
2020 Inspection Zia Masood Kiani & Co (Chartered Accountants)

(Headquartered in Islamabad, Islamic Republic
of Pakistan)

May 13, 2022

THIS IS A PUBLIC VERSION OF A PCAOB INSPECTION REPORT

PORTIONS OF THE COMPLETE REPORT ARE OMITTED FROM THIS
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105(b)(5)(A) OF THE SARBANES-OXLEY ACT OF 2002



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2020 INSPECTION

In the 2020 inspection of Zia Masood Kiani & Co (Chartered Accountants), the Public Company Accounting Oversight Board (PCAOB) assessed the firm's compliance with laws, rules, and professional standards applicable to the audits of public companies.

We selected for review three audits of issuers with fiscal years generally ending in 2019. For each issuer audit selected, we reviewed a portion of the audit. We also evaluated elements of the firm's system of quality control.

2020 Inspection Approach

In selecting issuer audits for review, we use a risk-based method of selection. We make selections based on (1) our internal evaluation of audits we believe have a heightened risk of material misstatement, including those with challenging audit areas, and (2) other risk-based characteristics, including issuer and firm considerations. In certain situations, we may select all of the firm's issuer audits for review.

When we review an audit, we do not review every aspect of the audit. Rather, we generally focus our attention on audit areas we believe to be of greater complexity, areas of greater significance or with a heightened risk of material misstatement to the issuer's financial statements, and areas of recurring deficiencies. We may also select some audit areas for review in a manner designed to incorporate unpredictability.

Our selection of audits for review does not constitute a representative sample of the firm's total population of issuer audits. Additionally, our inspection findings are specific to the particular portions of the issuer audits reviewed. They are not an assessment of all of the firm's audit work nor of all of the audit procedures performed for the audits reviewed.

View the details on the [scope of our inspections and our inspections procedures](#).

OVERVIEW OF THE 2020 INSPECTION

The following information provides an overview of our 2020 inspection, which was our first inspection of this firm. We use a risk-based method to select audits for review and to identify areas on which we focus our review. Because our inspection process evolves over time, it can, and often does, focus on a different mix of audits and audit areas from inspection to inspection and firm to firm. Further, a firm's business, the applicable auditing standards, or other factors can change from the time of one inspection to the next. As a result of these variations, we caution that our inspection results are not necessarily comparable over time or among firms.

Firm Data and Audits Selected for Review

	2020
Firm data	
Total issuer audit clients for which the firm was the principal auditor at the outset of the inspection procedures	8
Total issuer audits in which the firm was not the principal auditor	0
Total engagement partners on issuer audit work¹	1
Audits reviewed	
Total audits reviewed²	3
Audits in which the firm was the principal auditor	3
Integrated audits of financial statements and internal control over financial reporting (ICFR)	0
Audits with Part I.A deficiencies	3

If we include a deficiency in Part I.A of our report, it does not necessarily mean that the firm has not addressed the deficiency. In many cases, the firm has performed remedial actions after the issue was identified. Depending on the circumstances, remedial actions may include performing additional audit procedures, informing management of the issuer of the need for changes to the financial statements or reporting on ICFR, or taking steps to prevent reliance on prior audit reports.

¹ The number of engagement partners on issuer audit work represents the total number of firm personnel (not necessarily limited to personnel with an ownership interest) who had primary responsibility for an issuer audit (as defined in AS 1201) or for the firm's role in an issuer audit during the twelve-month period preceding the outset of the inspection.

² The population of issuer audits from which audits are selected for review may differ from the issuer audits at the outset of the inspection procedures due to variations such as new issuer audit clients for which the firm has not yet issued an opinion or issuer audit clients lost prior to the outset of the inspection.

Our inspection may include a review, on a sample basis, of the adequacy of a firm's remedial actions, either with respect to previously identified deficiencies or deficiencies identified during the current inspection. If a firm does not take appropriate actions to address deficiencies, we may criticize its system of quality control or pursue a disciplinary action.

If we include a deficiency in our report — other than those deficiencies for audits with incorrect opinions on the financial statements and/or ICFR — it does not necessarily mean that the issuer's financial statements are materially misstated or that undisclosed material weaknesses in ICFR exist. It is often not possible for us to reach a conclusion on those points based on our inspection procedures and related findings because, for example, we have only the information that the auditor retained and the issuer's public disclosures. We do not have direct access to the issuer's management, underlying books and records, and other information.

