



**CA**  
PAKISTAN

# **INVESTIGATION COMMITTEE**

---

## **ANNUAL REPORT**

**FROM JANUARY 1 TO DECEMBER 31, 2015**

## Table of Contents

S. No.	Particulars	Page No.
1	Preamble	2
2	Introduction of the Investigation Process	3
3	Diagrammatic Flow of Investigation Process	4
4	Composition of the Investigation Committee	6
5	Investigation Department	8
6	Number of Meetings held during the year	9
7	Movement of Cases	10
8	Nature of Offences / Common Irregularities	13
9	Nature of Orders Issued by the Council	17
10	Ageing of Cases	18

## **Preamble**

This report provides an overview of the activities of the Investigation Committee and the Council of the Institute relating to cases of professional misconduct considered under the provisions of the Chartered Accountants Ordinance, 1961 for the period from January 1 to December 31, 2015.

The following chapters explain the process of an investigation from an initiation of a complaint/fact to its conclusion along with a diagrammatic presentation of the process.

Among other matters, this report discusses nature of some of the key irregularities which have been committed by the practicing members on a recurring basis. This list was also circulated to the practicing members for guidance purposes advising them to avoid such irregularities in future while carrying out their respective professional assignments. The list was meant to provide guidance to the practicing members and reliance on that list would not absolve a practicing member from compliance with all the requirements mandated under various statutes, rules, regulations, directives etc.

## **Introduction of the Investigation Process**

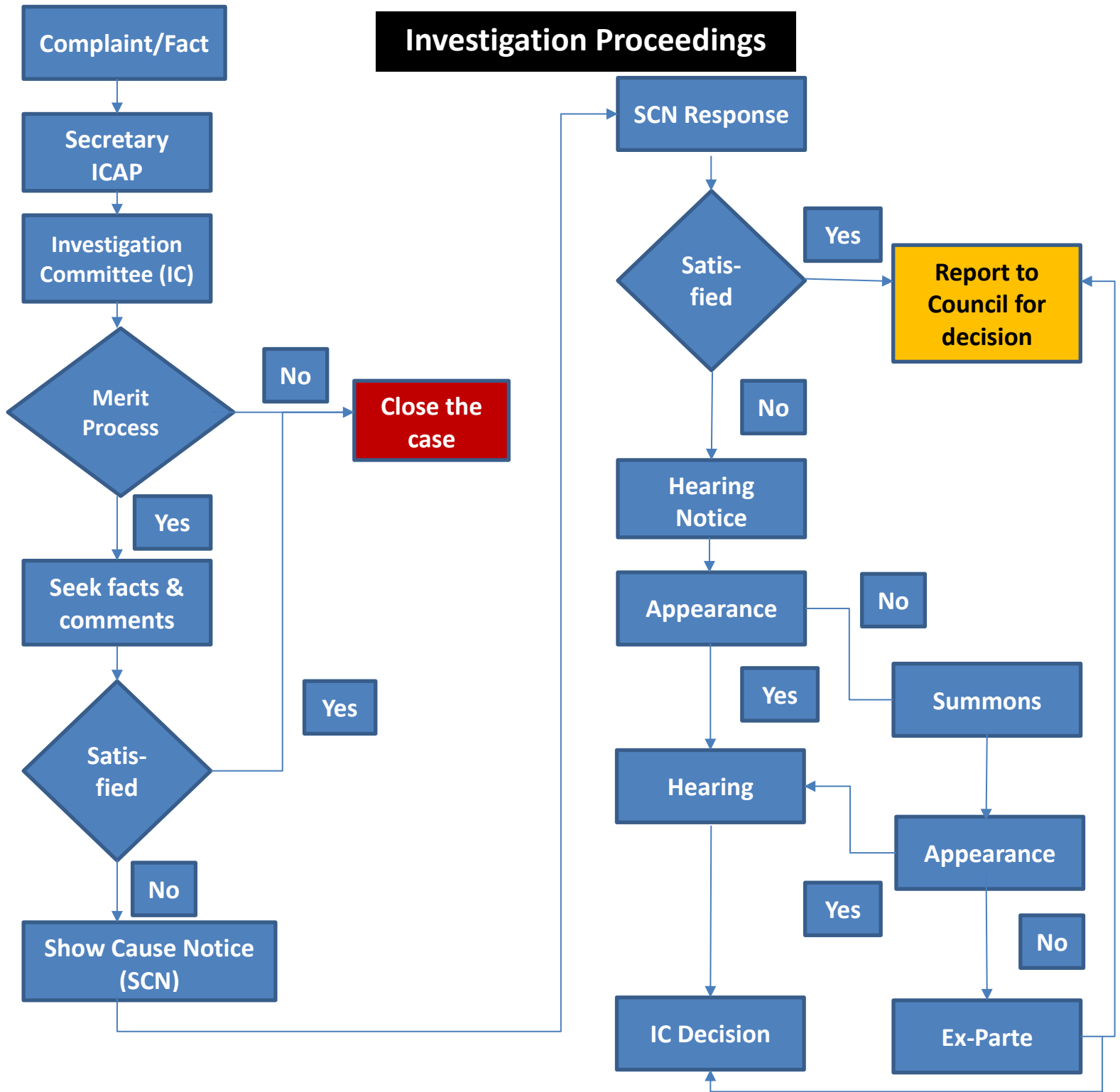
The investigation process is initiated when a complaint is received by the Secretary from any member or an aggrieved person, or if any facts come to the knowledge of the Secretary of the Institute, then the Secretary is required to place the complaint or the facts before the Investigation Committee, if the latter suggest that a prima facie case of professional misconduct as specified in Schedules I, II & III of the Chartered Accountants Ordinance, 1961, arises against a member or a student of the Institute.

