




## Council's Report

The Council of the Institute of Chartered Accountants of Pakistan (ICAP) is pleased to present its Annual Report 2007.



# HIGHLIGHTS OF THE YEAR

## ICAP and ICAEW Sign Memorandum of Understanding

The Institute of Chartered Accountants of Pakistan (ICAP) and the Institute of Chartered Accountants in England and Wales (ICAEW) signed a Memorandum of Understanding in Karachi on August 30, 2007 in presence of eminent members of ICAP and ICAEW.



As per the terms of the MoU, ICAP and ICAEW will co-operate with each other to enable ICAEW to offer its advanced level tuition in Pakistan for progression of ICAP members to the ICAEW's ACA qualification. In addition, it will help both the Institutes to strengthen international accounting ties, exchange information and experience and provide assistance to each other in developing the accountancy profession.

## City of London Education Program

In February this year Alderman John Stuttard, Lord Mayor of the City of London, visited ICAP to promote his 'City of London - City of Learning' initiative on Education, Training and Qualifications. The Lord Mayor described Karachi as a wonderful city of commerce and finance. He stated that the proximity of Pakistani

accounting standards to International Financial Reporting Standards (IFRS) is conducive for creating a favorable environment for Pakistani businesses in the UK. The Lord Mayor's visit was



widely viewed as another step forward towards fostering partnership between Pakistan and UK in areas of financial services and business education.

## ICAP Teams Up with International Innovation Network (IIN)

Throughout the greater part of the year ICAP worked closely with international professional bodies. As part of this initiative ICAP became a member of the International Innovation Network (IIN) Limited.

At its Annual General Meeting held in Valencia, Spain on January 21, 2007, IIN awarded membership to ICAP. This is another step towards the promotion of ICAP globally and has resulted in links with accountancy institutes worldwide.

IIN consists of 15 international accounting institutes spanning Asia Pacific, the Americas and Europe. The aim is to stimulate innovation

while allowing network members to develop and share new products and services, such as online student diary, niche newsletters and succession planning toolkits. The second IIN conference was held in June in New York, the highlights of which included products for SMPs, Website Technologies and Student Marketing Campaigns.

#### ICAP Participates in IIN Survey

During the year ICAP Members, on behalf of the Institute, participated in surveys of Members in Practice and Members in Industry as part of an international initiative through the IIN being conducted by accounting associations in seven countries around the globe. Participating countries included Pakistan, Australia, Canada, Ireland, Netherlands, New Zealand and the United States. The purpose of the survey is to better understand the needs of the members and to deliver more relevant products and services to them based on the survey findings. The results of the survey will be disseminated and utilized for improving ICAP's services to its members.

#### ICAP Collaborates with IFAC to form IFACnet

The International Federation of Accountants collaborated with its member organizations, including the Institute of Chartered Accountants of Pakistan to develop IFACnet—A KnowledgeNet for Accountants in Business ([www.ifacnet.com](http://www.ifacnet.com)). This collaborative project launched in October 2006 is a global search engine designed to provide one-stop access to leading-edge articles, good practice guidance and management tools and techniques developed by ICAP and nearly 20 other professional accountancy bodies worldwide for

accountants employed in practice, commerce, industry, the public sector, education and the not-for-profit sector.

#### Endowment Fund

By their very nature endowment funds require the balancing of current and future needs. The mission of The Institute of Chartered Accountants of Pakistan has always been the promotion of its services to the student community. The Council has approved two endowment funds for this purpose:

By their very nature  
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of current and future  
needs.

#### Library Development Fund

The purpose of this endowment fund is to supply funds in perpetuity for the purchase of books and other materials.

#### Students Fund

To help students who demonstrate academic promise overcome the costs of tuition so that they can successfully complete their qualification.

The Endowment Fund will be administered under the rules made thereof.

## EDUCATION & TRAINING

As the profession moves towards strengthened codes of conduct, regulation and legislation, the Institute is committed to designing a qualification which embeds the global education standards set by the International Federation of Accountants (IFAC) with a strong focus on professional values, ethics and governance.

The current Professional Scheme is designed to provide the professionals with the accounting knowledge and skills and the professional values to enable them to build successful careers whether they are practicing in accounting firms or pursuing a career in business.

### Student Exchange Program

As a member of the South Asian Federation of Accountants (SAFA), the Institute had the honor

of hosting the Students' Exchange Program for the year 2007. Students from India, Sri Lanka and Nepal were invited to visit ICAP and view the Chartered Accountancy education, training and practices in Pakistan. During their five day stay in Karachi, the students were taken to various Registered Accounting Education Tutors (RAETs), CA firms, multinationals and local concerns. The students also participated in the All Pakistan Chartered Accountancy Students' Conference.

### Chartered Accountancy Students' Conference

A students' conference themed "Chartered Accountancy: Marking its own Borders" was held at Karachi in March 2007. The conference aimed to establish a learning platform for Chartered Accountancy students. Trainees and



Students and ICAP Faculty at the Students Conference 'Chartered Accountancy - Marking its Own Borders'

participants from Pakistan and overseas were given the opportunity to read papers on various relevant issues under the supervision of prominent professionals from industry and practice.

The conference was widely hailed as a significant effort by the Directorate of Education & Training (DET) and the Chartered Accountants Students Association (CASA) to provide a forum where members and students could come together and strengthen ties.

### Training Regulations and Guidelines

The Training Regulations and Guidelines were launched in April 2006 to meet the requirement of practical experience as stipulated in

IES 5 – “Practical Experience Requirement” issued by IFAC and to ensure that future Members acquire skills and values necessary for responding to the dynamics of the profession.

The Regulations are being implemented in various phases and will be fully implemented by April 2008.

In the first and second phase of transition of these Regulations, existing firms of 5 to 9 and 10 & above partners who were conducting training of students have been registered as authorized Training Organisations.

Status of compliance of CA Firms with Training Regulations upto June 30, 2007 is as follows:



	10 and above partners firms	5 – 9 Partners Firms	2 - 4 partners Firms	Sole Proprietor	Total
Total Firms	5	15	82	126	228
Applications Received and Approved	4	14	14	21	53
Applications Received and in Process	1	1	9	04	15
Applications not Received	0	0	59	101	160

### Representation on IAESB of IFAC

Mr. Abdul Rahim Suriya represents Pakistan on IFAC's International Accounting Education Standards Board (IAESB). He attended its meeting held in Turkey last November. Mr. Suriya updated the Board on the compliance of IES 8 "Competence Requirements for Audit Professionals" by ICAP members. This IES is effective from July 1 2008 for all audit professionals.

