



**The Institute of
Chartered Accountants
of Pakistan**

**CA
PAKISTAN**

HEAD OFFICE

ICAP/QAD/000029/88591/Circular-02/2021

October 30, 2021

ALL MEMBERS OF THE INSTITUTE

QUALITY ASSURANCE BOARD REPORT 2021

Dear Member,

We are pleased to enclose the Report of the Quality Assurance Board (QAB) for the year 2021.

The report provides an overview of the Quality Control Review (QCR) program and QAB activities during the period from July 01, 2020 to June 30, 2021 and may be downloaded from the Institute's website by accessing the following link:

<https://icap.org.pk/quality-assurance/qcr-documents/qab-report/>

Yours truly,

Reza Ali
Director Quality Assurance

Encl. As above

(Established under the Chartered Accountants Ordinance, 1961 - X of 1961)

Chartered Accountants Avenue, Clifton, Karachi-75600 (Pakistan). Ph: (92-21) 111-000-422, Fax: 99251626

Website: www.icap.org.pk, E-mail: info@icap.org.pk









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QUALITY ASSURANCE BOARD

REPORT 2021



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QAB Report 2021

This Report provides an overview of the activities of the Quality Assurance Board (QAB) of the Institute of Chartered Accountants of Pakistan (the Institute) during the year ended June 30, 2021 towards its efforts for monitoring and enhancement of quality within the audit profession in Pakistan in accordance with the requirements of the Quality Control Review (QCR) Framework.

The report is not designed to provide assurance regarding audit firms' quality control systems or assurance work, or quality of the auditing profession in its entirety. The focus of this report is to provide an overview of more prevalent observations reported during the year under review to help drive a broader and proactive improvement strategy in areas where it is most required.



Disclaimer

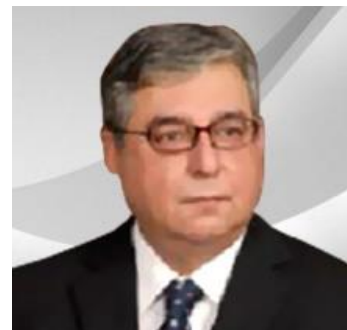
This report has been prepared for general information only. The information in this report does not constitute professional advice and should not be acted upon without obtaining specific professional guidance.

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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Message from the Chairman Quality Assurance Board



I am pleased to present the report of the Quality Assurance Board (QAB) for the year 2021.

The effects of the COVID-19 pandemic have been felt globally bringing in its wake several waves of the deadly virus. This has resulted in closure of businesses, loss and disruption of human lives.

In an uncertain environment such as this, the process of the Quality Control Reviews (QCRs) has also been affected in view of the lock down conditions and health safety precautions which were required to be undertaken by the staff of audit firms and Quality Assurance Department (QAD). Despite all efforts made by the QAD to meet the planned timelines including facilitating reviews at the Institute's premises, the momentum gained last year could not be sustained which resulted in a backlog of QCRs which will have to be dealt with going forward. Under these circumstances, the QAD and QAB made untiring efforts to cover as much ground as was possible and the QAD successfully conducted QCRs of 52 firms out of which 28 were concluded.

The documentation in respect of the 'System of Quality Control' prevalent in the audit firms was also reviewed as part of the review process.

Initiatives

In spite of the above mentioned impediments, the QAB continued its efforts for improvement in the QCR processes which, among others included, a heightened focus directed towards improvement of documentation, development of Standard Operating Procedures (SOPs), comprehensive strategy for restructuring of the department which includes arming the QAD with staff having experience of specialized industries and sectors with appropriate training. A roadmap for achieving automation in the QCR processes is also under consideration of the QAB. The QAB initiatives also include convincing the firms to have their QCRs conducted at the Institute's premises with the objective of limiting physical interaction of the QAD reviewers and firm's staff, while ensuring continuity of the QCR, thereby making use of video conference / virtual meetings by the QAD and QAB for ensuring COVID precautions. It may also be desirable to make greater use of technology in future to obviate the necessity of physical interaction or at least reduce it to more manageable levels.

Meetings with Audit Oversight Board (AOB)

AOB is the audit oversight board established under the Securities & Exchange Commission of Pakistan (SECP) Act, 1997 to perform functions in the public interest. The oversight by AOB involves, among other things, review of the functioning of the QAB, the work performed by the QAD and the underlying processes for the effective implementation of the QCR Framework 2019. Since July, 2020, there have been three

meetings of the members of QAB with the Chairman AOB in which matters of QCR and related processes came under discussion.

To conclude, on behalf of the QAB, I appreciate the courtesy extended by the firms and their staff who were subjected to QCR during the period under review. I also acknowledge the co-operation and support extended by QAD to the Board for effective discharge of its responsibilities.

Farid ud Din Ahmed, FCA

Chairman,
Quality Assurance Board

Key Tasks Performed

Apart from the review of working papers and finalization of QCR reports, the QAD performed and completed the following key tasks during the period:

i) Development of Engagement Selection and QCR Rating criteria

Detailed engagement selection criteria has been developed and approved by the QAB taking into account risk-based and sector specific considerations of audit engagements. The Ratings Criteria comprises the following areas:

- a) Criteria for rating QCR Observations
- b) Engagement Rating Criteria
- c) Criteria for rating International Standard on Quality Control (ISQC) Observations
- d) Overall Rating Criteria for ISQC
- e) Overall Firm Rating Criteria

ii) Standard Operating Procedures (SOPs) for Implementation of Action Plan

As per the requirements of Clause 18 of QCR Framework, 2019, when a Firm's QCR is concluded as 'Satisfactory With Improvements Required' (SWIR), a follow-up review is conducted in the following year to assess the status of improvements and implementation of action plan by the Firm. In order to prescribe specific procedures for assessing the said implementation, a detailed SOP has been developed and approved by the QAB. The said SOP also includes completion of a Remediation / Action Plan Compliance Form by the Firm and documentation of issues in a Remediation Checklist by the reviewer for confirmation by the Firm.

iii) Revision in List of Clients Format

With reference to Clause 9.3 of the QCR Framework, 2019, the Firm is required to submit list of all audit engagements on the prescribed format of all locations whose audit reports were issued during the two immediately preceding years. The said list of engagements was revised by the QAB to include more detailed information regarding the engagements so as to enable selection of files as per the revised Engagement Selection Criteria. Revised format of the said list was circulated to the Firms vide Circular no. 01/2021 dated June 29, 2021 for compliance.

iv) Other Special Initiatives

- a) As part of the restructuring process of the QAD, a number of resources are being hired which also includes industry sector specialists and a separate section of quality control is being set up within the QAD for monitoring and enhancing the quality of QCR reports.

