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Message from the Chairman

I feel proud to present the third issue of TSPD Monthly Technical Updates. It was launched in November 2019 and since then, the TSPD directorate has made utmost efforts to make it beneficial and effective for the practicing profession, however, we still feel that there is a lot of areas which can be covered in the upcoming issues for which we need suggestions/ inputs from our worthy members.

I, therefore, request all our practicing members in particular and members in general, to share their valuable suggestions and ideas for its improvement and also identify topics of technical interest, which the Committee may consider for arranging seminars, workshops and training programs beneficial for the practicing members in terms of their capacity building and value addition.

Please do share your comments on tspd@icmap.com.pk.

Ghulam Mustafa Qazi, FCMA
Chairman TSPD Committee



Feature News

Invitation of Proposals on Federal Budget 2020-21

Each year ICMA Pakistan prepares Fiscal Budget Proposals in consultation with the members of the Institute. These budget proposals contain taxation proposals [Income tax; Sales tax; Federal excise & Custom duty] as well as sector and industry wise issues and solutions.

ICMA Pakistan is soliciting proposals for the upcoming Budget 2020-21. Federal Board of Revenue (FBR) has also requested ICMA Pakistan to submit its proposals for the upcoming Budget.

Worthy members are requested to kindly provide their valuable inputs/ suggestions, proposals on the Upcoming Budget 2020-21 through email to tspd@icmap.com.pk or through WhatsApp at number **+923315510674** for onward submission to FBR.

Committee Activities

Proposals in relation to the Sindh Sales Tax on Services Act, 2011 (Sindh Act No. XII of 2011) and the Rules and notifications issued thereunder

Technical Support & Practice Development (TSPD) Committee invited proposals in relation to the Sindh Sales Tax on Services Act, 2011 (Sindh Act No. XII of 2011) and the Rules and notifications issued thereunder. The Committee organized a Technical Session on the subject to deliberate and finalize proposals to be submitted to the Sindh Revenue Board (SRB). Members participated in the session and finalized proposals which were forwarded to SRB.



National Update

Corporate Sector

1. DRAFT PROPOSALS OF CHANGES IN COMPANIES ACT TO FACILITATE STARTUPS

SECP vide their notification dated January 7, 2020 promulgated draft proposals, comprising of amendments in the Companies Act, 2017, in order to facilitate startups.

In order to promote growth in the startups sector of Pakistan, SECP proposes to make relevant changes in Company Law to facilitate the incorporation process for the startups and provide a conducive regulatory environment.

Following changes are proposed in the notification:-

A) Proposed changes in the Parent legislation (Companies Act)

i) Definition of Startups

In the Third Schedule to the Companies Act, the following category is proposed to be added:

An entity shall be considered as a Startup:

- Up to a period of 10 years from the date of incorporation/registration
- Turnover of the entity for any of the financial years since incorporation/registration is not greater than 100 Million Rupees
- Entity is working towards innovation, development or improvement of products or processes or services, or if it is a scalable business model with a high potential of employment generation or wealth creation.

Provided further that an entity formed by splitting up or reconstruction of an existing entity or a separate company with similar objects and ownership shall not be considered a "Startup Company".

- Amendment in the Section "83 - Further issue of capital" to offer "Employee Stock Option Scheme (ESOS)" shall help address the employee retention and reward issues being faced by startups.

The following new proviso is proposed to be added:

"Provided that the directors of private limited company may allot the declined or unsubscribed shares to its employees under "Employees Stock Option Scheme", on such conditions, as may be specified."

- Amendment in the clause "88 – Power of a company to purchase its own shares" shall facilitate ESOS option and shall facilitate buy back of shares by companies, since they do not have a secondary market. It would also facilitate startups in case, any founding member needs to exit from the company by allowing return of shares to a company.

B) Changes required in Companies (Further Issue of Shares) Regulations, 2018

- Amendment in the clause "7. Application to the Commission for issue of shares other than right" is a consequential change whereby no application for approval shall be required to be made to the Commission under Section 83 of the Act, by a Private Company, and shall only be required to maintain and file the documents with the Commission not later than two months from the decision to issue such shares, as specified in sub-regulation (2) below.

- Conditions for issuance of shares with differential rights

The requirement for the company not defaulted in filing financial statements and annual returns for three financial years immediately is being changed to preceding the financial year in which it is decided to issue such shares.

- Furthermore, for a private limited company, the valuation mechanism of non-cash consideration and further conditions, if any, will be amended in Companies (Further Issues of Shares) Regulations, 2018.

For further details, please visit the following link:-

<https://www.secp.gov.pk/document/startup-packages-in-pakistan/?wpdmdl=37749>

2. REVISED RATE OF FEES

SECP vide their S.R.O. 1620(I)/2019 notified following rates of fees:-

Regulated Activity	Revised Fee (in PKR)	
Voluntary Pension Scheme	Annual fee an amount equal to one twenty-fifth of one per cent (0.025%) of the average annual net asset value	
Non-Banking Finance Companies	Permission to form an NBFC	250,000
	Fresh licensing fee to carry out any form of business	500,000
Non-Banking Micro Finance Companies	Permission to form Non-banking Micro Finance Company	125,000
	Fresh licensing fee to carry out form of business	250,000
Collective Investment Schemes	Registration of an Open End Scheme or Closed End Scheme as notified entity	500,000
	Certificate of registration to act as a trustee of Collective Investment Scheme	500,000
Real Estate Investment Trusts	Registration of a REIT scheme as notified entity	500,000
Private Funds	Registration of a Private Fund as notified entity	500,000

For further details, please visit the following link:-

<https://www.secp.gov.pk/document/sro-1620i-2019-revised-rate-of-fees/?wpdmdl=37701>

3. DRAFT COMPANIES (FURTHER ISSUE OF SHARES) REGULATIONS, 2020

Securities and Exchange Commission of Pakistan (SECP) their S.R.O. 33(I)/2020 dated January 21, 2020 issued new conditions for listed companies for issuance of right shares, bonus issue and further shares by notifying draft Companies (Further Issue of Shares) Regulations, 2020.

The Regulations shall come into force at once, except in the case of issues announced on or before the date of these regulation, and shall apply to the companies issuing further capital by way of right shares; other than right shares; bonus shares; employee stock option schemes and shares with different rights including preference shares.

The draft Regulations can be accessed through the following link:-

<https://www.secp.gov.pk/document/sro-33-i-2020-draft-the-companies-further-issue-of-shares-regulations-2020/?wpdmdl=38133>

SECP sought public comments on the draft Regulations. Worthy Members were requested to please review the draft and forward their valuable feedback/ comments/ inputs to tspd@icmap.com.pk.

4. DRAFT AMENDMENTS TO SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN (ANTI MONEY LAUNDERING AND COUNTERING FINANCING OF TERRORISM) REGULATIONS, 2018

Securities and Exchange Commission of Pakistan (SECP) vide their S.R.O. 56(I)/2020 dated January 28, 2020 issued draft amendments to Securities and Exchange Commission of Pakistan (Anti Money Laundering and Countering Financing of Terrorism) Regulations, 2018.

SECP further strengthen anti-money laundering regime and directed the securities brokers, futures brokers, insurance companies, Takaful operators, NBFCs and Modarabas to identify beneficial owners of investments and source of funding, and use technological solutions for screening of designated/proscribed persons, ongoing monitoring of transactions and reporting of suspicious transactions.

The SECP has also sought additional information from customers intended to open new accounts with securities brokers, futures brokers, insurers, Takaful operators, NBFCs and Modarabas.

In relations to foreign and domestic Politically Exposed Persons (PEPs), regulated person shall implement appropriate internal risk management systems, policies, procedures and controls to determine if any customer or a beneficial owner is PEP. In case of foreign PEPs, regulated person shall perform EDD in addition to other requirements of these regulations. In case of domestic PEPs, where business relationship poses higher risk, regulated person shall carry out EDD in accordance with sub-regulations in addition to other requirements of these regulations. The requirements are also applicable on family members and close associates of foreign and domestic PEPs. The expression "close associates" means any natural person who is known to hold joint ownership or control of a legal instrument with a politically exposed person; or any other close business or personal relationship with a politically exposed person; or ownership or control of a legal instrument or a person which is set up for the benefit of a politically exposed person. The expression "family member" includes a spouse, and lineal ascendants and descendants of a politically exposed person.

A new sub-regulation is inserted after sub-regulation (4), which describes the minimum information to be obtained, verified and recorded on KYC/CDD form or account opening form and relevant Information Technology (IT) systems for identity and due diligence purposes.

The draft can be downloaded from the following link:-

<https://www.secp.gov.pk/document/s-r-o-56i-2020-amendments-in-aml-regulations-2018/?wpdmdl=38233>

5. AMENDMENTS IN THE LISTED COMPANIES (BUY-BACK OF SHARES) REGULATIONS, 2019

SECP vide their S.R.O. 54(I)/2020 dated January 28, 2020 amended the Listed Companies (Buy-Back of Shares) Regulations, 2019.

SECP has omitted the words, "provided that the free float of company after the purchase does not fall below twenty five percent of the total paid up share capital of the purchasing company" from sub-regulation (1) of Regulation 9 of the said Regulations.

For further details, please visit the following link:-

<https://www.secp.gov.pk/document/sro-54-i-2020-amendments-in-the-listed-companies-buy-back-of-shares-regulations-2019/?wpdmdl=38235>

6. AMENDMENTS/ADDITIONS IN UNSC SANCTIONS COMMITTEE-SECP WARNS AGAINST ASSISTANCE, FUNDING TO PROSCRIBED ENTITIES

SECP vide their SRO 49(I)/2020 dated January 27, 2019 prohibited every partner/officer of a limited liability partnership from providing any assistance and funding including charity/donation to the entities and individuals listed under the consolidated list of proscribed/designated entities by the United Nations Security Council (UNSC).

SECP also warned the partner/officer of a limited liability partnership that the prescribed penalty for non-compliance with the sanctions regime being implemented through SROs under

the UN (Security Council) Act, 1948 is up to Rs 10 million.

According to the notification, the obligations/prohibitions regarding proscribed entities and persons mentioned in the above list are applicable, on an ongoing basis, to proscribed/designated entities and persons or to those who are known for their association with such entities and persons, whether under the proscribed/designated name or with a different name.

For further details, please visit the following link:-

<https://www.secp.gov.pk/document/s-r-o-49i-2020-amendments-additions-in-UNSC-sanctions-committee/?wpdmdl=38229>

7. DRAFT AMENDMENT TO THE ASSOCIATIONS WITH CHARITABLE AND NOT FOR PROFIT OBJECTS REGULATIONS, 2018

SECP vide their SRO 48(I)/2020 dated January 27, 2019 made draft amendments to the Associations with Charitable and Not for Profit Objects Regulations, 2018.

SECP proposed to substitute the earlier expression "(other than nominee director)" with the expression "(other than nominee director and Independent director)" in clause of sub-regulation (2) in regulation 10 of the said Regulations.

