



The Institute of  
Chartered Accountants  
of Pakistan

CA  
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# Audit Bulletin

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## UPDATES FROM THE AUDITING STANDARDS & ETHICS COMMITTEE

### 1. ICAP issues guidance on the External Auditor's Reporting on Company's Royalty/ Franchise/ Technical Fees Agreement

ICAP through Circular No. 4/ 2023 (dated April 06, 2023) has issued the guidance on the external auditor's reporting on Company's Royalty/ Franchise/ Technical (RFT) fees agreement as required under Paragraph 12 (iii) of Chapter 14 of the Foreign Exchange Manual 2002 (the FE Manual).

The FE Manual requires a company to submit its RFT agreement, Application (as per Appendix V-52 of the FE Manual), and other required documents with the authorized dealer for acknowledgment of the RFT agreement. As part of this acknowledgment the FE Manual requires the company's external auditor to:

- Verify information submitted by the company in the application (Appendix V-52);
- Verify the basis and actual calculation of the RFT amount payable;
- Comment on the value addition to the company through the RFT agreement; and
- Certify the company's use of principles of arm's length pricing and the transparency and verifiability of the basis of pricing (when the company's counterparty under the RFT agreement is a related party).

In view of the significant changes and expanded scope of auditor's verification of the company's RFT agreements, the Institute through its Auditing Standards and Ethics Committee has developed the following formats and brief for the members' understanding:

- Format of the '*Independent Reasonable Assurance Report on the Application for Acknowledgement of Agreement for Royalty/Franchise/ Technical Fees*' in accordance with ISAE 3000 (Revised).
- Formats of the Statements on Calculation of RFT, Value Addition through RFT, and Arm's length Pricing of RFT (to be prepared by the company);
- A brief paper on management and auditors' responsibilities in relation to paragraph 12 (iii) (b) and (e) of Chapter 14 of the FE Manual.

The above circular and related documents can be accessed from the Institute website using the link: <http://www.icap.net.pk/archives/6835>

## LOCAL DEVELOPMENT

### 1. SECP's unified Panel of Auditors for SECP Regulated Entities

The Securities and Exchange Commission of Pakistan (SECP), through its Circular 4 of 2023, has issued a unified list of approved auditors for audit of the SECP's regulated entities including securities brokers, insurance/ takaful and modaraba.

An audit firm, with satisfactory ICAP QCR rating, may apply to SECP for assessment and placement on the list of auditors by submitting duly filed Form-A available on SECP's website.

SECP's Circular 4 of 2023 can be downloaded using link: <https://www.secp.gov.pk/laws/circulars/>

### 2. SECP seeks comments to revise the Companies Act, 2017

SECP has initiated an exercise of the comprehensive review of the Companies Act, 2017, to align the company law with international best practices and also to promote business growth and development in Pakistan. For this SECP requested all relevant stakeholders including ICAP to submit its comments on the Companies Act, 2017.

In this regard, ICAP formed a dedicated Taskforce and ICAP members were also requested to share their comments. ICAP comments on the various provisions of the Companies Act, including reporting and audit related sections, after due consultation process, have been submitted to SECP in May 2023.

## INTERNATIONAL DEVELOPMENT

### 1. IFAC Applauds Release of ISSB's First Two Sustainability Standards

The International Federation of Accountants (IFAC) has long supported the establishment of the International Sustainability Standards Board (ISSB) of IFRS Foundation to develop a comprehensive global baseline of sustainability disclosures.

With the issuance of the ISSB's first two standards, IFRS S1, *General Requirements for Disclosure of Sustainability-Related Financial Information* and IFRS S2, *Climate-related Disclosures* on June 26, 2023, the ISSB has answered stakeholders' calls to focus on the needs of investors and capital markets, and to build upon existing and respected frameworks and standards on sustainability. IFRS S1 and IFRS S2 are effective from January 01, 2024.

IFAC emphasizes all professional accountants to must now advocate for and implement these sustainability disclosure standards.

Details can be viewed at: <https://www.ifac.org/news-events/2023-06/ifac-applauds-release-issb-s-first-two-sustainability-standards>

## 2. Proposed International Standard on Sustainability Assurance 5000 to be issued

The International Auditing and Assurance Standards Board (IAASB) has approved unanimously the issuance of draft International Standard on Sustainability Assurance (ISSA) 5000, *General Requirements for Sustainability Assurance Engagements*, for public consultation. The consultation will be open by early August until early December 2023.