The complaint along with relevant and necessary facts is laid before the Investigation Committee. If the Investigation Committee is of opinion that such facts or complaint require investigation, it gives notice to the member or student whose conduct is in question for holding an inquiry. The member or student is given an opportunity of being heard, and after the conclusion of the inquiry, the Investigation Committee reports the results of the inquiry to the Council.

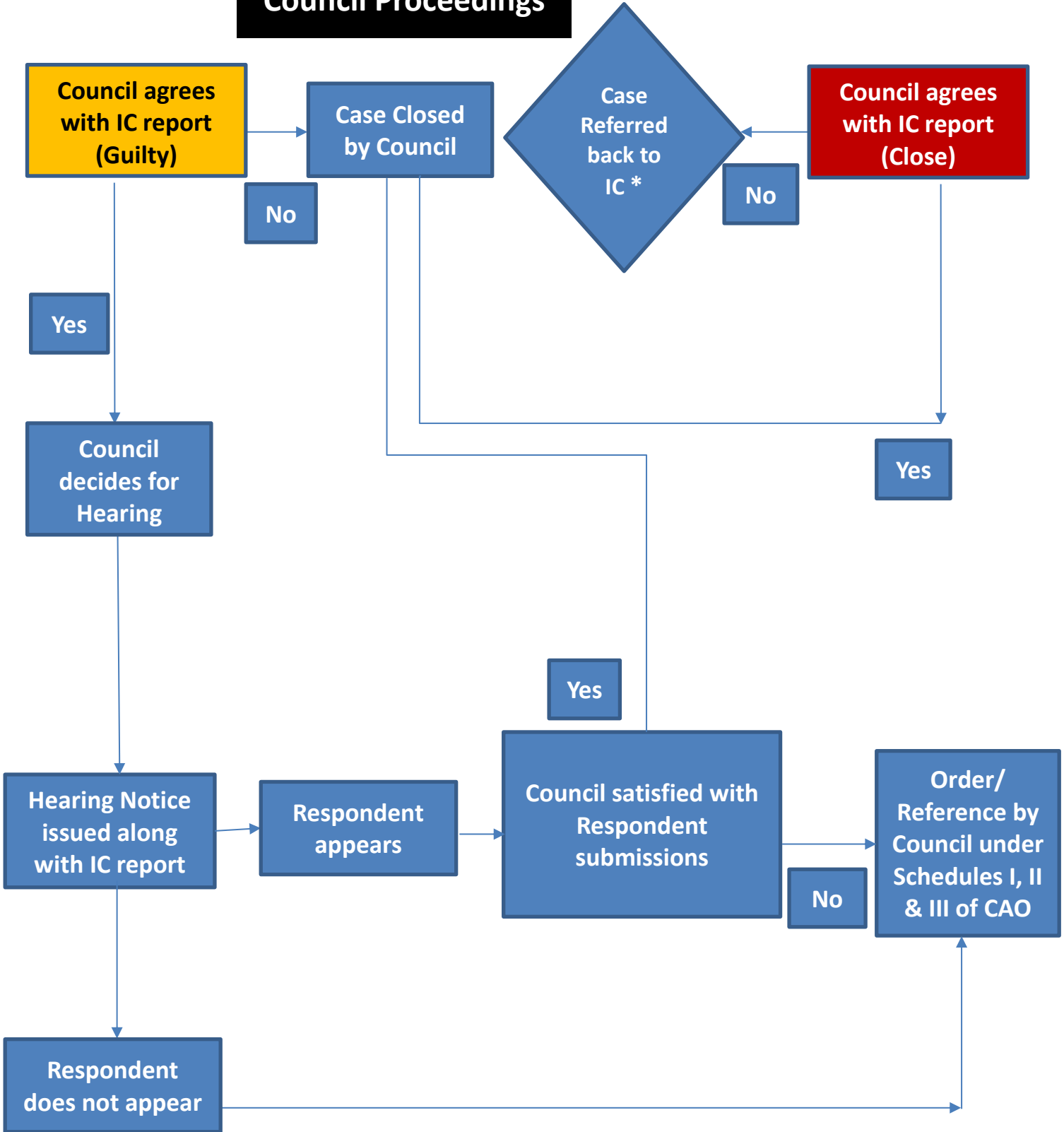
On receipt of the report by the Council, the Council provides another opportunity of being heard, to the concerned member/student whose conduct is under investigation, and if the Council is of the opinion that the member or student has been guilty of professional misconduct, it may reprimand/warn, impose penalty, or remove the name of such member from the Register or debar the student from training, or refer the case to the High Court with its recommendations depending upon the nature of offences as mentioned in Schedules I, II or III of the Chartered Accountants Ordinance, 1961.