For further details, please visit the following link:-

<https://www.secp.gov.pk/document/sro-48-i-2020-draft-amendment-to-associations-with-charitable-and-not-for-profit-objects-regulations-2018/?wpdmdl=38220>

Taxation

8. PROVISION OF SECTION 73 (4) OF THE SALES TAX ACT, 1990 - SUPPLIES BY REGISTERED MANUFACTURERS TO SALES TAX REGISTERED PERSONS

Federal Board of Revenue (FBR) vide their Sales tax General Order No. 01 of 2020 dated January 16, 2020 notified provision of sub-section (4) of the Sales Tax Act, 1990 which has been amended through the Tax Laws (Second Amendment) Ordinance, 2019.

The said amendment is made to provide for manufacturers to make all the supplies to a registered person excluding supplies not exceeding value of one hundred million rupees in a financial year / ten million rupees in a month, failing which the supplier shall not be entitled to claim input tax attributable to such excess supplies to unregistered persons. FBR notified that the manufacturers raised queries regarding supplies to persons making purchases beyond the threshold as given in Section 73(4) but are not likely to make taxable supplies and are also not liable to be registered under the Act. In order to remove difficulty arising from this insertion, FBR informed that the provisions of sub-section (4) of section 73 shall not apply to supplies made to following:-

- Federal/provincial/local Government departments, authorities, etc. not engaged in making of taxable supplies'
- Foreign Missions, diplomats and privileged persons;
- All other persons not engaged in supply of taxable goods

FBR further explained that the threshold of 10 million per month /100 million per year is applicable on goods supplied to one specific person by the registered manufacturer.

For further details, please visit the following link:-

<http://download1.fbr.gov.pk/Docs/20201161211519971STGONO.010F2020DATED16.01.2020.pdf>

9. EXPLANATION OF IMPORTANT AMENDMENTS IN SALES TAX ACT, 1990 AND FEDERAL EXCISE ACT, 2005 made through the TAX LAWS (SECOND AMENDMENT) ORDINANCE, 2019

FBR vide their Sales Tax Circular No. 01 of 2020 dated January 16, 2020 explained important amendments in the Sales Tax Act, 1990 and Federal Excise Act, 2005 made through the recently promulgated Tax Laws (Second Amendment) Ordinance, 2019.

A brief summary of explanation issued by the FBR are as below:-

- Definition of Greenfield Industry included in section 2 of the Sales Tax Act, 1990.
- Rationalized the Scope of Tier 1 Retailer by increasing the threshold of electricity consumption from Rs 600,000 to Rs 1200,000.
- Penalties/ fines are introduced for persons who violate FBR Integrated Software for Sale or Track and Trace System.
- Penalties introduced for violation of printing requirement of Retail Price along with the punitive actions by amending section 33 of the Sales Tax Act, 1990.
- New provisions are added in order to document further supplies from tax exempt areas and introduced penalty for violation of Section 40D
- Section 73 of the Sales Tax Act, 1990 is amended to provide that a registered manufacturer shall make all taxable supplies to a person who has obtained registration under the Act excluding supplies not exceeding a value of rupees hundred million in a financial year and rupees 10 million in a month, failing which the supplier shall not be entitled to claim credit adjustment or deduction of input tax as attributable to such excess supplies to unregistered person.
- The Rate of Imported Cotton is rationalized, in order to, remove disparity between sales tax rates on imported and local cotton. The rate of sales tax on imported cotton has been raised to 10% by amending the serial number 5 of Table-1 of Eighth Schedule to the Act.
- The Twelfth Schedule to the Sales Tax Act, 1990 is amended to the effect that:
- The 3% value addition tax is not payable on the plant, machinery and equipment falling Chapters 84 and 85 of the First Schedule to the Customs Act, 1969 (IV of 1969), as are imported by a manufacturer for in-house installation or use.
- The refund of 3% value addition tax shall not be barred if paid on goods used in making zero-rated supplies.
- Sales tax on the mobile phones up to the value of 30 US dollars has been reduced from Rs 130 to Rs 100 and phones having value up to 100 US Dollars from Rs 1320 to Rs 200.

The explanation issued by FBR can be accessed through the following link:-

<http://download1.fbr.gov.pk/Docs/20201161212313334SALESTAXCIRCULARNO.01OF2020DATED16.01.2020.pdf>

10. LIST OF FOCAL PERSONS FOR ASSISTANCE IN POS INTEGRATION

FBR notified the list of Additional Commissioners of IR nominated as Focal Persons to assist taxpayers in integration of their POSs and related problems in coordination with FBR and PRAL. Following is the list of focal persons notified by FBR:-

List of Focal Persons from all major cities may be downloaded from the following link and available below:-

<http://download1.fbr.gov.pk/Docs/20201131214343611ListofFOSfocalpersons.pdf>

11. FBR ALLOWS AUTOMOBILE MANUFACTURING COMPANIES WHICH ARE LISTED ON PAKISTAN STOCK EXCHANGE TILL DECEMBER, 2020, TO ADJUST INPUT TAX

Federal Board of Revenue (FBR) vide their S.R.O. 36(I)/2020 dated January 21, 2020 allows Automobile manufacturing companies which are listed on Pakistan Stock Exchange till December, 2020, to adjust input tax to the extent of ninety-five percent of the output tax for that tax period and the excess amount shall be carried forward to the next tax period.

FBR made amendment to its S.R.O. 1190(I)/2019 dated October 2, 2019 by inserting a new entry into the Table 2 as under:-

"3. Automobile manufacturing companies which are listed on Pakistan Stock Exchange till December, 2020."

For further details, please visit the following link:-

<http://download1.fbr.gov.pk/SROs/2020121115439398SRO36OF200DATED21.01.2020.pdf>

List of Focal Persons for assistance in POS integration		
LTU, Karachi Mr. Abdul Salam Khan salaambirzoz@gmail.com 0333-9300954	LTU-II, Karachi Mr. Laiq Zaman izee123@yahoo.com 0334-5555160	Corporate RTO, Karachi Sardar Taimur Khan Durrani temur72@hotmail.com 0300-92873390
RTO-II, Karachi Mr. Mohammad Aslam Sheikh aslamshaikhfbr@gmail.com 0333-7550559	RTO-III, Karachi Mr. Riaz Ali Shah riazme@yahoo.com 0300-2704682	RTO, Sukkur Mr. Farhan Badar Solangi farhan9615@gmail.com 0333-4782268
RTO, Hyderabad Mr. M. Shamim Murtaza shamimmurtaza101@gmail.com 0331-3576385	RTO, Bahawalpur Mr. Muhammad Akhtar Suraj akhtar.surag@fbr.gov.pk 062-9255270, 0300-9682115	RTO, Multan Mr. Muhammad Arshad marshadfbmt@gmail.com 0300-6670098
LTU, Lahore Mr. M Muti-ur-Rehman Mumtaz rehmanfaris123@hotmail.com 0333-4501628	Corporate RTO, Lahore Mr. Azhar Jehangir jehangir.azhar@gmail.com 0321-4991444	RTO-II, Lahore Ms. Saher Aftab saheraftab@gmail.com 0333-4410600
RTO, Faisalabad Mr. Asif Rasheed asifrasheed24@gmail.com 0321-6660108	RTO, Sahiwal Mr. Abdur Razzaq Khan cosmiccamp80@gmail.com 0300-4110491	RTO, Sargodha Mr. Shakeel Ahmed Shakeel shakeel_shakeel55@yahoo.com 0300-8600098
LTU, Islamabad Mr. Ziaullah Khan ziaullahkhan725@gmail.com 0333-5114115	RTO, Islamabad Syed Khalid Shah syedkhalidshah1970@gmail.com 0300-5873909	RTO, Rawalpindi Mr. Muhammad Aamir Ilyas aam.ir@outlook.com 0300-5679214
RTO, Peshawar Mr. Shaukat Hayat shaukathayat72@gmail.com 091-9216219, 0346-9041687	RTO, Abbottabad Mr. Muhammad Bilal muhammad.bilal@fbr.gov.pk 0333-1949858	RTO, Quetta Mr. Rehmatullah K. Durrani r.u.k.d@hotmail.com 0300-2174308, 03327111159

International Update

1. IESBA REVISES PART 4B OF THE INTERNATIONAL CODE OF ETHICS

The International Ethics Standards Board for Accountants (IESBA) has made Revisions to Part 4B of the International Code of Ethics to reflect Terms and Concepts Used in ISAE 3000 (Revised).

Part 4B of the International Code of Ethics for Professional Accountants (including International Independence Standards) comprises the independence standards for assurance engagements other than audit and review engagements. The revisions are made to make the part's provisions consistent with the revised assurance terms and concepts in the International Auditing and Assurance Standards Board's (IAASB's) International Standard on Assurance Engagements (ISAE) 3000 (Revised), Assurance Engagements Other than Audits or Reviews of Historical Financial Information.

The main revisions, developed in coordination with the IAASB, include:

- Changes in key terminology, including a revised definition of the term "assurance client";
- Amendments to certain independence requirements in light of the revised assurance client definition;
- Greater clarity as to the parties to an assurance engagement and their roles and responsibilities, and the related independence requirements that apply; and
- A clearer distinction between the types of assurance engagement covered in Parts 4A (addressing independence for audit and review engagements) and 4B of the Code.

For further details, please visit the following link:-

<https://www.ethicsboard.org/news-events/2020-01/iesba-revises-part-4b-international-code-ethics>

2. GLOBAL ETHICS BOARD PROPOSES SIGNIFICANT REVISIONS TO INTERNATIONAL INDEPENDENCE STANDARDS

The International Ethics Standards Board for Accountants (IESBA) released two proposals relating to Non-Assurance Services and Fee-related independence provisions of the International Code of Ethics for Professional Accountants (including International Independence Standards)(the Code).

The two Exposure Drafts are proposed as under:-

- Proposed Revisions to the Non-Assurance Services Provisions of the Code
- Proposed Revisions to the Fee-Related Provisions of the Code

The exposure drafts are aimed at strengthening the non-assurance services (NAS) and the fee-related independence provisions of the Code. The Drafts represent a key milestone in two major strategic commitments of the IESBA in its current strategy and work plan.

Key changes proposed to the Non-Assurance Services Provisions of the Code

- A prohibition on providing NAS to an audit client that is a public interest entity (PIE) if a self-review threat to independence will be created;
- Further tightening of the circumstances in which materiality may be considered in determining the permissibility of a NAS;
- Strengthened provisions regarding auditor communication with those charged with governance (TCWG), including, for PIEs, a requirement for NAS pre-approval by TCWG; and
- Stricter requirements regarding the provision of some NAS, including certain tax and corporate finance advice.

The above changes also include enhanced guidance to assist firms in evaluating the level of threats to independence when providing Non-Assurance Services to audit clients.

Proposed revisions to the Non-Assurance Services Provisions of the Code can be downloaded from the following link:-

<https://www.ethicsboard.org/publications/proposed-revisions-non-assurance-services-provisions-code>

Key proposed changes to the fee-related provisions of the Code

- A prohibition on firms allowing the audit fee to be influenced by the provision of services other than audit to the audit client;
- In the case of PIEs, a requirement to cease to act as auditor if fee dependency on the audit client continues beyond a specified period; and
- Communication of fee-related information to TCWG and to the public to assist their judgments about auditor independence.

These changes also include enhanced guidance on identifying, evaluating and addressing threats to independence in relation to other fee-related matters, including the proportion of fees for services other than audit to the audit fee.