- b) In line with the international practices, a detailed plan for training of the QAD staff is also in the queue in order to enhance their capacity and professional knowledge in specific areas.
- c) Several steps are being taken to improve the documentation standards which also include preparation of control checklists for issuance of QCR reports, mapping of observations emanating from review checklists with the initial findings report, etc.
- d) Considering the evolving changes in technology, the QCR processes are being reviewed and analyzed for bringing in phase wise automation which will include electronic submission of list of engagements by the Firm, creation of access login with electronic / digital sign offs, development of web based forms for filling in review checklists, extraction of observations therefrom and inviting comments on the observations from the Firm etc.

Overview of the Results of Quality Control Reviews (QCRs)

Introduction

A summary of the review activities undertaken during the year ended June 30, 2021 along with a brief description of the QCR process, is reflected in this section.

Scope of review

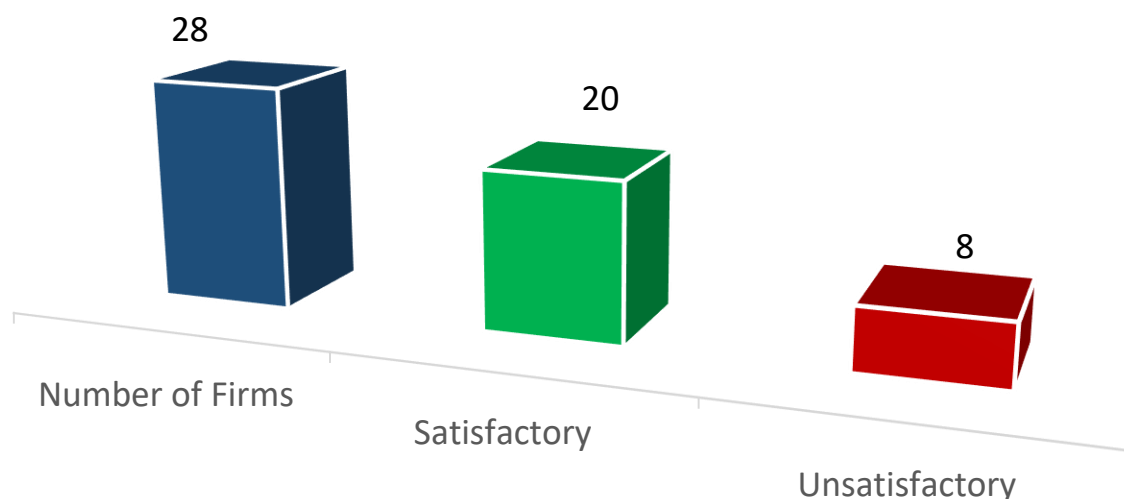
The QCR includes an engagement review and a review of the system of quality control within that firm. In reviewing an audit firm, all locations of the firm and at least 50% of the audit partners of that firm are selected for engagement review.

Quality Control Reviews

The table below summarizes the conduct of QCRs during last three years:

Particulars	2020-21	2019-20	2018-19
QCRs Concluded	28	64	22
Number of Engagements Reviewed	89	279	68
Number of Locations Covered	35	102	33

During the year, QCRs of fifty-two (52) audit firms were conducted out of which QCRs of twenty-eight (28) audit firms were concluded. The reviews conducted comprised the following conclusions:



Out of the 28 firms reviewed, 20 firms were found to be 'Satisfactory', and 8 firms were rated as 'Unsatisfactory'. These reviews included QCRs of five new firms out of which one firm was given 'Satisfactory' rating while four were rated as 'Unsatisfactory'.

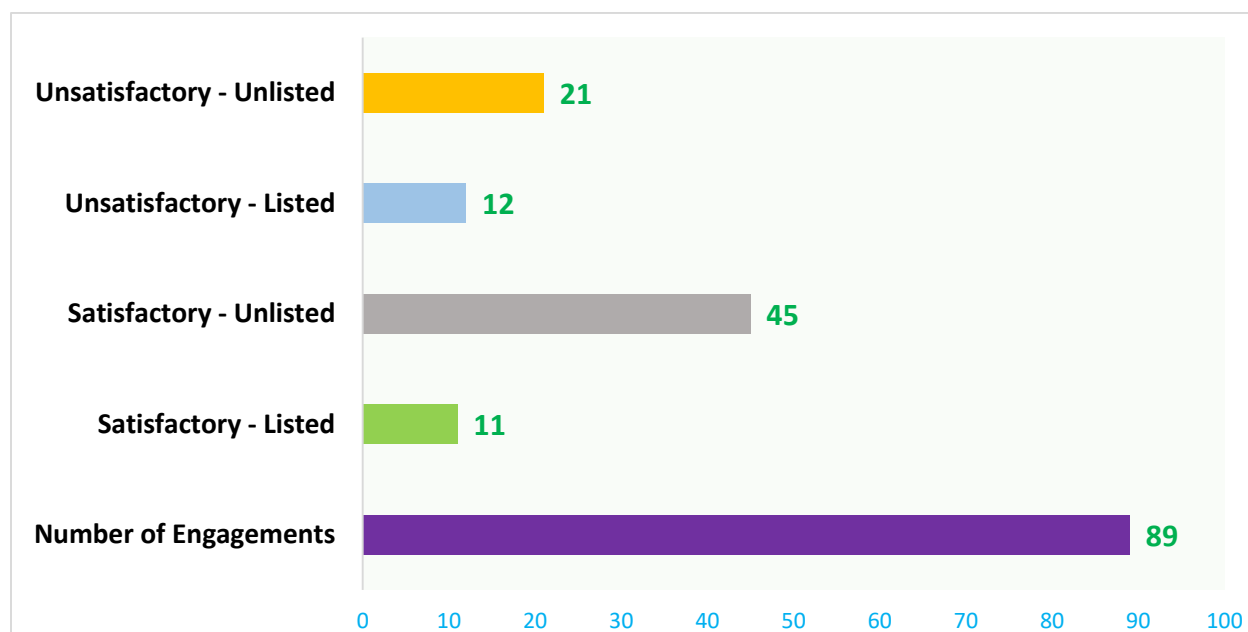
As of June 30, 2021, 124 firms were on the Institute's 'List of Firms having Satisfactory QCR Rating' which is accessible on the Institute's website.

