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UPDATES FROM THE AUDITING STANDARDS & ETHICS COMMITTEE

1. ICAP Seminar on Quality Management Standards

The Auditing Standards & Ethics Committee (the Committee) of the Institute in collaboration with the Southern Regional Committee (SRC) organised a seminar on Quality Management Standards on May 25, 2022 in Karachi.



Significant aspects of the Quality Management Standards (ISQM 1, ISQM 2 and ISA 220 (Revised)) along-with the implementation challenges were discussed with the participants. The IAASB's effective date of ISQMs is December 15, 2022.

Mr. Arslan Khalid, ICAP Council Member and Chairman Auditing Standards & Ethics Committee highlighted the importance of the seminar topic in the opening remarks. He informed that the Committee has initiated the due process for recommending the adoption of the Quality Management Standards in Pakistan and has invited members comments on the Quality Management Standards (through ICAP circular 02/2022).



The speakers of the seminar were Mr. Khattab Baig, Partner, A. F. Ferguson & Co. and Mr. Zulfikar Ali Causer, Partner, BDO Ebrahim & Co. The speakers made presentation on the significant changes made in ISQM 1, and ISQM 2.



The presentations were followed by an interactive panel discussion. The panel included Mr. Waqas Aftab Sheikh, Partner, A.F. Ferguson & Co., Mr. Shabbir Yunus, Partner, Mazars, Ms. Moneeza Usman Butt, Partner, KPMG Taseer Hadi & Co. and Mr. Muhammad Asif Iqbal, Executive Director, BDO Ebrahim & Co. The panel discussion was moderated by Ms. Hena Sadiq, Partner, Yousuf Adil. The panel discussed the challenges being faced or expected to be faced by firms in the implementation of Quality Management Standards in Pakistan and the possible solutions to deal with the challenges. The panel discussion was followed by Q&A session.



Mr. Zafar Iqbal Sobani, Past President ICAP and the Chairman of Appellate Board of ICAP was invited as a Session chairman. He emphasized that Quality Management Standards is a significant development in the auditing profession. He emphasized that the and leadership of firms should set the tone at the top, and understand the relevance, significance and benefits that can be gained by implementing these standards in their firms.

The seminar was attended by members, affiliates/students, staff of the ICAP Quality Assurance Department and the Council members.

Seminar presentations and video recording can be downloaded using link: www.icap.net.pk

2. Technical opinions issued

The Committee in response to enquirers submissions has issued technical opinions on the following auditing enquiries during this quarter:

- a. Removal of Auditors;
- b. Appointment of Auditor in accordance with ICAP Code of Ethics and ICAP Directive 4.23; and
- c. Change in classification of company and continuity of a non-QCR firm.

The technical opinions can be downloaded from the ICAP website at the link: www.icap.net.pk

INTERNATIONAL DEVELOPMENTS

1. Key Takeaways from Conference on Audits of Less Complex Entities

The International Auditing and Assurance Standards Board (IAASB) organized its third and final conference in Paris to discuss and explore how to move forward in progressing the separate standard for audits of the financial statements of Less Complex Entities (LCEs).

The event produced great discussions on the feedback to the IAASB Exposure Draft, *Proposed International Standards on Auditing for Audits of Financial Statements of Less Complex Entities*, and possible options for moving forward.

The takeaways from the conference indicate a strong steer for the IAASB to finalize the development of a separate standalone standard for audits of LCEs in the public interest, ways to support adoption and implementation of the standard and the importance of communication about how the standard helps serve the public interest.

Further details can be read using link: www.iaasb.org

2. IAASB issues Fact Sheet to address Engagement Team Definition

As part of the IAASB's quality management project, the definition of "Engagement Team" was clarified and updated to improve quality management at the firm and engagement level.

