



The Institute of  
Chartered Accountants  
of Pakistan

CA  
PAKISTAN

# Audit Bulletin

October - December 2022 | Issue 32



111-000-422



[www.icap.org.pk](http://www.icap.org.pk)



[icapofficial](https://twitter.com/icapofficial)



[icap.ca](https://www.facebook.com/icap.ca)



[icap-ca](https://www.linkedin.com/company/icap-ca)



[icappakistan](https://www.youtube.com/channel/UC...)

## UPDATES FROM THE AUDITING STANDARDS & ETHICS COMMITTEE

### 1. Adoption of IAASB's Quality Management Standards

The Council of the Institute has adopted the new and revised Quality Management Standards issued by the International Auditing and Assurance Standards Board (IAASB). The adoption has been made on the recommendation of the Auditing Standards & Ethics Committee (the Committee/ASEC) of ICAP, and notified through ICAP Circular No. 6/2022 dated November 25, 2022 (available at: <http://www.icap.net.pk/archives/6746>)

The Council has approved Quality Management Standards as per following effective dates:

Firms	Effective date
Firms performing the audits of public interest companies	Effective from December 15, 2023
Firms performing the audits of other than public interest companies	Effective from December 15, 2024

In view of above-notified effective dates, a firm is required to have the system of quality management (SOQM) designed and implemented in accordance with ISQM 1 by the effective dates. While the evaluation of the SOQM has to be performed within one year following the effective dates.

Early adoption of Quality Management Standards are permitted; however, firms are required to adopt all three Quality Management Standards at the same time.

The Quality Management Standards will replace the extant International Standard on Quality Control (ISQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements and Other Assurance and Related Services Engagements*, and ISA 220.

#### Useful publications and resources

Various IAASB and ICAP publications and resource material including Quality Management Standards,

implementation guides, presentations and video recordings of seminars/webinar are available and can be accessed using the links:

<http://www.icap.net.pk/quality-management-standards>

<https://www.iaasb.org/focus-areas/quality-management>

### 2. Technical opinions issued

The Committee has issued technical opinions on the following auditing enquiries:

- Lack of consent from the audit client to offer audit files for ICAP QCR;
- Scope of ISA 600, *Group Audits*.

The latest technical opinions can be downloaded from the ICAP website at the link: [www.icap.net.pk](http://www.icap.net.pk)

## INTERNATIONAL DEVELOPMENT

### 1. ISA 315 (Revised) is applicable for December 2022 year-end audits

In 2019, the IAASB issued the revised version of ISA 315, *Identifying and Assessment of Material Misstatement through Understanding the Entity and Its Environment* (ISA 315 (Revised 2019)).

ISA 315 (Revised 2019) has brought in some significant changes to the risk assessment process, and key changes include:

- Separate assessment of inherent risk and control risk is now required.
- The introduction of concept of spectrum, requiring assessment of inherent risk on a spectrum (at the higher end of the spectrum lies the significant risks);
- The introduction of five new inherent risk factors (subjectivity, complexity, uncertainty, change and susceptibility to misstatement due to management bias or fraud) to aid in risk assessment;
- Significantly enhanced requirements and focus on entity's use of automated tools and techniques and IT risks;
- Enhanced requirements for the auditor's exercise of professional skepticism throughout the risk assessment process;

- More focus on controls relevant to the audit and on the design and implementation work required for these controls; and
- Distinguish between direct and indirect control components.

The revised ISA 315 is applicable for the audits of financial statements for periods beginning on or after December 15, 2021. It is therefore, applicable on December 2022 year-end audits.

To facilitate the implementation of ISA 315 (Revised 2019), the IAASB has issued **First-Time Implementation Guide for ISA 315 (Revised)**. The Guide focuses on the substantial changes and will help stakeholders in understanding and applying the revised ISA 315.

The ISA 315 (Revised 2019) and First-Time Implementation Guide can be downloaded using links:

<https://www.iaasb.org/>

<https://www.ifac.org/>

## 2. IAASB opens public consultation for revised ISA 500 'Audit Evidence'

The IAASB, in October 2022, issued the exposure draft of ISA 500, *Audit Evidence*, for public comments. The current ISA 500 addresses an auditor's responsibility to design and perform audit procedures to obtain sufficient appropriate evidence on the basis of which auditor gives audit opinion.