Summary of Engagement Reviews

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

Year	Listed		Other than Listed		Total
	Satisfactory	Unsatisfactory	Satisfactory	Unsatisfactory	
2020-21	11	12	45	21	89
2019-20	98	15	118	48	279
2018-19	10	4	42	12	68
2017-18	31	9	99	46	185
2016-17	46	4	80	14	144

Engagement Reviews for 2020-21



Summary of Observations

1. Audit Report

Following observations were noted with respect to drafting of audit report:

1.1 Format of Audit Report

- a) It was noted that in several instances, the applicable format of the audit report was not followed as per Auditors (Reporting Obligations) Regulations, 2018.
- b) In various instances of modified opinions, incorrect heading i.e. 'Basis for Opinion' was used instead of 'Basis for adverse/qualified/disclaimer (of) opinion' as required by International Standard on Auditing (ISA) 705.
- c) Audit report did not include separate section on other information as required under Auditors (Reporting Obligations) Regulations, 2018 and ISA 720 'The Auditor's Responsibilities Relating to Other Information'.
- d) Incorrect opinion was mentioned in the report related to 'Report on Other Legal and Regulatory Requirements' pertaining to Zakat where zakat deductions were either marked as 'deducted' and were actually not deducted and deposited or vice versa.

1.2 Modification of Auditor's Opinion

- a) In certain cases, unmodified opinion was expressed despite there being significant issues which should have resulted in a modified opinion as per requirements of ISA 705 'Modifications to the Opinion in the Independent Auditor's Report'.
- b) Qualification was expressed on the basis of amount of an account balance(s) which was (were) material and pervasive to the financial statements. No documentation was available in the working papers to evaluate the judgement of the engagement partner as to how issuance of adverse or a disclaimer of opinion was dispelled.
- c) Adverse / Disclaimer of opinion in the prior years was changed to qualified opinion without proper justifications and conclusions in the audit file in this regard.

1.3 Key Audit Matters

- a) The section of 'Key Audit Matters' in the audit report was not properly drafted as per requirements of Paragraph 15 of ISA 701 'Communicating Key Audit Matters in the Independent Auditor's Report'.

- b) In some cases, the audit report, did not include any Key Audit Matter as per the requirements of ISA 701 and only included a statement that *'We have determined that there are no key audit matters to communicate in our report'*. As per the requirements of ISA 701, there was no audit documentation as to how it was concluded that there were no matters that were key audit matters for the audit report. Further, as per paragraph A59 of ISA 701 *'it may be rare that auditor of a complete set of general purpose financial statements of a listed entity would not determine at least one key audit matter.'*

2. Planning and Risk Assessment

2.1 Audit Materiality

- a) Instances were noted where the auditor did not determine the performance materiality level for purposes of assessing the risks of material misstatement and determining the nature, timing and extent of further audit procedures. in accordance with paragraph 11 of ISA 320 'Materiality in Planning and Performing an Audit'.
- b) In certain instances, the auditor did not document the factors considered in determining the materiality and performance materiality level in accordance with paragraph 14 of ISA 320.

2.2 Risk Assessment and Responses to Assessed Risks

- a) Appropriate risk assessment procedures were not performed and / or understanding of the business processes and transactions and relevant controls was not obtained as required under ISA 315 'Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment'.
- b) In the cases of companies whose business was significantly dependent on the usage of information technology, no documentation was available in respect of general information technology controls and information technology application controls as required under ISA 315.
- c) Instances were noted where the auditor only documented the key elements of the understanding obtained regarding each of the aspects of the entity and its environment in the form of a checklist without documenting the sources of information from which the understanding was obtained; and the risk assessment procedures performed in accordance with paragraph 32 of ISA 315.
- d) Test of controls were not performed in cases where substantive procedures alone did not provide sufficient appropriate audit evidence in accordance with paragraph 8 of ISA 330 'The Auditor's Responses to Assessed Risks'.

3. General Principles and Responsibilities

3.1 Engagement Letter

- a) Responsibility for preparation of financial statements was not clearly spelled out in the engagement letter.
- b) Acknowledgement on management responsibility to provide auditor with additional information for audit purpose and unrestricted access to persons within the entity from whom the auditor determines it necessary to obtain audit evidence was not obtained in accordance with the requirements of ISA 210 'Agreeing the Terms of Audit Engagement'.
- c) Financial reporting framework was not mentioned in the engagement letters.
- d) Reference to the expected form and content of the audit report and a statement that there may be circumstances in which a report may differ from its expected form and content was not provided in accordance with paragraph 10 of ISA 210.

4. Audit Evidence and Documentation / Recognition and Measurement

4.1 Going Concern

Events and conditions were identified that may cast significant doubt on an entity's ability to continue as a going concern. However, there was no audit evidence / documentation in respect of consideration of appropriateness of mitigating factors including reasonableness of assumptions used in financial projections and assessing the financial capabilities of sponsors / directors who undertook to provide financial support to the company in accordance with the requirements of ISA 570 'Going Concern'. In certain instances, the auditor's report with respect to going concern was not in accordance with the requirements of ISA 570.

