



International Developments

The New Auditor's Report

What is the CHANGE?

Auditor's opinion on the financial statements is valued; however the wake of the global financial crisis required auditor's report to be more informative.

In response of the above call, IAASB undertook "Auditor Reporting project". After thorough research and consultations with various stakeholders, IAASB issued following new and revised Auditor Reporting Standards and related conforming amendments, which are effective for audits of financial statements for periods ending on or after December 15, 2016:

- ▶ ISA 260 (Revised), Communication with Those Charged with Governance;
- ▶ ISA 570 (Revised), Going Concern;
- ▶ ISA 700 (Revised), Forming an Opinion and Reporting on Financial Statements;
- ▶ New ISA 701, Communicating Key Audit Matters in the Independent Auditor's Report;
- ▶ ISA 705 (Revised), Modifications to the Opinion in the Independent Auditor's Report;
- ▶ ISA 706 (Revised), Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report; and
- ▶ Conforming amendments to other ISAs.

Who are the Beneficiaries?

The proposed ISAs represent a significant change in practice. The primary beneficiaries are investors, analysts and other users of audited report and audited financial statements.

Updates

Subject to confirmation of due process by the Public Interest Oversight Board, ISA 720 (Revised), The Auditor's Responsibilities relating to Other Information, will be issued in April 2015 and its effective date will coincide with that of new and revised Auditor Reporting Standards.

On 22 January 2015, IAASB released Exposure Drafts (ED) of ISA 800, Special Considerations—Audits of Financial Statements Prepared in accordance with Special Purpose Frameworks, and ISA 805, Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement.

Comments on the EDs are requested by **22 April 2015**.

Key Enhancements in Auditor's Report

- ▶ Auditor reporting on "Key Audit Matters", required for audits of financial statements of listed entities.
- ▶ Opinion section required to be presented first in all audits, followed by the Basis for Opinion section, unless law or regulation prescribe otherwise.
- ▶ Enhanced auditor reporting on Going Concern (GC), including:
 - ▶ responsibilities of management and the auditor for GC
 - ▶ separate section when a material uncertainty exists, and is adequately disclosed, under the heading "Material Uncertainty related to Going Concern" and new requirement to challenge adequacy of disclosures for "close calls".
- ▶ Disclosure of the name of the engagement partner, required for audits of financial statements of listed entities, with a "harms way" exemption.
- ▶ An explicit statement that the auditor is independent of the entity and has fulfilled the auditor's other relevant ethical responsibilities, with disclosure of the source(s) of those requirements.
- ▶ Improved description of the responsibilities of the auditor and key features of the audit .

What are the Expected Benefits?

Audit enhances the credibility of financial statements and improves quality of financial reporting. As auditor's report is key deliverable addressing output of audit, the IAASB is of the view that changes in auditor reporting will have benefits. This will increase the confidence that users have in audit and financial statements.

Following benefits may realize as a result of Proposed ISAs:

- ▶ Enhanced communicative value of the auditor's report.
- ▶ Increased attention by management and those charged with governance to disclosures.
- ▶ Renewed focus of the auditor on matters to be reported, which indirectly results in increased professional skepticism.
- ▶ Enhanced communication between auditor and those charged with governance.