Provisions revisions to the Fee-related Provisions of the Code can be downloaded from the following link:-

<https://www.ethicsboard.org/publications/proposed-revisions-fee-related-provisions-code>

The IESBA has sought comments on the above two exposure drafts. Worthy Members are requested to please review the exposure drafts and forward their valuable feedback/ comments/ inputs to tspd@icmap.com.pk, latest by April 30, 2020, for onward submission to IESBA.

3. IPSASB PUBLISHES FINAL PRONOUNCEMENT, IMPROVEMENTS TO IPSAS, 2019

The International Public Sector Accounting Standards Board (IPSASB) published Final Pronouncement, Improvements to IPSAS, 2019, which was approved by the International Public Sector Accounting Standards Board (IPSASB) in December 2019. Improvements to IPSAS, 2019 comprises of minor improvements to IPSAS in order to address issues raised by stakeholders. Improvements to IPSAS, 2019 deals with non-substantive changes to IPSAS through a collection of amendments which are unrelated.

Summary of Improvements to IPSAS, 2019 is as below:-

IPSAS	SUMMARY OF CHANGES
Amendments to Other IPSAS resulting from IPSAS 41, Financial Instruments	
IPSAS 5, Borrowing Costs.	Amendments to IPSAS 5, to update the guidance related to the components of borrowing costs which were inadvertently omitted when IPSAS 41 was issued.
IPSAS 30, Financial Instruments: Disclosures.	Amendments to IPSAS 30, regarding illustrative examples on hedging and credit risk which were inadvertently omitted when IPSAS 41 was issued.
IPSAS 30, Financial Instruments: Disclosures.	Amendments to IPSAS 30, to update the guidance for accounting for financial guarantee contracts which were inadvertently omitted when IPSAS 41 was issued.
IPSAS 33, First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs).	Amendments to IPSAS 33, to update the guidance on classifying financial instruments on initial adoption of accrual basis IPSAS which were inadvertently omitted when IPSAS 41 was issued.
Other Improvements to IPSAS	
IPSAS 13, Leases.	Amendments to IPSAS 13, to include the appropriate references to IPSAS on impairment, in place of the current references to other international and/or national accounting frameworks.
IPSAS 13, Leases and IPSAS 17, Property, Plant, and Equipment.	Amendments to remove transitional provisions which should have been deleted when IPSAS 33, First Time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs) was approved.
IPSAS 21, Impairment of Non-Cash-Generating Assets and IPSAS 26, Impairment of Cash Generating Assets.	Amendments to ensure consistency of impairment guidance to account for revalued assets in the scope of IPSAS 17, Property, Plant, and Equipment and IPSAS 31, Intangible Assets.
IPSAS 33, First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs).	Amendments to the implementation guidance on deemed cost in IPSAS 33 to make it consistent with the core principles in the Standard.
IPSAS 40, Public Sector Combinations.	Amendments to include the effective date paragraph which were inadvertently omitted when IPSAS 40 was issued.

4. IESBA PROPOSES GUIDANCE TO ADDRESS THE OBJECTIVITY OF ENGAGEMENT QUALITY REVIEWERS

The International Ethics Standards Board for Accountants (IESBA) released an Exposure Draft “Proposed Revision to the International Code of Ethics for Professional Accountants (the Code) Addressing the Objectivity of Engagement Quality Reviewers” for public comment.

The proposed limited-scope revision to the Code unites with the International Auditing and Assurance Standards Board’s (IAASB’s) development of proposed International Standard on Quality Management (ISQM) 2, Engagement Quality Reviews.

The Exposure Draft includes proposed guidance on the application of the conceptual framework in the Code to address the topic of the objectivity of an engagement quality reviewer (EQR), thereby supporting proposed ISQM 2 in addressing the matter of the eligibility of an individual to serve in an EQR role. In particular, the proposed guidance:-

- Explains the different types of threat to compliance with the fundamental principle of objectivity that might be created in circumstances where an individual is being considered for appointment as an EQR for a given engagement;
- Sets out factors to consider in evaluating the level of the identified threats; and
- Suggests actions that might be safeguards to address the threats.

The Exposure draft can be accessed through the following link:-

<https://www.ifac.org/system/files/publications/files/Explanatory-Memo-Engagement-Quality-Reviewer-Objectivity.pdf>



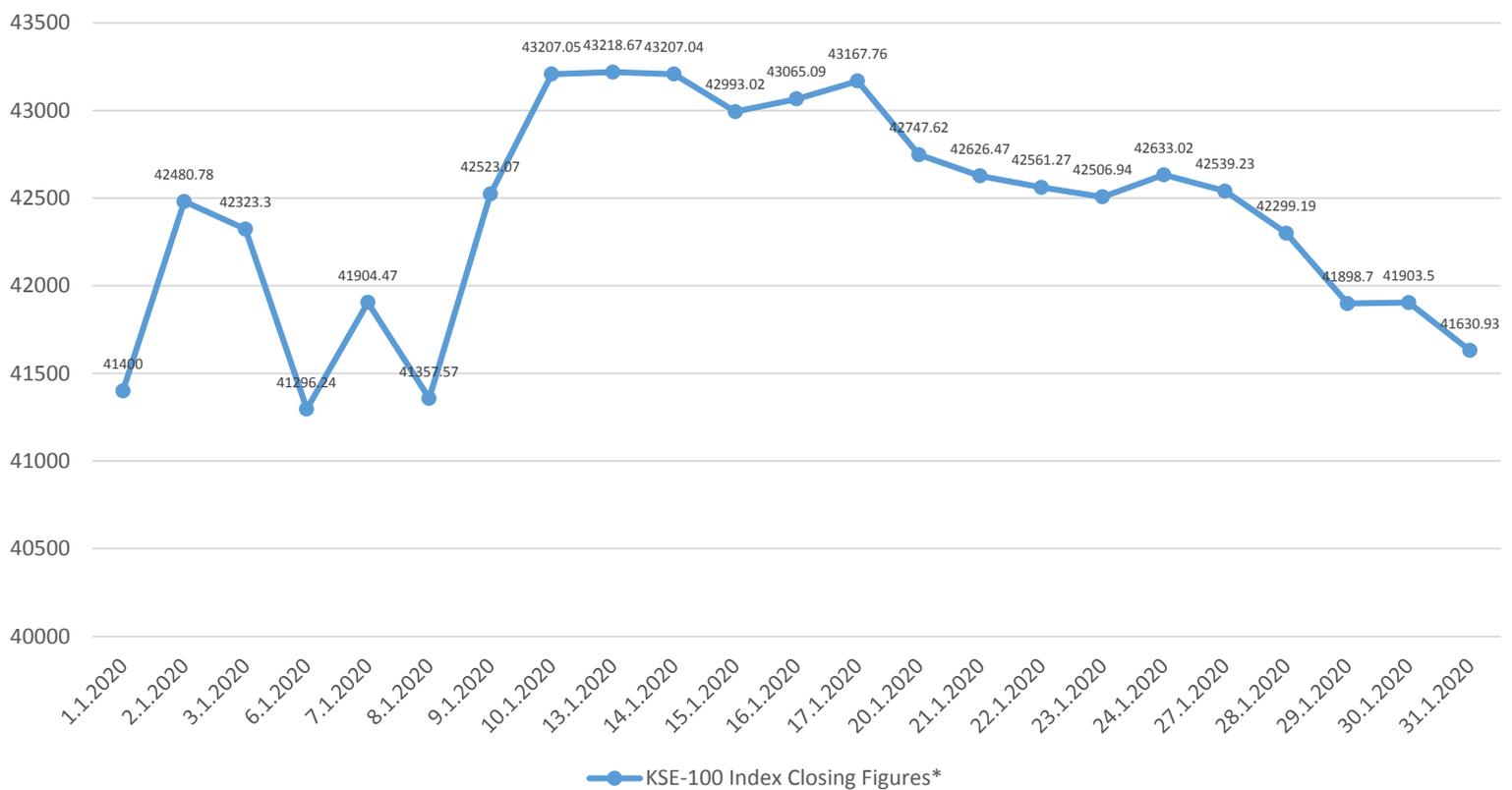
Pakistan Stock Market

Pakistan Stock Market – KSE-100 Index Fluctuations during January 2020

Date	KSE-100 Index Closing Figures*	Date	KSE-100 Index Closing Figures*	Date	KSE-100 Index Closing Figures*
1.1.2020	41400.00	13.1.2020	43218.67	23.1.2020	42506.94
2.1.2020	42480.78	14.1.2020	43207.04	24.1.2020	42633.02
3.1.2020	42323.30	15.1.2020	42993.02	27.1.2020	42539.23
6.1.2020	41296.24	16.1.2020	43065.09	28.1.2020	42299.19
7.1.2020	41904.47	17.1.2020	43167.76	29.1.2020	41898.70
8.1.2020	41357.57	20.1.2020	42747.62	30.1.2020	41903.50
9.1.2020	42523.07	21.1.2020	42626.47	31.1.2020	41630.93
10.1.2020	43207.05	22.1.2020	42561.27		