He also attended the 10th World Congress of Accounting Educators "Challenges and Developments in International Accounting Education and Research" held on 9- 11 November 2006, Istanbul-Turkey.

### Career Counseling & Extended Learning

During the year 2006-07, a large no of students were counseled through visits to various schools and colleges. Additionally, participation in the DAWN Education Expo 2007 provided a platform for attracting approximately 2000 bright young minds to the profession. Another exposition was taken to the smaller cities of Gujranwala, Faisalabad and Sargodha in July



where an additional 1000 students were counseled .

An open forum was organized for trainees from various CA Firms / Training Organizations to discuss issues confronting them during the course of training. This forum not only provided students with the opportunity to express their views, but also demonstrated the Institute's commitment to address all such concerns.

The Directorate of Education and Training organized a series of examination techniques seminar at Karachi, Lahore, Islamabad, Faisalabad and Multan in December 2006 to facilitate CA Foundation and Intermediate students. The Directorate also organized examination techniques seminar for Final level students in Karachi, Lahore and Islamabad. Furthermore, study workshops were organized in May 2007 on Advanced Taxation for Final stage students residing in Dubai and connecting cities.

### Digital Library at Karachi & Lahore

Digital Libraries have been set up at Karachi and Lahore for members and students. The idea is to provide multiple access to richer content of high quality peer reviewed journals and articles across a wide range of disciplines through internationally acclaimed databases such as Blackwell Synergy Publishing, Oxford University Press- E Books, Palgrave Macmillan Journals etc.

DET envisions education reform to attract more students to the CA profession and enhance the quality of our admission and qualification standards to meet the criteria for international recognition and reciprocity.

## BOARD OF STUDIES

The Board of Studies emerged from the Institute's aspiration for creating a sustainable course of study based on best practices in education and training. From its establishment, the Board has endeavored to indigenize research and review of existing syllabi, and further development of study material, based on the need to ensure the delivery of consistency and quality to our students.

The Board considers the curriculum an important reference document that our students will use throughout. Thus, it must be well organized and structured to provide maximum benefit to the student community. The Board has the responsibility to continually update the curriculum so that the goals and objectives of

the profession are met. Our ultimate aim is to align the profession to both national and international standards through collaborative and engaged learning.

During the first six months, the Board reviewed and approved seven study packs for students of Foundation and Intermediate levels. Another five study packs were subsequently approved after thorough reassessment. Ten Final level study packs are currently under review, and three syllabi have been reviewed. The Board is also in quest of qualified local and overseas writers to compile textbooks for the benefit of our student body who use English as a second language.

## RESEARCH DEPARTMENT

A Research Department has recently been set up at the Institute with the main objective to conduct research on various local and global issues and challenges that confront the accounting profession. This will include working on longer term research projects, and generating studies, best practices papers and reports etc. intended for publication.

The research department will undertake research and analysis work on various issues and upcoming challenges arising both locally and globally. The work will be undertaken both from a national industry and economic perspective and also from the viewpoint of the sectors within which our members are present. Links

will be firmly established with relevant regulatory authorities such as SECP, Central Board of Revenue, Chambers of Commerce, industry sector organizations, educational institutes, housing research departments and other research organizations. Research and analysis reports shall be published and disseminated among the members and students of ICAP.

Comparisons will be made between Pakistan and similar economies worldwide to assess the future scope of the economy and to compare the relevant policies and their impact. Global topical issues will also be reviewed and relevant articles published in the Pakistan Accountant.

# EXAMINATIONS

The number of students appearing in the examinations have again risen sharply this year. More than 10,000 students appeared in the Foundation and Intermediate Examinations in Spring 2007 session.

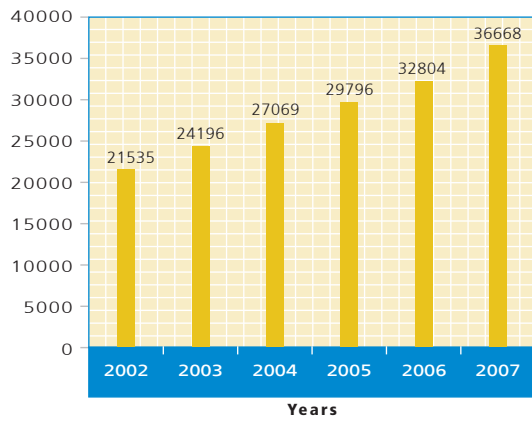
Some of the important events that took place during the year were as under:

- To discourage rote learning, it was decided to introduce a policy of Open Book Examinations. As a first step it was decided to allow the student to bring the Bound Volume of International Financial Reporting Standards while appearing in Financial Accounting (Module "C") and Advanced Accounting and Financial Reporting (Module "E") examinations. For the first time, the system was introduced in the Final Examinations held in June 2007. The policy will be extended further, in due course of time.
- To facilitate the students, a policy of holding examination on alternate days has been introduced, for the students in Foundation and Intermediate Examinations.
- A new examination centre has been opened at Hyderabad, for the Foundation and Intermediate Examinations. The move has been welcomed by students living in Hyderabad and other areas in the interior of Sindh.
- To encourage the students, merit certificates have been introduced for those students who secure highest marks in a subject (other than those in which gold medals are awarded). Functions are now being held regularly i.e. after every six months, to distribute the gold medals and the merit certificates.

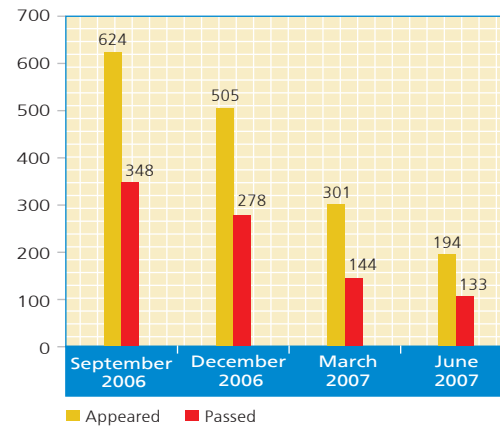


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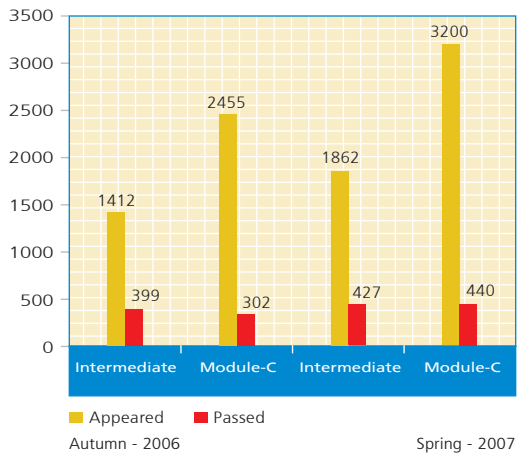
### Registered Examinees As on 30th June, 2007