In this respect, the IAASB has issued a fact sheet which addresses the clarified definition and its possible impacts, including recognition that engagement teams may be organized in a variety of ways (across different locations or by the activity they are performing). The

fact sheet also includes a diagram that walks users through who specifically is included and excluded. This new engagement team definition applies to the International Standards on Auditing (ISAs) and IAASB Quality Management Standards.

Fact sheet can be accessed on following link: www.iaasb.org

3. IAASB issues non-authoritative guidance on Fraud

IAASB has issued non-authoritative guidance, *The Fraud Lens - Interactions Between ISA 240 and Other ISAs* which illustrates the relationship and linkages between ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, and other ISAs when planning and performing an audit engagement and reporting thereon.

Guidance can be accessed on following link: www.iaasb.org

4. International Sustainability Assurance Standards

In context of recent international developments in sustainability reporting by the International Sustainability Standards Board (ISSB), the IAASB heard directly from investors that the reliability of sustainability reporting is crucial for decision making.

On this, the IAASB is now taking the next steps for new sustainability assurance standards. The IAASB has determined that the new sustainability assurance standards will need to be framework-agnostic and principles-based so that they will work with all sustainability/ ESG reporting frameworks. IAASB also expects to develop sustainability assurance standards in a phased manner.

The IAASB is hoping to have the proposed new sustainability assurance standards ready for public comment during the second half of 2023.

Detailed news can be read at: www.iaasb.org

5. IAASB 2022-2023 Work Plan approved

The IAASB work plan for 2022-23 has been approved by the Public Interest Oversight Board, which is a key element of the IAASB's due process.

The prominent addition to the new work plan is the Sustainability and environmental, social, and governance (ESG) assurance and will see increased time and resourcing for 2022-2023.

The new work plan also highlights candidate topics in the Audit and Review space (e.g., responding to assessed risks of material misstatement and the impact of technology on various standards) that will be considered for a further project to begin in 2023.

A key focus of IAASB will remain the progression and completion of projects underway at the start of 2022, including audits of financial statements of less complex entities, audit evidence, going concern and fraud.

The work plan can be downloaded at the link: www.iaasb.org

6. IAASB digital technology market scan - Natural Language Processing

IAASB has shared the fourth market scan performed by its Disruptive Technology team. Market scans consist of exciting trends, including new developments, corporate and start-up innovation, noteworthy investments etc.

IAASB in the latest edition of the market scan explored natural language processing (NLP). NLP is a branch of artificial intelligence that is concerned with giving computers the ability to understand, interpret and manipulate human language, both written text and spoken words. This technology has applications within accessing information and data and within assessing internal controls.

NLP-based technologies have the potential to impact many areas of the audit, enhancing the way auditors work and providing opportunities for greater insight.

Details about the market scan can be accessed at: www.iaasb.org

7. Final Pronouncement: Revisions to the definitions of Listed Entity and Public Interest Entity in the Code

The International Ethics Standards Board for Accountants (IESBA) has issued its final pronouncement, *Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code*.

The revised provisions included an expanded definition of “public interest entity” (PIE) in the IESBA Code of Ethics by specifying a broader list of PIE categories, including a new category “publicly traded entity” to replace the category “listed entity”.

The revised provisions also recognize the essential role of local bodies in outlining the specific entities that should be scoped in as PIEs in their jurisdictions, encouraging them to properly refine the PIE categories in the expanded definition and adding any other categories relevant to their environments. Further, the revisions also introduce a transparency requirement for firms to publicly disclose the application of independence requirements for PIEs where they have done so.

The final pronouncement can be accessed at: www.ethicsboard.org

Webinar on Expansion of the definition of a Public Interest Entity

To help stakeholders understand the extended definition of the PIE, the IESBA has organized a webinar on May 25, 2022.

The webinar was presented by IESBA PIE Task Force Chair and IESBA PIE Rollout Working Group Chair. The webinar provided an opportunity to stakeholders to get to know the overview of the revisions to the definitions of listed entity and public interest entity in the Code.

