



A. F. FERGUSON & CO.

**A.F.FERGUSON & CO.,
(A member firm of PricewaterhouseCoopers Network)**

Transparency Report 2014

Introduction

This Transparency Report is published in accordance with article 40 (1) and 45 (5) (e) of the Directive on Statutory Audit 2006/43/EC.

The Transparency Report is in respect of the financial year ended June 30, 2014.

The Transparency Report was approved by the Territory Senior Partner of A. F. Ferguson & Co., and signed on its behalf by Syed Haider Abbas, Partner on September 29, 2014.

Legal structure and ownership of the Firm (Article 40(1) (a))

A. F. Ferguson & Co., is partnership formed under the laws of Pakistan. It has offices in Karachi, Lahore, Islamabad and Kabul. It is wholly owned by the partners of the firm. It had 47 partners at June 30, 2014. It is a member firm of PricewaterhouseCoopers International Limited, each member firm of which is a separate legal entity.

Network arrangements (Article 40(1) (b))

Pricewaterhousecoopers refers to the network of member firms of PricewaterhouseCoopers International Limited ("PwCIL") and/or one or more of its member firms, each of which is a separate legal entity.

PwC member firms operate locally in countries around the world. Being a member of the PwC network means firms can use the PwC name and draw on certain resources, methodologies, knowledge and expertise within the PwC network. Each member firm also agrees to abide by certain common policies and maintain the standards of the PwC network. Each PwC member firm engages in quality control and compliance monitoring activities, covering the provision of services, ethics and business conduct, and the compliance with specific, strict standards for independence monitoring and protection.

PwCIL is an English private company limited by guarantee. PwCIL does not practice accountancy, provide services to clients or do business with third parties. PwCIL acts as a co-ordinating entity for PwC member firms in the PwC network. PwCIL develops and implements standards and policies and initiatives that create a common approach for member firms. PwCIL focuses on key areas like strategy, brand and risk and quality, including compliance with independence processes.

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A member firm of PwCIL cannot act as agent of PwCIL or any other member firm, and it is only liable for its own acts or omissions and not those of PwCIL or any other member firm. PwCIL has no right or ability to control any member firm's exercise of professional judgment. The governance bodies of PwCIL are:

- **Global Board**, who is responsible for the governance of PwCIL and for the oversight of the Network Leadership Team. The Board does not have an external role. Board members are elected by partners from all PwC member firms around the world every four years.
- **Network Leadership team**, which is responsible for setting the overall strategy for the PwC network and the standards to which the member firms agree to adhere.
- **Strategy Council**, which is made up of the leaders of the largest member firms of the network, agrees changes to the strategic direction of the network, in order to facilitate their consistent implementation.
- **Network Executive Team**, which reports to the Network Leadership Team, coordinates the service lines and the key functional areas (such as Risk & Quality, Human Capital, Operations, Brands & Communication) across the network.

The Territory Senior Partner of A.F. Ferguson & Co., maintains our relationship with the Network Leadership Team.

Governance structure of the Firm (Article 40(1) (c))

Every three years, the Council of Partners (all active Partners) elects a Territory Senior Partner and forms a National Board and committees for the proper functioning of the Firm. The National Board Comprises of seven elected members and is chaired by Territory Senior Partner. The Council of Partners acts as the Oversight Board of the Firm.

Internal quality control system (Article 40(1) (d))

The following is a summary of the system of quality control that A. F. Ferguson & Co., has adopted over its accounting and auditing practice.

Introduction

Firms of the PwC network are members of, or otherwise connected to PricewaterhouseCoopers International Limited ("PwCIL"), an English private company limited by guarantee. Each member firm is a separate legal entity. All member firms are obliged to abide by certain common audit and quality control standards and policies approved by PwCIL and to conduct risk and quality reviews. A. F. Ferguson & Co.'s policies are based on these common standards and policies, which are supplemented to address local professional standards and regulatory requirements.