*As published in Daily Dawn

KSE-100 Index Closing Figures*

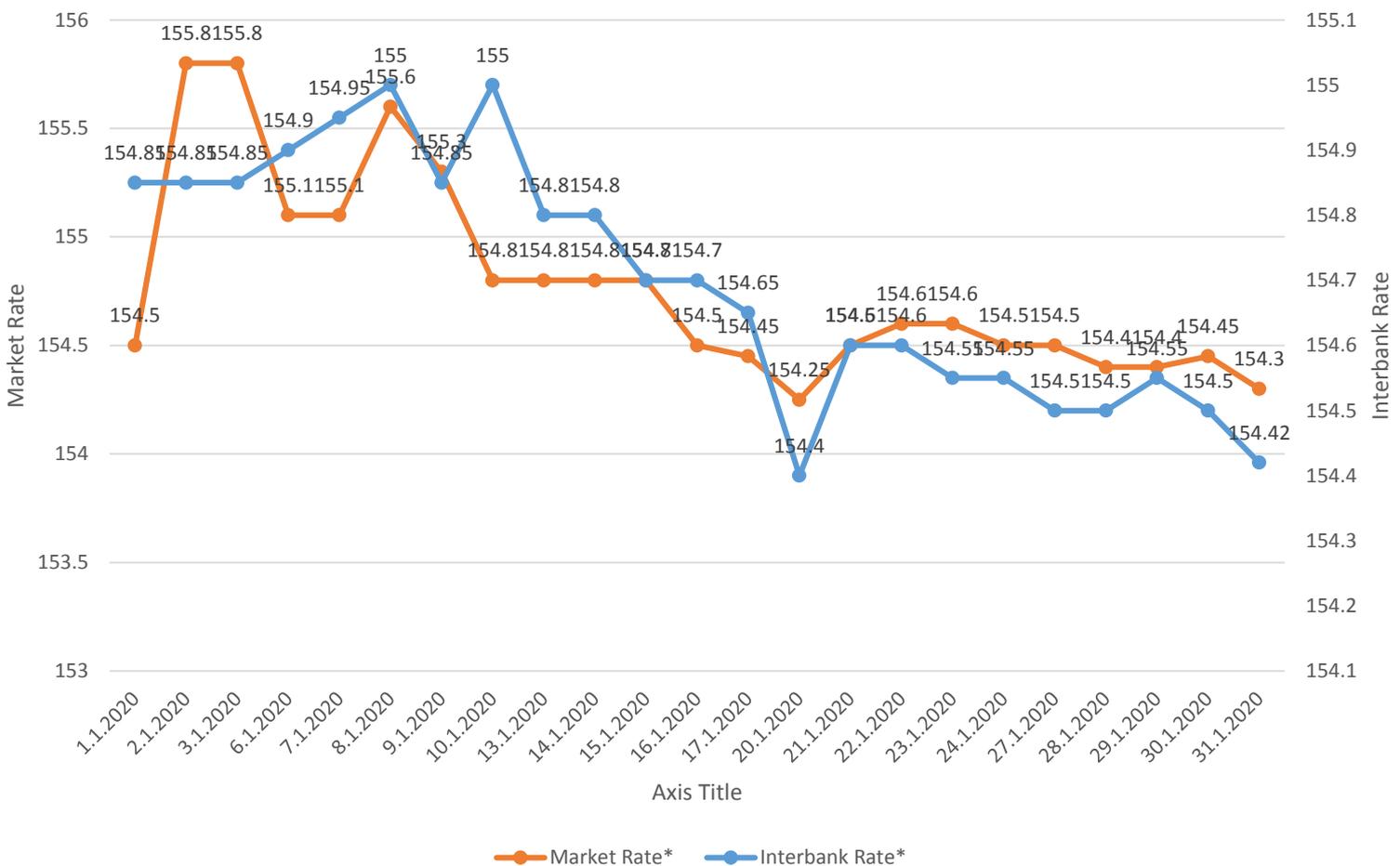


Rupee-Dollar Parity

Date	Interbank Rate*	Market Rate*	Date	Interbank Rate*	Market Rate*	Date	Interbank Rate*	Market Rate*
1.1.2020	154.85	154.50	13.1.2020	154.80	154.80	23.1.2020	154.55	154.60
2.1.2020	154.85	155.80	14.1.2020	154.80	154.80	24.1.2020	154.55	154.50
3.1.2020	154.85	155.80	15.1.2020	154.70	154.80	27.1.2020	154.50	154.50
6.1.2020	154.90	155.10	16.1.2020	154.70	154.50	28.1.2020	154.50	154.40
7.1.2020	154.95	155.10	17.1.2020	154.65	154.45	29.1.2020	154.55	154.40
8.1.2020	155.00	155.60	20.1.2020	154.40	154.25	30.1.2020	154.50	154.45
9.1.2020	154.85	155.30	21.1.2020	154.60	154.50	31.1.2020	154.42	154.30
10.1.2020	155.00	154.80	22.1.2020	154.60	154.60			

*As published in Daily Dawn

Rupee-Dollar Parity during December 2019



Guide to Using ISAs in the Audits of Small and Medium-Sized Entities

A QAB Publication

The document is prepared in order to enable the readers to conduct review of audit working papers files and to ensure that the sufficient appropriate Audit evidence has been obtained to support the conclusion reached, and that the work delegated by the audit partner has been properly completed with the economy, efficiency and effectiveness.

Importance of SMEs and SMPs

Role of SMEs

- SMEs account for majority of private sector employment
- Essential for job creation, social cohesion, innovation and growth

Role of SMPs

- SMPs are small businesses and are uniquely placed to help SMEs
- Help SMEs perform better and comply with regulations
- Provide business support services—Have special role in SME financing

The International Accounting Standards (ISAs)

A suite of standards applicable to all audits:

- Can be applied in a manner appropriate with the size and complexity of any entity
- Designed to achieve reasonable assurance on all audits, regardless of the size and complexity of an entity
- Recognize that the characteristics of SMEs differ significantly from those of larger, more complex entities

Structure and Content of Guides

Volume I

- Fundamental concepts of a risk-based audit in conformance with the International Standards on Auditing
- Directed at practitioners and students with little or no understanding of ISAs

Volume II

- Practical guidance on performing SME audits
- Directed at practitioners with reasonable working knowledge of ISAs
- Includes two illustrative case studies, one of an SME audit and one of micro entity audit

- Developed by IFAC SMP Committee
- Responds to a need for practical support in implementing the ISAs on SME Audits
- Helps Firms apply the ISAs Appropriately and Efficiently on SME Audits
- Provides practical guidance, but is not a substitute of:

Introduction

- Reading and understanding the ISAs—Using professional judgement
- Helps develop a deeper understanding of audit conducted in compliance with ISAs, for example
- As a basis for training and education
- A reference material

Risk Based Audit - Overview

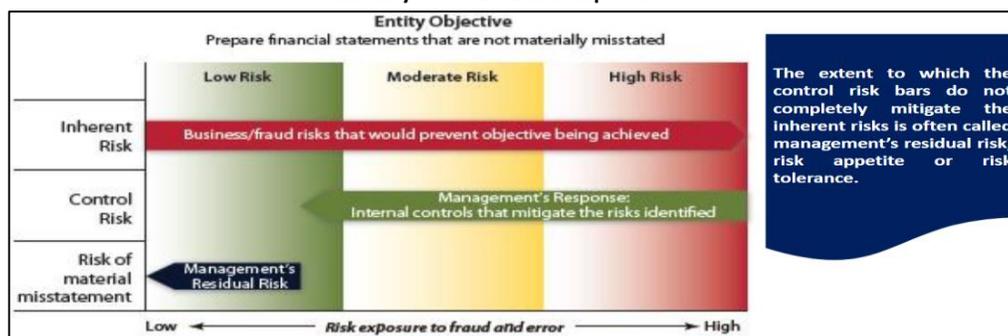
Inherent Limitations of Audit

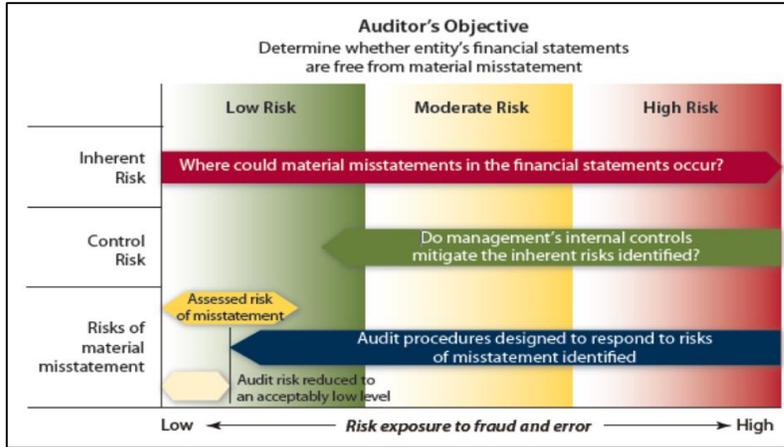
- Nature of financial reporting
- Judgement in applying financial reporting framework
- Subjective decisions / assessments / estimates
- Nature of evidenced available
- Audit evidence tends to be persuasive in character rather than conclusive
- Nature of audit Procedures-Risks involved in sampling
- Non-provision of information by management
- Audit procedures may not detect the missing information
- Timeliness of financial reporting

Audit Risk

- A combination of risk of material misstatement and detection risk
- Risk of material misstatement = Inherent risk and control risk

Summary of Audit Risk Components





Steps (Phases)	Description
Risk Assessment	Performing risk assessment procedures to identify and assess the risks of material misstatement in the financial statements.
Risk Response	Designing and performing further audit procedures that respond to identified and assessed risks of material misstatement, at both the financial statement and assertion levels.
Reporting	This involves: <ul style="list-style-type: none"> Forming an opinion based on the audit evidence obtained; and Preparing and issuing a report that is appropriate to the conclusions reached.

Risk Assessment	What events* could occur that would cause a material misstatement in the financial statements?	Risk Response	Did the events* identified occur and result in a material misstatement in the financial statements?	Reporting	What audit opinion, based on the evidence obtained, is appropriate on the financial statements?
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Three Steps in Risk-Based Audit

Risk-Based Audit –Key Points

- Audit objectives are the same for any size of audit;
- Specific audit procedures required may vary considerably depending on the size of entity and the assessed risks;
- ISAs focus on matters the auditor needs to address—not on the details of specific procedures;
- Design of further audit procedures depends on the auditor's risk assessment;
- Appropriate exercise of professional judgment is essential in tailoring the procedures to respond appropriately to the assessed risks; and
- Professional judgment cannot be used to avoid compliance with any ISA requirements except in exceptional circumstances.

Phase I-Risk Assessment

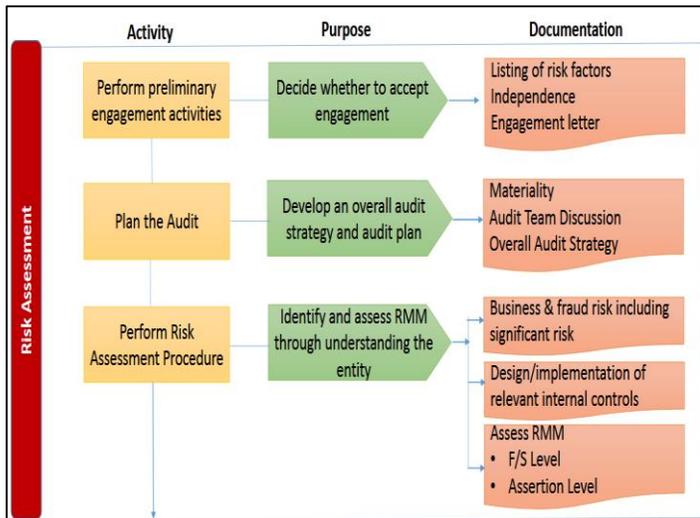
Types of Risk

- Business Risk
 - Risk of Material Misstatement in the Financial Statements
 - Fraud Risk
 - Risk of Intentional Material Misstatement in the Financial Statements
- Types:
- Fraudulent Financial Reporting
 - Misappropriation of Assets

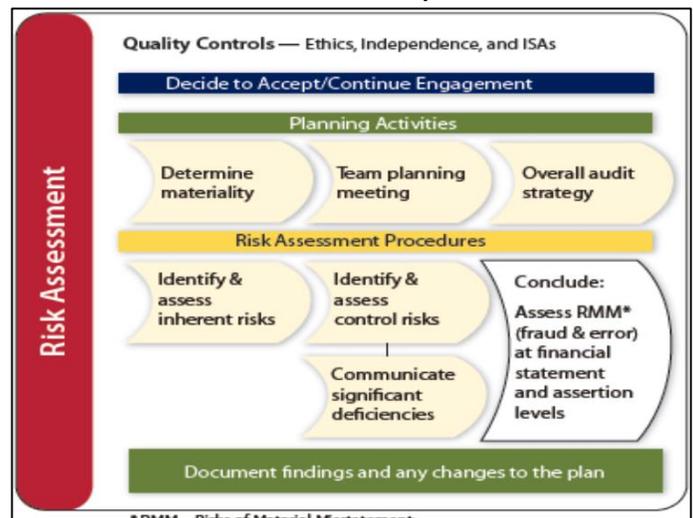
Risk Assessment –Objective

Paragraph #	ISA Objective(s)
315.3	The objective of the auditor is to identify and assess the risks of material misstatement, whether due to fraud or error, at the financial statement and assertion levels, through understanding the entity and its environment, including the entity's internal control, thereby providing a basis for designing and implementing responses to the assessed risks of material misstatement.

