



The Institute of  
Chartered Accountants  
of Pakistan

CA  
PAKISTAN



# ASSURANCE AND RELATED SERVICES



# TABLE OF CONTENTS

ASSURANCE AND RELATED SERVICES

S.No.	Content	Page #
	<b>Preface</b>	<b>2</b>
<b>1</b>	<b>Introduction to assurance and related services</b>	<b>3</b>
<b>2</b>	<b>Key matters for understanding</b>	<b>5</b>
2.1	Historical financial information	5
2.2	Audit or Review	5
2.3	General purpose vs special purpose	6
2.4	Fair presentation framework vs compliance framework	7
2.5	Assurance engagements other than audit or review of historical financial information	8
2.6	Non-assurance standards	8
2.7	Certification	9
2.8	Consulting/Advisory	9
<b>3</b>	<b>Applicability of different standards and frameworks – flow charts</b>	<b>10</b>
<b>4</b>	<b>Detailed explanation of professional services – Assurance</b>	<b>17</b>
4.1	Audit of historical financial information	17
4.2	Review of historical financial information	25
4.3	Assurance engagements other than audit and review of historical financial information	27
<b>5</b>	<b>International standards on related services</b>	<b>29</b>
5.1	Agreed upon procedures	29
5.2	Compilation	30
<b>6</b>	<b>Comparative chart of assurance and related services</b>	<b>33</b>
<b>7</b>	<b>Consulting/ Advisory services</b>	<b>36</b>

Companies and other non-corporate entities, their regulators, government, public and other stakeholders in respect of various data, processes or information require a third party to enhance the degree of confidence in data, processes or information. A chartered accountant with relevant experience applying the highest standard to examine data, processes or information and resultantly expressing conclusion in different forms provide a strong signal of reliability to all concerned. This is a pivotal role in public interest and the importance of credible information is phenomenal.

The most common form of such information is the financial statements which are prepared by management of the entity, audited by a chartered accountant in practice and relied upon by owners, regulators and the public. There are other situations where credibility is needed in connection with the preparation of historical financial statements, reliability of the processes underlying the preparation of financial statements, the prospective financial statements, or confidence is required in connection with acquisition of entities. The list also includes information which may not even be financial information.

Many a times the three parties involved in the process i.e. the responsible party, the user and the chartered accountant providing the professional services lack the knowledge and understanding of appropriate nature of services and applicable standards that are required under the circumstances and correspond to the need of stakeholders.

This booklet aims to look at the types of services being provided by the chartered accountants in practice and the relevant pronouncements of the International Auditing and Assurance Standards Board (IAASB) and Institute of Chartered Accountants of Pakistan (ICAP) in order to ensure consistency and enhance the quality of the profession. It is hoped that the stakeholders will find this booklet useful and a reference guide when in need of professional services to select the right type of service.

The booklet is developed by the Auditing Standards Committee of the Institute for the benefit of members and other stakeholders. However, it must be noted that this booklet is not a substitute for reading the relevant standards of the IAASB and it is strongly advised to refer the standards in professional work.

Technical Services Department

## 1. INTRODUCTION TO ASSURANCE AND RELATED SERVICES

The International Auditing and Assurance Standards Board (IAASB) is an independent standard-setting body that serves the public interest by setting high-quality international standards for auditing, assurance and other related services. These international standards have been adopted by the Institute of Chartered Accountants of Pakistan and serve the underlying basis for chartered accountants in practice (the auditor) to provide professional services in this regard. The services covered by IAASB pronouncements broadly fall in three categories:

1. Audits and reviews of historical financial information
2. Assurance engagements other than audit or review of historical financial information
3. Related services engagements

Traditionally, the auditor was known and required only to express an opinion on historical financial information. In recent times, the landscape for professional services has changed manifolds and clients are looking at professional firms for a number of services to increase the confidence of various stakeholders in the information provided. In case any of the professional service does not fall under the above set of standards, such services are categorized as Advisory or Consulting.

The applicable standards in respect of above categories are as follows:

- A. International Standards on Auditing (ISAs) are to be applied in the audit of historical financial information
- B. International Standards on Review Engagements (ISREs) are to be applied in the review of historical financial information
- C. International Standards on Assurance Engagements (ISAEs) are to be applied in:
  - Assurance engagements other than audits or reviews of historical financial information;
  - The examination of prospective financial information;
  - Assurance reports on controls at a service organization;
  - Assurance engagements on Greenhouse Gas Statements;
  - Assurance engagements to report on the compilation of pro forma financial information included in a prospectus.

- D. International Standards on Related Services (ISRSs) are to be applied to compilation engagements, engagements to apply agreed upon procedures to information and other related services engagements
- E. International Standards on Quality Control (ISQCs) are to be applied for all services falling under the IAASB's Engagement Standards.