A member who is aggrieved by an order of the Council made against him has the right to file an appeal before the Honorable High Court against the order of the Council within a period of sixty days from the date of communication of the said order.

# Diagrammatic Flow of Investigation Process



## Council Proceedings



\* The IC will consider the matter in the light of observations raised by the Council including the reasons for referring the matter back to IC.

## Composition of the Investigation Committee

From January, 2015 to September, 2015

Sr. No.	Name of the Members
1.	Mr. Yacoob Suttar, FCA*
2.	Mr. Mohammad Maqbool, FCA Chairman
3.	Mr. Farrukh Rehman, FCA
4.	Mr. Riaz A. Rehman Chamdia, FCA
5.	Mr. Nazir Ahmad Chaudhri, FCA
6.	Mr. Naeem Akhtar Sheikh, FCA **
7.	Mr. Imran Afzal, FCA - Independent Member***
8.	Mr. Jalil-Ur-Rehman Tarin, FCA - Independent Member***
9.	Mr. M.Z. Moin Mohajir, FCA - Independent Member***
10.	Mr. Sharif Tabani, FCA ****
11.	Mr. Hamid Khan****
12.	Mr. Hidayat Ali, FCA ****
13.	Mr. Rashid Ibrahim, FCA ****
14.	Mr. Khalilullah Shaikh, FCA *****
15.	Mr. Justice Ahmad Sarwana

\* As per tradition, the President does not attend the meetings of Investigation Committee and Vice President (North) chairs the meetings of the committee.