8. IESBA comments on the ISSB's Exposure Drafts - Sustainability and Climate-Related Disclosures

The IESBA has submitted its response on the International Sustainability Standards Board's (ISSB's) Exposure Drafts:

- a. General Sustainability-Related Disclosures; and
- b. Climate-Related Disclosures

The IESBA believes that to meet the sustainability information needs of investors, customers, employees or potential employees, government agencies and other stakeholders, the infrastructure that supports sustainability reporting and assurance must be underpinned by the highest standards of ethical behavior. Fit-for-purpose, globally applicable standards, such as those set out in the IESBA Code and future, sustainability-related standards that the IESBA has already committed to developing, alongside a robust system of quality management, **oversight and enforcement, are essential** for consistent, relevant and trustworthy sustainability reporting.

IESBA Comment letter can be downloaded at the link: www.ethicsboard.org

9. IESBA commits to readying global ethics and independence standards timely in support of Sustainability Reporting and Assurance

The IESBA has unanimously resolved to take timely action to develop fit-for-purpose, globally applicable ethics and independence standards to support transparent, relevant and trustworthy sustainability reporting.

In this regard, the IESBA has also established Sustainability working group to develop a strategic vision to guide the IESBA's standard-setting actions in relation to sustainability reporting and assurance. The working group will prepare a project plan by December 2022 as a launchpad for the commencement of standard-setting work.

IESBA work will proceed in tandem with the development of IFRS Sustainability Disclosure Standards by the ISSB, and sustainability-related International Standards on Assurance Engagements (ISAEs) by the IAASB.

Further details can be accessed on the following link: www.ethicsboard.org

IESBA webinar on Sustainability and Ethics

The IESBA has organized a webinar on May 18, 2022 to discuss sustainability and ethics. The discussion provided key insights to the participants about the applicability of the IESBA Code to the preparation and presentation of sustainability information and the provision of assurance thereon.

The webinar provided an opportunity to have conversation with the IESBA Chair, IESBA Sustainability Working Group Chair, UK Financial Reporting Council Executive Director and Financial Conduct Authority Director of ESG.

Among other matters, the speakers shared their views on:

- The changing landscape of corporate reporting, including shifting investor expectations and heightened demands for sustainability data.
- The ethical implications and expectations when individuals other than professional accountants are involved in the production, reporting, and assuring of sustainability information.
- Overcoming the issue of misrepresentation in sustainability reporting (especially "greenwashing").

Webinar recording can be accessed using the link: www.ethicsboard.org

It is important to note that the topic of sustainability is prominently featured in the IESBA Strategy Survey 2022 (*Discussed in point no. 13 below*).

10. IESBA proposes revisions to the Code relating to the definition of Engagement Team and Group Audits

The IESBA issued the Exposure Draft '*Proposed Revisions to the Code relating to the definition of Engagement Team and Group Audits*' which establishes provisions that comprehensively address independence considerations for firms and individuals involved in an engagement to perform an audit of group financial statements.

The proposals also address the independence implications of the change in the definition of an engagement team in the IAASB's ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*.

Comments on the Exposure Draft were requested by May 31, 2022.

IESBA webinars on the proposed revisions to the IESBA Code relating to the definition of engagement team and Group Audits

The IESBA also organised a series of webinars on the proposed Exposure Draft '*Proposed Revisions to the Code Relating to the Definition of Engagement Team and Group Audits*' on April 11, 2022 and April 19, 2022 through Zoom.

Each webinar provided an opportunity to stakeholders to participate in a questions and answers session and get the insight from the Chair and members of the IESBA's Engagement Team - Group Audits Independence Task Force and IESBA Technical Advisor on the proposed changes.

The Exposure Draft and webinar presentations can be downloaded using links: www.ethicsboard.org and www.youtube.com

11. Final Pronouncement: Quality Management-related conforming amendments to the IESBA Code

In order to align the requirements made in IAASB Quality Management Standards with the IESBA Code, the IESBA has made certain conforming amendments to the IESBA Code of Ethics and issued in April 2022.