In addition IAASB has issued an International Framework for Assurance Engagements. This Framework is issued solely to facilitate understanding of the elements and objectives of an assurance engagement and the engagements to which International Standards on Auditing (ISAs), International Standards on Review Engagements (ISREs) and International Standards on Assurance Engagements (ISAEs) (hereinafter referred to as Assurance Standards) apply. This Framework is not a Standard and accordingly, does not establish any requirements for the performance of audits, reviews, or other assurance engagements. An assurance report cannot, therefore, claim that an engagement has been conducted in accordance with this Framework, but rather should refer to relevant Assurance Standards. Assurance Standards contain objectives, requirements, application and other explanatory material, introductory material and definitions that are consistent with this Framework, and are to be applied in audit, review, and other assurance engagements.

## 2. KEY MATTERS FOR UNDERSTANDING

In order to comprehend the various requirements of audit, review, assurance and related services standards listed above, the following key matters need better understanding:

### 2.1. Historical financial information

The difference between the standards under the three service categories listed above represent the level of assurance provided, and the fact that whether the assurance is in respect of historical financial information or not.

So what constitutes historical financial information? Historical financial information is defined as:

*Information expressed in financial terms in relation to a particular entity, derived primarily from that entity's accounting system, about economic events occurring in past time periods or about economic conditions or circumstances at points in time in the past.*

It is therefore critical to understand that assurance services for historical financial information can be made under applicable standards mentioned in A and B only – refer 'Introduction' above.

The financial statements are a form of historical financial information. Other examples include extract from financial statements, financial transactions of past events, etc. Accordingly, where assurance services are required relating to historical financial information audit or review standards (A or B listed above under Introduction) apply.

### 2.2. Audit or Review

The difference between A and B (audit and review standards) is in relation to the type of assurance provided on the historical financial information. There are two types of assurance a chartered accountant in practice provides:

- Reasonable assurance; and
- Limited assurance

## Reasonable assurance

Reasonable assurance stands for ‘a high, but not absolute, level of assurance’. The objective of a reasonable assurance engagement is a reduction in assurance engagement risk to an acceptably low level in the circumstances of the engagement as the basis of a positive form of expression of the auditor’s conclusion.

The opinion in a reasonable assurance engagement is the following statement:

*The financial statements have been prepared or fairly stated in accordance with an applicable financial reporting framework.*

The ISA series 200 to 800 provides reasonable assurance standards.

## Limited assurance

Limited assurance provides acceptable assurance that is lower in relation to reasonable assurance. This is a moderate level of assurance which is expressed in a negative form. The objective of a limited assurance engagement is a reduction in assurance engagement risk to a level that is acceptable in the circumstances of the engagement, but where that risk is greater than for a reasonable assurance engagement, as the basis for a negative form of expression of the auditor’s conclusion.

The opinion in a limited assurance engagement is the following statement:

*Based on our review, nothing has come to our attention which causes us to believe that financial statements have not been prepared or fairly stated in accordance with an applicable financial reporting framework.*

The IAASB has issued ISREs covering reviews of historical financial information under 2400 series.

## 2.3. General purpose vs Special purpose

ISA series from 200 to 700 apply to an audit of financial statements whereas series 800 deals with special considerations relevant to an audit of financial statements prepared in accordance with a special purpose framework.

Here it is important to distinguish between general purpose and special purpose framework in relation to financial statements.

**General purpose framework** – A financial reporting framework designed to meet the common financial information needs of a wide range of users. The financial reporting framework may be a fair presentation framework or a compliance framework.

IFRS, Accounting and Financial Reporting Standards (AFRS) for Medium Sized Entities and Small Sized Entities are general purpose financial reporting frameworks.

**Special purpose framework** – A financial reporting framework designed to meet the financial information needs of specific users. The financial reporting framework may be a fair presentation framework or a compliance framework.

Special purpose frameworks usually are based on specific terms of any agreement or may also be provided in the accounting policies of financial statements. While expressing opinion on financial information the auditor is required to specify in his / her report the purpose of the preparation of the financial information, identity of the user of such information and include a matter of emphasis to alert the users that these are prepared in accordance with a special purpose framework and may not be suitable for another purpose.

#### 2.4. Fair presentation framework vs compliance framework

The term ‘fair presentation framework’ is used to refer to a financial reporting framework that requires compliance with the requirements of the framework and:

- a) Acknowledges explicitly or implicitly that to achieve fair presentation of the financial statements, it may be necessary for management to provide disclosures beyond those specifically required by the framework; or
- b) Acknowledges explicitly that it may be necessary for management to depart from a requirement of the framework to achieve fair presentation of the financial statements. Such departures are expected to be necessary only in extremely rare circumstances.