4.2 Taxation

- a) Deferred tax asset was recognized in the financial statements however, no future projections were available in audit file to evaluate whether future taxable profits would be available for recoverability of the asset and only a management representation letter was available in the working papers which was not sufficient.
- b) Certain errors for example, recognition of deferred tax liability on revaluation surplus of land and non-recognition of deferred tax on investment in associates accounted for under equity method were noted in calculations of net deferred tax assets or liability.
- c) While computing deferred taxation, the company did not offset the deferred tax asset arising from unused tax losses with deferred tax liability without any reason

which was not in accordance with the International Accounting Standard (IAS) 12 'Income Taxes' resulting in overstatement of deferred tax liability.

d) Instances were noted where deferred tax was recognized at incorrect rates.

4.3 External Confirmations

a) There was no audit evidence in the working paper files regarding direct dispatch of confirmation requests and their direct receipt. Further, there were deficiencies noted in performance of alternative procedures in this respect.

b) Instances were noted where in case of non-response, the auditor did not perform alternative audit procedure on each item in accordance with paragraph 12 of ISA 505 'External Confirmations'.

4.4 Journal Entry Testing

a) No documentation was available in the audit working paper files to evidence whether the auditor has designed and performed audit procedures to test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements as per the requirements of paragraph 33 of ISA 240 'The Auditor's Responsibilities relating to Fraud in an Audit of Financial Statements'.

b) In some instances, completeness of the population of journal entries subject to the journal entry test was not assessed as required by paragraph 9 of ISA 500 'Audit Evidence'.

c) The basis of sample size to perform the journal entries test was not documented as required by ISA 530 'Audit Sampling'.

4.5 Omitted Liability Testing

In certain cases, it was noted that the auditor did not perform Omitted Liability Testing to ensure completeness assertion i.e. "*all liabilities that should have been recorded have been recorded*" as required under ISA 315 'Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment'.

4.6 Stock in Trade / Stores and Spares

a) Sufficient appropriate audit documentation was not available with respect to valuation of inventory. Instances were noted where no documentation was available to ensure that cost of inventory is calculated in accordance with the cost formula used i.e. FIFO and weighted average cost. No documentation was available to ensure that overheads are appropriately allocated to work in process and finished goods inventory. Further, sufficient appropriate documentation was not available to assess the Net Realizable Value of inventory.

- b) In few instances, no working papers were available in the audit file evidencing the physical verification procedures in accordance with ISA 501 'Audit Evidence – Specific Considerations for Selected Items'.
- c) The impact of differences in stocks and damaged goods identified during stock count were not properly evaluated and recorded in the audit working papers.
- d) No documentation was available to assess the adequacy of provisioning for slow moving items in respect of stores and spares and stock in trade and no ageing record was available in the working papers to identify the old aged items.

4.7 Revenue

- a) Revenue recognition was not classified as significant risk of fraud in accordance with ISA 240 'The Auditor's Responsibilities relating to Fraud in an Audit of Financial Statements' and accordingly, no audit documentation was available for assessing design and implementation of controls with respect to revenue recognition.
- b) In certain instances, it was noted that except for tracing sales from sales tax returns no audit evidence was available for verification of sales.
- c) With respect to revenue transactions generated and recorded electronically, it was observed that no documentation was available for review of controls over revenue recognition and to assess the accuracy of system generated reports used for its verification.
- d) Instances were noted where no documentation was available to assess the impact of implication of IFRS 15 'Revenue from Contracts with Customers' on revenue recognition.
- e) No evidence was available in working papers in respect of cut off testing on revenue.
- f) The amount of sales shown as per financial statements was different from the amount as per sales tax returns and no reconciliation working was available in the audit working papers.

4.8 Trade Debts

- a) Instances were noted where appropriate documentation was not available to check that the Expected Credit Loss Model was correctly applied by the company to calculate the impairment of trade debts and other financial assets in accordance with IFRS 9 'Financial Instruments'.

- b) It was noted that no documentation was available or tests performed to verify entity produced information i.e. aging of trade debtors to test its completeness and accuracy as required by Paragraph 9 of ISA 500 'Audit Evidence'.

4.9 Opening Balances

Instances were noted where no evidence of work done was available on opening balances as required under ISA 510 'Initial Audit Engagements—Opening Balances'.

4.10 Defined Benefit Plan

- a) The audit evidence for verification of completeness and accuracy of underlying source data used for actuarial valuation and actuarial assumptions was not available in the working papers which was required by paragraphs 9 and A49-A51 of ISA 500 'Audit Evidence'.
- b) Instances were noted where retirement benefits were determined only for a class of employees such as permanent employees, or the employees who have spent a minimum number of years with the company, which was not in accordance with the requirements of law of the province / jurisdiction in which it operated.
- c) Provision for gratuity was determined as product of last drawn salary and number of years of service without considering actuarial assumptions as required under IAS 19 'Employee Benefits'.

4.11 Property, Plant and Equipment

Instances were noted where revaluation of property, plant and equipment under revaluation model was not carried out even though considerable time had elapsed since last revaluation. Hence, it could not be assessed as to how reasonable assurance was obtained that revaluations were carried out with sufficient regularity so that the carrying value of property, plant and equipment was not materially different from its fair value as at the balance sheet date as per requirements of IAS 16 'Property, Plant and Equipment'.

4.12 Interest Free Loans

- a) Interest free or below market interest long term loans from related parties, Government or bank classified as being carried at amortized cost were not measured in accordance with the requirements of IFRS 9 'Financial Instruments'.
- b) Instances were noted where loans were classified as long term, however, the borrower did not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period, as required under paragraph 69 of IAS 1 'Presentation of Financial Statements'.

- c) Instances were identified, where terms of the loan were not well documented in the working papers in order to be able to assess whether the loans are payable on demand or at the option of the company or over a period of time.