Risk Assessment –Overview



Risk Assessment –Steps Involved



Step-1
Quality Controls within the Firm
Pre-engagement Activities
Terms of Engagement (Required by ISQC-1 and ISA 210 & 220)

Quality Control -Ethics, Independence and ISAs

Paragraph #	Relevant Extracts from ISAs/ISQC 1
ISQC 1.26	The firm shall establish policies and procedures for the acceptance and continuance of client relationships and specific engagements, designed to provide the firm with reasonable assurance that it will only undertake or continue relationships and engagements where the firm: (a) Is competent to perform the engagement and has the capabilities, including time and resources, to do so; (Ref: Para. A18, A23) (b) Can comply with relevant ethical requirements; and (c) Has considered the integrity of the client, and does not have information that would lead it to conclude that the client lacks integrity. (Ref: Para. A19-A20, A23)

Firm Level Objectives (ISQC 1.11):

To establish and maintain a system of quality control to provide the firm with reasonable assurance that:

- The firm and its personnel comply with professional standards and applicable legal and regulatory requirements; and
- Reports issued by the firm or engagement partners are appropriate in the circumstances

Engagement Level Objectives: (ISA 220.6):

To implement quality control procedures at the engagement level that provide the auditor with reasonable assurance that:

- The auditor complies with professional standards and applicable legal and professional requirements; b. The auditor’s report issued is appropriate in the circumstances

Quality Control Systems

Internal Control Elements (ISA 315)	Firm-Level QC Elements (ISQC 1)	Engagement-Level QC Elements (ISA 220)
Control Environment	<ul style="list-style-type: none"> • Leadership Responsibilities for Quality within the Firm • Relevant Ethical Requirements • Human Resources 	<ul style="list-style-type: none"> • Leadership Responsibilities for Quality on Audits • Relevant Ethical Requirements • Assignment of Engagement Teams
Risk Assessment	<ul style="list-style-type: none"> • Acceptance and Continuance of Client Relationships and Specific Engagements 	<ul style="list-style-type: none"> • Acceptance and Continuance of Client Relationships and Audit Engagements • Risks that the report might not be appropriate in the circumstances
Information Systems	<ul style="list-style-type: none"> • Quality Control System Documentation 	<ul style="list-style-type: none"> • Audit Documentation
Control Activities	<ul style="list-style-type: none"> • Engagement Performance 	<ul style="list-style-type: none"> • Engagement Performance
Monitoring (Are the	<ul style="list-style-type: none"> • Ongoing Monitoring of the Firm’s Quality Control Policies and Procedures 	<ul style="list-style-type: none"> • Applying Results of Ongoing Monitoring to Specific Audit Engagements

Quality Control within Firm

Performing Quality Work Begins with:

“Strong Leadership within the firm” and “Engagement Partners committed to the Highest Ethical Standards”.

Refer to IFAC Guide to Quality Control for Small-and-Medium-Sized Practices & ICMAP ISQC-1 Implementation guidelines

Hindrances to Strong Tone at Top

- | | |
|--|---|
| <ul style="list-style-type: none"> • Poor attitudes to Quality-Audit work tailored to fee received • not the risk involved • Belief that there is no risk to the firm in small audits | <ul style="list-style-type: none"> • Clients considered totally trustworthy by the partners • Asking staff to follow the firm’s policies, but not complying personally • Unwillingness to invest in training and development • Lack of discipline |
|--|---|

How to set a healthy tone at the top..?

- | | |
|--|---|
| <ul style="list-style-type: none"> • Establish the firm’s objectives, priorities and values • Communicate regularly • Update the quality control manual | <ul style="list-style-type: none"> • Hold people accountable • Develop staff competence and reward quality work • Continually improve & Set an example |
|--|---|

Scope of Possible Control Activities



Pre-engagement Activities

Paragraph #	Relevant Extracts from ISAs/ISQC 1
220.12	The engagement partner shall be satisfied that appropriate procedures regarding the acceptance and continuance of client relationships and audit engagements have been followed, and shall determine that conclusions reached in this regard are appropriate. (Ref: Para. A8-A9)
220.13	If the engagement partner obtains information that would have caused the firm to decline the audit engagement had that information been available earlier, the engagement partner shall communicate that information promptly to the firm, so that the firm and the engagement partner can take the necessary action. (Ref: Para. A9)
300.13	The auditor shall undertake the following activities prior to starting an initial audit: (a) Performing procedures required by ISA 220 regarding the acceptance of the client relationship and the specific audit engagement; and (b) Communicating with the predecessor auditor, where there has been a change of auditors, in compliance with relevant ethical requirements. (Ref: Para. A20)

Process to accept/ continue with an audit engagement



Agreeing Terms of Engagement

Paragraph #	Relevant Extracts from ISAs
210.10	Subject to paragraph 11, the agreed terms of the audit engagement shall be recorded in an audit engagement letter or other suitable form of written agreement and shall include: (Ref: Para. A22-A25) (a) The objective and scope of the audit of the financial statements; (b) The responsibilities of the auditor; (c) The responsibilities of management; (d) Identification of the applicable financial reporting framework for the preparation of the financial statements; and (e) Reference to the expected form and content of any reports to be issued by the auditor and a statement that there may be circumstances in which a report may differ from its expected form and content.
210.11	If law or regulation prescribes in sufficient detail the terms of the audit engagement referred to in paragraph 10, the auditor need not record them in a written agreement, except for the fact that such law or regulation applies and that management acknowledges and understands its responsibilities as set out in paragraph 6(b). (Ref: Para. A22, A26-A27)

Step-2

Planning the Audit (Determining Audit Materiality Audit Team Discussions (Relevant ISA, 300, 240, 320 & 450))

Paragraph #	ISA Objective(s)
300.4	The objective of the auditor is to plan the audit so that it will be performed in an effective manner.
300.5	The engagement partner and other key members of the engagement team shall be involved in planning the audit, including planning and participating in the discussion among engagement team members. (Ref: Para. A4)
300.7	The auditor shall establish an overall audit strategy that sets the scope, timing and direction of the audit, and that guides the development of the audit plan.



Benefits of Planning

- Team members learn from the experience/insight of the partner and other key personnel.
- The engagement is properly organized, staffed, and managed.
- Experience gained from previous periods' engagements and other assignments is properly utilized.
- Important areas of the audit receive the appropriate attention.
- Potential problems are identified and resolved on a timely basis.
- Audit file documentation is reviewed on a timely basis.
- Work performed by others is coordinated (other auditors, experts, etc.).

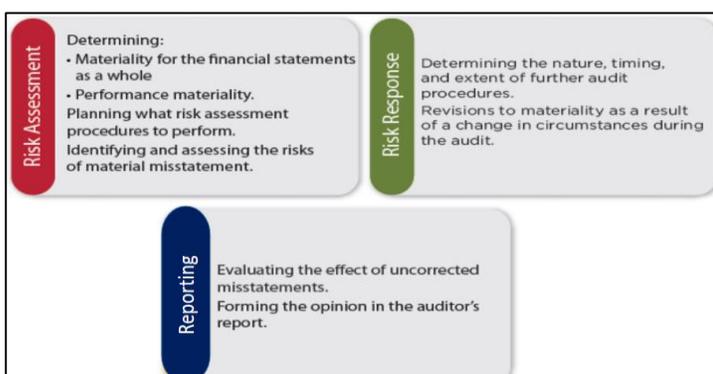
Determining and Using Materiality

Paragraph #	ISA Objective(s)
320.8	The objective of the auditor is to apply the concept of materiality appropriately in planning and performing the audit.
320.14	The auditor shall include in the audit documentation the following amounts and the factors considered in their determination: (a) Materiality for the financial statements as a whole; (b) If applicable, the materiality level or levels for particular classes of transactions, account balances or disclosures; (c) Performance materiality; and (d) Any revision of (a)-(c) as the audit progressed.

Considerations in Determining Materiality

- Users of financial statements are reasonable
- Choose right benchmark to use as a basis:
 - Determine who likely users of financial statements are
 - Identify any specific user's expectations
 - Identify major elements of F/S that are of interest to users
 - Nature of entity and its current status in life cycle (growing, declining etc.)
- Determine adjustments required-Primary focus of users
- Evaluation financial performance; or
- Resource utilized to achieve goals-Source of financing
- Volatility of the benchmark-Alternative benchmarks necessary to address special circumstances

Use of Materiality in Audit



Audit Team Discussions

Paragraph #	Relevant Extracts from ISAs
240.15	ISA 315 requires a discussion among the engagement team members and a determination by the engagement partner of which matters are to be communicated to those team members not involved in the discussion. This discussion shall place particular emphasis on how and where the entity's financial statements may be susceptible to material misstatement due to fraud, including how fraud might occur. The discussion shall occur setting aside beliefs that the engagement team members may have that management and those charged with governance are honest and have integrity. (Ref: Para. A10-A11)
240.44	The auditor shall include the following in the audit documentation of the auditor's understanding of the entity and its environment and the assessment of the risks of material misstatement required by ISA 315: (a) The significant decisions reached during the discussion among the engagement team regarding the susceptibility of the entity's financial statements to material misstatement due to fraud; and (b) The identified and assessed risks of material misstatement due to fraud at the financial statement level and at the assertion level.

Step-3

Identification and Assessment of Risk Understanding and Evaluating Controls Communicating Control Deficiencies (Relevant ISA, 240, 265, 315 & 330)

Identification of Risk

Paragraph #	Relevant Extracts from ISAs
315.25	The auditor shall identify and assess the risks of material misstatement at: (a) the financial statement level; and (Ref: Para. A105-A108) (b) the assertion level for classes of transactions, account balances, and disclosures (Ref: Para. A109-A113) to provide a basis for designing and performing further audit procedures.