Impact of New IFRS on Auditor's Scope of Work

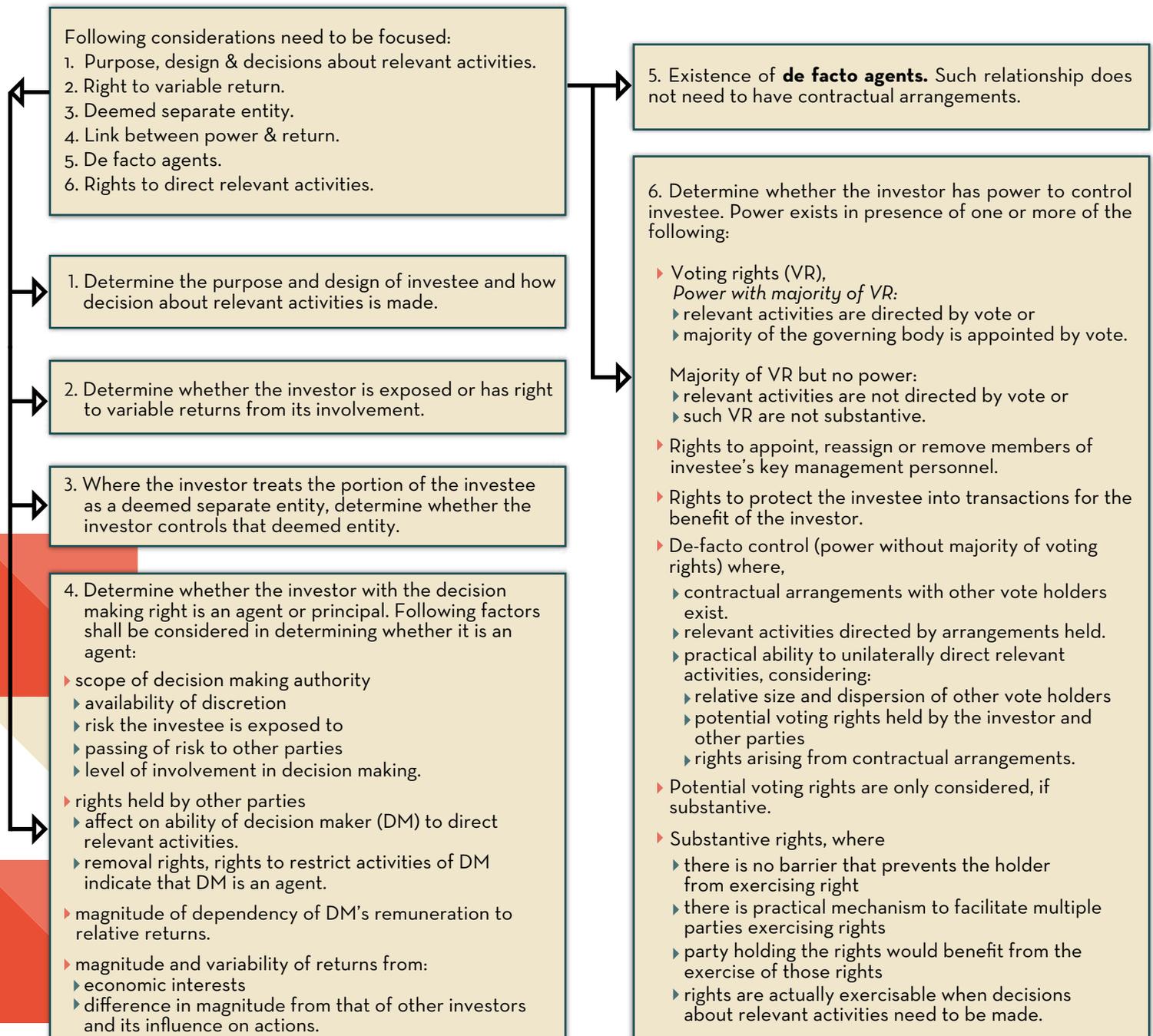
IFRS 10 'Consolidated Financial Statements'

Determination of Control

With the notification of IFRS 10 'Consolidated Financial Statements' by SECP, it has become effective from the periods starting on or after January 01, 2015. IFRS 10 defines the principle of control and sets out how to apply the principle to identify whether an investor controls an investee and therefore must consolidate the investee. The auditor shall need to carefully evaluate following to determine that an investor controls over an investee:

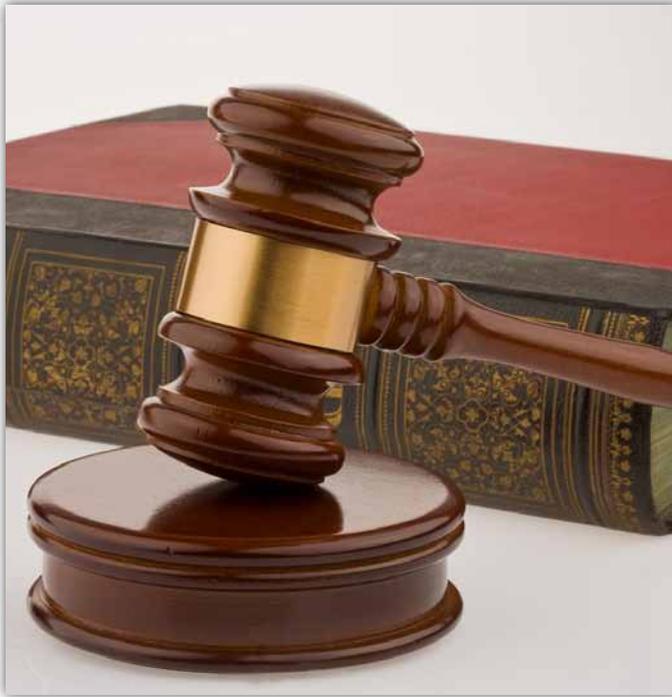
- ▶ Power over the investee.
- ▶ Exposure, or rights, to variable returns from its involvement with the investee.
- ▶ The ability to use its power, to affect the amount of the investor's returns.

Audit Procedures





Legal and Regulatory Requirements



Auditors' Review Report on Statement of Compliance under the Public Sector Companies (Corporate Governance) Rules, 2013

With the issuance of these Rules, Statement of Compliance with the Rules is required to be reviewed and certified by external auditors. The Rules are applicable to all listed and unlisted Public Sector Companies.