Audit Areas Most Frequently Reviewed

This table reflects the audit areas we have selected most frequently for review in the 2020 inspection. For the issuer audits selected for review, we selected these areas because they were generally significant to the issuer's financial statements, may have included complex issues for auditors, and/or involved complex judgments in (1) estimating and auditing the reported value of related accounts and disclosures and (2) implementing and auditing the related controls.

2020	
Audit area	Audits reviewed
Revenue and related accounts	2
Cash and cash equivalents	2
Inventory	1
Certain assets and liabilities	1
Significant transactions	1

PART I: INSPECTION OBSERVATIONS

Part I.A of our report discusses deficiencies, if any, that were of such significance that we believe the firm, at the time it issued its audit report(s), had not obtained sufficient appropriate audit evidence to support its opinion on the issuer's financial statements and/or ICFR.

Part I.B discusses deficiencies, if any, that do not relate directly to the sufficiency or appropriateness of evidence the firm obtained to support its opinion(s), but nevertheless relate to instances of non-compliance with PCAOB standards or rules.

Consistent with the Sarbanes-Oxley Act ("Act"), it is the Board's assessment that nothing in Part I of this report deals with a criticism of, or potential defect in, the firm's quality control system. We discuss any such criticisms or potential defects in Part II. Further, you should not infer from any Part I deficiency, or combination of deficiencies, that we identified a quality control finding in Part II. Section 104(g)(2) of the Act restricts us from publicly disclosing Part II deficiencies unless the firm does not address the criticisms or potential defects to the Board's satisfaction no later than 12 months after the issuance of this report.

Classification of Audits with Part I.A Deficiencies

Within Part I.A of this report, we classify each issuer audit in one of the categories discussed below based on the Part I.A deficiency or deficiencies identified in our review.

The sole purpose of this classification system is to group and present issuer audits by the number of Part I.A deficiencies we identified within the audit as well as to highlight audits with an incorrect opinion on the financial statements and/or ICFR.

Audits with an Incorrect Opinion on the Financial Statements and/or ICFR

This classification includes instances where a deficiency was identified in connection with our inspection and, as a result, an issuer's financial statements were determined to be materially misstated, and the issuer restated its financial statements. It also includes instances where a deficiency was identified in connection with our inspection and, as a result, an issuer's ICFR was determined to be ineffective, or there were additional material weaknesses that the firm did not identify, and the firm withdrew its opinion, or revised its report, on ICFR. This classification does not include instances where, unrelated to our review, an issuer restated its financial statements and/or an issuer's ICFR was determined to be ineffective. We include any deficiencies identified in connection with our reviews of these audits in the audits with multiple deficiencies or audits with a single deficiency classification below.

Audits with Multiple Deficiencies

This classification includes instances where multiple deficiencies were identified that related to a combination of one or more financial statement accounts, disclosures, and/or important controls in an ICFR audit.

Audits with a Single Deficiency

This classification includes instances where a single deficiency was identified that related to a financial statement account or disclosure or to an important control in an ICFR audit.

PART I.A: AUDITS WITH UNSUPPORTED OPINIONS

This section of our report discusses the deficiencies identified, by specific issuer audit reviewed, in the audit work supporting the firm's opinion on the issuer's financial statements.

We identify each issuer by a letter (e.g., Issuer A). Each deficiency could relate to several auditing standards, but we reference the PCAOB standard(s) that most directly relates to the requirement with which the firm did not comply.

We present issuer audits below within their respective deficiency classifications (as discussed previously). Within the classifications, we generally present the audits based on our assessment as to the relative significance of the identified deficiencies taking into account the significance of the financial statement accounts and/or disclosures affected, and/or the nature or extent of the deficiencies.

Audits with an Incorrect Opinion on the Financial Statements and/or ICFR

None

Audits with Multiple Deficiencies

Issuer A – Consumer Discretionary

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement audit related to **Revenue**, **Inventory**, **Cash**, and **Journal Entries**.