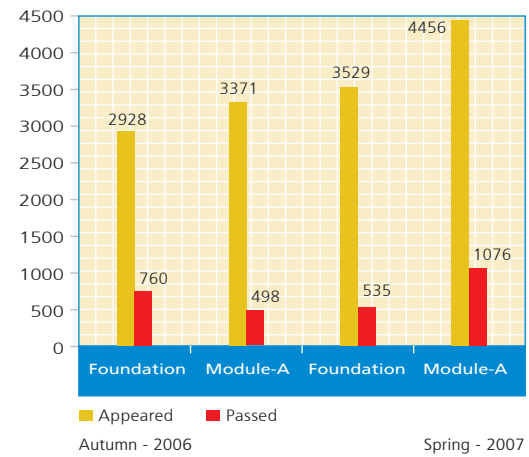
### Pre-entry Proficiency Test



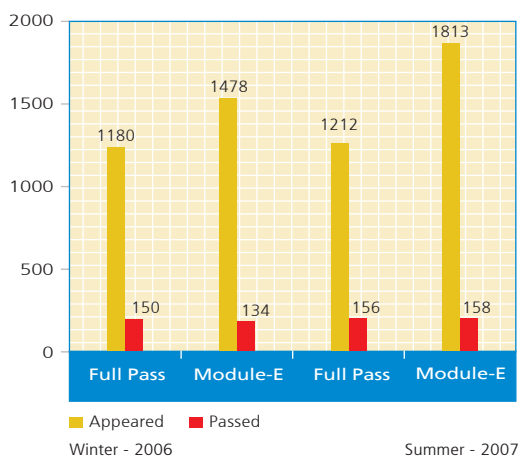
### Intermediate Examination



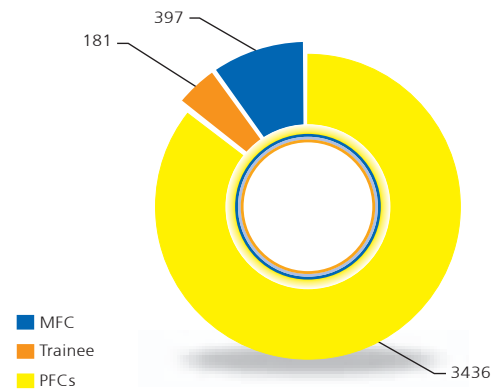
### Foundation Examination



### Final Examination



### New Examinees Registered - 2006-2007



# Award of Gold Medals

## Foundation and Intermediate Examinations

Autumn 2006

Wasif Abrar Ali Shah Feroz Ali Ambreen Khalid	ICAP Gold Medal (Ameena Khatib Foundation)
Shumaila	Kasbati Memorial Gold Medal

Spring 2007

Zeeshan Mehmood Hasham Ali Baber	ICAP Gold Medal (Ameena Khatib Foundation) Kasbati Memorial Gold Medal
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## Final Examination

Winter 2006

Noman Khurshid	Bhimji Gold Medal & J P Patel Memorial Gold Medal
Muhammad Shujaat Bhatti	ICAP Gold Medal

Summer 2007

Ahsan Abbas	Bhimji Gold Medal
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# Award of Merit Certificates

## Foundation And Intermediate Examinations

SPRING 2007

Sl. No.	Name and Father's Name	Paper
01	Umair Madhani s/o Irfan Madhani	Functional English
02	Baasit Ali s/o Asghar Ali	Quantitative Methods
03	Talal Bin Shaukat s/o Shaukat Mirza	Introduction to Economics and Finance
04	Muhammad Osman Aziz s/o Asad Aziz	Introduction to Financial Accounting
05	Zain Khalil Ahmed s/o Shaikh Khalil Ahmed	Mercantile Law
06	Zeeshan Mehmood s/o Mahmood Ahmad	Financial Accounting
07	Syed Muhammad Kamran Ali Raza s/o Syed Farman Raza	Taxation
08	Umair Ali Butt s/o Azhar Ali Butt	Business Communication and Behavioral Studies
09	Sherdil Waqar s/o Waqar Tariq	Company Law
10	Abeera d/o Iqbal Shami	Auditing
11	Muhammad Faizan Shahab s/o Tahir Shahab	Cost Accounting
12	Sabica Shahani d/o Zahoor Hussain Shahan	Information Technology



Receptins of Gold Medals & Certificates of Merit, 2006



# TECHNICAL SERVICES

Through its various Committees, Directorate of Technical Services is proactively supporting and assisting its members in their practice and influencing law, regulation and market practices through:

- Developing guidance and best practice papers;
- Contributing technical update material to help members keep abreast of latest developments in accounting and auditing practices;
- Taking up issues of wider interest raised by members;
- Responding to formal and informal consultations from regulators, trade bodies, and custodians of market practices;
- Formulating its views and public position through its technical services staff in conjunction with the policies of the Technical Committees, and by taking soundings from members.

## Nomination on IAASB & DNC of IFAC

It has been a great honor for the Institute that one of its Council Members, Mohammad Abdullah Yusuf, Secretary Revenue Division & Chairman Central Board of Revenue has been appointed on the International Auditing and Assurance Board of International Federation of Accountants. Mr. Yusuf along with Director Technical Services, Shahid Hussain, attended three meetings in New York, Sydney and Warsaw where they actively participated in discussions on various International Auditing Standards exposure drafts reviews.

Mr. Shabbar Zaidi has been appointed member of the Developing Nations Committee (DNC) of IFAC for the term 2007-09.



Contributing technical update material to help members keep abreast of latest developments in accounting and auditing practices

### Notification of Accounting and Financial Reporting Standards for MSEs & SSEs by SECP

It is heartening to note that the Accounting and Financial Reporting Standards for Medium-sized Entities (MSEs) and Small-sized Entities (SSEs) developed by the Institute of Chartered Accountants of Pakistan (ICAP) have been notified by SECP on August 21, 2007 under Section 234 (3) of the Companies Ordinance, 1984.

As the above notification also necessitated appropriate amendments to the Fifth Schedule to the Companies Ordinance, 1984, therefore on the recommendation of the ICAP, the SECP has also revised the said Fifth Schedule on August 21, 2007.