The term ‘compliance framework’ is used to refer to a financial reporting framework that requires compliance with the requirements of the framework, but does not contain the acknowledgements in (a) or (b) above.



In case fair presentation framework is used the auditor in its opinion on the financial statements will state the phrase ‘have been fairly stated’ whereas in case of compliance framework the opinion will make statement ‘have been prepared in accordance with’.

## 2.5. Assurance engagements other than audits or reviews of historical financial information

Assurance may also be required in respect of various matters that are not historical financial information. These include reporting on internal controls, sustainability reporting etc. IAASB has issued standards which addresses such situations. These assurance standards provide basic principles and essential procedures for the auditors in the performance of such engagements. The International Standards on Assurance Engagements (ISAEs) series 3000 deals with ‘Assurance engagements other than audits or reviews of historical financial information’. Under these standards the same types of assurance is provided i.e reasonable or limited assurance that are explained above.

## 2.6. Non-assurance standards

There may be situations where company does not require audit, review or assurance engagement. In such situations, following two types of services can be offered by the chartered accountant in practice:

**Agreed upon procedures:** An engagement in which an auditor is engaged to carry out those procedures of an audit to which the auditor, the entity and any appropriate third parties have agreed to report on factual findings.

Key features of agreed-upon procedures include agreement of engaging party and other third parties, no conclusion is expressed by the auditor either explicitly or implicitly, the users assess for themselves the procedures and factual findings of the report and draw their own conclusions, and the users of the agreement acknowledge their agreement to the procedures and their acceptance of sufficiency and appropriateness. The report is restricted to those parties that have agreed to the procedures to be performed since others, unaware of the reasons for the procedures may misinterpret the results.

**Compilation:** The auditor compiles the information to assist the management. The engagement involves the management (who is also the primary beneficiary) and the auditor. The auditor is engaged to prepare information, rather than to audit information prepared by someone else. For example, an accountancy firm may be engaged to prepare a tax computation for a client.

## 2.7. Certification

There are a number of instances where certification of information by the auditors, financial or otherwise, is required under the local legislation or agreements, for example certificates under Companies (Issue of Capital) Rules, 1996, Foreign Exchange Manual etc. In certain cases the wording of such certificates is also prescribed e.g. in case of dividend remittance to non-resident shareholders under foreign exchange laws. However, at present there is no specific framework which deals with the meaning and responsibilities relating to certificates. In practice there are varied types of certificate wording used in complying with the provision of certificates.

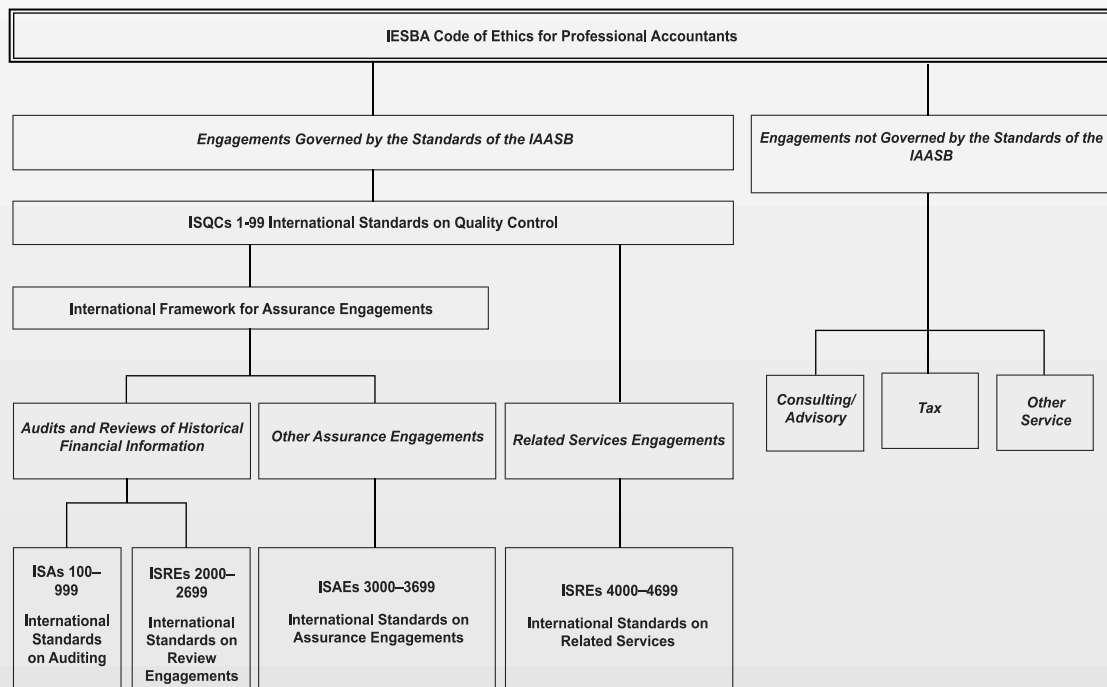
## 2.8. Consulting/ Advisory

Not all engagements performed by an auditor are assurance or related services. Other frequently performed engagements that are neither assurance engagements nor related services include:

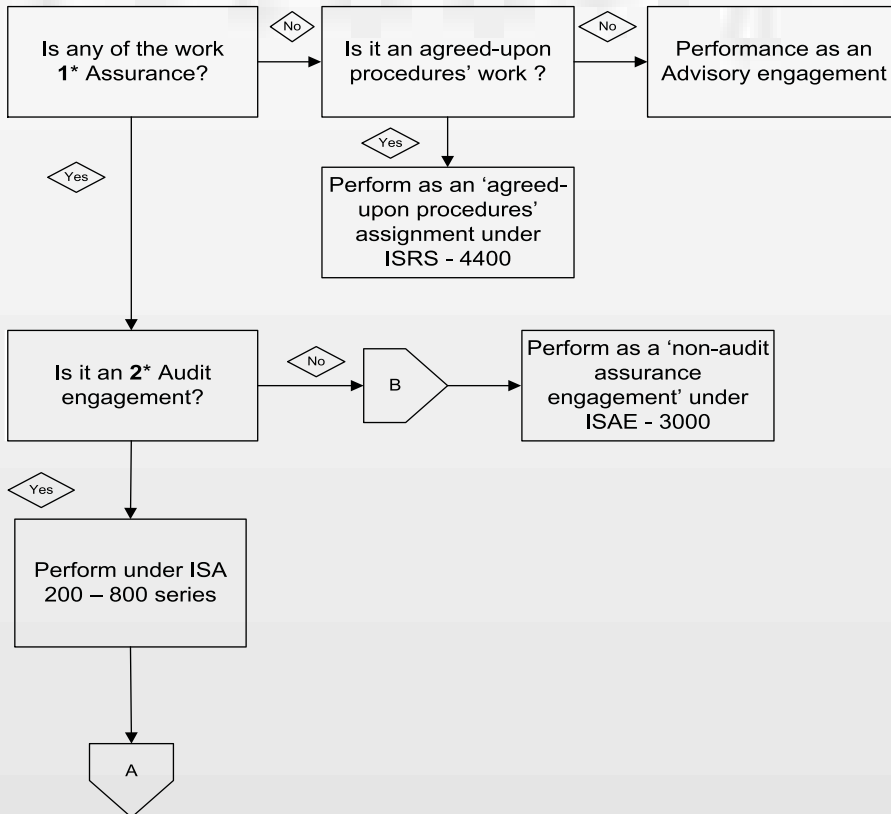
- The preparation of tax returns where no assurance conclusion is expressed
- Consulting (or Advisory) engagements, such as management and tax consulting
- Engagements to testify in legal proceedings regarding accounting, auditing, taxation or other matters
- Engagements that include professional opinions, views or wording from which a user may derive some assurance, if all of the following apply:
  - i. Those opinions, views or wording are merely incidental to the overall engagement;
  - ii. Any written report issued is expressly restricted for use by only the intended users specified in the report;
  - iii. Under a written understanding with the specified intended users, the engagement is not intended to be an assurance engagement; and
  - iv. The engagement is not represented as an assurance engagement in the professional accountant's report.

## 3. APPLICABILITY OF DIFFERENT STANDARDS AND FRAMEWORKS – FLOW CHARTS

The following flowcharts illustrate the different situations in which the above services, standards and frameworks are applicable:



## Identification and performance of Assurance work



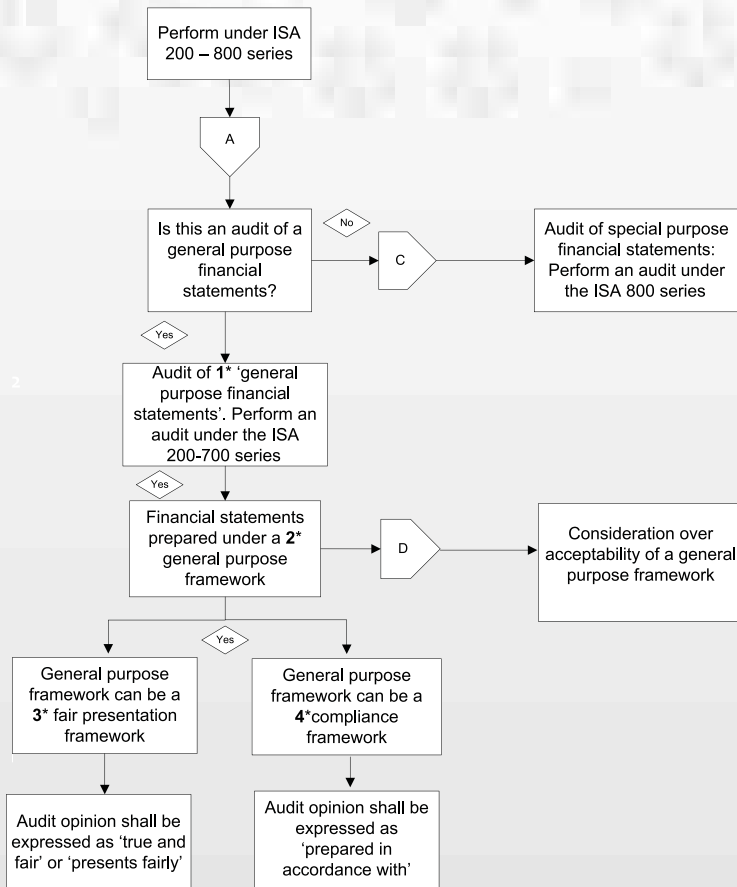
### 1\* Assurance

'Assurance engagement' means an engagement in which a practitioner expresses a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the evaluation or measurement of a subject matter against criteria.

### 2\* Audit

Audit is an independent examination of historical financial information with an objective of expressing an opinion as to whether the historical financial information is free from material misstatement. The level of assurance expressed in the case of an audit is reasonable and not absolute.

## General Purpose Financial Statements



### 1\* General purpose financial statements

Financial statements are prepared in accordance with a general purpose framework.

### 2\* General purpose framework

A financial reporting framework designed to meet the common financial information needs of a wide range of users. The financial reporting framework may be a 'fair presentation framework' or a 'compliance framework'.

### 3\* Fair presentation framework

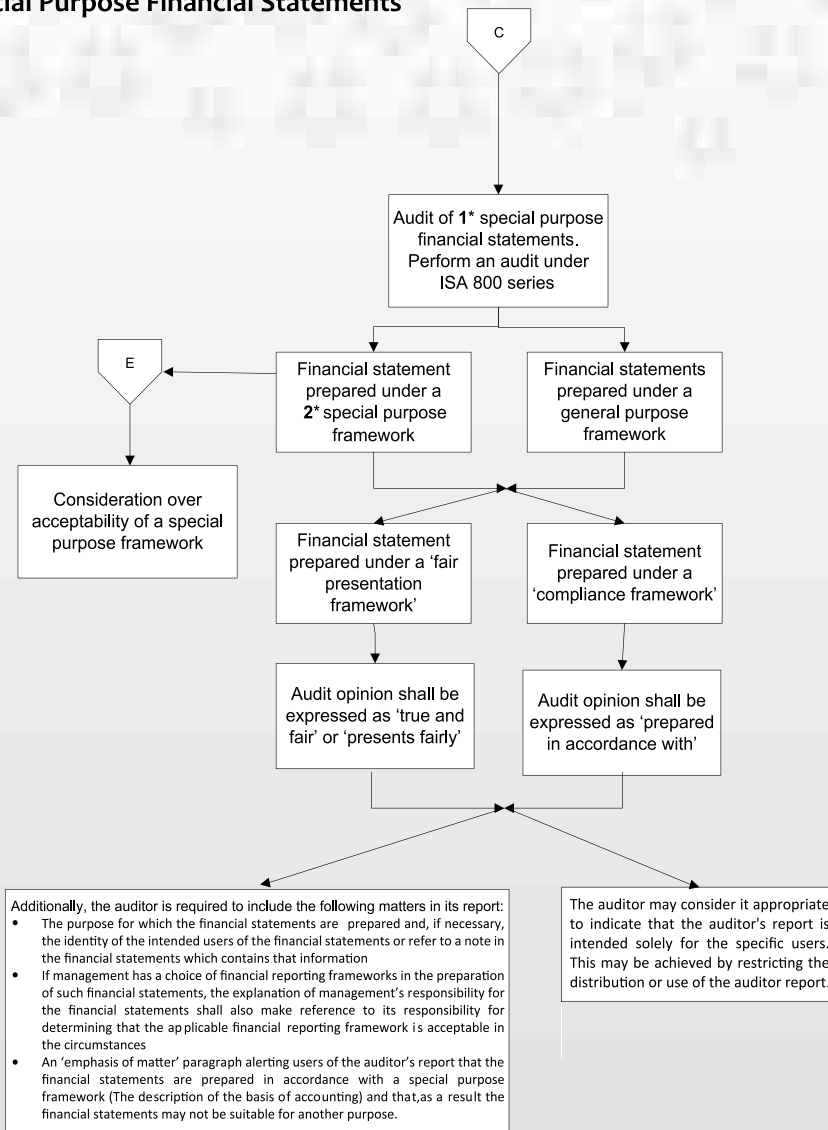
The term 'fair presentation framework' is used to refer to a financial reporting framework that requires compliance with the requirements of the framework and