Description of the deficiencies identified

With respect to **Revenue**:

The firm did not perform procedures to test whether certain revenue recognition criteria had been met, including whether delivery had occurred and collectability was reasonably assured. (AS 2301.08)

With respect to **Inventory**:

The issuer performed physical inventory counts and cycle counts and the firm was not present at the counts. The firm did not make, or observe, some physical counts of inventory and apply appropriate tests of intervening transactions. Further, the firm did not inspect the records of the issuer's counts and

perform procedures relating to the physical inventory on which the balance-sheet inventory was based. (AS 2510.12) In addition, the firm did not evaluate whether certain inventory was recorded at the lower of cost or market. (AS 2501.07)

With respect to **Cash**:

The firm assessed inherent risk of cash as high and sent confirmation requests. The firm did not receive replies to its confirmation requests. The firm did not sufficiently test the existence of cash because its alternative procedures were limited to tracing the reported cash balance to copies of the bank statements obtained from the issuer without verifying the validity of the bank statement. (AS 2310.31)

With respect to **Journal Entries**:

The firm did not perform any procedures to identify and select journal entries and other adjustments for testing. (AS 2401.58)

Issuer B

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement audit related to **Revenue**, a **Certain Asset and Liability**, and **Cash**.

Description of the deficiencies identified

With respect to **Revenue**:

The firm did not identify and evaluate the significance to the financial statements of a departure from GAAP related to the issuer not adopting FASB ASC 606, *Revenue from Contracts with Customers*, and the omission of the required disclosures. (AS 2810.30 and .31)

The firm did not evaluate whether the issuer was acting as either a principal or agent for each good or service in the contract, and was appropriately recognizing revenue on either a gross or net basis. (AS 2810.30)

With respect to a **Certain Asset and Liability**:

The firm did not test the existence of an asset and completeness of a liability. (AS 2301.08) In addition, the firm did not test the fair value of this liability. (AS 2502.15)

With respect to **Cash**:

Certain of the cash reported by the issuer was held in an account in the name of the issuer's chief executive officer. The firm did not perform procedures to test this cash beyond inquiring of management and reviewing issuer documentation. (AS 2301.08)

The firm did not identify and evaluate the significance to the financial statements of a departure from GAAP related to the issuer's omission of disclosures that this cash was held by a related party and the terms and manner of settlement in conformity with FASB ASC Topic 850, *Related Party Disclosures*. (AS 2410.17; AS 2810.30 and .31) In addition, the firm did not evaluate whether the presentation of this asset within cash and cash equivalents was in conformity with GAAP. (AS 2810.30)

Issuer C

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement audit related to **Significant Transactions**.

Description of the deficiencies identified

For certain significant transactions, the firm did not sufficiently evaluate whether an assumption used to value these transactions represented its fair value because it did not consider certain contrary evidence. (AS 2502.26, .28, .31, and .36) In addition, the firm did not evaluate whether these transactions were recorded in the appropriate period and at the appropriate amount in conformity with GAAP. (AS 2810.30)

Audits with a Single Deficiency

None

PART I.B: OTHER INSTANCES OF NON-COMPLIANCE WITH PCAOB STANDARDS OR RULES

This section of our report discusses any deficiencies we identified that do not relate directly to the sufficiency or appropriateness of evidence the firm obtained to support its opinion(s) but nevertheless relate to instances of non-compliance with PCAOB standards or rules.

When we review an audit, we do not review every aspect of the audit. As a result, the areas below were not necessarily reviewed on every audit. In some cases, we assess the firm's compliance with specific PCAOB standards or rules on other audits that were not reviewed and include any instances of non-compliance below.

The deficiencies below are presented in numerical order based on the PCAOB standard or rule with which the firm did not comply. We identified the following deficiencies:

- In the three audits reviewed and in four other audits, the firm did not obtain the required engagement quality review. In these instances, the firm was non-compliant with AS 1220, *Engagement Quality Review*.

- In the three audits reviewed, the firm did not make certain required communications to the issuer's audit committee, or equivalent, related to (1) the firm's evaluation of the issuer's ability to continue as a going concern; (2) an overview of the overall audit strategy; (3) the firm's evaluation of the quality of the issuer's financial reporting; and (4) a draft of the firm's audit report. In these instances, the firm was non-compliant with AS 1301, *Communications with Audit Committees*.
- In the three audits reviewed, the firm did not make certain required communications to the issuer's audit committee, or equivalent, related to its evaluation of the issuer's identification of, accounting for, and disclosure of its relationships and transactions with related parties. In these instances, the firm was non-compliant with AS 2410, *Related Parties*.
- In two of the three audits reviewed, the firm did not perform inquiries of the predecessor auditor in determining whether to accept the engagement prior to accepting the engagement. In these instances, the firm was non-compliant with AS 2610, *Initial Audits – Communications Between Predecessor and Successor Auditors*.
- In one audit, the firm's audit report incorrectly stated the period covered by certain of the financial statements and contained inaccurate information for the year the firm began serving consecutively as the company's auditor. In this instance, the firm was non-compliant with AS 3101, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion*.
- In eight audits, the firm did not file its report on Form AP by the relevant deadline. In these instances, the firm was non-compliant with PCAOB Rule 3211, *Auditor Reporting of Certain Audit Participants*.
- In the three audits reviewed, the firm did not provide the audit committee, or equivalent, the required independence communications. In these instances, the firm was non-compliant with PCAOB Rule 3526, *Communication with Audit Committees Concerning Independence*.

