



The Institute of  
Chartered Accountants  
of Pakistan

**CA**  
PAKISTAN

**QUALITY  
ASSURANCE  
BOARD**  
REPORT 2019

# QAB Report 2019

This Report provides an overview of the valuable contribution of the Quality Assurance Board (QAB) and the activities of the Quality Assurance Department (QAD) of the Institute of Chartered Accountants of Pakistan (the Institute) during the year ended June 30, 2019 towards its effort for monitoring and enhancement of quality within the audit profession in Pakistan in accordance with the requirement of the Framework of Quality Control Review (QCR) Program.



## Disclaimer

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

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



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## SECTION 1

# Message from the Quality Assurance Board

On behalf of the Quality Assurance Board (QAB) I am pleased to present to you the 8th report of the QAB for the year 2019. This report provides an overview of the QCR Program, the QAB's activities and a summary of the significant and/or frequent observations arising during the year from July 1, 2018 to June 30, 2019. In the interest of transparency and confidentiality, only aggregated data, trends and issues arising from the findings are being reported.

The audit profession has been subject to evolution in the recent past and one of the significant developments that has taken place during the past few years, is the formation of the Audit Oversight Board (AOB). Consequently, the phenomenon of self-regulation of the audit profession has now shifted to a mechanism of independent oversight by the AOB which is also in line with the international practices. The overall objective of the QCR Program of the Institute is to enhance the quality of audit reports and credibility of the accountancy profession in the public interest. The QCR Framework applies to all Firms carrying out audits of financial statements which intend to acquire or renew the QCR ratings or obtain registration with the AOB.

The Oversight by AOB entails, among other things, regular review of work performed by the QAD and the underlying processes leading to suggestions for improvement and subsequent monitoring. This is also on the active agenda of QAB and a comprehensive review is in hand by a Committee of the Board.

The QCR framework 2015 was revised to bring it in line with the latest international practices. The revised framework was approved by the Council of the Institute of Chartered Accountants of Pakistan and became effective from 15 June 2019.

During the period under consideration, 30.2% of the total engagements reviewed were either listed companies or public interest entities. Moreover, during the same period a firm was referred to the Investigation Committee of the Institute.

The Board would like to express its appreciation to all the firms, who have coordinated and co-operated with our reviewers throughout the QCR process. The Board also wishes to acknowledge the efforts of the personnel of QAD which have made it possible to run the quality control program effectively and efficiently.

Farid ud Din Ahmed  
Chairman Quality Assurance Board

## SECTION 2 Oversight by AOB

During the year under review, AOB provided the oversight over the functioning of the Quality Assurance Board and Quality Assurance Department, which included review of the engagements selected for QCR by QAD. On the basis of its review various improvements were suggested in terms of the documentation, selection criteria, methodology etc. These aspects are also under active consideration of the QAB.

## SECTION 3

## Guidelines for recommended list of documents and records required for QCR

To assist a firm in preparing for a quality control review, QAB has developed guidelines for quality control visits. The objective of these guidelines is to assist the firms in preparation of QCR and remind them as to what is expected of them by the QAB. These guidelines, which should be considered as an 'aide memoire', are available on the Institute's website for ready reference.

These guidelines address the documentation expected in the archived 'audit working paper files' such as but not limited to the following:

- Engagement letter
- Audit Planning – Understanding the entity and its environment (Revised) ISA 315
- Audit Programs
- Audit Documentation ISA 230
- Audit Evidence ISA 500
- Analytical Procedures ISA 520
- Subsequent Events ISA 560
- Going Concern Review ISA 570
- Management Representations ISA 580
- Disclosure checklist for Review of Financial Statements
- Quality Control ISA 220
- Format of list of audit engagements
- ISQC 1 implementation guide
- QAB reports for last three years

All the audit procedures performed and conclusions reached must be documented in the audit work papers. Each working paper should document what audit work was reviewed, who reviewed such work, and when it was reviewed. All working papers must contain documentation in respect of the following:

- (a) Objective of the work done;
- (b) which items were tested;
- (c) Observations;
- (d) Conclusion;
- (e) if the results were not satisfactory, what additional work was performed; and
- (f) the firm's conclusion on each audit test i.e. did the test confirm the audit objective? If not, is there a record of consideration of the implication for the audit opinion

It is important to note that the auditor shall prepare audit documentation that is sufficient and appropriate to enable an experienced auditor, having no previous connection with the audit, to understand:

- (a) The nature, timing and extent of the audit procedures performed to comply with the ISAs and applicable legal and regulatory requirements;
- (b) the results of the audit procedures performed, and the audit evidence obtained; and
- (c) significant matters arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions.

