

Exclusive

## Interview

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## Usman Hayat

CEO, Audit Oversight Board (AOB)

**ICMA Pakistan:** Please tell us briefly about your board, regulatory role, level of independence and key stakeholders that come into your domain.

**Usman Hayat:** AOB was established by our parliament as an independent regulator through Part IXC of SECP Act 1997 in August 2016. Its purpose is to work in the public interest to enhance the quality of audit of financial statements of public interest companies (PICs). This is how we help protect the interest of investing public and other stakeholders, such as lenders, employees, and the Government.

There are seven members of AOB. These members are appointed by the Federal Government at the recommendation of a nominating committee. This nominating committee comprises four ex-officio members and one member to be co-opted by the ex-officio members. The ex-officio members are Secretary Finance, Chairman SECP, Governor SBP, and President ICAP. AOB's key institutional stakeholders, as implied by our law, are the Federal Government, SECP, SBP, and ICAP.

The law that established AOB states that a member of AOB shall be a person who possesses qualification and experience in relevant fields such as accountancy, business, finance, law, or economics. The current Board comprises of highly experienced and well-reputed accountants, lawyers, and investment professionals. There is no practicing auditor on our Board. One of our Board members is also a member of ICMA Pakistan.

**ICMA Pakistan:** Please tell us about the organization, where is your office based, and the profile of AOB's staff?

**Usman Hayat:** We are a professionally run organization. Currently, we are a small team of eight professionals. We have a simple organogram with essentially two sub-teams, the

regulatory team and the support services team. Our staff is highly qualified. Within this small team, we have three members of ICAP, three members of ACCA, one member of CFA Institute, and one member of ISACA. That is in addition to some academic qualifications such as a Master's degree. We also have people who have experience of working in both Pakistan and abroad. What we lack in size, we try to make up for through professionalism.

Our office is located on the 14th floor of ISE Towers in Islamabad in Blue Area. It is small but a modern office. In terms of management style, we follow a polite-but-firm approach. We are also a very open regulator that actively seeks to engage with audit firms to discuss professional matters. Our aim is to meet representatives from every firm that registers with us to benefit from their expertise in the challenges being faced by the audit profession. Similarly, we try hard to stay updated with international practices and have been reaching out to international regulators and subject matter experts through video conferences in this regard. Those who have visited our office tend to get pleasantly surprised by our austere and professional approach to managing our work.

**ICMA Pakistan:** Please tell us about the scope and approach of audit inspection program of AOB?

**Usman Hayat:** Conducting audit inspections is a core function of AOB. It is clearly stated in section 36K of Part IXC of SECP Act, 1997. Inspections are also specifically mentioned in one of the principles of International Forum for Independent Audit Regulators (IFIAR). According to IFIAR's principle 8, audit regulators should as a minimum, conduct recurring inspections of audit firms undertaking audits of public interest entities. Internationally, independent audit regulators take the lead in

directly inspecting auditors of PICs. Pakistan's model is inspired by the Japanese model, which is relatively unique. In the Japanese model, majority of direct inspections are carried out by the local institute, JICPA, and the independent regulator, CPAAOB, oversees the work of the institute and also independently carries out recurring risk-based direct inspections. So far, the focus of our inspections has been on the work being performed by ICAPs Quality Assurance Board and Quality Assurance Department.

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**ICMA Pakistan: What is your opinion about the quality of audit in the country? What measures AOB has taken so far to improve the quality of audit in Pakistan?**

**Usman Hayat:** The overarching reason AOB has been established in Pakistan is to enhance audit quality. This is also the primary purpose for which audit regulators are established throughout the world. Defining and measuring audit quality is a complex task. There is much data collection and research work that needs to be done on audit quality indicators and market perceptions of audit quality in Pakistan. Currently, we are in a transition phase where an independent audit regulator has become operational and its presence is being felt. As required by Part IXC of SECP Act 1997, AOB has registered audit firms that seek to audit the financial statements of public interest companies. This registration was the critical first step in enhancing audit quality because AOB conducts inspections pertaining to registered audit firms. Following the registrations, we have conducted a walkthrough and an inspection of the work being performed by ICAP's Quality Assurance Board and Quality Assurance Department. We have analyzed the Quality Control Review Framework (QCRF) and are in the process of improving it. This is our primary area of focus. Improving the quality of QCRF improves audit quality of nearly 120 firms which subject themselves to QCRF, it is the rising tide that lifts all boats.