\*\* Mr. Naeem Akhtar Sheikh was nominated in the Investigation Committee with effect from April 4, 2015.

\*\*\* The members were nominated in the Investigation Committee by the Council w.e.f May 9, 2015 as a result of the changes made in Bye-law 75 of the Chartered Accountants Bye-laws, 1983 relating to composition of the Investigation Committee.

\*\*\*\* The members served in the Investigation Committee till March 27, 2015.

\*\*\*\*\* The member served in the Investigation Committee till February 19, 2015.

## Composition of the Investigation Committee

From October, 2015 to December, 2015

Sr. No.	Name of the Members
1.	Mr. Hafiz Mohammad Yousaf, FCA*
2.	Mr. Hidayat Ali, FCA, Chairman
3.	Mr. Farrukh Rehman, FCA
4.	Mr. Rashid Ibrahim, FCA
5.	Mr. Riaz A. Rehman Chamdia, FCA
6.	Mr. Nazir Ahmad Chaudhri, FCA
7.	Mr. Imran Afzal, FCA - Independent Member
8.	Mr. Jalil-Ur-Rehman Tarin, FCA - Independent Member
9.	Mr. M.Z. Moin Mohajir, FCA - Independent Member
10.	Mr. Justice Ahmed Sarwana

\* As per tradition, the President does not attend the meetings of Investigation Committee and Vice President (North) chairs the meetings of the committee.

The Investigation Committee is also supported by the services of a legal advisor who regularly attends the meetings of the Investigation Committee and provides his input on the legal aspects arising during the course of the investigation proceedings.



## **Investigation Department**

Investigation department is managed by chartered accountants employed on a full time basis by the Institute. As at December 31, 2015 the Investigation Department had the following staff strength:

- |                             |                 |
|-----------------------------|-----------------|
| 1. Muhammad Irfan Azam, FCA | Deputy Director |
| 2. Anas Iqbal, ACA          | Manager         |
| 3. Babar Ali Shah, ACA      | Manager         |

**Number of Meetings held during the year from  
January 1 to December 31, 2015**

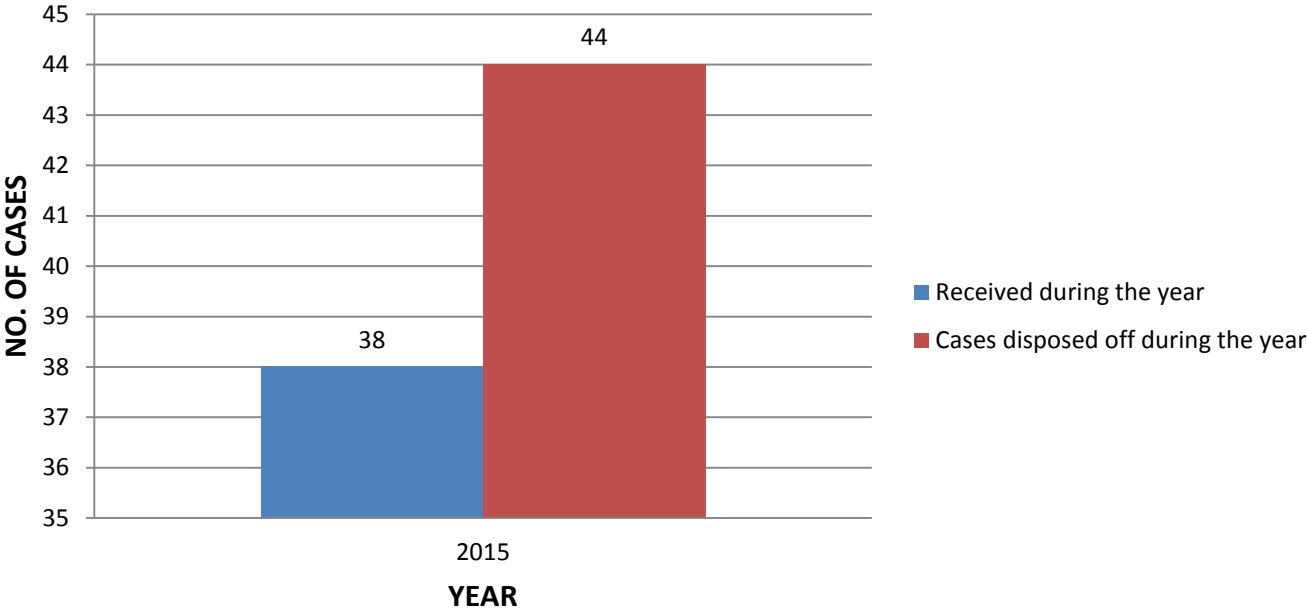
<b>Sr. No.</b>	<b>Date of Meeting</b>	<b>Location</b>
1.	January 15, 2015	Karachi
2.	February 19, 2015	Karachi
3.	March 27, 2015	Karachi
4.	June 12, 2015	Karachi
5.	July 30, 2015	Karachi
6.	September 3, 2015	Karachi
7.	November 12, 2015	Karachi

