

AUDIT BULLETIN



The Institute of
Chartered Accountants
of Pakistan

CA
PAKISTAN

www.icap.org.pk

Issue 18 | January - March 2019

AUDIT

CONTENTS

INTERNATIONAL DEVELOPMENTS

Page 1

ICAP PUBLICATIONS

Page 3

**UPDATES FROM ICAP AUDITING
STANDARDS & ETHICS COMMITTEE**

Page 4

INTERNATIONAL DEVELOPMENTS

1. Consultation Paper on Extended External Reporting Assurance

The International Auditing & Assurance Standards Board (IAASB) has issued a consultation paper on its progress in developing draft guidance in the first phase of its *Extended External Reporting (EER) Assurance* project. EER encapsulates many different forms of reporting, including, but not limited to, integrated reporting, sustainability reporting and other reporting by entities about environmental, social and governance matters.

This Consultation Paper includes the first part of draft guidance for practitioners applying International Standard on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, to EER assurance engagements. This Consultation Paper does not include an exposure draft of the anticipated full guidance as it is an interim consultation. Its purpose is to assist the IAASB to continue developing a complete non-authoritative guidance document that is due to be published in the second phase of the project as an exposure draft.

The Consultation paper is open for public comments by June 21, 2019 and can be accessed at:

<http://www.ifac.org/publications-resources/consultation-paper-extended-external-reporting-assurance>

2. The IAASB's Exposure Drafts for Quality Management at the Firm and Engagement Level, Including Engagement Quality Reviews - overall memorandum

The IAASB is seeking public comment on exposure draft of three interrelated standards that address quality management. The standards are:

- a) International Standards on Quality Management 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*.
- b) International Standard on Quality Management 2, *Engagement Quality Reviews*; and
- c) International Standard on Auditing 220 (Revised), *Quality Management for an Audit of Financial Statements*

The proposals change the way professional accountancy firms are expected to manage quality for audits, reviews, and other assurance and related services engagements.

For ease of readers, IAASB has also issued an overall memorandum to explain the key concepts of three standards and their interrelationship. It has requested separate comments on overall explanatory memorandum by July 01, 2019. The exposure draft and related consultation paper can be accessed at:

<http://www.ifac.org/system/files/publications/files/IAASB-Covering-Explanatory-Memorandum.pdf>

The brief explanation about the three standards is followed.

3. Exposure Draft on International Standard on Quality Management 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

To ensure that firms' systems continue to be robust and effectively support high-quality audits and other engagements, the IAASB has

proposed various enhancements to address firms' systems of quality management, previously known as systems of quality control. This Exposure Draft includes a new proactive risk-based approach to an effective system of quality management that establishes the foundation for consistent engagement quality. International Standards on Quality Management 1 (ISQM 1) will replace International Standards on Quality Control 1 after its effectiveness.

Other enhancements include:

- Increasing firm leadership responsibilities and accountability, and improving firm governance;
- Modernizing the standard for an evolving and increasingly complex environment, including addressing the impact of technology, networks, and use of external service providers; and
- More rigorous monitoring of quality management systems and remediating deficiencies.

The Exposure Draft and related consultation paper is open for public comments by July 01, 2019 and can be accessed at:

<http://www.ifac.org/system/files/publications/files/IAASB-Proposed-ISQM-1-Explanatory-Memorandum.pdf>

4. Exposure Draft on International Standard on Quality Management 2, *Engagement Quality Reviews*

To ensure that engagement quality reviews continue to be robust and effectively support high-quality audits and other engagements, the IAASB has proposed various enhancements to engagement quality reviews. This includes a new proposed standard on engagement quality reviews that includes enhancements regarding:

- The eligibility criteria to perform the engagement quality review; and
- The engagement quality reviewer's performance and documentation.

The Exposure Draft and related consultation paper is open for public comments by July 01, 2019 and can be accessed at:

<http://www.ifac.org/system/files/publications/files/IAASB-Proposed-ISQM-2-Explanatory-Memorandum.pdf>

5. Exposure Draft on International Standard on Auditing 220 (Revised), *Quality Management for an Audit of Financial Statements*

The IAASB has issued an Exposure Draft on International Standard on Auditing (ISA) 220 (Revised), "*Quality Management for an Audit of Financial Statements.*" Proposed ISA 220 (Revised) will improve the management of quality at the engagement level for audits of financial statements. It contains enhanced and revised requirements and guidance to:

- Highlight the importance of the public interest role of audits, and improve the emphasis on the importance of the appropriate application of professional judgment and exercise of professional skepticism;
- Clarify the role and responsibilities of the engagement partner, particularly the required involvement of the engagement partner throughout the audit, and retain the emphasis on the engagement partner's responsibility for managing and achieving quality at the engagement level;
- Modernize ISA 220 for an evolving environment, including changes in audit delivery models and the use of technology; and
- Clarify the relationship between ISA 220 and the International Standards on Quality Control/Management, including additional clarification of the engagement partner's and engagement team's interaction with the firm, and the engagement team's ability to depend on the firm's quality management policies or procedures.