- (i) acknowledges explicitly or implicitly that to achieve a fair presentation of the financial statements, it may be necessary for management to provide disclosures beyond those specifically required by the framework; or
- (ii) acknowledges explicitly that it may be necessary for management to depart from a requirement of the framework to achieve fair presentation of the financial statements. Such departures are expected to be necessary only in extremely rare circumstances.

### 4\* Compliance framework

The term 'compliance framework' is used to refer to a financial reporting framework that requires compliance with the requirements of the framework, but does not contain the acknowledgements as referred to in 3 (i) or (ii) above.

## Special Purpose Financial Statements



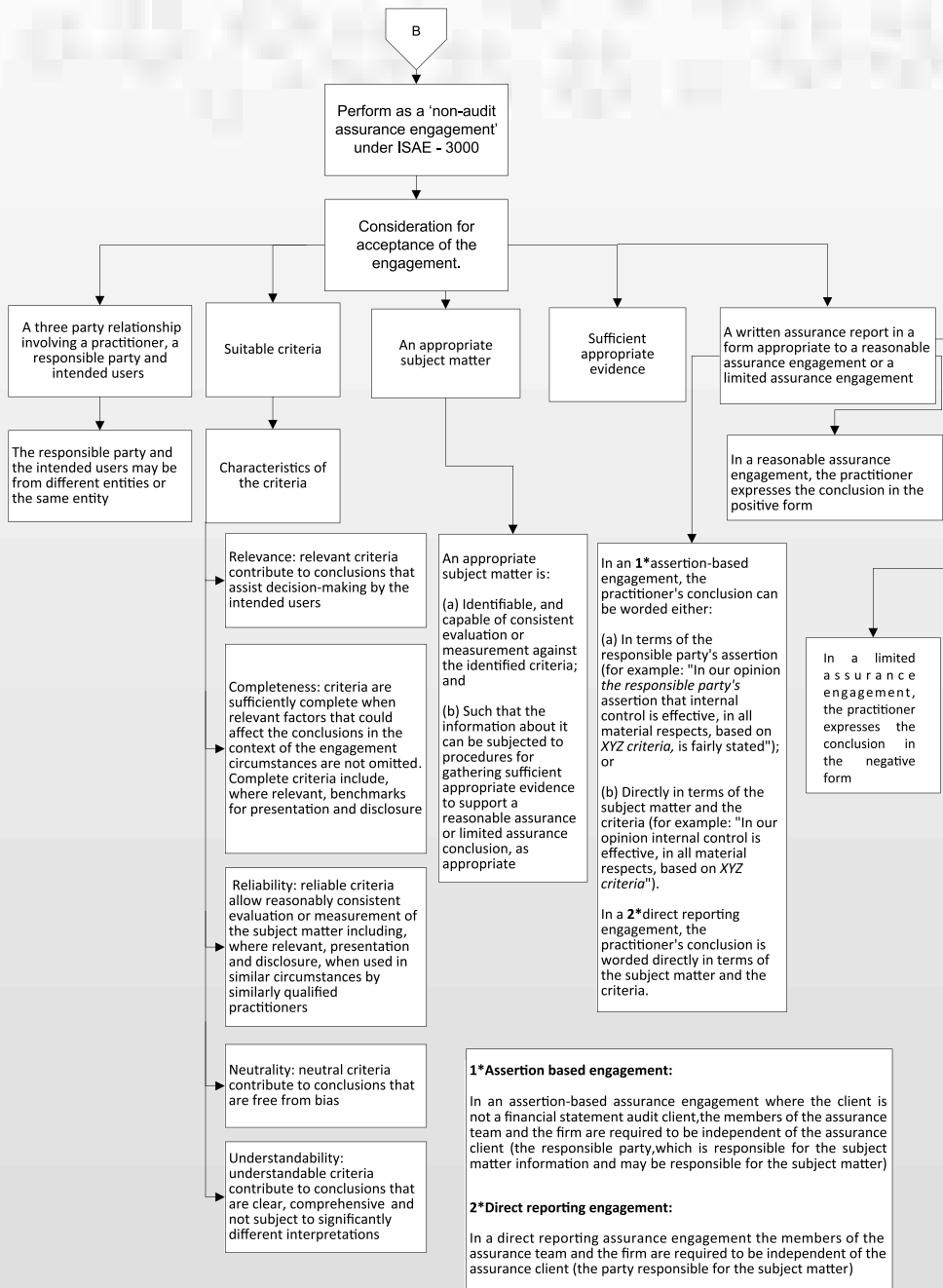
### 1 \* Special purpose financial statements

Financial statements prepared in accordance with a special purpose framework.

