



The Institute of
Chartered Accountants
of Pakistan

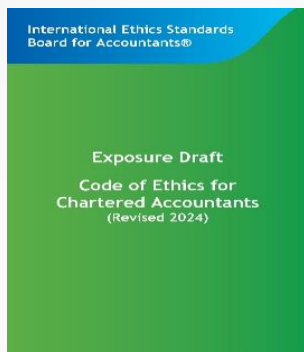
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Audit Bulletin

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UPDATES FROM THE AUDITING STANDARDS & ETHICS COMMITTEE

1. ICAP issues Exposure Draft of the Code of Ethics for Chartered Accountants (Revised 2024)



The Auditing Standards and Ethics Committee of the Institute, through its Circular 12/ 2023, (dated December 30, 2023) has issued the Exposure Draft of the '*Code of Ethics for Chartered Accountants (Revised 2024 (draft revised Code 2024)*' for member's comments.

The draft revised Code 2024 is based on IESBA's 2023 *Handbook of International Code of Ethics for Professional Accountants (including International Independence Standards)*, issued in September 2023.

From the extant ICAP Code of Ethics 2019, the key changes include the following:

- The revisions to Parts 1 and 2 of the Code (Section 100, 110, 120, 220 and glossary) which promote the role and mindset expected of chartered accountants.
- New Section 325 on '*Objectivity of an Engagement Quality Control Reviewer and Other Appropriate Reviewers*' which addresses the objectivity of an engagement quality reviewer (EQR) and other appropriate reviewers to support ISQM 2, Engagement Quality Reviews requirements and address the eligibility of an individual to serve in an EQR role, focusing on the critical attribute of objectivity.
- The revisions relating to the definition of Engagement Team (Section 400).
- The revisions to Fee-Related Provisions (Section 400) and Non-Assurance Services (NAS) (Section 600) to strengthening requirements including:
 - A new prohibition on firms from providing a NAS to an audit client that is a public interest entity (PIE) that might create a self-review threat.
 - A requirement that a firm not allow the audit fee to be influenced by the provision of services other than audit to an audit client by the firm or a network firm.

- Strengthened provisions to address fee dependency at the firm level to stimulate greater public transparency about fees paid by PIE audit clients.
- New provisions to promote more robust engagement between auditors and those charged with governance of PIEs about independence matters relating to NAS and fees.
- A new section 405 on 'Group Audits' which is in line with ISA 600 (Revised) requirements.
- The ISQM standards related conforming amendments to the overall Code of Ethics.
- The revisions to Part 4B of the Code to reflect the terms and concepts used in the ISAE 3000 (Revised).

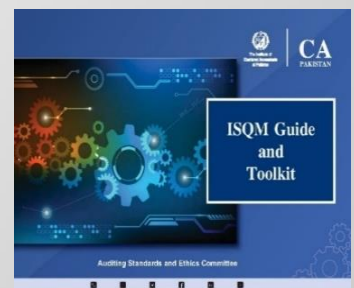
In addition to above, few changes that was part of the IESBA Code 2023, have been approved by the committee but will be effective from periods beginning on or after December 15, 2024. The changes are related to revisions in the definition of a PIE including replacement of term 'listed entity' with 'public traded entity', changes to the definitions of 'audit client' and 'group audit client' in the Glossary of terms and Technology-related revisions.

The Exposure Draft and Circular 12 can be downloaded at the link: <https://www.icap.net.pk/open-for-comment>
<https://www.icap.net.pk/circulars-issued-in-2023>

2. ICAP publishes 'ISQM Guide and Toolkit'

The Auditing Standards & Ethics Committee of the Institute has published the '*ISQM Guide and Toolkit*' (*the Toolkit*) through its Circular No. 6/2023 (dated October 23, 2023).

The Toolkit aims to provide guidance to audit firms in developing and implementing their System of Quality Management in accordance with ISQM 1 issued by the International Auditing and Assurance Standards Board (IAASB).