### Notification of IFRS and Islamic Financial Standard (IFAS) by SECP

During the year under review the SECP notified the following IFRS.

- IAS 41 'Agriculture'
- IFRS 2 'Share-based Payment'
- IFRS 3 'Business Combinations'
- IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations'
- IFRS 6 'Exploration for and Evaluation of Mineral Resources'
- Islamic Financial Accounting Standard (IFAS) 2 on 'Ijarah'

### Adoption of IFRS

During the year, the Council adopted the following IFRSs and recommended their notification to SECP:

IFRS 7 – Financial Instruments : Disclosures

IFRS 8 – Operating Segments

IAS 29 -- Financial reporting in Hyperinflationary Economies

### Adoption of IAASB Pronouncements

During the year following IAASB pronouncements were adopted:

- ISRE 2410- Review of Interim Financial Information Performed by the Independent Auditor of the Entity.
- ISA 701 – Modification to the Auditor's Report.

### Accounting and Auditing Standards for Interest Free Modes of Financing and Investment

- During the year, through Finance Act 2007, a provision has been introduced in the Income Tax Ordinance which states that Taxation of Shariah compliant Islamic banking would be treated at par with conventional banking.
- On the recommendation of the Institute the SECP has notified Islamic Financial Standard 2 'Ijarah'. The Standard becomes operative for financial statements covering periods beginning on or after first day of July 2007.
- The Committee also intends to develop standards on the following on a priority basis:
  - ▶ Standard on Profit and Loss Sharing on Deposits
  - ▶ Standard on Diminishing Musharaka
  - ▶ Standard on General Presentation of Financial Statements of Islamic Financial Institutions
- Comments were sent to State Bank of Pakistan on Draft Instructions and Guidelines for Shariah Compliance in Islamic Banking Institutions issued by SBP.

## ICAP Pronouncements

### SECP Directive Regarding Prohibited Services by Auditors on Council's Recommendation

During the year on the recommendation of the Council of the Institute the SECP directed all the three Stock Exchanges to amend their Listing Regulations so that no listed company shall appoint or continue to retain any person as an auditor who is engaged by the company to provide services that are prohibited. This recommendation was made by the Institute keeping in view the recent development in IFAC Code of Ethics as well as practices prevalent in many countries.

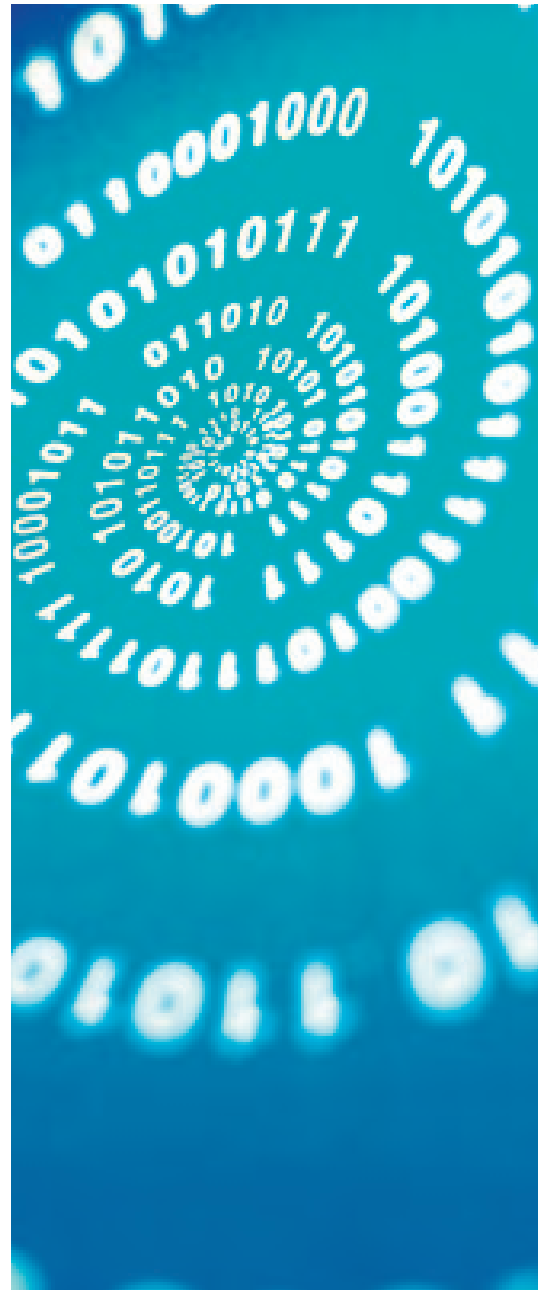
Subsequent to the aforesaid amendments to the Listing Regulations of the three Stock Exchanges, the Directive 4.16 in its present form became inoperative/ redundant therefore the Council withdrew the directive with immediate effect.

### Circulars Issued to Members

During the year following circulars were issued to members:

- Withdrawal of SAP 3 and 5 and conversion of Statement of Standard Auditing Practice (SAPs) into ATR-18
- Amendments to TR-5 - IASB Standards – Council's Statement on Applicability (Revised 2006) subsequent to the issuance of 'Accounting and Financial Reporting Standards for Medium-Sized Entities (MSEs) and Small-Sized Entities (SSEs)'
- Adoption of ISA 701 – Modifications to the Independent Auditor's Report.
- Notification of IAS 41 'Agriculture'

- Further deferment of application of IFRIC Interpretation 4 'Determining Whether an Arrangement Contains a Lease' for Independent Power Producers by SECP.



### Matters Under Consideration

- The matter of adoption of IFRS 4 'Insurance Contract' and its impact on the Insurance Industry of Pakistan is under consideration of the relevant Committee of the Institute subsequent to the decision of the PS&TAC that instead of waiting for the completion of Phase II of the IASB's Insurance project, the standard be considered for adoption.
- This year SAFA issued "SAFA Standard and Guideline for Not-for-Profit Organisations" and PS&TAC in principal decided to recommend to the Council to adopt the standard with some necessary changes. The detailed review of the standard is being done by the relevant Committee of the Institute.
- To develop Auditors' Report on the Internal Controls Relating to Financial Areas only.
- To propose amendments to the format of Bank's Financial Statements.

