

IDENTIFICATION OF AUDIT ENGAGEMENT PARTNER IN THE AUDITORS' REPORT ON FINANCIAL STATEMENTS

The Council wishes to draw attention of all practicing members about the prevalent practice of signing audit report in the name and style of the firm where the individual's responsibility for signing the audit report is not identified for personal responsibility and accountability. The practice based on the decisions taken nearly half a century ago, needed a change according to the current international practice and environment in the profession.

Reference is made to Paragraph 6 of the ISA 220 "*Quality Control for Audits of Historical Financial Information*", according to which "*The engagement partner should take responsibility for the overall quality on each audit engagement to which that partner is assigned*".

ISQC 1 "*Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements*", which is in the process of adoption by the Institute, in its paragraph 42, states that "*The firm should assign responsibility for each engagement to an engagement partner. The firm should establish policies and procedures requiring that:*

- (a) *The identity and role of the engagement partner are communicated to key members of client management and those charged with governance;*
- (b) *The engagement partner has the appropriate capabilities, competence, authority and time to perform the role; and*
- (c) *The responsibilities of the engagement partner are clearly defined and communicated to that partner."*

Further attention is drawn to Paragraph 51 of ISA 700 (revised) according to which "*The auditor's signature is either in the name of the audit firm, the personal name of the auditor or both, as appropriate for the particular jurisdiction. In addition to the auditor's signature, in certain jurisdictions, the auditor may be required to declare the auditor's professional accountancy designation or the fact that the auditor or firm as appropriate, has been recognized by the appropriate licensing authority in that jurisdiction.*"

ISA 220 defines "Engagement partner" as "the partner or other person in the firm who is responsible for the audit engagement and its performance, and for the auditor's report that is issued on behalf of the firm, and who, when required, has the appropriate authority from a professional, legal or regulatory body."

For the purpose of clarity it may be noted that the audit opinion on each audit engagement is the collective responsibility of the firm appointed as auditor and the opinion is the result of consultation with other partners. However, signing in his/her own name alongwith name of the firm provides the identification of engagement partner who is the ultimate person responsible for the audit engagement.

In the backdrop of the situation, it was debated that auditor(s) should sign the auditors' report on financial statements under his/her own name along with the firm's name, using the term "Engagement Partner" or "Auditor" for himself/herself as the case may be. The decision on the issue has, however, been deferred for a later date since an information booklet "identifying the audit partner" has been issued on April 05, 2007 and it is expected that through this publication, a constructive debate would be initiated helping the Council to firm up its decision.

In the meantime the audit report would continue to be signed in the firms' name.

Correspondence with ICAP

All correspondence related to policy matters from a firm to the Institute should be signed by a partner in the case of partnership concerns and by the sole-proprietor in the case of a sole-proprietary concern, in his/her name alongwith the name of the firm. Routine correspondence may be signed by any other person authorized in this behalf by the firm.

The statement is issued as a directive of the Council and supersedes ATR 1 and 9. Any contravention thereof shall be deemed to be an act of misconduct liable to punitive action in terms of clause 3 of Part 4 of Schedule I of the Chartered Accountants (Amendment) Ordinance, 1983 and is required to be followed by all practicing members of the Institute.

(188th and 189th Meeting of the Council – March 30, 2007 and May 8, 2007)