4.13 Impairment of Assets

- a) No evidence except for a management representation letter was available to assess the recoverable value of assets for identification of impairment, if any, in accordance with IAS 36 'Impairment of Assets', in cases where the entity had closed its operations and the plant and machinery were not in use.
- b) Audit documentation was missing with respect to determination of recoverable amount of an asset as required by IAS 36.
- c) It was observed that the recoverable value of plant and machinery which was not in use since many years, was determined by the valuer using depreciated replacement cost method. No audit documentation was available as to how the auditor ensured that the value determined using this method reflects the actual realizable value of the entity's plant and machinery.

4.14 Related Party Transactions

- a) The engagement team did not perform procedures to ensure compliance of section 199 of Companies Act, 2017 with respect to loan and advances to associated companies.
- b) Few cases were observed where the management's assertion that the related party transaction(s) were conducted at arms' length basis were not substantiated by appropriate audit evidence as required by ISA 550 'Related Parties'.

4.15 Investment in Subsidiary and Associates

- a) Instances were noted where the parent company did not prepare consolidated financial statements in accordance with IFRS 10 'Consolidated Financial Statements' and section 228 of the Companies Act, 2017.
- b) Instances were noted where the investment in associates was not accounted for using equity method in accordance with the requirements of IAS 28 'Investments in Associates and Joint Ventures'.
- c) In few instances, no documentation was available to determine the recoverable value of investments (associates, subsidiaries or joint ventures) for the purpose of assessing impairment, if any, in accordance with IAS 36.

4.16 Audit Sampling

- a) Instances were noted where the auditor did not determine the means of selecting items for testing in accordance with paragraphs 10 and A52-A56 of ISA 500 'Audit Evidence'.
- b) In situations where the auditor used audit sampling for selecting items, appropriate audit documentation was not available with respect to the methodology for selection of samples and determination of sample size, in accordance with paragraphs 7 and 8 of ISA 530 'Audit Sampling'.
- c) In certain instances, value based or month based selection was used, the remaining items in the population were not subjected to sampling procedures and thus each sampling unit in the population did not have a chance of selection.
- d) Instances were noted where the audit procedures were not performed on each item selected in accordance with paragraph 9 of ISA 530 'Audit Sampling'.

4.17 Analytical Procedures

In some cases, it was observed that planning and/or concluding analytical procedures were not performed as per the requirements of ISA 315 'Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment' and ISA 520 'Analytical Procedures'.

4.18 Engagement Quality Control Review

- a) Engagement Quality Control Review (EQCR) of the audit file was either not conducted, or was conducted ineffectively and therefore, was not in accordance with the requirements of International Standard on Quality Control (ISQC)-1 and ISA 220 'Quality Control for an Audit of Financial Statements'.
- b) There was no document in the working paper files to evidence that the EQC Reviewer performed an objective evaluation of the significant judgments made by the engagement team, and the conclusions reached in formulating the auditor's report as required under paragraph 20 of ISA 220 'Quality Control for an Audit of Financial Statements'.

4.19 Written Representation

- a) Representation letter was not signed by the management representatives with appropriate responsibilities for the financial statements and knowledge of the matters concerned in accordance with paragraph 9 of ISA 580 'Written Representations'.

- b) Instances were noted where the date of the written representations was very remote from the date of the auditor's report on the financial statements. In certain circumstances management representation letter was obtained after the date of auditor's report, which is not in accordance with paragraph 14 of ISA 580.
- c) Instances were noted where the management representation letter did not contain all the representations in accordance with the applicable ISAs.

4.20 Compliance with Laws and Regulations

Instances were noted where the auditor did not consider the effect of certain non-compliance of laws and regulations, including but not limited to non-recognition of Workers Profit Participation Fund (WPPF) and / or Workers Welfare Fund (WWF) and compliance of section 218 of the Companies Act, 2017 on the audit of financial statements in accordance with ISA 250 'Consideration of Laws & Regulations in an Audit of Financial Statements'.

4.21 Audit Documentation

- a) It was noted that the auditor did not assemble the audit documentation in an audit file and complete the administrative process of assembling the final audit file on a timely basis after the date of the auditor's report. In this regard, it was noted that certain documentations were kept in electronic form which was not referred to in the assembled audit file and presented only when demanded by the reviewers which is not in accordance with paragraph 14 of ISA 230 'Audit Documentation'.
- b) It was observed that the auditor in documenting the audit procedures performed did not document the characteristics of specific items tested including date of completion and review of work and who performed and reviewed the work, as required by ISA 230.
- c) In certain instances, audit procedures in respect of verification of material balances were dated after the date of the audit report.

5. Presentation and Disclosures

5.1 Disclosure deficiencies with regard to International Financial Reporting Standards (IFRS) / International Accounting Standards (IAS) and IFRS for Small & Medium Entities (SMEs)

During reviews, disclosure deficiencies were noted with respect to following IFRS / IAS and IFRS for SMEs:

- a) IFRS 7 'Financial Instruments: Disclosures' (categorization and financial risk management) and section 11 'Basic Financial Instruments' of IFRS for SMEs (categorization & accounting policy).

- b) IFRS 8 'Operating Segments'.
- c) IFRS 12 'Disclosure of Interests in Other Entities'.
- d) IFRS 13 'Fair Value Measurement' (fair value hierarchy).
- e) IAS 1 'Presentation of Financial Statements' (comparative disclosures including third statement of financial position, critical accounting estimates and judgements and capital management). The companies either corrected material prior period errors, applied a change in accounting policy retrospectively or made major reclassification(s), however, a third statement of financial position as at the beginning of the preceding period was not presented as required under IAS 1.
- f) IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' (standards issued but not yet effective and possible impact of these new pronouncements).
- g) IAS 12 'Income Taxes' (relationship between tax expense and accounting income and the deductible temporary differences for which no deferred tax asset is recognized). Also amount of deductible temporary difference in respect of deferred tax asset not recognized, was not disclosed in financial statements in accordance with paragraph 81 (e) of IAS 12.
- h) IAS 19 'Employee Benefits' (actuarial assumptions used, sensitivity analysis and the expected contributions for the next period).