PART II: OBSERVATIONS RELATED TO QUALITY CONTROL

Part II of our report discusses criticisms of, and potential defects in, the firm's system of quality control.

We include deficiencies in Part II if an analysis of the inspection results, including the results of the reviews of individual audits, indicates that the firm's system of quality control does not provide reasonable assurance that firm personnel will comply with applicable professional standards and requirements. Generally, the report's description of quality control criticisms is based on observations from our inspection procedures.

This report does not reflect changes or improvements to the firm's system of quality control that the firm may have made subsequent to the period covered by our inspection. The Board does consider such changes or improvements in assessing whether the firm has satisfactorily addressed the quality control criticisms or defects no later than 12 months after the issuance of this report.

When we issue our reports, we do not make public criticisms of, and potential defects in, the firm's system of quality control, to the extent any are identified. If a firm does not address to the Board's satisfaction any criticism of, or potential defect in, the firm's system of quality control within 12 months after the issuance of our report, we will make public any such deficiency.

APPENDIX A: FIRM'S RESPONSE TO THE DRAFT INSPECTION REPORT

Pursuant to section 104(f) of the Act, 15 U.S.C. § 7214(f), and PCAOB Rule 4007(a), the firm provided a written response to a draft of this report. Pursuant to section 104(f) of the Act and PCAOB Rule 4007(b), the firm's response, excluding any portion granted confidential treatment, is attached hereto and made part of this final inspection report.

The Board does not make public any of a firm's comments that address a nonpublic portion of the report unless a firm specifically requests otherwise. In some cases, the result may be that none of a firm's response is made publicly available.

In addition, pursuant to section 104(f) of the Act, 15 U.S.C. § 7214(f), and PCAOB Rule 4007(b), if a firm requests, and the Board grants, confidential treatment for any of the firm's comments on a draft report, the Board does not include those comments in the final report. The Board routinely grants confidential treatment, if requested, for any portion of a firm's response that addresses any point in the draft that the Board omits from, or any inaccurate statement in the draft that the Board corrects in, the final report.



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January 9, 2022

Mr. George Botic
Director
Division of Registration & Inspections
Public Company Accountancy Oversight Board
1666 K, Street NW,
Washington, DC 20006

Firm ID:3221
Response to draft report on 2020 inspection of Zia Masood Kiani & Co. (Chartered Accountants)

Dear Mr. Botic,

We respectfully submit this response to the draft report of Public Company Accountancy Oversight Board's (the Board) on 2020 inspection of Zia Masood Kiani & Co. (Chartered Accountants) (herein after referred as "ZMK" or "firm").

We are supportive of the inspection process and believe it enhances our ability to achieve our shared objective of improving audit quality, serving investors and safeguarding public interest. We are committed to use Board's observations in conjunction with our own monitoring efforts to improve our quality control processes and procedures to achieve our shared goal of improving audit quality. We continue to support the PCAOB in its mission and are committed to furthering the public interest through the preparation of informative, accurate and independent audit reports.

We carefully considered each of the observation set forth in Part I.A and I.B of the draft report. Accordingly, we have taken appropriate actions to comply with the PCAOB standards and our policies, including necessary steps to fulfil our responsibility under AS 2901 (Consideration of omitted procedures after the Report Date).

We appreciate the opportunity to provide our response to the draft report. We also appreciate the efforts of the Board's inspection team; they maintained high degree of professionalism during the inspection and we would like to thank them for their efforts. We are committed to achieve the highest level of audit quality and look forward to continuing to work with the PCAOB.

We would be pleased to discuss any aspect of this response or any other question, you may have.

Sincerely,

/s/ZIAULLAH

Zia Masood Kiani & Co. (Chartered Accountants)
Islamabad - Pakistan



an association of legally independent accounting firms