The IAASB has developed the new proposed standard due to the increasing global demand for corporate reporting and disclosure on sustainability, ESG (environmental, sustainability, and governance), and climate-related information.

When complete, the proposed ISSA 5000 will be a stand-alone, overarching standard suitable for both limited and reasonable assurance of sustainability information reported across any sustainability topics. The standard will enable engagements of sustainability information prepared under multiple frameworks and be profession-agnostic, supporting its use by both professional and non-professional accountant assurance practitioners in performing sustainability assurance engagements.

Further details can be accessed through the link: <https://www.iaasb.org/news-events/2023-06/proposed-international-standard-sustainability-assurance-5000-approved-public-consultation-unanimous>

## 3. Key Questions for Audit Committees Overseeing Sustainability-Related Disclosure

As reporting and assurance of sustainability-related disclosure evolves, audit committees have a critical role to play in expanding their existing oversight responsibilities for financial reporting and compliance to sustainability-related disclosures.

With the issuance of ISSB's sustainability disclosure standards and also to implement the regulatory requirements of the jurisdiction, organizations must now ensure effective oversight arrangements to deliver high quality, cost effective and decision useful reporting.

To achieve this, IFAC has issued *Key Questions for Audit Committees Overseeing Sustainability-Related Disclosure* to guide audit committees to oversee sustainability-related disclosures. The key questions for audit committees cover:

- Roles and responsibilities across the organization
- Data collection, processes and controls
- What's being reported?
- Audit and assurance

The publication can be downloaded using the link: <https://ifacweb.blob.core.windows.net/publicfiles/2023-05/key-questions-audit-committees-sustainability-disclosure.pdf>

## 4. Public Sector Needs a Holistic Approach to Sustainability

To raise awareness to the International Public Sector Accounting Standards Board (IPSASB's) regarding the public sector sustainability reporting the IPSASB, IFAC and Accountancy Europe hosted a well-attended hybrid event in April 2023. In the event the participants discussed the future of sustainability reporting in the public sector, the urgent need to develop public sector specific sustainability reporting standards, and how the IPSASB is exploring undertaking the critical endeavor.

Event recording and highlights can be accessed at: <https://www.ifac.org/news-events/2023-04/public-sector-needs-holistic-approach-sustainability>

## 5. IAASB opens public consultation for revised Going Concern standard

IAASB on April 26, 2023 has issued proposed revisions to its current standard, International Standard on Auditing 570 (Revised), *Going Concern*.

The proposed changes aim to:

- Promote consistent practice and behavior and facilitate effective responses to identified risks of material misstatement related to going concern;
- Strengthen the auditor's evaluation of management's assessment of going concern, including reinforcing the importance of the appropriate exercise of professional skepticism; and
- Enhance transparency with respect to the auditor's responsibilities and work related to going concern, including strengthening communications and reporting requirements.

The comments on the exposure draft are requested by August 24, 2023. The exposure draft can be downloaded using link: <https://www.iaasb.org/news-events/2023-04/iaasb-opens-public-consultation-its-revised-going-concern-standard>

## 6. IFAC's Publication to Lead the Fight against Corruption

IFAC has launched a new guidance tool '*Global Fight, Local Actions: Anti-Corruption Advocacy Workbook for PAOs*' to help professional accountancy organizations take leading roles in the anti-corruption fight in their jurisdictions. The guide will also equip PAOs and accountancy profession leaders with the background and framework to design tailored approaches and messages that best fit their jurisdiction needs.

IFAC also plans to build off Global Fight, Local Action with additional initiatives on priority anti-corruption areas, including the interconnected issues of sustainability reporting, public financial management, and financial literacy.

The guide can be accessed using the following link: <https://www.ifac.org/knowledge-gateway/building-trust-ethics/publications/global-fight-local-actions-anti-corruption-advocacy-workbook-paos>

## 7. IFAC, Accountancy Europe & ACCA Host Interactive discussion on Developing Green Skills and Capacity Building

IFAC, Association of Chartered Certified Accountants (ACCA) and Accountancy Europe hold a virtual event of the EU Green Week 2023, *Developing green skills for finance professionals - Building capacity for a fair and sustainable transition*, on June 8, 2023.

The event has brought together global experts to discuss the skills and education needed for finance professionals to contribute to a green and just transition, focusing in particular on:

- How to identify and create the right framework for sustainability education for finance professionals
- The strong need for capacity building in the sustainability information space, and
- Challenges and opportunities for practitioners

The details about the event can be accessed at: <https://www.ifac.org/events/developing-green-skills-finance-professionals>

## 8. IFAC admitted as Affiliate Member of the International Organization of Securities Commissions

In May 2023, IFAC has been accepted as an Affiliate Member of International Organization of Securities Commissions (IOSCO). IFAC is the sole representative of the accountancy profession within the IOSCO membership.