The significant proposed changes and enhancements to ISA 500 include:

- Clarification of the purpose, scope of ISA 500 and its relationship with other standards;
- Outlining a principles-based approach to consider and make judgments about information intended to be used as audit evidence and evaluate whether sufficient appropriate audit evidence has been obtained;
- Modernizing ISA 500 to be adaptable to the current business and audit environment, including the entity and the auditor's use of technology, such as automated tools and techniques; and
- Emphasizing the role of professional skepticism when making judgments about information that is to be used as audit evidence.

The IAASB has requested comments on the exposure draft by April 24, 2023.

The exposure draft can be downloaded using link: <https://www.iaasb.org/>

## 3. IAASB issues guidance on how amendments made to IFRS Standard IAS 1 impact the ISAs

The IAASB has published guidance '*Amendments to IAS 1 and the Impact on the ISAs: Disclosure of Material Accounting Policy Information, among other matters*' to help users understand the impact on the ISAs due to narrow-scope amendments made to International Accounting Standard (IAS) 1, *Presentation of Financial Statements* issued by the International Accounting Standards Board (IASB).

The IAASB framework remains neutral when developing the ISAs, however, it considers the changes made in the International Financial Reporting Standards (IFRS Accounting Standards) that may affect the ISAs.

The guidance issued by the IAASB will help users in understanding the effect of the amendments to the IFRS Accounting Standards on a number of illustrative auditor reports that are provided in the ISAs.

The guidance can be accessed on the following link: <https://www.iaasb.org/publications/>

## 4. IAASB project update on Proposed ISA for Audits of Less Complex Entities (ISA for LCE)

The IAASB in its recent board meetings of 2022 has discussed key areas of feedback and related revisions to targeted areas of the proposed ISA for LCE. These include: revisions to the authority of the proposed standard for incorporation of group audits and inclusion of the proposed new part on the group audits. The IAASB updates can be viewed from the IAASB project page at: <https://www.iaasb.org/>

Further a webinar is also being organised by IFAC, IAASB and European Federation of Accountants and Auditors for SMEs (EFAA) on February 16, 2023 to update participants on the planned changes to the proposed standard made to date.

The webinar details can be accessed at the link: <https://www.ifac.org/>

## 5. IAASB publishes fact sheet on Quality Management and Group Audits

The IAASB has published a new fact sheet on the interactions between ISA 220 (Revised) and the extant ISA 600 on group audits.

The fact sheet highlights aspects of a group audit that may be affected by ISA 220 (Revised) and ISQM 1, addressing quality management at the firm level. This includes the revised definition of engagement team and leadership and direction, supervision, and review responsibilities. The factsheet will be particularly useful for group audits in which component auditors are involved. The fact sheet can be accessed at: <https://www.ifac.org/system/files/>

## 6. IAASB Digital Technology Market Scan: Homomorphic Encryption

The IAASB disruptive Technology team has published its fifth Market Scan which covers exciting trends, including new developments, corporate and start-up innovation, and noteworthy investments.

In this Market Scan, the IAASB has explored the Homomorphic Encryption for analyzing encrypted data, a technology which has applications within protecting information. This technology has the potential to impact how data is used in the audit, creating opportunities for greater collaboration and access to specialist skills.

Further details about publication can be accessed at: <https://www.iaasb.org/>

## 7. IESBA update on Sustainability Reporting and Assurance

The International Ethics Standards Board for Accountants (IESBA) has issued a publication ‘*Continuing with the Development of Global Ethics and Independence Standards for Sustainability Reporting and Assurance*’.

The publication provides an overview of the sustainability-related decisions made by the Board at its recent meeting and how those decisions will shape the Board's work in 2023 and beyond. The two new projects the Board has approved are:

- **Sustainability Project**
  - Profession-agnostic independence standards for use by all sustainability assurance practitioners;

- Specific ethics provisions relevant to sustainability reporting and assurance.