**SECTION 4**

# Overview of the results of the Quality Control Reviews (QCRs)

## Introduction

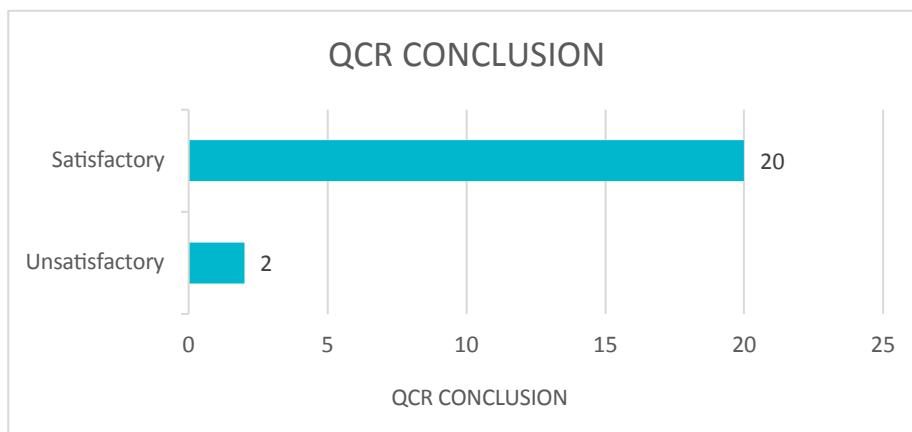
This section provides a summary of the review activities undertaken during the year ended June 30, 2019.

## Scope of review

In reviewing an audit firm, all locations of the firm and at least 50% of the audit partners of that firm are selected. The QCR includes an engagement review and a review of the system of quality control within that firm. The frequency of the review varies depending upon the decision of the QAB.

## Audit engagements reviews conducted

During the year twenty-two (22) audit firms were concluded. The reviews conducted comprised of the following conclusions:



## Details of Quality Control Reviews conducted during the last three years

	2018 -19	2017 -18	2016 -17
Audit firms concluded	22	46	46
Number of engagements reviewed	68	185	144
Number of locations covered	33	70	58

Out of 22 firms reviewed, 20 firms were found to be 'Satisfactory' while 2 firms were rated as 'Unsatisfactory'.

As of June 30, 2019, 122 firms were included in the Institute's list of firms having a satisfactory QCR rating. The updated list of firms having a satisfactory QCR rating is available on ICAP's website.



As of June 30, 2019, there were 55 audit firms whose QCRs have been completed. Their reports are being compiled and will be presented in the upcoming meetings of the Quality Assurance Board for its approval.

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

**Summary of engagement reviews**

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

Year	Listed		Other than listed	
	Satisfactory	Unsatisfactory	Satisfactory	Unsatisfactory
2018-2019	10	4	42	12
2017-2018	31	9	99	46
2016-2017	46	4	80	14
2015-2016	88	8	107	25
2014-2015	20	21	61	31

**QCR conclusions of new firms**

During the year, two new Firms offered their working papers for the QCR, out of which, one was concluded 'Satisfactory' and the other as 'Unsatisfactory'.

**SECTION 5**

# Summary of Common Observations

## Engagement Reviews

During the year under review 68 (2018: 185) engagement reviews were conducted and reported to the QAB.

Summary of common observations is as follows:

### 1. Engagement letters

During the QCRs, it was noted that the accounting framework within which the management is supposed to prepare the financial statements was not mentioned in the management responsibilities paragraph of the engagement letter as required under Para 6(b)(i) of ISA 210.