IOSCO is a global standard setter for the securities sector and currently has 238 members. It develops, implements and promotes adherence to internationally recognized standards for securities regulation.

By joining IOSCO as an Affiliate Member, IFAC looks to strengthening the accountancy profession's engagement on the key topics at both the global and jurisdictional levels.

Detailed news can be accessed at the link: <https://www.ifac.org/news-events/2023-06/ifac-admitted-affiliate-member-international-organization-securities-commissions>

## 9. IAASB Digital Technology Market Scan: Internet of Things Technologies

The IAASB's Disruptive Technology team has released its eighth Market Scan on Internet of Things Technologies.

The Market Scans cover exciting trends, including new developments, corporate and start-up innovation, noteworthy investments and what it all might mean for the IAASB.

In this Market Scan, the IAASB has explored the importance of Internet of Things, focusing on Networks for Asset Monitoring and Data Generation, a technology that enables real time tracking, managing and monitoring of business processes and assets. It also may form part of an entity's internal control system and may provide data inputs to non-financial reporting, such as emissions reporting.

Further details can be accessed through the link: <https://www.iaasb.org/news-events/2023-05/iaasb-digital-technology-market-scan-internet-things-technologies>



## 10. IESBA proposes Strategy and Work Plan for 2024 through 2027

The International Ethics Standards Board for Accountants (IESBA) on Apr 5, 2023 has issued its proposed Strategy and Work Plan, 2024-2027 'Towards a More Sustainable Future: Advancing the Centrality of Ethics' for public comment.

The proposed strategy and work plan sets out the IESBA's vision, strategic drivers and themes to guide its actions over the next strategy period of 2024-2027. Comments on the consultation paper are requested by July 7, 2023.

The details and the consultation paper can be downloaded using link:

<https://www.ethicsboard.org/publications/iesba-strategy-and-work-plan-2024-2027-consultation-paper>

## 11. Database of Public Interest Entity (PIE) definitions by jurisdiction

The IESBA has developed the database of Public Interest Entity (PIE) definitions by jurisdictions to further support the adoption and effective implementation of the revisions to the definitions of listed entity and PIE (PIE revisions) in the IESBA Code. This resource would assist regulators, national standard setters, and other relevant bodies in developing or revising their definitions of PIE at the local level based on the IESBA's PIE definition. This database covers 78 jurisdictions in the Americas, Europe, Africa, Asia, and Oceania.

The PIE revisions will become effective for audits of financial statements for periods beginning on or after December 15, 2024.

The database can be downloaded at:

<https://www.ethicsboard.org/publications/database-public-interest-entity-pie-definitions-jurisdiction>

## 12. Revisions in IESBA Code of Ethics Standards to respond to technological innovation

In April 2023, the IESBA has issued final revisions to the *International Code of Ethics for Professional Accountants (including International Independence Standards)* (the IESBA Code) to further increase the Code's robustness and to align the code due to rapid technological advancements and digitalization.

The technology-related revisions will guide the ethical mindset and behavior of professional accountants in both business and public practice as they take advantage of the opportunities created by technology and adapt to new technology. The revisions will:

- provide enhanced guidance fit for the digital age in relation to the fundamental principles of confidentiality, and professional competence and due care, as well as in dealing with circumstances of complexity; and
- strengthen and clarify the International Independence Standards (IIS) by addressing the circumstances in which firms and network firms may or may not provide a technology-related non-assurance service to an audit or assurance client.

The revisions to the IIS will be effective for audits and reviews of financial statements for periods beginning on or after December 15, 2024. The other revisions to the ethics provisions of the Code will be effective as of December 15, 2024. Early adoption is permitted.

The revisions can be read through the link:

<https://www.ethicsboard.org/publications/final-pronouncement-technology-related-revisions-code>

## 13. IESBA held global webinar on recent revisions to IESBA Code

On April 18, 2023, the IESBA organized a global webinar to review recent revisions to the IESBA Code of Ethics to address holistically the various independence considerations in an audit of group financial statements.

The webinar covered the need and benefits of the group audit independence. The webinar recording can be accessed at:

<https://www.ethicsboard.org/news-events/2023-04/iesba-holds-global-webinar-recent-revisions-iesba-code-meant-strengthen-and-clarify-independence>



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### Disclaimer

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