- **Experts Project**

- Specific ethics and independence provisions addressing the use of experts by organizations as well as in the context of audit and assurance engagements (including sustainability assurance).

The publication can be downloaded using link: <https://www.ethicsboard.org/>

## 8. IESBA publication ‘Ethics Considerations in Sustainability Reporting’

The IESBA has issued a Questions & Answers publication, *Ethics Considerations in Sustainability Reporting, Including Guidance to Address Concerns about Greenwashing*.

The publication highlights the relevance and applicability of the IESBA Code to ethics-related challenges in the context of sustainability reporting and assurance, especially situations or challenges that might lead to reporting misleading or false sustainability information (i.e., “greenwashing”). It also highlights key provisions in the Code that apply in preparing and presenting sustainability information.

The publication can be accessed at the link: <https://www.ethicsboard.org/>

## 9. IESBA-JICPA non-authoritative publication on application of IESBA Code to Technology-Related Scenarios

The IESBA’s Technology Working Group jointly with the Japanese Institute of Certified Public Accountants (JICPA) has issued the non-authoritative publication ‘*Ethical Leadership in a Digital Era: Applying the IESBA Code to Selected Technology-Related Scenarios*’.

The publication provides seven hypothetical scenarios to illustrate how accountants can navigate practical issues in ethical leadership when using or implementing technology. Each scenario highlights the application of specific requirements and guidance in the IESBA Code, in particular those related to compliance with the fundamental principles of ethics and auditor independence.

The publication can be accessed at: <https://www.ethicsboard.org/>

## 10. IESBA publishes Staff Alert ‘The Ukraine Conflict: Key Ethics and Independence Considerations’

The IESBA published the Staff Alert, *The Ukraine Conflict: Key Ethics and Independence Considerations*. The publication draws the attention of professional accountants in business as well as in public practice to a number of important provisions of the IESBA Code which must be complied in carrying out their work as they navigate the unprecedented challenges and risks arising from the Russia-Ukraine war.

The Staff Alert also highlights:

- Key ethics considerations for PAIBs in relation to the preparation and presentation of information, especially as regards accounting for and disclosing the impact of the Ukraine conflict on their employing organizations’ business; and
- Key ethics considerations for PAPPs in relation to client and engagement acceptance, and in the context of audits of financial statements, key independence considerations relating to overdue fees and the Code’s prohibition against assuming management responsibility.

Staff alert can be accessed using the link:

<https://www.ethicsboard.org/>

## 11. IESBA releases a report on impacts of technology on Ethics

The IESBA published its Technology Working Group’s report Phase 2 Report.

The Phase 2 report, is based on the Phase 1 Report (issued in February 2020), which documents the impacts of disruptive and transformative technologies on the work of professional accountants. It provides an extensive analysis and discusses the relevance and importance of the overarching principles and specific provisions in the IESBA Code in laying out the ethical guardrails for professional accountants as they face opportunities and challenges in their work as a result of rapid digitalization.

The Phase 2 report surveys the technology landscape and summarizes the outcomes of the Working Group’s fact-finding into the ethics implications of innovative technologies such as artificial intelligence, blockchain and cloud computing. It explores various ethical related issues, including data governance, cybersecurity, and reliance on, or use of, experts. The Report also includes recommendations on the

technology-related revisions to the Code. The report is available at: <https://www.ethicsboard.org/>

## 12. Exploring the IESBA Code - Monthly Audio Series

The Exploring the IESBA Code series, developed by IFAC in collaboration with the IESBA, is intended to promote awareness, adoption and implementation of the IESBA Code of Ethics (Please note that ICAP Code of Ethics is based on IESBA Code of Ethics). The installment series was launched by the IESBA in 2019 which highlights important topics of the Code. Each installment focuses on specific aspect of the Code using real-world situations that is relatable and practical.

Through an agreement between IFAC and ProDio, "Exploring the IESBA Code" series has been produced in mobile audio format for professional accountants and other interested users so that they become more familiar with the code of ethics and increase their ability in applying the ethical requirements.