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Quality control standards

Compliance with International Standards on Auditing ("ISA") requires A. F. Ferguson & Co., to have a system of quality control over its auditing practice. These controls are embedded as part of A. F. Ferguson & Co.'s day-to-day activities. The quality control system is in compliance with International Standards on Quality Control (ISQC1), Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, issued by the International Federation of Accountants (IFAC). The IFAC standards and requirements and, therefore, A. F. Ferguson & Co.'s quality control system, encompass the following six elements of quality control:

1. Leadership Responsibilities for Quality within the Firm
2. Ethical Requirements
3. Acceptance and Continuance of Client Relationships and Specific Engagements
4. Human Resources
5. Engagement Performance
6. Monitoring

1. Leadership Responsibilities for Quality within the Firm

A. F. Ferguson & Co.'s leadership is committed to audit quality and has established a firm culture embracing high standards in independence and professional ethics. This leadership is embedded throughout the detailed policies endorsed by leadership, including ethical, human resources and engagement performance discussed below. It is also demonstrated by the dedication of resources to quality. There are partners responsible for risk management and quality control relative to the A. F. Ferguson & Co.'s client service operations who report directly to the Territory Senior Partner.

2. Ethical requirements

Integrity and objectivity: The reputation and success of A. F. Ferguson & Co., depends on the professionalism and integrity of each and every partner and employee. All partners and staff are expected to uphold and comply with the standards developed by the PwC global network and A. F. Ferguson & Co. A. F. Ferguson & Co.'s management monitors compliance with these obligations by A. F. Ferguson & Co.'s partners and staff.

Upon hiring or admittance, all staff and partners of A. F. Ferguson & Co., are provided with a copy of the PwC Global Code of Conduct. They are expected to live by the values expressed in the code in the course of their professional careers.

Independence: A. F. Ferguson & Co., has adopted the PwC Global policies and related rules regarding independence and compliance, complemented when necessary by more restrictive local professional and regulatory rules. A. F. Ferguson & Co., strictly monitors compliance with regulatory, professional, and PwC independence requirements related to financial interests in and business and service relationships with clients.

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3. Acceptance and Continuance of Client Relationships and Specific Engagements

A. F. Ferguson & Co., has implemented a process to identify acceptable clients based on the PwC global network's proprietary decision support systems for audit client acceptance and retention (called Acceptance and Continuance ("A&C")). A&C facilitates a determination by the engagement team, business management and risk management specialists of whether the risks related to an existing client or a potential client are manageable, and whether or not PwC should be associated with the particular client and its management.

4. Human resources

A. F. Ferguson & Co.'s partners and staff regularly receive a thorough orientation to the culture, values and core attributes of PwC – Quality, Trust, Teamwork, Excellence and Leadership. A. F. Ferguson & Co., aims to recruit only high quality staff that can operate as accounting and other experts in support of audits and who can share in A. F. Ferguson & Co.'s strong sense of responsibility for auditing. Candidates are considered according to multiple criteria, including their academic achievement.

Professional development: Training and development is an ongoing process. Training starts when a person is hired and continues throughout his or her career. A. F. Ferguson & Co.'s people participate in a variety of local and regional and international formal training courses and they will also be trained through on the job coaching and supervision.

Supervision and direction: Each engagement partner is responsible, in consultation with others as appropriate, for staffing engagements with partners and staff that have the professional competence and experience required in the circumstances. Further, each engagement partner is ultimately responsible for determining the extent of direction, supervision and review of the work of more junior staff to whom work is delegated.

5. Engagement performance

Consistent global methodology: A. F. Ferguson & Co., uses a consistent audit methodology and process for audit engagements. The methodology is enhanced as necessary to respond to the changing environment. All audit engagement partners and staff receives ongoing training in this methodology.

Comprehensive policies and procedures: To complement the Global policies and procedures, A. F. Ferguson & Co., has comprehensive policies and procedures governing local accounting and auditing practice that are constantly updated to reflect new professional developments and operating environment, and to address emerging issues, as well as the needs and concerns of the practice. These policies cover not only professional and regulatory standards, but also reflect the guidance that A. F. Ferguson & Co., provides to its professionals about how best to implement them. They are available in electronic files and databases, are regularly updated or supplemented for all current developments and are accessible remotely at any time.

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Risk and Quality (R&Q): Consultation is a key element to quality control. A. F. Ferguson & Co., has formal protocols setting out the circumstances under which consultation is mandatory. A. F. Ferguson & Co., is supported by a Technical Department that will track new developments in accounting and auditing and provide updates to the appropriate professional staff. A. F. Ferguson & Co.'s consultative culture means that our engagement teams will regularly consult with experts and others beyond those that are formally required.