5.2 Disclosure Deficiencies with regard to Fourth and Fifth Schedules to the Companies Act, 2017

Disclosure deficiencies were noted with respect to compliance with the Fourth and Fifth Schedules to the Companies Act, 2017 regarding following disclosures:

- a) Remuneration of chief executive, directors and executives.
- b) Loan and advances given / received to / from directors, parent and associates.
- c) Basis of relationship such as common directorships or percentage of shareholding of associates and related parties.
- d) Forced sale values of property carried at revalued amounts.
- e) Breakup of remuneration of auditors.
- f) Share capital differentiating between those issued for cash or other than cash.

- g) Disclosure regarding contingencies.
- h) Disclosure about principal place of business of the company.

Review of the Firm's System of Quality Control

The overall quality of the audit firms was reviewed for ensuring compliance with requirements of the ISQC 1. During the year under consideration, following matters were observed in relation to the ISQC-1 reviews:

1) Key Audit Partner Rotation and Familiarity Threat

- a) In case of audits of listed entities, instances were noted where the engagement partner did not comply with the rotation and cooling off requirements as prescribed by the Code of Corporate Governance and Code of Ethics for Chartered Accountants as the engagement was signed off by the same engagement partner for more than five years.
- b) In respect of engagements reviewed during QCR, the requirement of Section 290.149 of ICAP Code of Ethics for Chartered Accountants (2015) in respect of minimum two years' cooling off period for key engagement partner rotation for Public Interest Entity was not complied.
- c) It was noted in some cases, that the firm was rotated, but the same engagement partner was performing audit while representing the other firm, which is contrary to the requirements of Code of Corporate Governance.

2) Independence and Confidentiality

- a) It was noted that independence and confidentiality confirmations as required under paragraphs 22 and 46 respectively of ISQC-1 were not available in the working paper file. Further, engagement specific independence confirmations were not obtained for audit engagements.
- b) Staff compliance checklist was not available for partners of the firm and the independence confirmation for partners was limited to signatures on Independence register only. In this context, it could not be ensured as how the firm ensured compliance with the independence requirements as defined in the Code of Ethics and Companies Act, 2017, in respect of holding of shares in associated companies, family and personal relationships, employment with an audit client, prohibited roles, indebtedness etc.
- c) Independence declaration was not available for all clients mentioned in the independence register.
- d) No documentation was available in respect of controls to ensure that staff across all offices could access the independence register. Therefore, compliance with the requirements of paragraph 22 of ISQC 1 could not be established.

- e) It was noted that annual independence confirmation was not available in ISQC file in respect of various personnel including engagement quality control reviewer who performed EQCR of listed entities.

3) Cyclical Reviews

There was no evidence of cyclical reviews in the working paper files, i.e. inspection of at least one completed engagement for each partner as required by paragraph 48(a) of ISQC-1. Further, no documentation was available with respect to **cold file review**, i.e. review of completed audit engagements by an appropriate personnel in the firm to ensure that they are conducted in accordance with International Standards on Auditing.

4) Information Technology (IT) Policies

It was noted that the firm used IT network and laptops / computers; however, it did not have IT policies and procedures to ensure confidentiality and protection of data gathered during the audits from unauthorized and inappropriate use. As per requirement of Paragraph 46 of ISQC-1, firms should have such policies to ensure confidentiality and protection of data from unauthorized and inappropriate use.

5) Training

- a) It was noted that there was no evidence to provide continuing training to all levels of firm's personnel to enable them for developing and maintaining required competence and capabilities as required under paragraph 31 of ISQC-1.
- b) There was no evidence to ensure that competence and capabilities of the firm's personnel are managed through trainings, so that engagements are performed in accordance with professional standards and applicable legal and regulatory requirements in accordance with the requirements of Paragraphs 29 and 31 of ISQC-1.
- c) There was no evidence of in-house or external trainings including Continuing Professional Development (CPD) records of partners of the firm as required by ISQC-1. In some cases, it was found that the engagement partner was short of CPD hours, as his training hours were not reported to the Institute for CPD recording.

6) Acceptance and Continuance of Client Relationship

- a) Engagement was accepted before communication with the previous auditor. Hence it could not be assessed from working papers as to how did the auditor comply with requirements of the Code of Ethics for Chartered Accountants in this regard.

- b) Engagement letters were signed before completion of acceptance and continuance procedures as engagement letter was dated prior to the date of planning documents (i.e. Engagement continuation questionnaire, Engagement review checklist, reappointment schedule and existing client continuation/retention memorandum).
- c) Evaluation of the risks associated with the acceptance and continuance of client relationship and specific engagements was not documented.

7) **Engagement Quality Control Review (EQCR)**

- a) Instances were noted where EQC Reviewer's signoffs were not appearing on Completion Checklists.
- b) Engagement Quality Control Review of listed entities were undertaken by a reviewer whose annual independence / compliance confirmation was not available, neither any documentation with regard to designation and competence of the said reviewer was on record of the firm.
- c) Engagement quality control review was not undertaken for listed entity.
- d) Instances were noted where in case of listed companies, there were errors in the audit reports as well as accounting matters which were not identified by EQCR.

8) **Retention of Documentation**

Paragraph 47 of ISQC 1 requires that the firm shall establish policies and procedures for retention of engagement documentation. It was noted that policy for retention of audit working papers was documented as for five years, however, this policy was not in line with ICAP Council's Directive 4.19 which requires that retention period for audit engagements should not be less than six years from the date of signing of the auditor's report or, if later, the date of the group auditor's report.

9) **Timely Assembly of Audit Files**

No evidence was found regarding timely assembly of audit working paper files (not later than 60 days in case of audit engagement) as required by ISQC-1 and ISA 230 'Audit Documentation'. Paragraph 45 of ISQC 1 requires that the firm shall establish policies and procedures for engagement teams to complete the assembly of final engagement files on a timely basis after the engagement reports have been finalized. It was noted that the files were not archived and modification on review date was possible despite the file status being shown as archived.