3 – Step Risk Identification Process



Obtain Understanding of Entity and Environment

Paragraph #	Relevant Extracts from ISAs
315.11	The auditor shall obtain an understanding of the following: (a) Relevant industry, regulatory, and other external factors including the applicable financial reporting framework. (Ref: Para. A17-A22) (b) The nature of the entity, including: (i) its operations; (ii) its ownership and governance structures; (iii) the types of investments that the entity is making and plans to make, including investments in special-purpose entities; and (iv) the way that the entity is structured and how it is financed to enable the auditor to understand the classes of transactions, account balances, and disclosures to be expected in the financial statements. (Ref: Para. A23-A27) (c) The entity's selection and application of accounting policies, including the reasons for changes thereto. The auditor shall evaluate whether the entity's accounting policies are appropriate for its business and consistent with the applicable financial reporting framework and accounting policies used in the relevant industry. (Ref: Para. A28) (d) The entity's objectives and strategies, and those related business risks that may result in risks of material misstatement. (Ref: Para. A29-A35) (e) The measurement and review of the entity's financial performance. (Ref: Para. A36-A41)

Sources of Information about the entity

	Internal Sources	External Sources
Financial Information	Financial statements Budgets Reports Performance measures Tax returns Accounting policies in use Judgments and estimates	Information on the Internet Industry information Competitive intelligence Credit rating agencies Creditors Government agencies Media and other external parties
Non-financial Information	Vision, values, objectives, and strategies Organization structure Job descriptions Human Resources files Performance indicators Policy & procedure manuals	Information on the Internet Trade association data Industry forecasts Government agencies Media articles

Scope of Information about Entity

- External factors
 - Nature of industry
 - Regulatory environment
 - Financial reporting framework
 - Nature of Entity
 - Operations and key personnel
 - Ownership and governance
 - Investment, structure and financing
 - Accounting Policies-Selection and application
 - Reasons for Change-Appropriateness to entity
 - Entity objectives and strategies
 - Business plans and strategies
- Financial implications and risks undertaken
 - Measurement / Review of financial performance
 - What is measured...?
 - Who reviews financial results?
 - Internal controls relevant to Audit-Processes and relevant controls to mitigate risks:
 - At entity level
 - At transaction level

Risk Assessment Procedures ⇒

Paragraph #	Relevant Extracts from ISAs
315.5	The auditor shall perform risk assessment procedures to provide a basis for the identification and assessment of risks of material misstatement at the financial statement and assertion levels. Risk assessment procedures by themselves, however, do not provide sufficient appropriate audit evidence on which to base the audit opinion. (Ref: Para. A1-A5)
315.6	The risk assessment procedures shall include the following: (a) Inquiries of management and of others within the entity who in the auditor's judgment may have information that is likely to assist in identifying risks of material misstatement due to fraud or error. (Ref: Para. A6) (b) Analytical procedures. (Ref: Para. A7-A10) (c) Observation and inspection. (Ref: Para. A11)

Inquiries of Management and Others

- Inquiries of management regarding:
 - Management’s assessment of risk of fraud
 - Process for identifying and responding to risk of fraud
 - Communication to those charged with governance and employees
 - Knowledge of actual or suspected fraud or allegations
- Areas of inquiry are:
 - Those charged with governance (BOD etc.)
 - Management and those responsible for financial reporting
 - Key Employees
 - Purchasing
 - Payroll
 - Accounting etc.
 - Marketing or sales personnel
- Analytical Procedures
 - Steps Involved
- Identify relationships within the data
 - Develop expectations about plausible relationships among various types of information
 - Financial and non-financial information could include:
 - Financial statements of comparable previous periods
 - Budgets, forecasts, and extrapolations
 - Information regarding the industry
 - Current economic conditions
 - Compare
 - Compare expectations with recorded amounts
 - Develop ratios from recorded data
 - Evaluate results
 - Where unusual or unexpected relationships are found, consider potential risk of material misstatement

Observation and Inspection

Procedure	Examples of Application
Observation	Consider observing: <ul style="list-style-type: none"> • How the entity operates and is organized; • Entity’s premises and plant facilities; • Management’s operating style and attitude toward internal control; • Operation of various internal control procedures; and • Compliance with key policies.
Inspection	Consider inspecting documents such as: <ul style="list-style-type: none"> • Business plans, strategies, and proposals; • Industry studies and media reports on the entity; • Major contracts and commitments; • Regulations and correspondence with regulators; • Correspondence with lawyers, bankers, and other stakeholders; • Accounting policies and records; • Internal control manuals; • Reports prepared by management (such as performance data and interim financial statements); and • Other reports, such as minutes from meetings of those charged with governance, reports from consultants, etc.

Identification of Significant Risk

Paragraph #	Relevant Extracts from ISAs
315.27	As part of the risk assessment as described in paragraph 25, the auditor shall determine whether any of the risks identified are, in the auditor’s judgment, a significant risk. In exercising this judgment, the auditor shall exclude the effects of identified controls related to the risk.
315.28	In exercising judgment as to which risks are significant risks, the auditor shall consider at least the following: <ol style="list-style-type: none"> Whether the risk is a risk of fraud; Whether the risk is related to recent significant economic, accounting or other developments and, therefore, requires specific attention; The complexity of transactions; Whether the risk involves significant transactions with related parties; The degree of subjectivity in the measurement of financial information related to the risk, especially those measurements involving a wide range of measurement uncertainty; and Whether the risk involves significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual. (Ref: Para. A119-A123)

Significant Risk

- Factors indicating possible significant risk:
 - Risk of fraud
 - Significant recent economic, accounting or other development
 - Complexity of transaction
 - Significant transactions with related parties
 - Significant transactions outside normal course of business
 - Degree of subjectivity in measurement of financial information
- Significant risk in Smaller Entities
- Significant non-routine transactions
- Significant judgmental matters
- Significant transactional risk

-Fra

Effective Risk Assessment

- Up-front involvement of senior team members
- An emphasis on professional skepticism
- Planning
- Team discussions and ongoing communications
- Focus on risk identification
- Ability to evaluate management responses to risk
- Use of professional judgment

Understanding Internal Controls ⇒

Paragraph #	Relevant Extracts from ISAs
315.12	The auditor shall obtain an understanding of internal control relevant to the audit. Although most controls relevant to the audit are likely to relate to financial reporting, not all controls that relate to financial reporting are relevant to the audit. It is a matter of the auditor’s professional judgment whether a control, individually or in combination with others, is relevant to the audit. (Ref: Para. A42-A65)
315.14	The auditor shall obtain an understanding of the control environment. As part of obtaining this understanding, the auditor shall evaluate whether: <ol style="list-style-type: none"> Management, with the oversight of those charged with governance, has created and maintained a culture of honesty and ethical behavior; and The strengths in the control environment elements collectively provide an appropriate foundation for the other components of internal control, and whether those other components are not undermined by deficiencies in the control environment. (Ref: Para. A69-A78)

Internal Control Components

"A control is always designed to respond to (mitigate) a possible risk. A control that does not address a risk is obviously redundant."



Control Environment

- Key Elements
 - Communication and Enforcement of Integrity and Other Ethical Values;
 - Commitment to Competence
 - Participation by Those Charged with Governance (BOD etc.)
 - Management Philosophy and Operating Style
 - Organizational Structure
 - Assignment of Authority and Responsibility
 - Human Resource Policies and Practices

Control Environment –Smaller Entities

- Mostly entity does not have staff to implement traditional control activities
- segregation of duties...?
- Active involvement of owner manager reduces the need for other control activities e.g. segregation of duties etc.
- Example:
 - Owner-manager reviews and approves individual transactions before they are completed.
- Does not mitigate other risks like management override of controls
- No or less supporting documentation available for the auditors
- Considerations for auditors:
 - Identify the entity’s control environment (values, acceptable behavior and enforcement actions through discussions with management
 - Ask one or two employees what they believe
 - Prepare a memorandum for the file

In smaller entities where a formal risk assessment process is unlikely to exist, the auditor would discuss with management how business risks are identified and how they are addressed.

Entity’s Risk Assessment Process

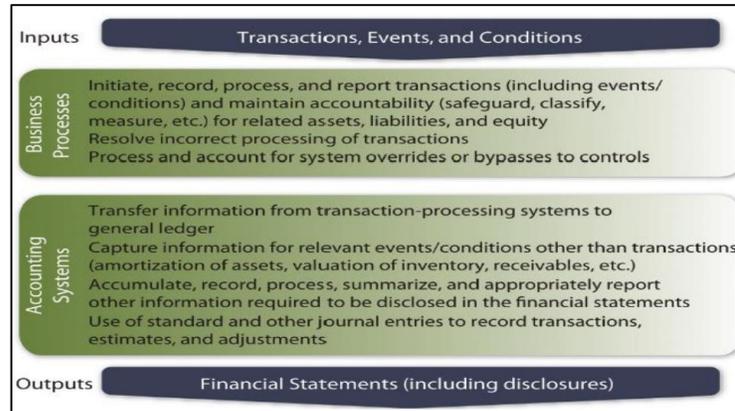
Paragraph #	Relevant Extracts from ISAs
315.15	The auditor shall obtain an understanding of whether the entity has a process for: <ul style="list-style-type: none"> (a) Identifying business risks relevant to financial reporting objectives; (b) Estimating the significance of the risks; (c) Assessing the likelihood of their occurrence; and (d) Deciding about actions to address those risks. (Ref: Para. A79)

Risk assessment process would normally address such matters:

- Changes in operating environment;
- New senior personnel;
- New or revamped information systems;
- Rapid growth;
- New technology;
- New business models, products, or activities;
- Corporate restructurings (including divestitures and acquisitions);
- Expanded foreign operations; and
- New accounting pronouncements.

Information system relevant to financial reporting objectives include:

Business Processes (Sales, Purchases, Payroll, etc.)	Business processes are structured sets of activities designed to produce a specified output. They result in transactions being recorded, processed, and reported by the information system.
Accounting System	This includes accounting software, electronic spreadsheets, and the policies and procedures used to prepare periodic financial reports and the period-end financial statements and disclosures.



Obtaining Understanding of Information System

- Sources of information used
- Significant class of transactions
- Accounting records (Electronic or manual)
- How information is captured and processed
- Financial reporting process over:
 - Initiate, record, process and report transactions
 - Prepare financial statements, significant accounting estimates and disclosures
- Procedures designed to address:
 - ROMM associated with inappropriate management override of controls
 - Identification of exceptions and reporting the actions taken to remedy
 - How the information produced is used?
 - Communication of financial reporting roles and responsibilities
 - Types of reports regularly produced by the system
 - Nature and type of information provided my management to those charged with governance

Control Activities

Paragraph #	Relevant Extracts from ISAs
315.20	The auditor shall obtain an understanding of control activities relevant to the audit, being those the auditor judges it necessary to understand in order to assess the risks of material misstatement at the assertion level and design further audit procedures responsive to assessed risks. An audit does not require an understanding of all the control activities related to each significant class of transactions, account balance, and disclosure in the financial statements or to every assertion relevant to them. (Ref: Para. A88-A94)

Typical controls at business process level include:

- Segregation of duties
- Actual results review
- Authorization controls
- Physical controls
- Account reconciliations
- IT application controls

Control activities in smaller entities

- Informal and limited documentation
- Limited scope
- are likely to relate to the main transactions cycles e.g. revenue, purchase and employment expenses)
- Risk may be mitigated by the control environment itself (Owner-manager)
- Auditor's judgment whether a control activity is relevant is influenced by:
 - Knowledge about presence / absence of control activities identified in other components of internal controls
 - Existence of multiple control activities to achieve the same objective.
 - Audit efficiency gained from testing operating effectiveness of internal controls

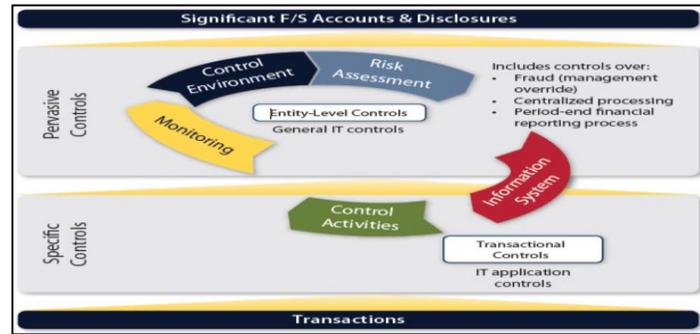
Monitoring

Monitoring provides feedback to management on whether the internal control system they have designed to mitigate risks is:

- Effective in addressing the stated control objectives;
- Properly implemented and understood by employees;
- Being used and complied with on a day-to-day basis; and
- In need of modification or improvement to reflect changes in conditions.