## Movement of Cases

From January 1 to December 31, 2015

DESCRIPTION	INVESTIGATION COMMITTEE	COUNCIL	TOTAL
Cases at the beginning of the year	104	5	<b>109</b>
Complaints received during the year	38	-	<b>38</b>
Cases referred to the Council	(39)	39	-
Cases dropped by the Investigation Committee	(25)	-	<b>(25)</b>
Cases decided by the Council	-	(19)	<b>(19)</b>
<b>Cases under review at the end of the year</b>	<b>78</b>	<b>25</b>	<b>103</b>

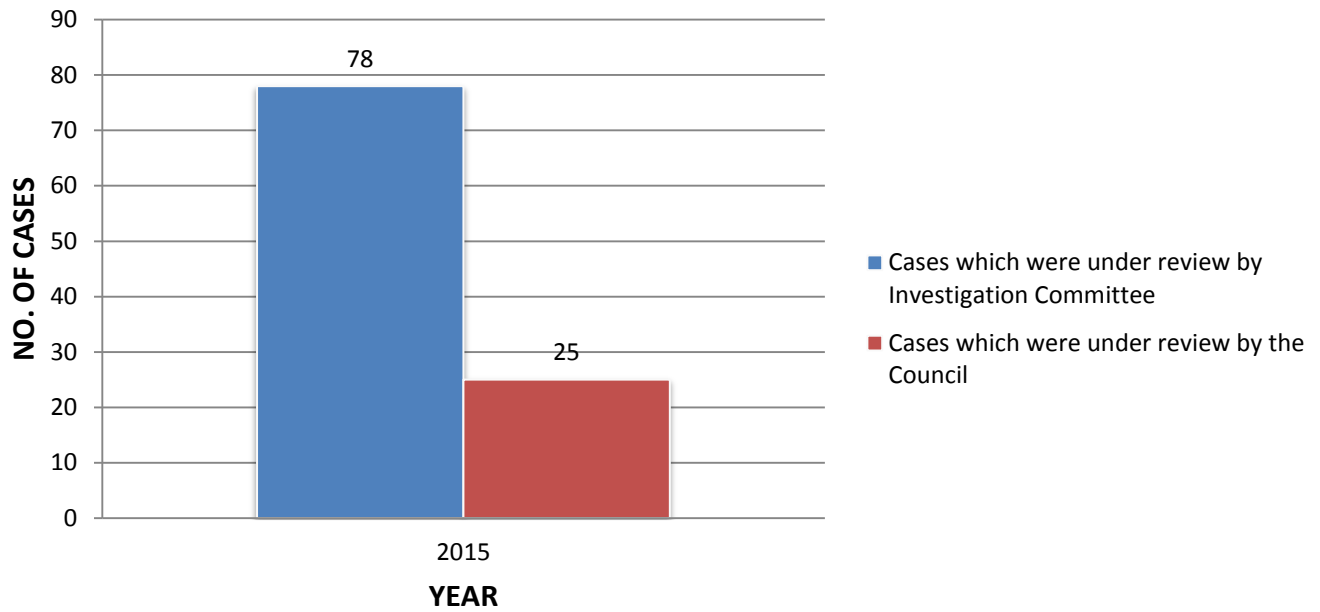
### Receipt & Disposal of Cases



During the year from January 1 to December 31, 2015, thirty-nine cases were referred to the Council by the Investigation Committee for consideration.

DESCRIPTION	2015
Cases received during the year	38
Cases disposed off during the year	44

### Breakup of Cases at Year end



DESCRIPTION	2015
Cases which were under review by Investigation Committee	78
Cases which were under review by the Council	25

## **Nature of Offences / Common Irregularities**

Chartered accountants have a vital role in ensuring public trust in financial reporting and business practices and upholding the reputation of the accountancy profession. It has been noted that certain irregularities are committed by some practicing members in their professional assignments on a recurring basis and accordingly, a need was felt to apprise such members about the same so that these instances can be avoided by those practicing members while carrying out their respective assignments.

In view of the above, a general list of such irregularities was prepared and issued to the practicing members for guidance. Reliance on this list would not absolve a practicing member from compliance with all the requirements mandated under various statutes, rules, regulations, directives etc.

### **1. FORMAT OF THE AUDIT REPORT**

The audit reports on the financial statements of the company are not in accordance with the format prescribed by Section 255 of the Companies Ordinance, 1984 read with Rule 17-A of the Companies (General Provisions and Forms) Rules, 1985 (Form 35-A).

In addition to the above, in certain instances, it was noted that the Companies mention the names of the chartered accountants/member/firm as their auditor in the Form 29 to be submitted to the SECP, whereas, as per the explanations of the member, he was not acting in the capacity of a statutory auditor of the Company and in fact no statutory audit was conducted by him.

