



**The Institute of
Chartered Accountants
of Pakistan**

**CA
PAKISTAN**

HEAD OFFICE

Directive 4.23

ENSURING AUDIT QUALITY

1. The audit and assurance professionals are the stewards for building trust, ensuring transparency and promoting good governance - the basic elements for corporate success and safeguarding public interest. Audit has a pivotal role in strengthening the bond between corporate structure and investors for any flourishing economy. In the international arena the new buzz word is 'Audit Quality'.
2. Global focus is moving towards gauging Audit Quality Indicators which entail time spent by senior audit team members, years of audit experience and industry specialization, average training hours and industry specific training, independence and compliance with regulatory requirements and external inspection results.
3. Audit of financial statements in Pakistan is required to be carried out in accordance with the requirements of International Standards on Auditing (ISAs) as applicable in Pakistan.
4. The Council of the Institute of Chartered Accountants of Pakistan (ICAP) requires the firms to mandatorily comply with ISQC 1, *Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information and Other Assurance and Related Services Engagements*, ISA 220 *Quality Control for Audits of Historical Financial Information*, ISA 230 *Audit Documentation* etc issued by IFAC. These standards require extensive documentation of audit procedures and recruitment of qualified staff.
5. The Quality Control Framework has also been recently revised with enhanced requirements for the practicing members/firms. Further, the Institute also collaborated with the Government in the establishment of an Independent Audit Oversight Board of Pakistan. Hence, the cost to perform audit by the firms has significantly increased. It is a challenge for firms to ensure that quality control procedures are adequately complied within the limited funds and resources.
6. It is acknowledged that the level of fee is to be mutually agreed between the auditor and the client, which largely depends upon the volume and complexity of work involved and estimated time to be incurred on the audit engagement. The Council whilst recognizing this principle is however, of the view that there has to be some threshold provided for the profession of auditing to properly develop and work in public interest for delivering quality audit and meeting the high level of expectations. The Council had also carried out a study of audit fees prevalent in other jurisdictions (India, Sri Lanka, Malaysia, UK) and noted that the audit fees in Pakistan are considerably lower.
7. The combination of falling audit fees and decreased audit effort can lead to reduced audit quality. This impact can be especially serious for high risk public company audit clients.
8. To set a benchmark for quality audit the Council believes the fact that audit cost has a direct linkage with audit quality. Therefore, to determine optimal audit fee, the factors necessary to be considered are: past trend of audit fees charged, analysis of estimated audit time spent, cost of resources including involvement of various levels of professional personnel required in carrying out audit of financial statements and the prevailing remuneration of professional personnel. Accordingly, in best public interest, development of the audit profession and taking into account the above factors the Council has approved the attached Schedule of Audit Fee for members in practice as recommended reference fee.

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In case of an existing audit client, the present audit fee is recommended to be enhanced to the level provided in the Schedule of Audit Fee mentioned above over a period of two years with mutual consent. It is proposed that in the first year the enhanced fee is more or equal to 75% of the fee recommended in the 'Schedule of Audit Fee'.

9. The Schedule of Audit Fee will not be referred for audit engagements of clients in the pre-incorporation/pre-operation stages or in case of sick project or closed operations or discontinuation of business.
10. The Schedule of Audit Fee is exclusive of the below mentioned additional services to be rendered by a statutory auditor under the Companies Act 2017, Code of Corporate Governance and for any other certifications and the professional fee for such services shall be charged separately by mutual consent.
 - Issue a Review Report on Statement of Compliance with Best Practices of Corporate Governance
 - Issue Review Report on half – yearly financial statements
 - Special reports/certification required by regulators over and above normal scope of audit
11. The fee is exclusive of traveling and hotel expenses, out of pocket expenses and other incidental costs which would be reimbursable to auditors as per the terms of arrangement.
12. The practicing members may choose to undertake the audit on a token fee or on an honorary basis or voluntarily in case of a religious or charitable institution or a company “not for profit” without compromising on the quality of audit work.

(311th meeting of the Council – March 21-22, 2019)

Syed Masood Akhtar
Secretary



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**RECOMMENDED
SCHEDULE OF AUDIT FEE**

Type of entity	Fee
Listed companies	
Turnover up to Rs. 500 million	Rs. 600,000
Turnover over Rs. 500 million up to Rs. 1 billion	Rs. 700,000
Turnover over Rs. 1 billion up to Rs. 50 billion	Rs. 700,000 plus Rs. 100,000 for every 1 billion increase in turnover
Turnover over Rs. 50 billion	Rs. 6,400,000 or fee based on engagement hours computed based on hourly charge out rate/fee amount agreed with client whichever is higher
Large Sized Companies / Public Interest other than listed	
Turnover up to Rs. 500 million	Rs. 400,000
Turnover over Rs. 500 million up to Rs. 1 billion	Rs. 600,000
Turnover over Rs. 1 billion up to Rs. 20 billion	Rs. 600,000 plus Rs. 75,000 for every 1 billion increase in turnover
Turnover above Rs. 20 billion	Rs. 2,250,000 or fee based on engagement hours computed based on hourly charge out rate/fee amount agreed with client whichever is higher
Medium Sized Companies*	Rs. 300,000
Small Sized Companies*	Rs. 175,000

*Excluding Medium Sized and Small Sized Companies having paid up capital less than three million.

Note: The terms Public Interest Company (PIC)", "Large Sized Company (LSC)", "Medium Sized Company" (MSC) and "Small Sized Company" (SSC) shall have the same meaning as defined in the Third Schedule of the Companies Act, 2017.