The Toolkit contains a Risk and Control Matrix on six components of the ISQM 1, collectively covering a bank of over 120 quality risks and their suggested controls to address those risks.

It is pertinent to mention that the suit of Quality Management Standards (ISQM 1, ISQM 2 and ISA 220 (Revised)) is now effective for firms performing the audits of public interest companies, from December 15, 2023.

The firms performing the audits of other than public interest companies, these standards will be applicable from December 15, 2024.

The circular 6 and ISQM Guide & Toolkit publication can be downloaded at the links:

<https://www.icap.net.pk/files/sqm/ISQM-guide-and-toolkit.pdf>

<https://www.icap.net.pk/circulars-issued-in-2023>

INTERNATIONAL DEVELOPMENT

1. New Edition of The IAASB Handbook Available on the IAASB Website

The '2022 Handbook of International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements' (2022 Handbook) was issued by the International Auditing and Assurance Standards Board (IAASB). The printed copy of the 2022 handbook will soon be available to members, student and other stakeholders at ICAP head office.



The key changes made in the 2022 edition includes the following:

- Quality management standards, ISQM 1, ISQM 2 and ISA 220 (Revised) and related conforming amendments to ISAs and other standards;
- ISA 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)* and its conforming and consequential amendments to other standards; and
- International Standard on Related Services (ISRS) 4400 (Revised), *Agreed-Upon Procedures Engagements*

The digital version of the 2022 Handbook can be downloaded from IAASB website at the link:

<https://www.iaasb.org/publications/2022-handbook-international-quality-management-auditing-review-other-assurance-and-related-services>

2. New Standard for Audits of Less Complex Entities issued by IAASB

The IAASB has published the ISA for Audits of Financial Statements of Less Complex Entities (ISA for LCE) which:

- is a standalone “self-contained” standard designed specifically for audits of a less complex entities;
- is built on the foundation of the ISAs and contains all requirements necessary to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, whether due to fraud or error.
- utilizes a risk-based approach to an audit with requirements that are principles-based; and
- will help auditors deliver consistent and effective high-quality audits for less complex entities.

The standard will be effective for audits of financial statements for periods beginning on or after December 15, 2025. Early adoption of the ISA for LCE is permitted.

The ISA for LCE, its Basis for Conclusions and a fact sheet are available on IAASB webpage: www.iaasb.org/ISAforLCE

The IAASB will also be issuing non-authoritative supplemental guides on the Authority of the standard, first-time implementation guide and other guidance material for stakeholder's reference.

3. Updates on ISSA 5000, *General Requirements for Sustainability Assurance Engagements*

The IAASB's proposed ISSA 5000 is a stand-alone standard suitable for any sustainability assurance engagements. It will apply to sustainability information reported across any sustainability topic and prepared under multiple frameworks, including the recently released IFRS Sustainability Disclosure Standards S1 and S2.

ICAP through Auditing Standards and Ethics Committee also submitted its comments on the exposure draft of ISSA 5000. The comment deadline was December 1, 2023. A survey on proposed ISSA 5000 was also launched for seeking stakeholder's view.

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

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

ISSA 5000 FAQ on Materiality

The IAASB, in response to stakeholder's requests on the topic of materiality, has published a comprehensive set of Frequently Asked Questions (FAQs).

The FAQs address various aspects of materiality in sustainability reporting and assurance, including double materiality and the consideration of an organization's materiality process during assurance engagements.

The above FAQs can be accessed at the following link:

<https://www.iaasb.org/news-events/2023-10/new-iaasb-resources-alert-explore-issa-5000-faq-materiality>

Member's Outreach on the proposed ISSA 5000

IAASB is also committed to an extensive, high-level outreach plan to ensure broad stakeholder input to improve the quality of the final standard. The outreach plan included roundtables, virtual webinars and regional and national meetings with regulators and oversight bodies.