Irrespective of the fact that a statutory audit was conducted by the member or not, the reports issued by the members and the professional assignments undertaken by them should comply with the relevant applicable framework [International Standards on Auditing (ISAs)/International Standard on Related Services (ISRSs)] when providing professional services. Secondly, in order to avoid such mistakes, it is recommended that the draft audit reports issued by the members should include a water mark clearly prescribing the words "DRAFT" for clear identification of such draft reports.

### **2. COMPILATION OF FINANCIAL STATEMENTS**

Members prepare reports on the compilation of the financial statements stating that the same has been prepared in accordance with the information provided to them whereas such reports are not in accordance with the requirements of ISRS 4410 – "Engagements to Compile Financial Statements".

**3. PHYSICAL VERIFICATION OF STOCK**

Auditors do not attend the physical verification of the stocks so as to verify their existence and condition and fail to obtain sufficient and appropriate audit evidence with regard to the actual existence of the stock in trade which is material to the financial statements. In some instances, the fact of non-verification of stock is disclosed in the financial statements of the company, however, mere disclosure in the financial statements regarding non-verification of the stock does not absolve the auditor from his obligations of addressing the matter in the audit report as per the relevant requirements.

**4. DATE ON AUDIT REPORT**

Audit reports issued by the members are not dated.

**5. SIGNING/STAMPING OF FINANCIAL STATEMENTS**

Members print the financial statements on their letter heads. Members sign the financial statements and place their stamp/seal on the financial statements which is not appropriate as the preparation of the financial statements is the responsibility of the management of the Company. However, the members can initial the pages of financial statements only for identification purposes.

**6. ENGAGEMENT LETTER**

Engagement letter is not prepared for either audit or performing assignments of other nature.