### 2. Accounting policies

The following observations were noted during the period under consideration:

- Property, plant and equipment were carried at revalued amounts whereas the accounting policy specified the use of cost model
- Accounting policy in respect of deferred taxation was not disclosed in the financial statements
- Revenue recognition policy was not in accordance with IAS-18
- Non – disclosure of accounting policy in respect of financial instruments

### 3. Related party transactions

- Absence of audit evidence in the audit working paper files evidencing any procedures carried out to corroborate the assertion that related party transactions are carried at arm's length
- Interest free long term loans from related parties were not being recognized as per the International Accounting Standard (IAS) 39 or Technical Release (TR) 32 of ICAP.
- Non-disclosure of related party transactions included in the working paper files
- Investment in associates was not recorded using the equity method

### 4. Deferred Tax

- a) Non-recognition of deferred tax with no evidence as to how the auditor concluded the deferred tax liability / asset to be immaterial with respect to the financial statements.
- b) Recognition of deferred tax asset in the absence of audit evidence as to how the management assessed that future taxable profit would be available against which the asset could be utilized.

### 5. Verification of financial statement items higher than materiality

It was observed that audit procedures were not performed by the auditors on the financial statement items, which in aggregate, were higher than the performance materiality level.

## 6. Retirement benefits

There was no audit evidence to assess and conclude as to whether or not provision for retirement benefits was required in the financial statements of companies under the Industrial and Commercial Employees (Standing Order) Ordinance, 1968 . Instances of non-disclosure of accounting policy were also observed.

## 7. Going concern

- The disclosure relating to Going Concern did not mention clearly that the company may be unable to realize its assets and discharge its liabilities in the normal course of business as required by Paragraph 19(b) of the ISA 570.
- No description of the management plans to deal with the events and circumstances that may cast significant doubt on the entity's ability to continue as going concern.
- No evidence could be found in the working papers for evaluation of mitigating factors considered by the management in support of the appropriateness of the going concern assumption underlying the financial statements.

## 8. External confirmations

- No evidence of direct dispatch and receipt of confirmations in respect of debtors, creditors and banks. The selection criteria used was also not documented and the results of the confirmations were not analyzed, evaluated and documented
- There was no appropriate documentation of alternative audit procedure where confirmation requests were not responded.

## 9. Audit materiality

- There was no documented planning materiality set for the financial statements as a whole
- Setting materiality at much higher levels considering overall financial performance and financial position of the entity.

## 10. Verification of stock in trade

During engagement reviews few instances were noted where it was observed that no audit evidence was available to ensure that stock in trade was valued in accordance with the accounting policy stated in financial statements.

## 11. Revaluation of property plant and equipment

Instances were noted where the disclosure required under paragraph 77 of IAS 16 were not made with regard to the effective date of revaluation, whether an independent valuer was involved and the carrying amount had the asset been carried under cost model.

## 12. Drafting of report

- Instances were noted where the auditor's report was not drafted in accordance with applicable laws. In number of audit reports the text required was missing.
- There were quite a few typographical errors which could have been avoided by taking some extra care.

### 13. Audit Documentation

- It was observed that in certain cases the firm's working paper files ignored the requirements of para 9 of ISA 230 'Audit Documentation'
- Instances were observed where engagement teams did not document the audit evidence obtained during the course of the audit on a timely basis.
- The working paper files were found deficient in respect of the linkage between the audit evidence and final conclusion of the audit.

### 14. Revenue verification

It was observed that the auditor did not assess revenue as a risk of material misstatement due to fraud and error as required under ISA 240, and merely relied on analytical procedures such as sales tax reconciliation and test of details applied on recorded revenue. This is a recurring observation.

# Review of the Firm's System of Quality Control

The overall quality of the firms is also reviewed under the requirements of ISQC-1 to assess whether a robust system of quality control has been 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.

The QAB is of the considered view that personnel should be educated about the importance and requirements of following a system of quality control. They should also be informed that failure to adhere to the firm's policies may result in disciplinary action. Training sessions and meetings should be conducted for the existing and new staff, at least annually and quality control procedures and policies should be updated where required.

During the year under consideration, the following matters were observed in relation to the subject reviews:

## 1. Implementation

In few instances, review of the firms contained significant deficiencies. Therefore, for the same reason, it cannot be concluded that elements of firm's system of quality control including engagement performance and monitoring were implemented appropriately by the firm or operating effectively during the period under review.

Though in letter the aforementioned firms appeared to have complied with the requirements of ISQC-1, however, in spirit this does not appear to have been followed.

It is strongly recommended that the quality control teams of the firms should carry out Root Cause Analysis (RCA) to identify underlying main cause (or causes) behind review findings.