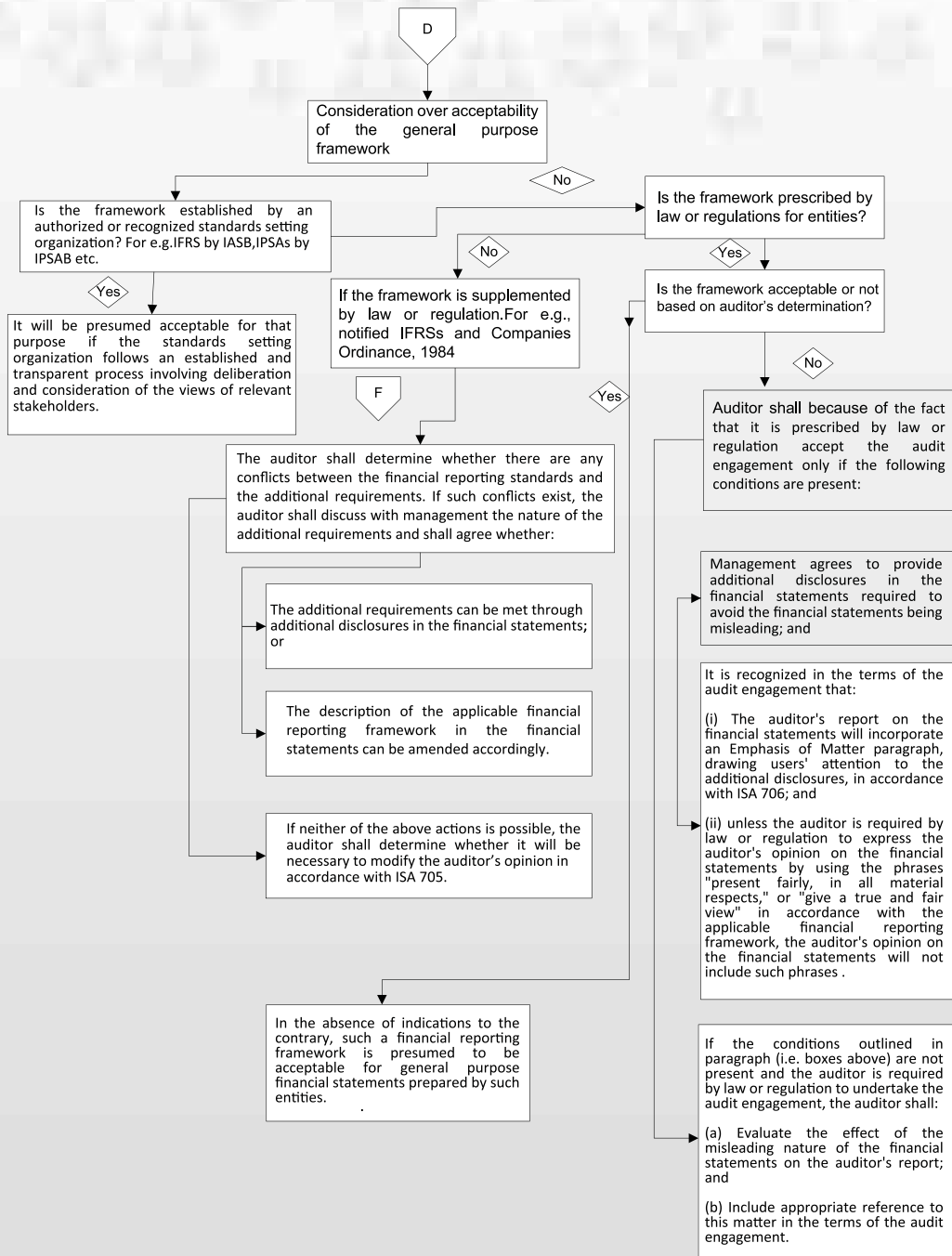
### 2 \* Special purpose framework

A financial reporting framework designed to meet the financial information needs of specific users. The financial reporting framework may be a fair presentation framework or a compliance framework.