10) **Performance Evaluation**

Policies and related information on performance evaluation did not exist therefore, it could not be evaluated as to how the firm has ensured promoting an internal

culture that strives to achieve and maintain the required level of quality for audit engagements of the firm as a whole, as per requirements of ISQC 1.

11) **Implementation of Monitoring Procedure on Network Basis**

In case of firms which are part of a global network, it was noted that no documentation was available in respect of implementation of monitoring procedures on a network basis which was required under Paragraph 54 of ISQC 1.

12) **Engagement Performance – Sufficiency of Time Spent**

No engagement wise details with regard to time spent by the engagement partner and the audit team was available to ensure sufficiency of time spent by the team.

Disclaimer

The information contained in this section is not intended to set out how an audit firm should structure its audit working paper files, 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.

Quality Control Review Process

The step-wise review process undertaken by the Quality Assurance Department in discharging its responsibilities in terms of reviewing the engagements is as follows:

- Step 1** Obtain list of audit engagements from the audit firms.
- Step 2** Review the list for completeness and accuracy.
- Step 3** Selection of audit engagements for QCR on a risk-based and sector specific engagement selection criteria.
- Step 4** Visiting 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 in the Review Finding 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 firm's comments, if any, is presented to the QAB for its consideration.
- Step 9 Conclusion**
 - a) The Final QCR report is issued to the firm, after approval by the QAB, with either of the following conclusions:
 - i) Satisfactory
 - ii) Satisfactory With Improvements Required (SWIR)
 - iii) Unsatisfactory
 - b) In addition, where deficiencies are noted in the engagement review of certain partner(s) of the audit firm, any one or more of the following actions may be taken under Clause 14.3 of the QCR Framework, 2019:
 - i) require such partner(s) to undergo additional training or CPD activities as recommended by QAB.
 - ii) arrange a fresh Engagement Review of such partner(s) after the period as deemed appropriate by QAB.
 - iii) refer to the Investigation Committee of the Institute if he fails to implement the Action Plan submitted at the time of earlier review.

Composition of the Quality Assurance Board

The Quality Assurance Board (QAB) is an independent body composed of 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. It oversees the functions of the Quality Assurance Department of the Institute. Brief profiles of the members of the Quality Assurance Board are 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 with KPMG Pakistan and UK for the private as well as the public sector. He has held the positions of Partner in Charge, KPMG Lahore and Head of Advisory, KPMG Pakistan.



ii) **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.



iii) **Mr. Hasan A. Bilgrami**

Mr. Hasan A. Bilgrami is CEO of a biotechnology startup as well as a technology consulting company with operations in Australia and Pakistan. Earlier in his career he worked as Banker where his last position was founding CEO of Bank Islami Pakistan Limited. He is a fellow member of ICMAP, where he was President between 2009-2011. He is also member of CPA Australia.



iv) **Ms. Kauser Safdar**

Ms. Kauser Safdar is a fellow member of the Institute of Chartered Accountants of Pakistan having diverse experience of 15 years of working with financial institutions including UBL and First Women Bank Limited. She is presently working as Chief Financial Officer in PAIR Investment Company Limited. She is a certified director and also part of CA Women Committee, ICAP Benevolent Fund Committee as well as OICCI Gender Equality Committee.

v) **Mr. Masood Karim Shaikh**

Mr. Masood Karim Shaikh is a Chartered Accountant (FCA) with over 30 years of senior level experience in financial sector in Pakistan. He retired in 2017 as SEVP and Group Chief, International Banking Group at National Bank of Pakistan. He was managing their international operations in 18 countries in Far East, Central Asia, Middle East, Europe and Americas. In his previous assignment with National Bank of Pakistan, he held key executive responsibilities as CFO and Group Chief Corporate & Investment Banking. He has also worked with Dubai Islamic Bank – Pakistan as Country Head Corporate & Investment Banking. His other previous assignments were with Emirates Bank International, Mashreq Bank and MCB Bank in various positions as CFO, Head of Treasury and Head of Card Division. At KASB Bank, he held the position of COO. He has also served on Boards of various financial institutions and corporations. Presently, he is working as an independent Financial & Management Consultant.

vi) **Mr. Mehmood ***

Mr. Mehmood Abdul Razzak is the founding and the managing partner heading the assurance and business advisory services at Baker Tilly Pakistan. He is a Fellow member of the Institute of Chartered Accountants of Pakistan and has over twenty years of experience in practice. After serving Central Depository Company of Pakistan Limited as the youngest head of finance, he laid foundation of a chartered accountancy practice leading it to one of the most emerging reputable firm of nineteen partners/directors, more than one hundred and fifty staff with offices in Karachi, Lahore, Islamabad, Peshawar and Kabul. Successfully introduced Baker Tilly International brand, one of the top ten networks of accounting firms, in Pakistan and Afghanistan.



The practice now also ranks amongst the A category firms in Pakistan as per State Bank of Pakistan's panel of auditors.