## 2. Monitoring

It was observed that in some cases there was no evidence of procedures performed with regard to monitoring of the system of quality control on annual basis as started in the Firms policies and procedures.

## 3. Training

It was noted that there was no evidence of in-house or external trainings carried out for the staff of a firm for competence development as per the requirements of Paragraph 31 of ISQC-1. Moreover, no documentation of training need assessments and records of CPD trainings conducted/ attended was maintained.

## 4. Audit file archiving

It was observed that the audit file was not assembled and archived as required under the provisions of Paragraph 45 of ISQC-1 and therefore, the file was not ready for review on demand by the reviewers.

*The information contained in this section 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 practitioners are encouraged to seek guidance from the observations summarized in this report in light of their own facts and circumstances.*

## SECTION 6 The Quality Control Review Process

The Quality Assurance Department discharges its responsibilities in terms of reviewing the engagements using the following review process:

**Step 1 –** Obtain list of audit engagements from the audit firms

**Step 2 –** Review the list for completeness

**Step 3 –** Selection of audit engagements for QCR on a risk-based and sector specific engagement criteria

**Step 4 –** Visit to the Firm's premises for QCR

**Step 5 –** Commence review of the selected engagements and the Firm's Control Environment

**Step 6 –** Observations noted by the reviewer and engagement partner's comments are recorded on the Review Feedback Form (RFF)

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

**Step 8 –** The draft QCR report, after incorporation of firms' comments, if any, is presented to the QAB for its consideration

### **Step 9 – Conclusion**

- Final QCR report is issued to the firm, informing of the overall conclusion in the event of QAB's Satisfactory conclusion on a firm's engagement review and review of Firm's System of Quality Control under ISQC 1,
- Unsatisfactory QCR Rating may be assigned to a Firm by QAB, based on nature and severity of the deficiency noted.
- In cases where deficiencies are noted in the engagement review of certain partner(s) of the Firm, any one or more of the following actions may be taken:
  - i) requiring such partner(s) to undergo additional training or CPD activities as recommended by QAB.
  - ii) arranging for a fresh engagement review of such partner(s) after the period as deemed appropriate by QAB.
  - iii) referring to the Investigation Committee of the Institute if the firm fails to implement the Action Plan submitted at the time of earlier review.

## SECTION 7

## Composition of the Quality Assurance Board (QAB)

The Quality Assurance Board (QAB) is an independent body composed of the nominees from the Securities and Exchange Commission of Pakistan (SECP), the State Bank of Pakistan (SBP), Pakistan Stock Exchange (PSX) and the Institute of Chartered Accountants of Pakistan (ICAP). It overlooks the functions of the Quality Assurance Department of ICAP. Brief profile of the Quality Assurance Board is given below:

- i) Mr. Farid ud Din Ahmed (Chairman) \***  
Mr. Farid ud Din Ahmed is a fellow member of the Institute of Chartered Accountants of Pakistan with over 35 years' professional experience in audit and consulting assignments for the private as well as the public sector. He has held the position of Partner in Charge – KPMG Lahore.
- ii) Mr. Zahid Iqbal Bhatti (Chairman) \*\***  
Mr. Zahid Iqbal Bhatti is a member of the Institute of Chartered Accountants in England and Wales and the Institute of Chartered Accountants of Pakistan. He joined the Audit and Assurance practice of A.F. Ferguson & Co., Chartered Accountants in 1982. He was made an Audit and Assurance Partner in 1993 and retired from the Firm in September 2014.
- iii) Mr. Ahmed Ali Mitha \*\*\***  
Mr. Mitha is a Chartered Accountant. He has over 22 years post-qualification experience and is currently serving as the Chief Financial Officer of Pakistan Stock Exchange Limited.
- iv) Mr. Ali Azeem Ikram \*\*\***  
Mr. Ikram is a Chartered Accountant with over 15 years of post-qualification experience. Currently he is serving as an Executive Director in the SECP heading its Insurance Division.
- v) Mr. Ayaz Ahmed**  
Mr. Ahmed is a Chartered Accountant with over 20 years of vast experience. He also served as the Chief Financial Officer of a large commercial bank.
- vi) Mr. Mohammad Almas**  
Mr. Almas is a chartered accountant with over 36 years of practicing experience and is a partner in M. Almas & Co., Chartered Accountants.
- vii) Syed Ahmed Abid Esq.**  
Mr. Abid is a Chartered Accountant with a vast experience of over 40 years. He worked as Chief Financial Officer in a petroleum sector listed company and also worked as a Financial Advisor/Consultant for the Ministry of Petroleum and Natural Resources, Government of Pakistan.
- viii) Mr. Abdul Samad**  
Mr. Abdul Samad is a fellow member of the Institute of Chartered Accountants of Pakistan with over 20 years of Capital Market experience. He is currently serving as the Chief Operating Officer of Central Depository Company of Pakistan Limited.
- ix) Mr. Zulfikar Ali Causer**  
Mr. Causer is a practicing chartered accountant with experience of over 12 years. He is a partner in BDO Ebrahim & Co., Chartered Accountants.
- x) Ms. Amina Aziz \*\*\***  
Ms. Aziz is serving as a Director (Corporate Supervision Department) in the SECP.
- xi) Mr. Teizoon Kisat**  
Mr. Kisat is a fellow member of the Institute of Chartered Accountants 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 the leasing sector for about 15 years.
- xii) Mr. Riaz Nazarali \*\*\***  
Mr. Nazarali is a fellow member of the Institute of Chartered Accountants of Pakistan, with a vast experience of over 29 years. He is currently working as an Executive Director in the State Bank of Pakistan.

