- Human resources.
- Engagement performance.
- Monitoring.

8. Attendance of the Quality Assurance Board

2016-17	
Meetings Held (6)	
Name	**Attended**
Mr. Sohail Hasan	6
Mr. Ahmed Ali Mitha	4
Mr. Ali Azeem Ikram	2
Mr. Amer Aziz	2
Mr. Ayaz Ahmed	5
Mr. Etrat H. Rizvi	2
Mr. Mohammad Almas	5
Mr. Mohammad Naeem*	2
Mr. Muhammad Lukman	2
Mr. Zulfikar Ali Causer	6
Syed Ahmed Abid	4
Mr. Teizoon Kisat*	2

*Mr. Mohammad Naeem resigned w.e.f. January 11, 2017 and Mr. Teizoon Kisat was nominated by SECP w.e.f. February 07, 2017