### Review of IASB / IAASB / IESBA Pronouncements

Following exposure drafts and discussion papers are under consideration of the Committees:

- ISA 580, Written Representations.
- ISA 540, Auditing Accounting Estimates, including Fair Value Accounting Estimates, and Related Disclosures and Proposed Withdrawal of ISA 545, Auditing Fair Value Measurements and Disclosures.
- ISA 550, Related Parties.
- ISA 570 Going Concern.
- ISA 250 – Auditors' Responsibilities in relation to Laws and Regulations in an Audit of Financial Statements.
- Discussion Paper, Fair Value Measurements.

- Draft IFRS for Small and Medium-sized Entities issued by IASB.
- IFRS 1 'First – time adoption of International Financial Reporting Standards'.
- IAS 24 'Related Party Disclosures'.
- Section 290 and 291 of the Code of Ethics – 'Independence Audit and Review Engagements' and 'Independence Other Assurance Engagements'.

In addition to the above the International Auditing Practice Statements (IAPs) issued by IAASB are also under consideration for adoption.

### Technical Opinions

During the year several queries on technical matters were received from various members and other institutions like SECP. Appropriate replies were sent to them. Some of the important issues/queries related to the following areas:

- Revenue Recognition Policy for prepaid Calling Cards.
- Deferred Tax.
- Interpretation / Implementation International Accounting Standard 39.
- Reclassification of the Shares in the Portfolio of Investment Fund.
- Accounting for Investments in Associates
- Incorporation or recognition of NIT Dividend as Income in Financial Statements.
- Provision for Workers' Participation Fund – Share in profit of Associates under Equity method.
- Accounting for Project Development Expenditure and Costs Related thereto.

- Impact of withdrawal of TR-20.
- Measurement of Interest Free (Low interest rate loans received / advance by Companies).
- IAS 17- Accounting for Leases.
- Reserve on Amalgamation.
- Recognition of Income by Leasing Companies.
- Accounting Treatment of the Cost of Automotive Parts.
- Application of IAS 39 on the Financial Statements.
- Fair Value of Unquoted Investment.
- Residual Value of Assets – IAS 16.

### Interaction with Government, Regulatory Bodies and Other Stakeholders

#### International Organizations: Responses to Questionnaires/Surveys

Responses to following questionnaires/surveys were submitted:

**CAPA** - Study to determine the impact and/or influence of Sarbanes Oxley Act on member bodies of CAPA countries.

**IFAC** - The International Ethics Standards Board for Accountants (IESBA) Strategic Review Questionnaire.

- IAASB Strategy Review Questionnaire

#### Submission of Case Study of Pakistan to ISAR

Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR) of United Nations Conference on Trade and Development (UNCTAD) (UNCTAD) held its twenty-third session in

October 2006 which was attended by Council Member Asad Ali Shah who presented a paper titled 'Implementation of IFRS & SME Standards – Pakistan Experience'. In the meeting it was agreed to conduct additional studies and reviews of practical implementation issues of IFRS with a view to developing guidance on good practices on IFRS implementation. Accordingly, country case studies of Pakistan, the Republic of South Africa and Turkey were prepared.

The Directorate of Technical Services prepared a detailed case study of Pakistan which presents the regulatory framework, enforcement of accounting standards, challenges faced in the process of converging to IFRS, capacity-building issues and lessons learned in the process.

The main objective of this case study is to draw lessons learned from the experience of Pakistan in converging with IFRS and to discuss the findings with member States, with a view to facilitating sharing of experience among countries that are either implementing IFRS or that intend to do so in the coming years.

#### References from IASB and IAASB of IFAC

Comments on the following exposure drafts and discussion papers were sent to IASB and IAASB:

- Discussion paper: Preliminary views on an Improved Conceptual Framework for Financial Reporting: The objective of Financial Reporting and Qualitative characteristics of Decision useful Financial Reporting Information.
- ISA – 260 (Revised and Redrafted) Communication with those charged with Governance.

- ISA – 320 (Revised and Redrafted) Materiality in Planning and performing an Audit.
- ISA – 450 (Revised and Redrafted) Evaluation of Misstatements Identified during the Audit.
- ISA 230, Audit Documentation.
- ISA 560, Subsequent Events.
- ISA 610, The Auditor's Consideration of the Internal Audit Function.
- ISA 720, The Auditor's Responsibility in Relation to Other Information in Documents containing Audited Financial Statements.
- Proposed International Standard on Auditing 600 (Revised and Redrafted) the Audit of Group Financial Statements issued by IFAC.
- Proposed Amendments to IFRS 2 Share-based Payments.
- IAS 1 Presentation on Financial Statements.
- Proposed Amendments to IAS 23 Borrowing Costs.
- Progress of Internal Control Guidelines – Implementation.
- Access of external auditors to the Inspection Report of a commercial bank.
- ICAP has proposed SBP to include a requirement of audit of Borrowers' Financial Statements by QCR rated firms of chartered accountants in cases of large exposures.

#### Co-ordination between ICAP and SECP

#### SAFA

Pakistan's initiative for developing standards for SMEs was recognized by the South Asian Federation of Accountants (SAFA) and these standards have been adopted as SAFA standards/guidelines.

Syed Mohammad Shabbar Zaidi has been appointed Vice President, SAFA for the year 2007 and will be President, SAFA for 2008.

#### Co-ordination between ICAP and SBP

During the year following issues were under discussion between ICAP and SBP:

- Implementation of IAS 39 and IAS 40 for banks and DFIs
- Comments have been sent on Draft Real Estate Investment Trust Regulations 2007 issued by SECP.
- On the recommendations of the Institute the SECP has brought appropriate amendment to the existing Section 248 (2) of the Companies Ordinance, 1984 by restricting all the corporate entities to pay dividends out of their realized profits only (as is the case with UK company law) on the recommendation of ICAP to enable implementation of IAS in the country.
- On the recommendation of the Institute the SECP through the Finance Act 2007 had the Sub-section (2) of Section 248 amended. The amendment imposed further restrictions on the scope of divisible profits by way of payment of dividend by a company to its shareholders which may be represented by unrealized gain on investment property (as per IAS 40) credited to profit and loss account. As a result of this amendment unrealized gain on investment property shall not be available to be utilized, directly or indirectly, by way of dividend or bonus.
- SECP has been suggested to bring the format of Form 35 A in line with format given in Revised ISA 700. As the revision of format

would need amendments to Section 255 of the Companies Ordinance, 1984 therefore SECP has also been suggested to bring appropriate amendments to this section of the Ordinance.

- On the recommendation of the Institute IFRIC 4 – Determining whether an Arrangement contains a Lease for IPPs has been deferred by SECP till June 30, 2009.