6. Monitoring

A. F. Ferguson & Co., is responsible for monitoring the effectiveness of its quality control systems which includes carrying out, or arranging to be carried out on its behalf, independent reviews both at the management level of the Assurance practice's systems and procedures (known as Quality Management Review – QMR) and at the individual engagement level (known as Engagement Compliance Reviews) collectively referred to as the "Quality Review" process. The independent Quality Management Reviews are undertaken at least every three years and updated in each of the intervening years. All Engagement Compliance Reviews are undertaken annually. Significant risk-based engagements are reviewed at least twice every six years. All assurance partners must have at least one of their engagements reviewed every five years. The Quality Review process also involves periodic testing of the effectiveness of A. F. Ferguson & Co.'s quality controls in functional areas such as hiring, training, advancement and independence.

Quality monitoring is an integral part of A. F. Ferguson & Co.'s continuous improvement program. A. F. Ferguson & Co., constantly evaluates inputs from formal programs such as this and a variety of informal sources in an ongoing effort to improve policies, procedures and the consistency of the quality of work. Instances of failure to meet performance standards are treated seriously and the partner responsible is counseled to improve performance and appropriate steps are taken to fully encourage improvement including, where appropriate, the imposition of financial penalties.

The partners of A. F. Ferguson & Co., believe that the quality control environment described above complies with all applicable regulations and provides a reasonable basis for believing that audits carried out by A. F. Ferguson & Co., consistently meet the required quality standards.

External inspections (Article 40(1) (e))

A. F. Ferguson & Co., is eligible to undertake statutory audit as prescribed under the relevant regulations by virtue of its registration with the Institute of Chartered Accountants of Pakistan (ICAP). ICAP undertakes an inspection of the quality of A. F. Ferguson & Co.'s work in all offices as statutory auditors after every two and a half years. In August 2013, the ICAP issued a satisfactory report for the year ended June 30, 2013.

Public interest audit clients (Article 40(1) (f))

During the period covered by this Transparency Report, A. F. Ferguson & Co., has not signed audit report of any client that have transferrable securities listed on EU Regulated Markets.



Independence procedures and practices (Article 40(1) (g))***Organization***

A. F. Ferguson & Co., has a designated partner (known as the "Partner Responsible for Independence" or "PRI") with appropriate seniority and standing, who is responsible for providing appropriate support and processes such that partners and staff are knowledgeable about independence matters and that they take the actions required of them by the firm's independence policies and supporting guidance. The PRI reports directly to the Territory Senior Partner.

Policies and guidance

The PwC Network Independence Policy, which is based on the International Ethics Standards Board for Accountants ('IESBA') Code of Ethics for Professional Accountants, contains minimum standards with which PwC member firms have agreed to comply, including processes that are to be followed to maintain independence from clients, when necessary.

The independence requirements of the United States Securities and Exchange Commission and those of the Public Company Accounting Oversight Board of the United States are, in certain instances, more restrictive than the firm's policy. Given the reach of these requirements and their impact on PwC Network Firms, the policy identifies key areas where these requirements are more restrictive.

A. F. Ferguson & Co., supplements the PwC Network Independence Policy as required to comply with Pakistan independence rules.

The firm's independence policy covers, among others, the following areas:

- Personal and firm independence, including policies and guidance on the holding of financial interests and other financial arrangements, e.g. bank accounts and loans by partners, staff, the firm and its pension schemes;
- Non-audit services and fee arrangements. The policy is supported by Statements of Permitted Services ('SOPS'), which provide practical guidance on the application of the policy in respect of non-audit services to assurance clients; and
- Business relationships, including policies and guidance on joint business relationships (such as joint ventures and joint marketing) and on purchasing of goods and services acquired in the normal course of business.

Training and confirmations

A. F. Ferguson & Co., provides all partners and staff with annual or on-going training in independence matters. Training typically focuses on milestone training relevant to a change in position or role, changes in policy or external regulation and, as relevant, provision of services. Partners and staff receive computer-based training on firm's independence policy and related topics. Additionally, face-to-face training is delivered to members of the practice on as needed basis by A. F. Ferguson & Co.'s independence specialists and risk and quality teams.