**7. OBTAINING PROFESSIONAL CLEARANCE FROM PREVIOUS AUDITOR**

The incoming auditor of an entity commences the audit without obtaining prior professional clearance from the previous auditors.

**8. AUDIT REPORT OF NON-PROFIT ORGANIZATIONS**

Audit reports issued on the financial statements of non-profit organizations are not in accordance with the prescribed format as per the Auditing Technical Release (ATR-17) issued by the Institute.

**9. IDENTIFICATION OF THE ENGAGEMENT PARTNER IN AUDITORS' REPORT**

The name of the engagement partner is not identified in the auditors' report on the financial statements/interim financial information as per the requirements of the ATR-19 issued by the Institute.

## **10. MEDIUM/SMALL SIZED COMPANIES**

Some auditors fail to address in their audit reports, the following irregularities in the financial statements of the Small and Medium Sized Entities (SMSEs):

- i) Cash flow Statement and the Statement of Changes in Equity are not annexed with the financial statements.
- ii) Either the Statement of Compliance paragraph is missing from the financial statements or it is incomplete in a way that it does not mention the framework/standards that have been followed in the preparation of the financial statements of the Company.
- iii) The information relating to the entity's place of incorporation, address of its registered office, description of the nature of its operations, its principal activities and name of the parent and ultimate parent of the group, etc. is not provided in the financial statements.
- iv) Information about the basis of preparation of financial statements, specific accounting policies selected and applied for significant transactions and events are not presented in the financial statements.
- v) Proper disclosure of the accounting policies is not made in the financial statements.
- vi) Distinction between the current and non-current assets/ liabilities is not made through proper classification on the face of the balance sheet.
- vii) Depreciation is not charged on assets remaining idle.
- viii) The disclosure in respect of movement in Owner's equity during the financial year is not provided in the financial statements.
- ix) Notes to the financial statements are not comprehensive and do not cover all matters of significance.
- x) The disclosure about the date when the financial statements are authorized for issue is not given in the financial statements.
- xi) The comparative information with respect to the previous period is not disclosed in the financial statements.



- xii) Failure to explain the appropriateness of using going concern assumption in preparation of financial statements.

#### **11. ABSENCE FROM OFFICE**

The practicing members remain absent from their office for more than the period allowed resulting in violation of Directive 4.17 [Absence from Office for a Practicing Member] issued by the Institute.

#### **12. FAKE/FORGED AUDIT REPORTS**

Fake/forged audit reports are issued in the name of genuinely existing chartered accountant firms. In this respect, the practicing members are advised to take necessary steps, such as intimation of the said forgery to the management of the companies, issuance of a general public notice in the newspapers, intimation to the Securities & Exchange Commission of Pakistan etc.

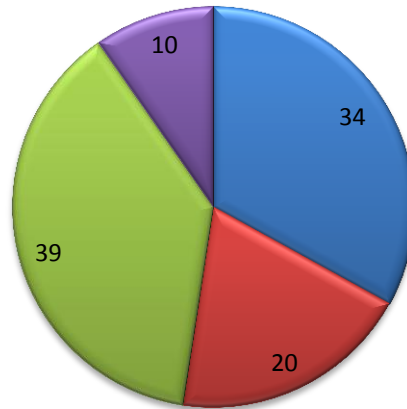
## Nature of Orders issued by the Council

Nature	No. of cases
Members reprimanded with name	04
Members reprimanded without name	07
Member warned	01
Cases where members not found guilty	07
<b>Total cases decided by the Council</b>	<b>19</b>

*During the period from January 1 to December 31, 2015, all Orders issued by the Council were related to the offences specified under Schedule I of the Chartered Accountants Ordinance, 1961.*

## Ageing of Cases

■ Less than 1 year   ■ 1 to 2 years   ■ 2 to 3 years   ■ More than 3 years



DESCRIPTION	<1 Year	1 to 2 Years	2 to 3 Years	>3 years
No. of cases	34	20	39	10