#### Taxation and Economic Policies

The Committee on Taxation and Economic Policies developed detailed proposals on Direct and Indirect taxes and economic policies for incorporation in the Federal Budget for the year 2007 – 2008. Some of these proposals have been incorporated in the Finance Act, 2007, one of the highlights being the introduction of the seventh schedule for Banks.

#### Best Corporate Reports Pakistan

For the seventh consecutive year, corporate reports for the financial year, which ended in 2006, were evaluated by the Technical Services Directorate of the Institute, and the award

distribution ceremony organized by the Joint Committee of ICAP and ICMAP is scheduled to be held shortly.

It has been heartening to see the Companies' enthusiasm and competitive spirit with better and more creative financial statements coming up each year.

#### SAFA Best Corporate Reports Awards

Awards of merit were given to Askari Commercial Bank Limited, Faysal Bank Limited, Atlas Investment Bank Limited, Crescent Leasing Corporation Limited, Fauji Fertilizer Company Limited, Crescent Steel and Allied Products Limited, Sanofi-aventis Pakistan Limited and Highnoon Laboratories Limited in their respective sectors at the SAFA Best Presented Reports Competition 2005.

#### Selected Opinions

The Institute has finalized Volumes XI and XII of Selected Opinions issued during July 2005 to June 2006 which have been uploaded on the Institute's website.



Best Corporate Report Awards Ceremony held in 2006



# QCR: QUALITY CONTROL REVIEW

## Promoting Quality and Service

A cornerstone of our profession is our belief in adhering to and maintaining the highest standards of quality. The Quality Control Review (QCR) Program is integral to the Institute's regulatory framework, established to develop and maintain compliance of professional standards amongst firms engaged in audit of limited companies, particularly listed entities, as the Code of Corporate Governance requires a satisfactory QCR rating as mandatory for CA firms conducting audit of listed companies. This reflects the Institute's commitment to protecting the stakeholders'/public's interest and maintaining rigorous self-regulatory standards. At the same time, Department of Professional Standards Compliance & Education (DPSC&E) is continuing to meet the expectations of international standard setters, regulators, and the public.

## Quality Control Reviews

During the period from September 2006 to June 30, 2007, reviews of 56 audit engagements of 27 firms at 31 office locations were carried out at Karachi, Lahore, Islamabad, Peshawar and Hyderabad as compared to 136 audit engagements of 69 firms at 96 office locations during the period July 2005 to August 2006. The reason for lesser number of reviews in the current year as compared to the previous year is 'cyclical frequency', as firms are required to undergo QCR every two and a half years now, which was previously every two years.

As on 30 June 2007, 99 practicing firms, listed on the Institute's website, have been given satisfactory QCR rating.

During the period under review, two cases of professional misconduct and negligence were referred to the Investigation Committee.

## Quality Assurance Board (QAB)

Nationally, the Quality Assurance Board (QAB) is working tirelessly to help members adapt to, and implement, new standards.

In pursuance of the Institute's policy of gaining influence in the development and implementation of public policy, the QAB membership comprises senior representatives from the State Bank of Pakistan (SBP), the Securities & Exchange Commission of Pakistan (SECP), and the Karachi Stock Exchange (KSE). The Institute considers liaison with the regulatory authorities of the country essential to the success of its QCR program.

The Board met five times during the period under review and conducted the following business, apart from reviewing the QCR reports of the above mentioned reviews:

A cornerstone of our profession is our belief in adhering to and maintaining the highest standards of quality.

- Revision of QCR Framework
- Organizing Roundtables for getting members' response for implementing ISQC 1
- Issuance of Audit Practices Manual (revised) – Volume 1
- Review the matter relating to practice license requirements and its linkage with QCR
- Issuance of circulars on the following topics:-
  - ▶ Audit Documentation and Quality Control Review
  - ▶ Confirmation from Legal Advisor
  - ▶ Quality Control Review Framework
  - ▶ Deferred taxation

#### Revision of QCR Conclusion

The previous QCR conclusion stated whether the standard of work performed was in-accordance or not-in-accordance with International Standards on Auditing.

On the recommendation of the QAB, the Council in its meeting, has revised the QCR conclusion, as follows:

“Whether the audit report issued by the firm in respect of reviewed client(s), was supported or not supported by appropriate audit evidence.”

The above change was made since previously the QCR conclusion was practically based on whether or not the auditor had obtained sufficient appropriate audit evidence on material account balances and transactions, and the audit report issued was based on such evidence.

The revised conclusion will now give due weightage to exceptions noted in all ISAs and ISQC 1. Further, the QAB has formed a sub-committee to consider, and make recommendations, to further modify the QCR framework in order to enhance the effectiveness of our quality control review process, addressing the following issues:

- ▶ Extending the scope of QCR conclusion to cover all ISAs
- ▶ Introducing a graduated penalty system- the current system of either approving or removing a firm from quality control rating enforced through Corporate Governance Code is considered impractical.
- ▶ Developing a roadmap for implementation of ISQC 1

The QAB has formed a sub-committee to consider, and make recommendations, to further modify the QCR framework in order to enhance the effectiveness of our quality control review process.

## Training Workshops for Small and Medium-sized Practices (SMPs)

During the period under review, following workshops were conducted

S. No.	Theme	Facilitator	City	Date
01	Audit of Provident Fund	Altaf Noor Ali	Karachi	December 9, 2006
02	Planning and Risk Assessment	Zulfiqar Ali Causer	Karachi	February 17, 2007
03	IAS-8 and IAS-18	Faisal Anisuddin	Karachi	March 24, 2007
05	Stock-in-trade - Physical stock taking and valuation	Irfan Ghani	Lahore	March 31, 2007
06	Audit of SMEs	Altaf Noor Ali	Karachi	April 7, 2007
07	Business Communication for Accountants	Moiz Ahmad	Karachi/Lahore	April 28, 2007
08	Audit Information and its Analysis for forming Opinions through Spreadsheets	Altaf Noor Ali	Karachi	June 9, 2007
09	Presentation of Financial Statements under IAS 1	Usman Ghani Akbani	Karachi	July 28, 2007
10	Auditors Review of Presentation of Financial Statements	Tahmeen Ahmed	Islamabad	August 7, 2007

A large number of students from SMPs attended the above workshops and appreciated the Institute's initiatives and efforts for conducting these training programs. The Institute wishes to thank all workshop facilitators and participating firms. The Institute plans to expand the scope of similar workshops in Lahore and Islamabad next year.