He has served as a member of the Quality Assurance Board, elected member of the Southern Regional Committee, Taxation Committee and CPD committee of ICAP. He has also served different committees of the Karachi Tax Bar Association and acted as an honorary Advisor to the Karachi Chamber of Commerce. Presently, he is a member of the Auditing Standards and Ethics committee as well as Practicing Members Committee of the ICAP.

vii) **Mr. Muhammad Ashraf Bawany**

Mr. Bawany is Law graduate and a fellow member of Institute of Cost and Management Accountants of Pakistan (ICMAP) & Institute of Corporate Secretaries of Pakistan (ICSP). He is currently holding the position of President at Ghani Global Group of companies and also serving as a Director in VIS Credit rating company and Pakistan Institute of Corporate Governance – PICG. He is also a member of welfare committee of Aziz Tabba Foundation and Tabba Heart Institute. He remained till recent past as a Director on Pakistan Stock Exchange, Central Depository Company (CDC), IT Minds Limited, CDC Share Registrar Company Limited, National Clearing Company of Pakistan Limited (NCCPL) and Bin Qasim Association of Trade & Industry (BAQATI). He was also a former President of ICMAP, PIPFA and CEO / MD of Linde Pakistan Limited.



viii) **Mr. Rashid Ibrahim**

Mr. Rashid Ibrahim is in practice for over three decades. He remained partner of Khalid Majid & Co., Jawaid Qadeer Rashid & Co., Coopers & Lybrand and A.F. Ferguson & Co. He retired after serving for over eighteen years as a partner of A.F. Ferguson & Co. (a member firm of PwC) and is now operating a consulting firm Septentrio Global Consulting (collaborating with Andersen Global in Pakistan). He was a Council member and Vice President of the Institute and remained Chairman and member of various committees of the Institute for over three decades, including Chairman of Education and Training, Investigation, Taxation, and Continued Professional Development Committees.



ix) Syed Aftab Hameed Esq.*

Syed Aftab Hameed is a Fellow Chartered Accountant and in practice since his qualification in the year 1985. Presently he is the Chairman / Senior Partner of Kreston Hyder Bhimji & Co. and looking after the audit and assurance side of the firm. Over a period of three and a half decades, he has, by single-minded devotion to the profession, come to acquire a well-deserved reputation in the concerned circles for himself. He has / had been conducting or supervising audits, investigations or rendering management consultancy services in the various fields of business, trade & commerce, etc. He remained a member of Accounting & Auditing Standards Committee and Education and Training Committee of the Institute of Chartered Accountants of Pakistan (ICAP) for a number of terms, with active participation. At present he is a member of Practicing Member Committee of the ICAP. He is also a joint Auditor of ICAP for the last four years. He has also been nominated as a member of Quality Assurance Board (QAB) by the Council w.e.f. July 01, 2021 for a period three years.



** Mr. Mehmood and Syed Aftab Hameed Esq. were nominated on the Board with effect from July 1, 2021.*

Meetings & Attendance

During the year ended June 30, 2021 nine (9) meetings of the QAB were held.

QAB Members	Meetings Attended
Mr. Farid ud Din Ahmed (Chairman)	9
Mr. Abdul Samad	6
Mr. Hasan A. Bilgrami	6
Ms. Kauser Safdar	9
Mr. Masood Karim Shaikh	2
Mr. Mehmood*	-
Mr. Mohammad Almas	8
Mr. Muhammad Ashraf Bawany	4
Mr. Rashid Ibrahim	8
Syed Aftab Hameed Esq.*	-
Mr. Zulfikar Ali Causer	9

* The membership term of Mr. Mohammad Almas and Mr. Zulfikar Ali Causer expired on June 30, 2021. Mr. Mehmood and Syed Aftab Hameed Esq. were nominated on the QAB in their place with effect from July 1, 2021.

Quality Assurance Department

The quality control reviews are carried out by Chartered Accountants employed on full time basis by ICAP. Present staff composition of the department is as follows:

Name	Designation
Reza Ali	Director
Irfan Azam	Secretary – QAB
Muhammad Asad Iqbal	Deputy Director
Muhammad Fahad Parvaiz	Deputy Director
Raheel Ahmad	Manager
Muhammad Hamza	Manager
Muhammad Waqas Shahid	Manager
Tayyab Dar	Manager
Abdul Ahad	Manager
Muhammad Ali Haroon	Manager
Noman Ali	Manager
Waqas Aslam	Assistant Manager
Hammad Javed	Senior Officer
Chandan Kumar	Officer

QUALITY ASSURANCE BOARD

REPORT 2021

Head Office-Karachi:	Chartered Accountants Avenue, Clifton, Karachi-75600 Phone: (92-21) 99251636-39, UAN: 111-000-422, Fax: (92-21) 99251626
Hyderabad Office:	Ground Floor, State Life Building, Thandi Sarak, Near Giddu Chowk, Hyderabad, Sindh. Phone: (022) 2730161, e-mail: hyderabad@icap.org.pk
Sukkur Office:	Admin Block Sukkur IBA, Airport Road, Sukkur Phone: (92-71) 5804421, e-mail: sukkur@icap.org.pk
Quetta Office:	Civic Business Center, Hali Road, Quetta Cantt Phone: (92-81) 2865533, e-mail: quetta@icap.org.pk
Regional Office-Lahore:	155-156, West Wood Colony, Thokar Niaz Baig, Raiwind Road, Lahore Phone: (92-42) 37515910-12, UAN: 111-000-422, e-mail: lahore@icap.org.pk
Islamabad Office:	Sector G-10/4, Mauve Area, Islamabad UAN: 111-000-422, Fax: (92-51) 9106095, e-mail: islamabad@icap.org.pk
Faisalabad Office:	P- 3/33 East Canal road, Muhammadi Colony, Near Govt. College of Commerce Abdullahpur, Opposite Nusrat Fateh Ali Khan under pass, Faisalabad Phone: (92-41) 8531028, Fax: (92-41) 8712626, e-mail: faisalabad@icap.org.pk
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
Peshawar Office:	House No. 30, Old Jamrud Road, University Town, Peshawar Phone: (92-91) 5851648, Fax: (92-91) 5851649, e-mail: peshawar@icap.org.pk
Gujranwala Office:	2nd Floor, Gujranwala Business Center, Opp. Chamber of Commerce, Main G.T. Road, Gujranwala. Phone: (92-55) 3252710, e-mail: gujranwala@icap.org.pk
Mirpur AJK Office:	Basic Health Unit (BHU) Building Sector D, New City Mirpur, Azad Jammu and Kashmir Phone: 05827-487170, e-mail: mirpur@icap.org.pk
Abbottabad Office:	Yusef Jammal Plaza, Mansehra Road, Abbottabad Phone: 0992-405515, e-mail: abbottabad@icap.org.pk