The detail of the outreach events can be accessed using the given link: <https://www.iaasb.org/news-events/2023-11/proposed-issa-5000-iaasb-s-global-outreach-campaign>

4. IFAC publishes Sustainability Checklist for Small Businesses

IFAC has published a '*Small Business Sustainability Checklist (the Checklist)*' to help small- and medium-sized enterprises (SMEs) to maximize the benefits of incorporating sustainability into their strategy and business operations.

The Checklist is a diagnostic tool designed to be tailored by each business according to its own unique circumstances, including its industry sector, lifecycle, and products and services provided. It lists a comprehensive range of initiatives and actions to be considered in terms of environmental, social, and governance (ESG) factors.

The Checklist can be downloaded at the link:

<https://www.ifac.org/about-ifac/small-and-medium-practices/publications/small-business-sustainability-checklist>

5. Quality Management Toolkit for Small- and Medium-Sized Firms and Illustrative Risk Matrix



IFAC and Chartered Accountants Australia and New Zealand (CA ANZ) has published a '*Quality Management Toolkit for Small- and Medium-Sized Firms*' and its companion '*Illustrative Risk Matrix*' to help SMPs to implement the IAASB's suite of Quality Management Standards.

The toolkit and accompanying matrix will help SMPs to implement Quality Management Standards by developing its own quality management system. This covers a suite of illustrative documents, policies, checklists, sample letters and forms to help SMPs establish their quality objectives, identify and assess quality risks, and design and implement responses to address their identified quality risks.

The toolkit can be downloaded using link:

<https://www.ifac.org/knowledge-gateway/supporting-international-standards/publications/quality-management-toolkit-small-and-medium-sized-firms-and-illustrative-risk-matrix>

6. IAASB issues guidance for assurance practitioners when citing IFRS Accounting Standards

The IAASB has issued guidance to help stakeholders understand how to reference IFRS Accounting Standards to follow recent updates to the IFRS Foundation® Trade Mark Guidelines. The updated IFRS Foundation guidelines require, amongst other things, that the standards issued by the International Accounting Standards Board, including International Accounting Standards (IASs) and International Financial Reporting Standards (IFRSs), will be referred to as “*IFRS Accounting Standards*”. The IAASB’s guidance also clarifies how auditors or practitioners should refer to the IFRS Accounting Standards in their reports.

Details can be accessed at the following link:

<https://www.iaasb.org/news-events/2023-12/iaasb-issues-guidance-assurance-practitioners-when-citing-ifrs-accounting-standards>

7. IAASB enhances Auditor’s Report transparency on independence to reflect revisions in the IESBA Code of Ethics

IAASB has made narrow scope amendments to ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*, and ISA 260 (Revised), *Communication with those Charged with Governance*.

These amendments aimed at strengthening transparency and providing auditors with a clear mechanism to action changes to the International Ethics Standards Board for Accountants’ (IESBA’s) *Code of Ethics for Professional Accountants (including International Independence Standards) (the IESBA Code)*. The changes to the IESBA Code require firms to publicly disclose when the independence requirements for public interest entities have been applied in an audit of financial statements.

The amendments can be accessed at the following link:

<https://www.iaasb.org/publications/narrow-scope-amendments-isa-700-revised-forming-opinion-and-reporting-financial-statements-and-isa>

8. IESBA releases Q&As to support Adoption and Implementation of International Independence Standard on Group Audits

The IESBA has issued a questions and answers (Q&A) publication on the pronouncement ‘*Revisions to the Code Relating to the Definition of Engagement Team and Group Audits*’ to address IESBA’s recent revisions about various independence considerations in an audit of group financial statements.

The Q&A publication is designed to highlight, illustrate, or explain aspects of the revisions in the Code and will assist firms and other stakeholders in adopting and/or implementing the revisions.

The publication can be accessed at the following link:

<https://www.ethicsboard.org/publications/iesba-staff-qa-engagement-team-group-audit-independence>



Technical services department look forward to your comments and feedback and can be shared at:
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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.

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