### Roundtable Meetings on ISQC 1

In order to create awareness of ISQC 1, the QAB held roundtable meetings at Karachi, Lahore, Multan, Faisalabad and Islamabad. Zafar Iqbal Sobani, Chairman QAB, Asad Ali Shah, Vice Chairman QAB, Rashid Rahman Mir, member QAB, and Shahzad Hussain, Council

member, conducted these meetings at various locations. Presentations were given by Faheem-ul-Hasan, Partner A.F Ferguson & Co. and Muhammad Asif Iqbal, Director Professional Standards Compliance and Evaluation.

A large number of practicing members mostly representing SMPs actively participated in these meetings and the following were proposed during these meetings:

- Revision of ATR-14 (Minimum Audit fees)
- Introduction of concept of Networking of Audit firms and formulation of guidelines by the Institute.

- Institute's support for SMPs in understanding the contents of ISQC 1 and its effective implementation in its true spirit through guidance manuals, checklists, circulars, awareness programs etc.

the Council has formed a Taskforce to formulate formal guidelines for Networking of Audit Firms. This will assist SMPs in enhancing their resources to cope with the challenges of ISQC 1 and other Standards.

#### Networking of Audit firms

As suggested in the above roundtable meetings,

The Council approved the above guidelines as exposure draft for comments in July 2007.



The Institute has issued Exposure Draft containing formal guidelines for Networking of Audit Firms.

#### Revision of ATR-14 – Minimum Audit Fees

In view of the increased cost of compliance with the standards, and as recommended in the above roundtable meetings, the Council decided to revise ATR-14 and issued the revised ATR on March 30 2007. In the revised version,

minimum audit fees and hourly charge out rates were significantly increased, which will help audit firms in recovering their cost to a greater extent.

## Members Information & Education Series (MIES)

Following MIES were issued during the previous year for the benefit of members:

MIES-7	Modified Auditor's Reports on Financial Statements – Illustrations and Contents
MIES-8	Best Practices on Corporate Governance for South Asian Countries
MIES-9	Networking of CA Firms– An Overview
MIES-10	Identifying the Audit Partner
MIES-11	Diverse Roles of the Professional Accountants in Business
MIES-12	IFAC Statements of Membership Obligations
MIES-13	Responsibility of Preparing Financial Statements under IFRS
MIES-14	Defining and Developing an Effective Code of Conduct for Organizations

### Moving Ahead

The Institute is working tirelessly and actively to address the challenges facing the audit profession, especially in assisting SMPs to gear up for assimilating and integrating their practices with global accounting standards. We acknowledge that the best firms are the ones that maintain comprehensive records of key

audit judgments central to the principles-based approach to audit, where firm leadership has established high parameters for quality, where performance is measured against established benchmarks, and where there is low tolerance for preventable quality lapses.

## MEMBERSHIP

Our membership is growing at a gradual pace. The Institute has successfully conducted counseling sessions to help enrolled students pass their final examinations, and seminars to attract young talent to the profession. ICAP's objective is to hone the professional skills of Chartered Accountants as well as to enhance the portability of the ICAP qualification.

Membership of the Institute on June 30, 2007 was 4204 out of which 928 members are overseas, which accounts for 22 percent of total membership. During the year 2006-07, 327 new members were admitted to the Institute and memberships of 24 were restored, resulting in an increase of 351 members. Out of the total membership, 85 percent are employed in commerce and industry, financial institutions, government departments and education, and

15 percent are in public practice.

ICAP also commiserates the passing away of its members:

- ▶ Mukhtar Shafiq
- ▶ Muhammad Anis
- ▶ Tajjammal Murad
- ▶ Muhammad Yusuf Zakaria
- ▶ Ahmed Adam Gangat
- ▶ Mohammad Razvi

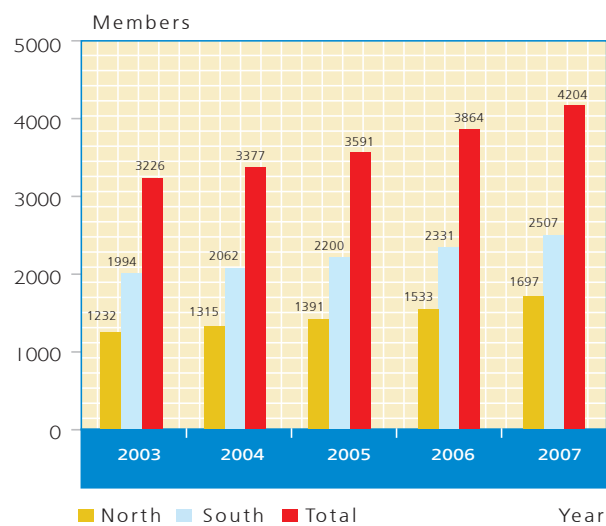


A Member Receiving his Certificate

## Statistical Information of Membership

	Associates	Fellows	Total	Associates	Fellows	Total
	30-Jun-07			30-Jun-06		
<b>Domestic</b>						
Public Practice – Sole Proprietor	61	232	293	63	213	276
Public Practice – Partnership	62	272	334	54	257	311
Commerce / Industry Corporations	1625	843	2468	1,487	781	2,268
Financial Institutions / Banks	5	10	15	4	9	13
Government	74	50	124	74	52	126
Education	7	8	15	8	6	14
	17	10	27	18	8	26
<b>Overseas</b>						
Non practice – Overseas	578	337	915	518	299	817
Public practice – Overseas	3	10	13	2	11	13
	2,432	1,772	4,204	2,228	1,636	3,864

## Yearwise Growth in Membership



## CONTINUING PROFESSIONAL DEVELOPMENT (CPD)

A robust CPD scheme is absolutely essential to our constantly evolving profession which sees substantial new legislation introduced on a regular basis.

It is essential that the Institute should have a structured Continuing Professional Development program that is relevant to the needs of our members and enables them to carry out their professional work with proper regard for the technical and professional standards expected of them, in pursuance of the terms of clause 3.2 (b) of the Institute's Code of Ethics.

To assist members in fulfilling their CPD obligations, the Institute has developed a revised CPD Directive (effective July 2007) for full compliance with the requirements of IES 7 which mandates 40 CPD hours per year, or 120 hours in a rolling period of 3 years, for both practicing and non-practicing members.

The revised Directive prescribes that members foster a commitment to lifelong learning and, while briefly describing various CPD approaches, mentions that ICAP has adopted a Combination approach and in due course of time will move towards a comprehensive Out-put based approach.