A Public Sector Company that is also a Listed Company, both PSC rules 2013 as well the requirements of the Code of Corporate Governance (CCG) 2012 would be applicable. In case of any inconsistency, the provisions of the Public Sector Rules will prevail. Some of the provisions of the Rules are more stringent than the provisions of the CCG, whereas there are some additional requirements in Rules, all have to be complied by the Company, as applicable.

Keeping in view of above requirements, the Auditing Standards Committee has developed separate Review Report formats for listed and unlisted PSC and sent to SECP in October 2014 for their approval and notification.

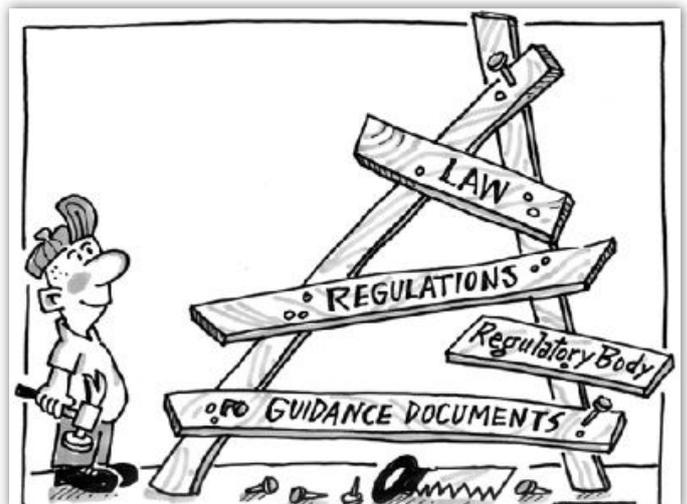
SECP Circular on renewal of Licences to Not for Profit Associations granted under Section 42 of the Companies Ordinance 1984

The provisions of Section 42 of the Companies Ordinance, 1984 (the 'Ordinance') and the Rules made thereunder provide the legal framework for licensing of associations not for profit formed to carry on the objects of commerce, art, science, religion, sports, social services etc.

With reference to the SECP's Circular no. 29/2008 dated 24.12.2008, regarding detail requirements for making application for renewal of licence, the Commission vide its Circular No. 02/2015 dated 1.1.2015, has directed all the associations set up under Section 42 of the Ordinance which have already completed five years' time from the issuance date of their licence to apply to the Commission for renewal of licence within 30 days of the date of this Circular.

The objective of this Circular is to ensure compliance with all the mandatory requirements of the Ordinance as well as to ensure that the income and profits of the association are applied solely towards the promotion of the objects for which the association was formed and that no portion thereof is used directly or indirectly for other purposes.

Non-compliance of the above direction shall lead to legal actions including revocation of licence in terms of sub-section (4) of Section 42 of the Ordinance.





Updates from Auditing Standards Committee

1. CSR Reporting Framework for Pakistan & Assurance Report

For the purpose of developing a national level CSR reporting framework, the Council has formed a Taskforce/interest group led by ICAP which will be comprised of CSR experts from practice, industry, public sector, NGOs, representative of SECP, SBP and ICAP. The Taskforce/ interest group will be responsible for:

- Studying models of national level/standard on CSR reporting frameworks;
- ▶ Modifying GRI/IIRF in accordance with local circumstances and issues;
- ▶ Develop and finalize the reporting framework;
- ▶ Suggest benchmarking indices/mechanism to compare performances of the Companies.

The Council in its 261st meeting held on Jan 23-24, 2015 has approved the Independent Assurance Report to the BOD for sustainability assurance engagements. This report is in accordance with ISAE 3000 and also contains the contents suggested by SECP in its concept paper. The circular in this regard, has also been issued to members.

2. ICAP Comments sent to SECP

ICAP comments were requested by the SECP on the following matters and have been sent to the SECP:

- ▶ Revised Audit Report formats under Form 35A and 35C of the Companies Ordinance 1984
- ▶ Guideline for Companies & Directors on 'Going Concern Reporting In Financial Statements'
- ▶ Recommendations on the Public Sector Companies (Corporate Governance) Rules, 2013 and Public Sector Companies (Corporate Governance Compliance) Guidelines, 2013.

3. Awareness Series for Auditors & Stakeholders

The first publication of this series is planned to be issued on **What is an Audit of Financial Statements** for member's guidance. This publication will be part of a series of awareness on auditing and aims to provide useful background information on what a financial statement audit is and the role of the auditor. It is written principally in the context of financial statement audits of listed companies to narrow the "expectations gap" between what users expect from the auditor and the financial statement audit, and the reality of what an audit is. It will be a useful source of guidance for audit stakeholders and help in addressing the information gaps.

Audit Bulletin

We welcome your comments/feedback which can be sent to:

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This publication is intended to provide a summary of developments relating to audit during the quarter, legal & regulatory matters and matters under consideration of Auditing Standards Committee.

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

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