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A. F. Ferguson & Co., requires all partners and practice staff, upon joining and at least annually thereafter, to confirm their compliance with all aspects of the Firm's independence policy, including their own personal independence. In addition all partners confirm that all non-audit services and business relationships for which they are responsible comply with policy and that A. F. Ferguson & Co.'s processes have been followed in accepting these engagements and relationships. These confirmations serve two primary purposes: to identify any threats to independence that may have arisen; and to provide a periodic reminder of A. F. Ferguson & Co.'s independence policies and procedures. These annual confirmations are supplemented by annual engagement level confirmations for A. F. Ferguson & Co.'s audit clients

Independence systems

As a member of the PricewaterhouseCoopers network, the firm has access to a number of global systems that assist PwC member firms and their personnel in complying with independence policies and procedures. These systems include:

- The Central Entity Service ("CES"), which contains information about corporate entities including public interest audit clients and SEC restricted clients and their related securities. CES assists in determining the independence status of clients of the firm before entering into a new non-audit engagement or business relationship. This system also feeds GPS;
- The Global Portfolio System ("GPS") which facilitates the pre-clearance of publicly traded securities by all partners, directors and practice managers before acquisition and records their subsequent purchases and disposals. Where a member firm wins a new audit client, this system automatically informs those holding securities in this client of the requirement to sell the security where required; and
- Authorization for Services ("AFS") which is a global system that facilitates communication between a non-audit services engagement leader and the audit engagement leader, documenting the potential independence threats of the service and proposed safeguards, and acts as a record of the audit partner's conclusion on the acceptability of the service.
- The Firm has a system which monitors compliance with the Firm's audit rotation policies for partners involved in an audit.

Internal reviews of independence procedures and practices

Our independence procedures and practices are subject to internal review on an ongoing basis. This is achieved through a monitoring and testing program, which includes the following:

- Quality control reviews of engagements to confirm compliance with risk management processes, including independence [as described in section 40(1) (d)];
- Personal independence compliance testing of a random selection of partners, directors and managers;

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- Compliance testing of independence controls and processes; and
- Annual assessment of A. F. Ferguson & Co.'s adherence with the PricewaterhouseCoopers network's independence risk management standard.

In addition, policies and guidance are reviewed and revised when changes arise such as updates to laws and regulations, when PwC Network policies and guidance change or as a result of the above reviews and of our monitoring and testing program.

The results of A. F. Ferguson & Co.'s monitoring and testing are reported to its management on a regular basis.

The investigations of any identified violations of policies also serve to identify the need for improvements in A. F. Ferguson & Co.'s systems and processes and for additional guidance and training.

Disciplinary policy

PwC member firms are required to have disciplinary mechanisms to promote compliance with independence policies and processes and to report and address any violations of independence requirements.

A partner or staff member may be subject to disciplinary action for a violation of independence policy.

Continuing professional education of partners and staff eligible for appointment as statutory auditors (Article 40 (1) (h))

A. F. Ferguson & Co., maintains up-to-date reference materials which are accessible by all assurance practice partners and staff. These cover audit policy, procedure and methodology, and include a library of international and local accounting, auditing and ethical standards. To support and keep staff and partners' knowledge up to date, partners and staff receive regular communications on technical and regulatory topics as they arise. Support is available to partners and staff on auditing, accounting and regulatory requirements, including access to subject matter experts in specialist industries.

A. F. Ferguson & Co.'s internal training curriculum provides a broad range of technical solutions as well as business and personal skills programmes. There are also specialized training programs available for those with clients in specialist industries. Through their participation in the internal objective setting and related performance appraisal processes, engagement leaders assess their on-going personal development needs and identify any necessary development activities, including in relation to quality. Unsatisfactory work results in reduced performance reward.

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The PwC Global Code of Conduct sets expectations of behavior and values. Mandatory ethics and business conduct training covers the Code of Conduct as well as ethical, accounting, auditing and other regulatory matters.

A. F. Ferguson & Co., also monitors compliance with Continuing Professional Development requirements, including the completion of mandatory training programs, so that A. F. Ferguson & Co.'s services are delivered by individuals who have the right experience and – where required – are qualified under relevant legislative and other applicable requirements.

Financial information (Article 40 (1) (i))

During the year, A.F.Ferguson & Co. performed review of the financial statements of Oil and Gas Development Company Limited for the six months ended December 31, 2013. Assurance fee of UK £ 2,424 and tax services fees of UK £ 46,867 were billed during the year ended June 30, 2014.

Remuneration (Article 40 (1) (j))

Partners are remunerated solely out of the profits of A.F.Ferguson & Co. Audit partners are not permitted to be incentivised, evaluated or remunerated for the selling of non-audit services to their audit clients.

The final allocation and distribution of profit to individual Partner is made, in accordance with the Partnership Deed applicable, once the annual financial statements have been finalised. The Council of Partners had approved the process and oversees its application.

Each Partner's remuneration comprises of various elements agreed upon by the Partnership for that year.



Syed Haider Abbas
Partner and Member National Board
A. F. Ferguson & Co.