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# Audit Bulletin

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## UPDATES FROM THE AUDITING STANDARDS & ETHICS COMMITTEE

### 1. ICAP issues Questions and Answers on ISQM 1

ICAP has adopted the Quality Management Standards issued by the International Auditing and Assurance Standards Board (IAASB) through its Circular No. 06/2022 dated November 25, 2022. The standards are effective from December 15, 2023, for the firms performing the audits of public interest companies and for others the effective date is December 15, 2024.

Firms are required to have the system of quality management (SOQM) designed and implemented in accordance with ISQM 1 by the above-mentioned effective dates. The evaluation of the SOQM is required to be performed within one year following the above effective dates.

In order to facilitate our member, the department of Technical Services has developed and published Questions and Answers on ISQM 1, which are available at the link: <http://www.icap.net.pk/archives/6612>

In addition, ICAP guidance and resource material including presentations, seminar and webinar recordings, and other guidance material can also be accessed at the link: <https://www.icap.net.pk/quality-management-standards>

## LOCAL DEVELOPMENT

### 1. Shariah Assurance Report issues through SECP's Shariah Governance Regulations, 2023

SECP has recently issued the Shariah Governance Regulations, 2023 (Shariah Regulations). These regulations mark a major overhaul and has superseded the prior Shariah Governance Regulations of 2018 and the Shariah Advisors Regulations of 2017.

The Shariah Regulations have introduced a standardized format for the 'Independent Assurance Report on Compliance with the Shariah Governance Regulations, 2023' (Schedule III of the Shariah Regulations). The report format was developed in consultation with ICAP after detailed deliberations.

The requirement for the External Shariah Audit is given under regulation 29 which says that the shariah audit can be performed by the existing external auditors or an independent external Shariah auditor of every Shariah compliant company and issuer of a Shariah compliant security for each financial year. The audit firm shall preferably have expertise in Islamic finance.

The assurance report will be prepared for the Board of directors of the Shariah compliant company and issuer of a Shariah compliant security. Further, the provisions of sections 223 and 247 of the Companies Act, 2017, shall be followed for the external Shariah audit and the external Shariah auditor respectively.

The scope of external Shariah audit shall include an independent and objective assessment of compliance of operations with the Shariah principles and rules.

Apart from above, the new Shariah Regulations introduces several other pivotal changes including the following:

- introduction of voluntary Shariah supervisory boards, providing organizations with the option to establish dedicated bodies for overseeing compliance with Shariah principles;
- a comprehensive framework for Shariah stock screening of listed securities;
- elimination of the need for periodic renewal of Shariah-compliant securities;
- the qualifications and experience prerequisites for Shariah advisors have been strengthened;
- the powers and functions of Shariah advisors have been redefined; and

The regulations can be accessed at the following link: <https://www.secp.gov.pk/document/shariah-governance-regulations-2023-2/?wpdmdl=49169>

## INTERNATIONAL DEVELOPMENT

### 1. IAASB issues proposed International Standard on Sustainability Assurance (ISSA) 5000, General Requirements for Sustainability Assurance Engagements, for public comments

The International Auditing and Assurance Standards Board's (IAASB) has issued the Exposure Draft of its landmark International Standard on Sustainability Assurance (ISSA) 5000, *General Requirements for Sustainability Assurance Engagements*, on August 02, 2023, for public comments. The consultation will be open till December 01, 2023.

Key features of the proposed ISSA 5000 are as follows:

- Proposed ISSA 5000 can be applied to:
  - Information about all sustainability topics/ aspects of topics;
  - Information prepared in accordance with any sustainability reporting framework, standard or other suitable criteria (such as, European Union, the

International Sustainability Standards Board (ISSB), the Global Reporting Initiative (GRI), and others);

- All sustainability information regardless of the mechanism for reporting the information; and
  - Limited and reasonable assurance engagements.
- b) The proposed ISSA 5000 is a principles-based standard and focuses on principles or outcomes rather than procedures or steps.
- c) The proposed standard can be used by all assurance practitioners (both professional accountant and nonaccountant assurance practitioners when performing high quality sustainability assurance engagements), as long as they comply with relevant ethical requirements (as given in IESBA Code) and apply a system of quality management (as per IAASB's ISQM standards).
- d) The assurance practitioners would be needed to apply their professional judgment in planning and performing the assurance engagement.