Management accomplishes the monitoring of controls through ongoing activities, separate evaluations, or a combination of these two.

Pervasive Vs Specific Controls



Evaluation of Internal Controls

Paragraph #	Relevant Extracts from ISAs
315.13	When obtaining an understanding of controls that are relevant to the audit, the auditor shall evaluate the design of those controls and determine whether they have been implemented, by performing procedures in addition to inquiry of the entity's personnel. (Ref: Para. A66-A68)

4-Step Process to Evaluate Control Design and Implementation

- 1. Risk identification –What risks require mitigation...?
- 2. Evaluate Control Design –Do the controls designed by management mitigate risk ...?
- 3. Are the controls that mitigate the risk in operation?
- 4. Has the operation of relevant controls been documented...?

Phase II - Responding to Assessed Risk

Risk Response –Overview

Responsive Audit Plan

Determining the extent of testing

Documenting Work Performed

Written Representations (Relevant ISA, 230, 240, 300, 330, 500, 530, & 580)

Response to Assessed Risk –Objective

Paragraph #	ISA Objective(s)
330.3	The objective of the auditor is to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement, through designing and implementing appropriate responses to those risks.

Audit risk cannot be eliminated or avoided. It has to be reduced/mitigated to an acceptably low level

Steps in Risk Response

Paragraph #	Relevant Extracts from ISAs
330.5	The auditor shall design and implement overall responses to address the assessed risks of material misstatement at the financial statement level. (Ref: Para. A1-A3)

Risk Response

Design Further Audit Procedures

- Update overall audit strategy
- Develop response to assessed risks
- Brief team on audit plans as required

Perform Further Audit Procedures

- Perform planned procedure
- Assess results and evidence obtained
- Document findings and conclusions

Responsive Audit Plan

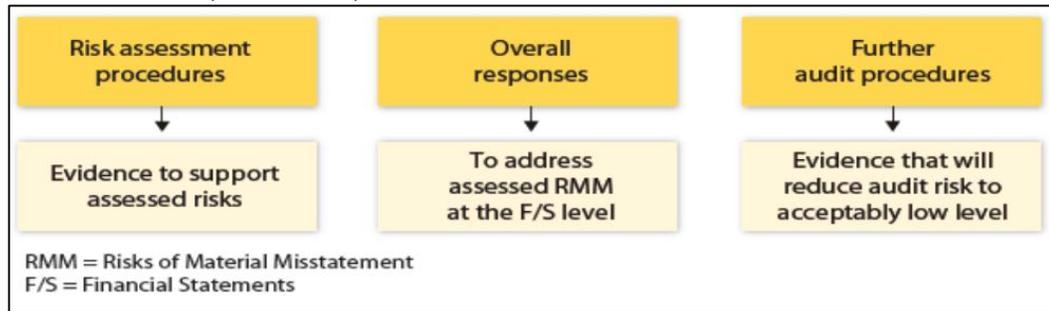
Activity	Purpose	Documentation ¹
Design overall responses and further audit procedures	Develop appropriate responses to the assessed RMM ³	Update of overall strategy Overall responses Audit plan that links assessed RMM ³ to further audit procedures
Implement responses to assessed RMM ³	Reduce audit risk to an acceptably low level	Work performed Audit findings Staff supervision Working paper review

Notes:

1. Refer to ISA 230 for a more complete list of documentation required.
2. Planning (ISA 300) is a continual and iterative process throughout the audit.
3. RMM = Risks of material misstatement.

Developing Responsive Audit Plan

1. Respond to assessed risk at financial statement level
2. Identify specific procedures required for material financial statement areas
3. Determine the nature and extent of audit procedures required



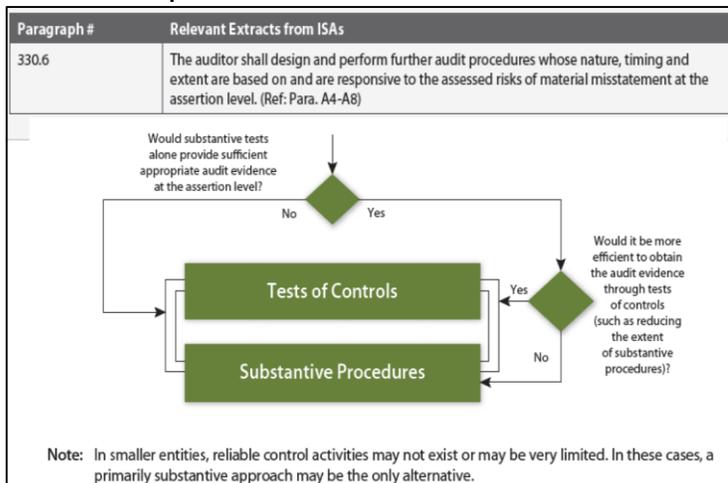
Overall Responses to Assessed Risk at F/S Level

- Engagement management
- Maintain professional skepticism
- Assign more experienced staff
- More ongoing supervision
- Incorporate unpredictability in selection of further audit procedures
- Perform substantive procedures on selective account balances
- Adjust timing of audit procedures
- Use different sampling methods-Performed surprised audit procedures
- Revise the planned audit procedures
- Perform substantive procedures at the period end instead of interim
- Perform physical observation of certain assets
- Increase sample size or perform analytical procedures at more detail level etc.
- Changes in audit approach
- Consider the understanding obtained of control environment and make changes accordingly
- Use combined approach (Tests of controls and substantive procedures)
- Review accounting policies being used

Management Override of Controls (Risk of Fraud)

- Identify, select and test journal entries and other adjustments based on:
 - Understanding of entity's financial reporting process
 - Design and implementation of internal controls
 - Considerations of:
 - Characteristics of fraudulent journal entries and other adjustments
 - Presence of fraud risk factors
 - Inquiries of individuals involved in financial reporting process
- Review estimates relating to specific transactions and balances to identify possible biases
- Reconsider estimate taken as a whole
- Perform retrospective review of management judgement and assumptions
- Obtain understanding of the business rationale of significant transactions that are unusual or outside normal course of business. Assess whether;
 - Management emphasis more emphasis on a particular accounting treatment
 - Arrangement surrounding such transactions are overly complex
 - Transaction involves previously unidentified related parties
 - For revenue recognition, perform substantive analytical procedures to identify unusual or unexpected revenue relationships or transactions

Response to Assessed Risk at Assertion Level



Designing and Performing Further Audit Procedures

Auditor shall consider the following:

- Nature of assertion being addressed
- Reasons for the assessed risk
- Characteristics of financial statement area
- Identified risk and relevant controls
- Assessed level of risk
- Source of information used
- Potential for dual-purpose test



Tests of Controls

Paragraph #	Relevant Extracts from ISAs	Tests of controls are performed by the auditor to gather evidence as to the operational effectiveness of internal control procedures that:
330.8	The auditor shall design and perform tests of controls to obtain sufficient appropriate audit evidence as to the operating effectiveness of relevant controls if: (a) The auditor's assessment of risks of material misstatement at the assertion level includes an expectation that the controls are operating effectively (that is, the auditor intends to rely on the operating effectiveness of controls in determining the nature, timing and extent of substantive procedures); or (b) Substantive procedures alone cannot provide sufficient appropriate audit evidence at the assertion level. (Ref: Para. A20-A24)	<ul style="list-style-type: none"> • Address specific assertions where reliance on controls is planned; and • Prevent or detect/correct material errors or fraud from occurring.
330.9	In designing and performing tests of controls, the auditor shall obtain more persuasive audit evidence the greater the reliance the auditor places on the effectiveness of a control. (Ref: Para. A25)	<p>Typical tests of controls include the selection of a representative sample of transactions or supporting documentation to:</p> <ul style="list-style-type: none"> • Observe the operation of an internal control procedure being performed; • Inspect evidence that the control procedure was performed; • Inquire about how and when the procedure was performed; and • Re-perform the operation of the control procedure (such as where the information system is computerized).

Tests of Controls –Examples

Control Component = Control Environment	
Risk Addressed	No emphasis is placed on need for integrity and ethical values.
Controls Identified	Management requires all new employees to sign a form stating their agreement with the firm's fundamental values and understanding of the consequences for non-compliance.
Control Design	Read the form to be signed by employees and ensure it does indeed address integrity and ethical values.
Control Implementation	Review one employee file to ensure there is a signed form, and consider what evidence exists (such as discipline) that employees actually practice the values. This could be based on a short interview with an employee.
Test of Controls Effectiveness	Select a sample of employee files and ensure there are agreement forms on file and they are signed by the employee. This would be supplemented by asking a sample of employees some questions about the stated entity policies.
Documentation	Prepare a memo that provides details of the employee files selected, and notes from interviews (including the name of the person and the date) along with the conclusions reached.

Substantive Procedures

Paragraph #	Relevant Extracts from ISAs
330.18	Irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance, and disclosure. (Ref: Para. A42-A47)
330.19	The auditor shall consider whether external confirmation procedures are to be performed as substantive audit procedures. (Ref: Para. A48-A51)
330.20	The auditor's substantive procedures shall include the following audit procedures related to the financial statement closing process: (a) Agreeing or reconciling the financial statements with the underlying accounting records; and (b) Examining material journal entries and other adjustments made during the course of preparing the financial statements. (Ref: Para. A52)

Substantive Procedures –Types

Procedure	Description
Tests of Details	Procedures designed to gather evidence that will substantiate a financial statement amount. They are used to obtain audit evidence regarding assertions such as existence, accuracy, and valuation.
Substantive Analytical Procedures	Procedures designed to substantiate a financial statement amount by using predictable relationships among both financial and non-financial data. They are mostly applicable to large volumes of transactions that tend to be predictable over time.