**ICMA Pakistan: Can AOB register and regulate audit firms run by members of ICMA Pakistan?**

**Usman Hayat:** AOB administers Part IXC of SECP Act, 1997. It is the legislature that makes the law and decides the scope of AOB. The legislature has confined AOB's scope to auditors of financial statements of public interest companies. Part IXC of SECP Act 1997 defines auditor as a chartered accountant within the meaning of Chartered Accountants Ordinance, 1961 being a person qualified to be appointed as auditor of a company under the companies law. I understand that most members of ICMA Pakistan are working in the industry but some of its members are also auditing private limited companies with paid-up capital below Rs 3 million. These private limited companies tend not to be PICs. These reasons explain why AOB is currently not registering and regulating auditors who are members of ICMA Pakistan. However, we are entirely open to and interested in working with ICMA Pakistan on development matters.

**ICMA Pakistan: How is AOB funded?**

**Usman Hayat:** AOB's scheme of funding is given in our law. It comprises grants from the Federal Government, voluntary contributions from the stakeholders, borrowing, fee from audit firms and PICs, earnings from investment, and any other grants permitted by Federal Government. AOB was established with an initial Rs 30 million voluntary contribution by SECP. Later SBP, also provided a contribution of Rs 30 million. This year we have billed the PICs for the annual supervision fee. Fee from audit firms is a relatively small part of our total funding.

**ICMA Pakistan: What are some of the opportunities and challenges facing AOB?**

**Usman Hayat:** There is room to improve audit quality, from strengthening QCRF, carrying out recurring direct inspections, working on audit quality indicators, providing high quality CPD, and engaging with audit committees. In my view, the biggest opportunity for AOB is presented by those within the auditing profession who care deeply about their profession. They are de facto supporters of enhancing audit quality. We are trying to meet as many audit practitioners as possible. Our doors are open and we welcome a candid dialogue on professional matters. Of course, we also find an opportunity in the professional accounting bodies. Although they are membership bodies, they also serve public interest through education, regulatory responsibilities CPD, and advocacy. As regards challenges, our principal challenge is that we are a new organization. I joined in March 2018 and most team members also joined in 2018. It takes some time to establish operations and create brand recognition. Once our funding becomes more stable, we will expand our regulatory team and will, In Shaa Allah, overcome this challenge and make the most of our opportunities.

**ICMA Pakistan: In what areas do you think ICMA Pakistan and AOB can jointly conduct policy research and capacity building trainings?**

**Usman Hayat:** ICMA Pakistan is a well-established statutory professional body. You have more than 5,000 members and 15,000 students. These are impressive numbers. We have had the pleasure of meeting your president and executive director and we appreciate their interest in working with AOB. We see strengthening of audit committees as one area in which professional accounting bodies, such as ICMA Pakistan, can help further our shared mission of enhancing audit quality. Not much has been done in this area in the past. There is a need to conduct research and carry out capacity building of audit committee of PICs. Our PICs need audit committees that have the skills and experience, and the understanding of internal and external audit. Arthur Levitt, a well-known chairman of US SEC once said that "qualified, committed, independent and tough-minded audit committees represent the most reliable guardians of the public interest". The audit committee are in a particularly advantageous position to check that all concerned are doing their part, including financial managers, and internal and external auditors. Working with professional accounting bodies, including ICMA Pakistan, we can enhance audit quality by strengthening the audit committees of Pakistan's PICs, including those in the public sector. A strong audit committee will enhance checks and balances across the workings of PICs also making them more sustainable. This would be a worthy contribution to Pakistan's economy.

*The Editorial Board thanks Mr. Usman Hayat, CEO, Audit Oversight Board (AOB) for giving his exclusive interview for Management Accountant Journal.*