### Summary of Audio Modules and Release Dates

[Installment 1](#)- *The Five Fundamental Principles* (released November 1, 2021)

[Installment 2](#)- *The Conceptual Framework - Identifying Threats* (released December 1, 2021)

[Installment 3](#)- *The Conceptual Framework - Evaluating Threats* (released January 1, 2022)

[Installment 4](#)- *The Conceptual Framework - Addressing Threats* (released February 1, 2022)

[Installment 5](#)- *Independence* (released March 1, 2022)

[Installment 6](#)- *Conflicts of Interest* (released April 1, 2022)

[Installment 7](#)- *Inducements* (released May 1, 2022)

[Installment 8](#)- *Responding to Non Compliance with Laws and Regulations for Professional Accountants in Business* (released June 1, 2022)

[Installment 9](#)- *Responding to Non Compliance with Laws and Regulations for Professional Accountants in Public Practice* (released July 1, 2022)

[Installment 10](#) - *Pressure to Breach the Fundamental Principles* (released August 1, 2022)

[Installment 11](#)- *The Role and Mindset Expected of Accountants - A Focus on Bias* (released September 1, 2022)

[Installment 12](#)- *The Building Blocks* (released October 1, 2022)

[Installment 13](#) (New) - *A Focus on Technology: Artificial Intelligence* (released November 1, 2022).

The audios can be accessed using link: [https://prodiollearning.com/course-content.php?course\\_id=NDE=](https://prodiollearning.com/course-content.php?course_id=NDE=)

The written version of the installment series can be found at: <https://www.ifac.org/>

## LOCAL DEVELOPMENTS

### 1. SECP's Consultation Paper on the unified Panel of Auditors for SECP Regulated Entities

The SECP, on December 05, 2022, issued a Consultation Paper on the 'Introduction of Panel of Auditors for SECP Regulated Entities'.

Through the Consultation Paper, SECP intends to provide a single panel of auditors for SECP regulated entities. SECP has proposed to follow a risk-based approach for standardization of panel of auditors. Accordingly, the entities with higher degree of risk shall be required to appoint their auditors from suitable category. Entities with low risk may appoint any auditor which has a QCR rating from ICAP.

In the proposed unified panel, SECP has introduced following new categories registered and/or licensed under the administered legislation:

- Securities Exchange;
- Clearing House;
- Depository Companies or Commodity Exchange;
- NBFCs;
- Securities and Futures Advisers and lending NBFCs (deposit taking).

Consequent to proposed approach of the Concept Paper, SECP has also notified draft amendments in the rules and regulations relevant to the above sectors.

ICAP has submitted its detailed comments on the SECP Consultation Paper.

The Consultation Paper can be downloaded using link: <https://www.secp.gov.pk/>

### 2. SECP issues amendments to the Companies (Postal Ballot) Regulations, 2018

SECP has issued amended 'Companies (Postal Ballot) Regulations, 2018'. Among other amendments the regulations now require:

- a) Every listed company to provide e-voting facility to the members for all special businesses and election of directors;
- b) Every listed company to appoint a scrutinizer for the purpose of voting in the meeting for the following businesses:
  - businesses mentioned in section 183 (3) (a) and (b) of the Companies Act, 2017;
  - investment in associated companies as mentioned in section 199 of the Companies Act, 2017 (except where investment is made in wholly owned subsidiary); and
  - election of directors.

Following are eligible for appointment as scrutinizer:

- a) statutory auditor of the company; or
- b) any other auditor fulfilling requirements stated in section 247 of the Companies Act and having a satisfactory QCR rating from ICAP.

SECP final notification can be downloaded using link: <https://www.secp.gov.pk/laws/notifications/>



You can share your comments and feedback to Technical Services Department at: [farheen.mirza@icap.org.pk](mailto:farheen.mirza@icap.org.pk)

#### DISCLAIMER

*This publication is intended to provide a summary of developments relating to audit during the quarter, legal and regulatory matters and matters under consideration of ASEC.*

*This information should not form the basis of any decision; nor it should be relied upon as a legal and professional guidance regarded as a substitute for specific advice.*

*No responsibility of any person acting as a result of any material in this publication can be accepted by ICAP and the Department.*