The IAASB is committed to plan an extensive, high-level member's outreach, through a series of roundtables, video, surveys etc., for obtaining maximum stakeholder's input on the proposed standard. For stakeholder's facilitation, the IAASB has also issued other reference material like FAQs and explanatory memorandum.

Further IAASB has also launched a survey on ISSA 5000 to seek stakeholder's view on the proposed standard. The survey can be accessed at:

<https://survey.alchemer.com/s3/7484197/>

The IAASB Exposure Draft, FAQs and other explanatory material can also be downloaded using the link:

<https://www.iaasb.org/focus-areas/understanding-international-standard-sustainability-assurance-5000>

## Webinars and Events on ISSA 5000

The IAASB has organized/ is being organized a range of engaging webinars and events to enhance understanding of the stakeholders about the proposed ISSA 5000 and to encourage participation in the public consultation.

The webinars on ISSA were planned on September 6, 7 and September 22, 2023.

**IFAC Sustainability Summit–Asia Pacific** was organized on September 27, 2023. This was a collaborative endeavor with the ASEAN Federation of Accountants, Confederation of Asian and Pacific Accountants (CAPA), South Asian Federation of Accountants (SAFA) and Jeju Group.

**IFAC & Accountancy Europe In-Person Event** is being organized on October 3 in Brussels.

Details can be accessed at the link:

<https://www.iaasb.org/news-events/2023-08/new-issa-5000-developments-engage-learn-and-share-insights>

## 2. Joint statement from the IAASB and IESBA chairs on IOSCO's endorsement of the IFRS Sustainability Disclosure Standards

The IAASB and the International Ethics Standards Board for Accountants (IESBA) applauded the efforts of the ISSB on the ISSB's recently issued IFRS Sustainability Disclosure Standards S1 and S2 on their endorsement by International Organization of Securities Commissions' (IOSCO).

IOSCO determined that these standards are appropriate to serve as a global framework for capital markets to develop the use of sustainability-related financial information in both capital raising and trading and can accurately assess relevant sustainability risks and opportunities.

Details can be accessed at the following link:

<https://www.ethicsboard.org/news-events/2023-07/joint-statement-iaasb-and-iesba-chairs-iosco-s-endorsement-ifs-sustainability-disclosure-standards-0>

## 3. IFAC Responds to European Sustainability Reporting Standards

The International Federation of Accountants (IFAC) strongly support the efforts by the European Commission and ISSB to find areas of interoperability in their standards, starting with climate. However, substantive differences remain, so collaboration must continue. This is crucial for investors and all stakeholders who want interoperable European Sustainability Reporting Standards (ESRS) and ISSB standards and connectivity between sustainability and financial information.

IFAC urges additional transitional reliefs to allow companies sufficient time to implement governance, processes, reporting capacity, and internal controls, that are essential for high quality disclosure and its assurance.

IFAC also encourages the European Commission to participate in ongoing stakeholder engagement with IAASB on the proposed ISSA 5000.

Details can be accessed at the following link:

<https://www.ifac.org/news-events/2023-07/ifac-responds-european-sustainability-reporting-standards>

#### 4. Implementation Support Series for Small Firms on Quality Management Standards, Second Installment

IFAC has published the second installment of its three-part publication series to help small and medium-sized practices to implement the IAASB's International Quality Management Standards.

*Installment One: It is time to get ready for the new quality management standards*, which was issued in October 2022. It emphasized on requiring change of mindset and the shift in focus from quality control to quality management.

*Installment Two: Developing a Detailed Implementation Plan*, provides a step approach to identifying the quality objectives; completing the quality risk assessment process; identifying existing, or creating new, responses to those quality risks; and implementing, documenting, and communicating their system of quality management.