\* Mr. Farid ud Din Ahmed was nominated by the Council on April 01, 2019 and was elected as the Chairman of the Board on June 20, 2019.

\*\* Mr. Zahid Iqbal Bhatti resigned from the Board, effective March 31, 2019.

\*\*\* As per the revised QCR Framework, 2019, a current employee, member, or official of the Audit Oversight Board or any other statutory regulatory body or a securities exchange shall not be a member of QAB. Therefore, all these were subsequently replaced.

## SECTION 8

## Attendance in Quality Assurance Board Meetings

During the year 2018-19, the Board held seven meetings.

MEMBERS	MEETINGS ATTENDED
Mr. Farid ud Din Ahmed* - CHAIRMAN	1
Mr. Zahid Iqbal Bhatti ** - CHAIRMAN	6
Mr. Ahmed Ali Mitha ***	3
Mr. Ali Azeem Ikram ***	4
Mr. Ayaz Ahmed	5
Mr. Mohammad Almas	7
Syed Ahmed Abid Esq.	4
Mr. Abdul Samad	5
Mr. Zulfikar Ali Causer	7
Ms. Amina Aziz ***	2
Mr. Teizoon Kisat	4
Mr. Riaz Nazar Ali ***	6

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## SECTION 9

## Composition of the Quality Assurance Department (QAD)

The quality control reviews are carried out by Chartered Accountants employed on a full time basis by the ICAP. As of June 30, 2019, the Quality Assurance Department comprised of the following personnel:

- |                                 |                 |
|---------------------------------|-----------------|
| i) Shahid Hussain, FCA          | Senior Director |
| ii) Syed Ajlal Hyder, FCA       | Deputy Director |
| iii) Muhammad Asad Iqbal, ACA   | Senior Manager  |
| iv) Muhammad Fahad Parvaiz, ACA | Senior Manager  |
| v) Hassan Rathore, ACA          | Manager         |
| vi) Khurram Tahir Shaikh, ACA   | Manager         |
| vii) Mahmood Ahmad              | Manager         |
| viii) Hammad Javed              | Senior Officer  |

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- Quetta Office:** Civic Business Center, Hali Road, Quetta Cantt  
Phone: (92-81) 2865533, e-mail: [quetta@icap.org.pk](mailto:quetta@icap.org.pk)
- Regional Office-Lahore:** 155-156, West Wood Colony, Thokar Niaz Baig, Raiwind Road, Lahore  
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- Multan Office:** 3rd Floor, Parklane Tower, Officers' Colony, Near Eid Gaah Chowk, Khanewal Road, Multan.  
Phone: (92-61) 6510511-6510611, Fax: (92-61) 6510411, e-mail: [multan@icap.org.pk](mailto:multan@icap.org.pk)
- Peshawar Office:** House No. 30, Old Jamrud Road, University Town, Peshawar  
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