The salient features of the revised Directive are as follows:

- ▶ For a full day of CPD activity, 8 maximum credit hours are allowed for the day.
  - ▶ On completing degree courses as many CPD hours are allowed as accredited by the HEC approved Institute/University for that course.
  - ▶ Presenters or Session Chairmen in CPD programs will be allowed twice the actual time of the presentation.
  - ▶ Writing books on professional interest/reference manuals/study packs will contribute towards a maximum of 20 hours per release.
  - ▶ Participation in Council, Committees, Working Groups of ICAP and other regulatory bodies will entitle a member to avail CPD credit for the actual time of the meeting. The following new activities are now included in the accredited CPD activities.
    - E-courses
    - Teaching relevant professional or degree courses.
    - Research paper published in a peer reviewed journal.
    - Watching videos/CDs of ICAP CPD programmes.
    - Self certified readings (interim arrangement)
- Following three exemptions are incorporated in the new Directive:
- Sick or incapacitated so that he/she cannot perform normal work.
  - Retired from whole time business.
  - Career breaks.

It is pertinent to note that the previous exemption available to practicing members over 70 years and non practicing members over 60 years, have been withdrawn.

For all members, non compliance of this Directive will be reviewed by the CPD Committee and if deemed appropriate the matter will be referred to the Executive Committee for appropriate action.

ICAP's CPD Program continues to offer a diverse array of topics covering the core competencies of the CA profession. Regional and local CPD Committees successfully organized 76 CPD seminars/workshops at Karachi, Lahore,

Islamabad, Multan, Faisalabad, Peshawar, Jeddah and Dubai offering 295 CPD credit hours for members, as compared to 79 CPD activities with 256 CPD credit hours in the previous year. During 2006-2007 the CPD Committee has initiated a CPD update via electronic mail for members announcing various CPD activities, suggesting useful websites and books etc. The CPD Department is also planning to start Management Development Programs and e-courses.

### City-wise Break up of CPD Activities in 2006-2007

City	CPD Year 2006-2007		CPD Year 2005-2006	
	Number of CPD Activities	CPD Hours	Number of CPD Activities	CPD Hours
Karachi	21	103	28	106
Lahore	14	68	13	44
Islamabad	12	39	15	40
Multan	09	27	08	26
Faisalabad	07	20	05	15
Peshawar	10	31	05	15
Jeddah	03	07	01	02
Dubai	00	00	04	08
<b>Total</b>	<b>76</b>	<b>295</b>	<b>79</b>	<b>256</b>

Members can review their CPD records on the Institute's website and plan their future CPD activities accordingly.

## PROFESSIONAL MISCONDUCT / INVESTIGATION

The Institute continues its earnest endeavors to dispose off cases as soon as possible. A summary of the complaints received and disposed off against members in practice during last three years is as follows:

	2006-07	2005-06	2004-05
Cases at the beginning of the year	28	28	50
Complaints received during the year	20	19	23
	48	47	73
Complaints disposed off during the year	(10)	(19)	(45)
Complaints pending at the end of the year	38	28	28

During the year Council disposed off 10 cases, out of which 4 were closed as no merit was found in the complaints, while the remaining 6 cases were dealt with as follows:

	2006-07	2005-06	2004-05
Members reprimanded by name	2	1	6
Reprimanded by name and penalty imposed	1	1	9
Members reprimanded without name	2	0	4
Members cautioned	0	1	0
Reference made to High Court	1	1	1
<b>Total</b>	<b>6</b>	<b>4</b>	<b>20</b>

# INFORMATION TECHNOLOGY

New mindsets are as important for the improvement of information services as are new technologies in dealing with the complexities of a modern IT environment. In an organization as vibrant as ICAP, keeping up with information technology is a crucial aspect of maintaining networking, security and disaster recovery.

The IT Department's focus is shifting from performing a purely technical role to a technology management role in areas such as development of online archives etc. to draw educational advances from technology.

## NEW WEBSITE, NEW LOOK!

ICAP has launched its new website to provide easy access to information needed by members, students, prospective students, and users. The changes in design, structure and navigation have been made under guidance of IT Department.

The revamp aims to update the look of the website and help users find their way around it through improvements in our sitemap and search engine. It incorporates editorial

improvements, more information and easily accessible contents listing.

## Following projects have been successfully completed:

- Installation of Audio Conferencing facilities at Karachi and Lahore.
- Installation of Video Conferencing with wireless Internet connectivity at Karachi, Lahore and Islamabad with 2 tier media backup.
- Project of Digital Library access with Higher Education Commission (HEC) for ICAP offices in Lahore, Islamabad and Karachi.
- Installation of new PABX with high-tech features at ICAP Lahore.

## In addition following are in the offing:

- Project of digitization of documents is progressing satisfactorily.
- Project of in-house development of web based Integrated Systems Software has been initiated.



## PUBLICATIONS

The Pakistan Accountant and the Newsletter have received a makeover this past year to boost the Institute's professional image, and to serve as a channel for staying in touch with our most valuable assets – our members and students. The Publications Department is endeavoring to produce a magazine and a newsletter that make it worth our subscribers' time to read them and stay informed.

The Newsletter is designed to provide a heads-up on important Institute events and activities. The Pakistan Accountant is the professional

flagship publication of the Institute. It is intended to serve as a forum for disseminating information on auditing and accounting practices, business and finance, and topics of current national and international interest. Through the Members Information & Education Series (MIES) the Institute hopes to promote the integration of best practices and sound judgment among members.

These publications form the body of literature that fosters the Institute's policy of promoting education and research.



## HUMAN RESOURCES

The Institute continues to have very cordial relations with all its employees. Permanent staff strength at the year-end was 163. ICAP is committed to being an equal opportunities employer. Our employment policy seeks to ensure that no employee receives less favorable treatment on the grounds of gender, marital status, age, religion, ethnic origin, or disability.

During the past year the Institute has reviewed its HR policies and procedures to ensure that it continues to deliver results to enhance the quality of the work environment and develop and retain a team of dedicated and capable people who are committed to the Institute's mission.



## ACKNOWLEDGEMENT

The Council would like to place on record its sincere gratitude to all members in general and those who served in various Committees of the Institute in particular for their support, dedication and help they extended in policy formation.

The Council would also like to thank the Federal Government, the Securities and Exchange Commission of Pakistan, Central Board of Revenue, the State Bank of Pakistan and other government organizations for their continued support. The Council expresses its appreciation to Mr. M. Afzal Munif and Mr. Adnan Zaman the auditors of the Institute, as well as, Directors and

other staff of the Institute for their devoted services.

By order of the Council

A handwritten signature in black ink, appearing to read 'Fazal H. Saifee'.

**Fazal H. Saifee**  
Secretary  
Karachi  
October 11, 2007