Installment two also addresses the eight components of the ISQM 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements* and includes case studies, multiple documentation aids covering independence, acceptance and continuance of clients and engagements, resources, and outside consultation, as well as a sample checklist for engagement quality reviews.

Installment Three would be about monitoring and remediation.

For further details, please use the link:

<https://www.ifac.org/news-events/2023-07/ifac-releases-second-installment-implementation-support-series-small-firms-iaasb-s-quality>

#### 5. IFAC publishes case study on SAICA's public sector activities 'Broadening the Accountancy Profession's Reach in the Public Sector'

IFAC, in collaboration with the South African Institute of Chartered Accountants (SAICA) has published a case study on SAICA's activities in the public sector. The publication highlights how a focus on the public sector supports its mandate to contribute to South Africa's economic and social advancement.

SAICA's priorities include increasing the professionalization of the public sector through multiple pathways to attract talent and grow its membership, as well as supporting members through professional development and by advocating on their behalf.

A case study can be accessed using the link:

<https://www.ifac.org/knowledge-gateway/contributing-global-economy/publications/broadening-accountancy-profession-s-reach-public-sector>

#### 6. Proposed new standard for Audits of Less Complex Entities

In response to a need for a set of high-quality requirements tailored for the audits of less complex entities, the IAASB in 2021 issued an Exposure draft of the proposed standard for the Audits of Less Complex Entities (ISA for LCE). Initially, the Group audits were not included in the scope of the original exposure draft of the proposed standard, however, keeping in view of stakeholder's feedback, the IAASB reconsidered and added new Part 10 on 'Group Audit' to address audits of less complex groups.

The final standard is expected to be issued in December 2023 which will meet the growing global need for a separate standard for audits of less complex entities, while reducing the emerging risk of jurisdictional divergence.

Details can be accessed at:

<https://www.iaasb.org/focus-areas/new-standard-audits-less-complex-entities>

#### 7. IESBA Handbook 2023 Edition

The International Ethics Standards Board for Accountants (IESBA) has issued the 2023 Handbook of the International Code of Ethics for Professional Accountants (including International Independence Standards) in September 2023, which will replace the 2022 edition. The key revisions include the revised definition of engagement team, audit client, group audit client, public interest entity (PIE) and the technology-related revisions.

The 2023 version can be downloaded at:

<https://www.ethicsboard.org/publications/2023-handbook-international-code-ethics-professional-accountants>

#### 8. IESBA Sustainability Reference Group

The IESBA has established a Sustainability Reference Group (SRG) to support the work of its Sustainability Task Force.

The SRG members will act as a "sounding board" to the Sustainability Task Force, providing insights, expertise, or advice relating to the development of global ethics and independence standards for sustainability reporting and assurance.

For details please refer the link:

<https://www.ethicsboard.org/news-events/2023-06/iesba-establishes-sustainability-reference-group>

## 9. IESBA staff and APESB jointly issue guidance illustrating application of IESBA Code to Technology related Services provided by auditors

Rapid advances in technology are transforming the way professional accountants conduct their work. To assist them in ethically navigating the challenges and opportunities brought by these advances, the IESBA's Technology Task Force and staff of the Australian Accounting Professional & Ethical Standards Board (APESB) have jointly issued the guide, *Applying the Code's Conceptual Framework to Independence: Practical Guidance for Auditors In Technology-related Scenarios*.

The publication provide helpful guidance to assist auditors in implementing the key technology-related provisions of the IESBA Code and provides auditors with three practical examples involving technology-related non-assurance services to illustrate how to apply the Code's requirements with respect to independence.

The guide can be downloaded at the link:  
<https://www.ethicsboard.org/publications/applying-code-s-conceptual-framework-independence>



Technical services department look forward to your comments and feedback and can be shared at: [farheen.mirza@icap.org.pk](mailto:farheen.mirza@icap.org.pk)

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