The Exposure Draft and related consultation paper is open for public comments by July 01, 2019 and can be accessed at:

<http://www.ifac.org/system/files/publications/files/IAASB-Proposed-ISA-220-Revised-Explanatory-Memorandum.pdf>

6. Exposure Draft on Proposed Revisions to Part 4B of the Code

The International Ethics Standards Board for Accountants (IESBA) has issued an Exposure Draft to seek views from practitioners and other stakeholders in relation to proposed



revisions to Part 4B of the revised and restructured International Code of Ethics for Professional Accountants (including International Independence Standards) to reflect terms and concepts used in International Standard on Assurance Engagements 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*.

The proposals in the Exposure Draft include

- Changes in key terminology, including a revised definition of the term “assurance client”;
- Enhanced and clarified independence requirements for attestation engagements;
- Clarification of the types of assurance engagement addressed in Part 4B;
- Simplified guidance on assurance engagements that refers to the definitive source of explanatory material on such engagements in IAASB literature.

The Exposure Draft and related consultation paper is open for public comments by June 26, 2019 and can be accessed at:

<http://www.ifac.org/publications-resources/exposure-draft-proposed-revisions-part-4b-code>

ICAP PUBLICATIONS

Exposure Draft of the Code of Ethics for Chartered Accountants (Revised)

The International Ethics Standards Board for Accountants (IESBA) has issued International Code of Ethics for Professional Accountants (including International Independence Standards) (Commonly termed as Restructured Code) which would be replacing previous edition of Code of Ethics.

The Restructured Code offers the following significant features:

- An enhanced and more prominently featured conceptual framework;
- Clearer and more robust provisions pertaining to safeguards that are better aligned with threats to compliance with the fundamental principles;

- Enhanced independence provisions regarding long association of personnel with audit clients, including increase in cooling off period requirements;
- New and revised sections dedicated to professional accountants in business relating to preparing and presenting information and pressure to breach the fundamental principles.
- Strengthened provisions pertaining to the offering or accepting of inducements, including gifts and hospitality;
- Provisions with respect to responding to Non-Compliance with Laws and Regulations- NOCLAR (These were introduced by IESBA in 2016 with the effective date of July 15, 2017, and are now being considered for adoption by the Institute);
- New guidance to emphasize the importance of understanding facts and circumstances when exercising professional judgment; and
- Guidance on pressure to breach the fundamental principles.

The Auditing Standards & Ethics Committee (the Committee) of the Institute has carried out a comprehensive study and detailed discussions on all parts of the Restructured Code. In its 55th meeting held on March 26, 2019, the Committee has approved and decided to expose the Draft ‘Code of Ethics for Chartered Accountants (Revised)’ to the members for their comments. The Institute through its Circular 01 / 2019 dated April 03, 2019 exposed the Draft ‘Code of Ethics for Chartered Accountants (Revised)’ for members’ comments. The exposure draft and circular 01 / 2019 can be accessed at

<http://www.icap.net.pk/archives/5346>

Members of the Institute are requested to provide their valued comments at dtscomments@icap.org.pk by May 03, 2019.

UPDATES FROM ICAP'S AUDITING STANDARDS & ETHICS COMMITTEE

1. Adoption of IESBA' Restructured Code of Ethics for Professional Accountants and NOCLAR Standards

The Auditing Standards & Ethics Committee (the ASEC) of ICAP has approved the Draft Revised Code of Ethics for Chartered Accountants (the Draft Revised Code) for circulation to members. The Code has been circulated to the members of the Institute on April 03, 2019. Members are requested to provide their valued comments by May 03, 2019.

2. Members' awareness sessions on Code of Ethics: Restructured & Simplified

The ASEC, in collaboration with Southern Regional Committee and Northern Regional Committee of the Institute is arranging seminars on "Code of Ethics: Restructured & Simplified" for members' awareness on the Draft Revised Code. The Seminars' dates and locations are as follows:

Karachi - 17 April 2019

Lahore - 22 April 2019

Islamabad - 23 April 2019

3. Comments on Proposed ISRS 4400 (Revised) "Agreed-Upon Procedures Engagements."

On November 15, 2018, the IAASB had issued a proposed ISRS 4400 (Revised) "Agreed-Upon

Procedures Engagements" for public comments. The Institute shared its comments to IAASB on March 15, 2019. Comments from the Institute can be downloaded from the following link:

<https://www.ifac.org/system/files/publication/s/exposure-drafts/comments/CommentsonProposedISRS4400Revised.pdf>



Send your valuable feedback/ comments to:

ICAP Technical Services
Department
Chartered Accountants Avenue
Karachi, Pakistan
fasihuddin.baig@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.