The conforming amendments will be effective as of December 15, 2022.

The final pronouncement can be accessed at: www.ethicsboard.org

12. Proposed Technology-Related Revisions to the Code

The IESBA has issued the Exposure Draft ‘*Proposed Technology-related Revisions to the Code*’ for public comments. The Exposure Draft seeks to enhance the Code’s robustness and expand its relevance in an environment that is being reshaped by rapid technological advancements. The proposed amendments will guide the ethical mindset and behavior of professional accountants as they deal with changes brought by technology in their work processes and the services they provide. The comments were requested by June 20, 2022.

Webinar on the proposed Technology-Related Enhancements to the IESBA Code

The IESBA has also organized a webinar on the proposed Exposure Draft ‘*Technology-Related Enhancements*’, virtually on April 5, 2022. The webinar included a questions and answers session with the IESBA member, Chair of the Technology Task Force, IESBA technical advisor and member of the Technology Task Force.

The Exposure Draft and webinar presentation can be downloaded using link: www.ethicsboard.org

13. IESBA global roundtables on enhancing ethics considerations relating to Tax Planning and Related Services

The IESBA has organized a series of virtual roundtables (on April 25, April 26 and April 28, 2022) to obtain stakeholder feedback on matters relating to the development of an ethics standard, addressing the provision of tax planning and related services by professional accountants in business (PAIBs) and professional accountants in public practice (PAPPs).

The webinars were in response to the questions raised regarding the ethical implications for integrity and professional behavior, among other fundamental ethics principles, when PAIBs are involved in developing or implementing tax strategies that are perceived as “aggressive,” or when PAPPs provide advice to their clients on such strategies. The issue is of such major public interest significance that it was discussed on the G20 agenda.

The roundtables discussed the distinctions among the concepts of tax morality, tax justice, tax fairness, and a professional accountant’s responsibility to act in the public interest in the context of tax planning.

Details can be accessed using links: www.ethicsboard.org

14. IESBA calls for stakeholder input in Future Strategy Survey

In April, 2022, the IESBA released a public survey calling for the stakeholder input on future Strategy. The IESBA has requested for the stakeholder input on what key trends, developments or issues the IESBA should consider as it begins the process of developing its Strategy and Work Plan for 2024-2027.

The responses to the survey can be submitted by July 8, 2022.

The survey is available at the link: www.ethicsboard.org

15. IESBA published report on 2020-2021 accomplishments

The IESBA in May 2022 released the Report, *Elevating Ethics and Independence Standards for a Complex World*, summarizing the Board’s accomplishments for 2020 and 2021.

The Report includes the final message from Dr. Stavros Thomadakis in his role as IESBA Chairman and showcases the significant progress that the IESBA has made on behalf of the public interest. It also provides an overview of the IESBA’s extensive stakeholder outreach efforts and information about the Board’s partnership with IFAC to promote awareness, adoption, and effective implementation of the Code.

Publication can be accessed on following link: www.ethicsboard.org

16. IESBA Staff issues Benchmarking report comparing the international independence standards with U.S. SEC and PACOB Frameworks

In May, 2022, the IESBA Staff has issued the report, *Benchmarking International Independence Standards Phase 1 Report: Comparison of IESBA and U.S. SEC/PCAOB Frameworks*.

The publication details the findings of a study comparing the provisions of the IESBA Code of Ethics, in particular, the independence provisions applicable to audits of financial statements of public interest entities with the relevant rules of the U.S. Securities and Exchange Commission and the US Public Company Accounting Oversight Board (PCAOB).

This analysis answers many questions received by IESBA and provides much insight into how the provisions in the IESBA Code compare with those of a major jurisdiction like the U.S., and will ultimately instill greater public confidence in the robustness of the IESBA Code.

Report can be accessed on following link:
<https://www.ethicsboard.org>



You can share your comments and feedback to:

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