Substantive Procedures –Examples

<p>Substantive procedures are performed by the auditor to:</p> <ul style="list-style-type: none"> • Gather evidence regarding the underlying assertions (C, E, A, V) that are embedded in the account balances and underlying classes of transactions; and • Detect material misstatements. <p>Typical substantive procedures include selection of an account balance or a representative sample of transactions to:</p> <ul style="list-style-type: none"> • Recalculate recorded amounts for accuracy; • Confirm existence of balances (receivables, bank accounts, investments, etc.); • Ensure transactions are recorded in the right period (cutoff tests); • Compare amounts between periods or with expectations (analytical procedures); • Inspect supporting documentation (such as invoices or sales contracts); • Observe physical existence of recorded assets (inventory counts); and • Review the adequacy of allowances made for loss of value (doubtful accounts and obsolete inventory).
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Tests of Details

When designing substantive procedures to respond to assessed risk, consider the matters to be addressed:

- Each material account balance, COT and disclosure
- Audit procedures required by specific ISAs, (related party etc.)
- Need for external confirmation procedures
- Significant risk and procedures specifically designed to address the identified risk
- Timing

Auditor may perform:

- Only TODs
- Only SAPs (where there is not a significant ROMM)
- Combination of TODs and SAPs

External Confirmations

Paragraph #	Relevant Extracts from ISAs
505.7	<p>When using external confirmation procedures, the auditor shall maintain control over external confirmation requests, including:</p> <ul style="list-style-type: none"> (a) Determining the information to be confirmed or requested; (Ref: Para. A1) (b) Selecting the appropriate confirming party; (Ref: Para. A2) (c) Designing the confirmation requests, including determining that requests are properly addressed and contain return information for responses to be sent directly to the auditor; and (Ref: Para. A3-A6) (d) Sending the requests, including follow-up requests when applicable, to the confirming party. (Ref: Para. A7)

Audit evidence is more reliable when:

- Obtained from independent sources outside the entity.
- Obtained directly
- Exists in documentary form i.e. paper, electronic or other medium

Types are:

- Positive confirmation
- Negative confirmation

External Confirmations –Example

- Typical situations where external confirmation procedures provide relevant audit evidence include:
- Bank balances and other information relevant to banking relationships;
 - Accounts receivable balances and terms;
 - Inventories held by third parties at bonded warehouses for processing or on consignment;
 - Property title deeds held by lawyers or financiers for safe custody or as security;
 - Investments held for safekeeping by third parties, or purchased from stockbrokers but not delivered at the balance-sheet date;
 - Amounts due to lenders, including relevant terms of repayment and restrictive covenants; and
 - Accounts payable balances and terms.

Substantive Analytical Procedures

Techniques

There are a number of possible techniques that can be used to perform the analytical procedures. The objective is to select the most appropriate technique to provide the intended levels of assurance and precision. Techniques include:

- Ratio analysis;
- Trend analysis;
- Break-even analysis;
- Pattern analysis; and
- Regression analysis.

Factors to Consider Are:

- Nature of assertion
- Reliability of data (internal or external)
- Whether the expectation is sufficiently precise to identify a material misstatement
- Amount of differences that would be acceptable
- Are the relationships developed:
 - from a stable environment
 - at a detailed level

Phase III-Reporting
Reporting –Overview
Evaluating Audit Evidence
Communicating with TCWG
Modifications to the Auditors Report

Emphasis of Matter and Other Matters
Comparative Information (Relevant ISA, 220, 260, 265, 330, 450, 520, 540, 705, 706 & 710)
Reporting

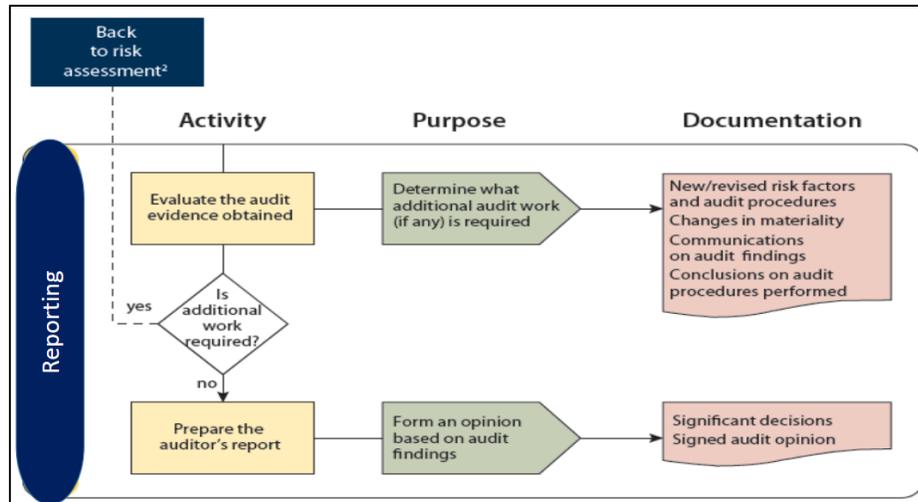
Paragraph #	ISA Objective(s)
700.6	The objectives of the auditor are: (a) To form an opinion on the financial statements based on an evaluation of the conclusions drawn from the audit evidence obtained; and (b) To express clearly that opinion through a written report that also describes the basis for that opinion.

Steps in Reporting ⇒



*TCWG = those charged with governance

Evaluating Audit Evidence



Evaluating the Effects of Misstatements

Paragraph #	ISA Objective(s)
450.3	The objective of the auditor is to evaluate: (a) The effect of identified misstatements on the audit; and (b) The effect of uncorrected misstatements, if any, on the financial statements.
450.5	The auditor shall accumulate misstatements identified during the audit, other than those that are clearly trivial. (Ref: Para. A2-A3)
450.6	The auditor shall determine whether the overall audit strategy and audit plan need to be revised if: (a) The nature of identified misstatements and the circumstances of their occurrence indicate that other misstatements may exist that, when aggregated with misstatements accumulated during the audit, could be material; or (Ref: Para. A4) (b) The aggregate of misstatements accumulated during the audit approaches materiality determined in accordance with ISA 320. (Ref: Para. A5)

Areas of Misstatements

- Inaccuracies or fraud
- Omissions or fraud
- Significant transactions
- Journal entries
- Errors in estimates or fair values
- Selection and application of accounting policies
- Uncorrected misstatements in opening equity
- Revenue recognition
- Internal control weaknesses
- Financial statements presentations and disclosures

Address Identified Misstatements

- Re-evaluate materiality
- Consider the reasons and impact on audit plan
- Request management to make corrections
- Ask management to perform additional procedures
- Management refuses to make some or all misstatements

Evaluate Sufficiency and Appropriateness of Evidence

Consider

- Materiality of misstatement
- Management response
- Previous experience
- Results of performed audit procedures
- Quality of information
- Persuasiveness
- Understanding the entity

Matters to be communicated to TCWG

- Auditor’s responsibilities in relation to the financial statement audit
- Planned scope and timing of audit
- Significant findings arising from the audit
- Other audit matters:-Accounting policies
- Risk of material misstatement
- Material uncertainties
- Significant difficulties encountered
- Comments on entity’s management
- Audit adjustments
- Uncorrected misstatements
- Auditor’s report
- Agreed upon matters
- Other matters, if any

Reporting

Important considerations are to determine:

- Any change in the assessed level of risk;
- Whether conclusions drawn from the work performed are appropriate;
- If any suspicious circumstances have been encountered; and
- That additional risks (not previously identified) have been appropriately assessed and further audit procedures performed as required.

Modifications to the Auditor’s Report

Situations	
Modified Report Necessary <i>(Qualified, Adverse, or Disclaimer of Opinion)</i>	<p>Financial Statements Are Materially Misstated Based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement. This would include uncorrected misstatements that are material, the appropriateness or application of accounting principles, and the failure to disclose information that results in a material misstatement.</p>
	<p>Inability To Obtain Sufficient Appropriate Audit Evidence Unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement. This could include:</p> <ul style="list-style-type: none"> • Circumstances beyond the control of the entity, such as a fire that damaged accounting records; • Circumstances relating to the nature or timing of the auditor’s work, such as an inability to attend an inventory count; or • Limitations imposed by management, such as management not allowing the auditor to obtain an external confirmation of certain receivables.

Nature of Matter Giving Rise to the Modification	Auditor’s Judgment about the Pervasiveness of the Effects or Possible Effects on the Financial Statements	
	Material but NOT Pervasive	Material AND Pervasive
Financial statements are materially misstated	Qualified opinion	Adverse opinion
Inability to obtain sufficient appropriate audit evidence	Qualified opinion	Disclaimer of opinion

Legal Privileges Available to Cost and Management Accountants*

Sr.	Description	Legal Statute	Relevant Section / Rule
1	To act as an Auditor in case of a private limited company having paid up capital of less than three million	Companies Act, 2017	Section 247(b)
2	Appointment as Special Auditors by FBR for Income Tax Audit	Income Tax Ordinance, 2001	Section 177 (10) Income Tax Ordinance, 2001
3	Appointment as Special Auditors by FBR Sales Tax Audit	Sales Act, 1990	Section 32-A of Sales Act, 1990, & SRO 539(1)/2006 dated 5th June, 2006
4	To perform Audit of Cost Accounts as an Auditor	Companies Act, 2017	Section 250(1)
5	Audit & Certification of Accounts of Non Profit Organizations	Income Tax Rules, 2002	Income Tax Rules, 2002 notified through SRO 774 dated 29th July, 2006
6	Audit of Financial Statements for Agricultural Borrowers	Prudential Regulations for Agriculture Financing 2014	Part C, Regulations R-20
7	Audit of Financial Statements of SMEs	Prudential Regulations for Small and Medium Enterprises Financing 2013	Chapter No. 3, Regulation ME R-4
8	Audit of Financial Statements of Corporate and Commercial Banks	Prudential Regulations for Corporate / Commercial Banking 2011	Part B, Regulations R-3
9	To Act as Legal Representative of Taxpayer	Income Tax Ordinance, 2001 Income Tax Rules, 2002	Sec 223 Income Tax Ordinance, 2001 Rules 84-90 Chp XIV if Income Tax Rules, 2002
10	Delegation of Function by Assets Management Companies	SECP Circular, 2013	No.24/2013 dated December 06, 2013
11	Declaration for Registration of Memorandum	Companies Rules, 1985	Rule 4 (2) (ii)
12	Appointment as Committee Member on Custom matters	Customs Act, 1969	Section 195 C(2)
13	Appointment as Member of Settlement Commission on Custom matters	Customs Act, 1969	Section 196 K(3)
14	Appointment as Accountant Member of the Appellate Tribunal	Anti-Dumping Duties Ordinance, 2015	Rule 65(1)(a), No.2((1)/2015-Pub dated February 26, 2015
15	To Act as Legal representative in Anti-Dumping Tribunal	Anti-Dumping Duties Ordinance, 2015	No.2((1)/2015-Pub dated February 26, 2015
16	To Act as Member of Small Dispute Resolution Committee	Small Dispute Resolution Committees (Constitution and Procedure) Rules, 2015	Section 4(1)(b)
17	To act as an Expert in the Companies Act, 2017	Companies Act, 2017	Section 2(30)
18	To act as Certifier in the memorandum and articles	Companies Act, 2017	Section 17(3)
19	To act as Auditor for making report in case of return as to allotments	Companies Act, 2017	Section 70(b)
20	To act as an Intermediary in terms of Section 455 of the Companies Act, 2017	Intermediaries (Registration) Regulations, 2017	Section 3(i)(b)
21	To act as an Internal Auditor in the listed companies	Code of Corporate Governance	Code of Corporate Governance
22	To carry out the Audit of Separated Accounts	PTA Accounting Separation Guidelines, 2007	Sub-Clause 9(1)
23	To act as an Expert in the Panel of Insolvency Experts	Corporate Rehabilitation Regulations, 2019	Sub-Clause 4(ii)
24	To act as a Provisional Manager and Official Liquidator	Panel of Provisional Managers and Official Liquidators Regulations, 2019	Sub-Clause 4(a)

*The above furnished details are compiled to the best of our knowledge, however, Worthy Members are encouraged to provide their inputs and feedback on the above information.