## Assurance Engagements

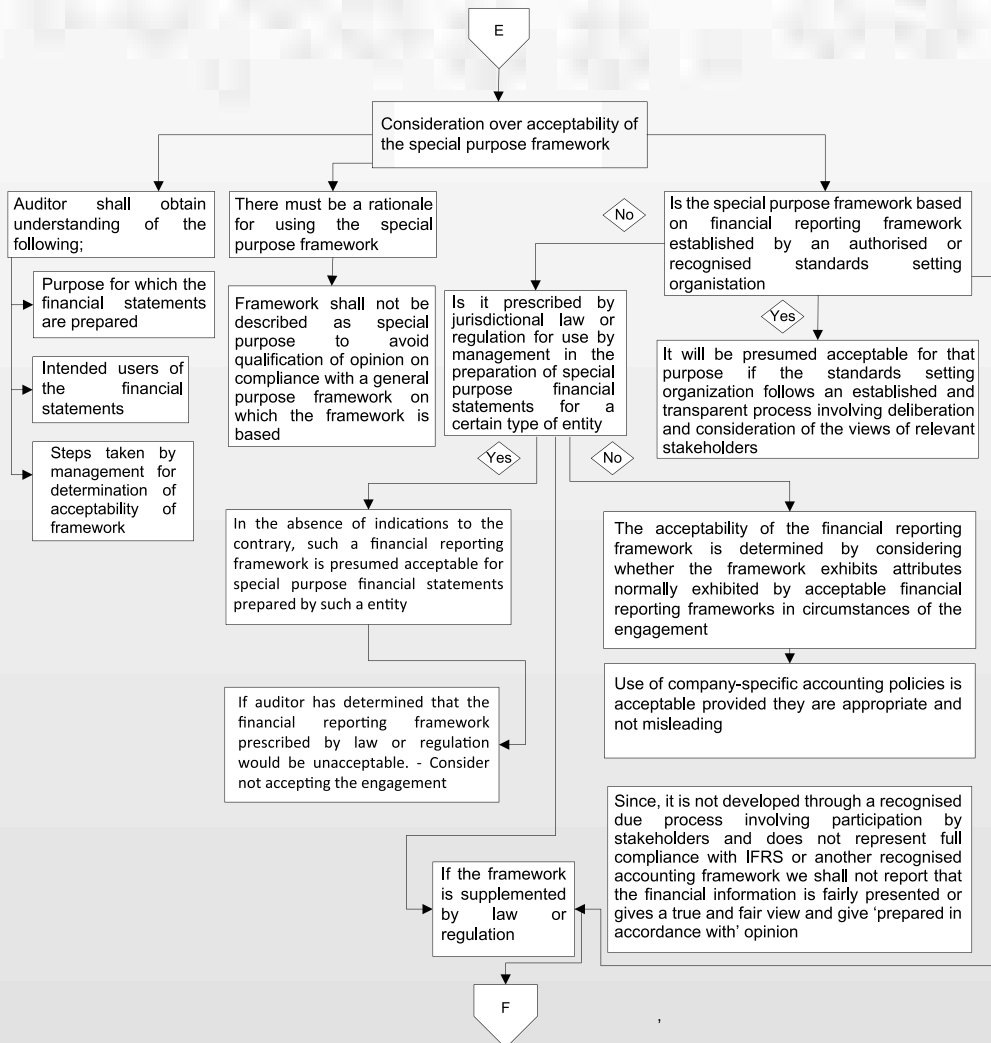


## Acceptability of a General Purpose Framework





## Acceptability of a Special Purpose Framework



### Examples of Special Purpose Framework :

- A tax basis of accounting for a set of financial statements that accompany an entity's tax return;
- The cash receipts and disbursements basis of accounting for cash flow information that an entity may be requested to prepare for creditors;
- The financial reporting provisions established by a regulator to meet the requirements of that regulator; or
- The financial reporting provisions of a contract, such as a bond indenture, a loan agreement or a project grant.

## 4. DETAILED EXPLANATION OF PROFESSIONAL SERVICES - ASSURANCE

### 4.1. Audits of historical financial information

#### I. Overall objective of the auditor

The objective of an audit of financial statements is to enable the auditor to express an opinion whether the financial statements are prepared or presented fairly, in all material respects, (or give a true and fair view) in accordance with an applicable financial reporting framework.

Material respects is defined as reasonable assurance that the financial statements are free from material misstatements.

Reasonable assurance is a high but not absolute level of assurance.

Misstatement is a difference between the amounts, classification, presentation, or disclosure of a reported financial statement item and the amount, classification, presentation or disclosure that is required for the item to be in accordance with the applicable financial reporting framework. Misstatements can arise from error or fraud and may result from:

- a. An inaccuracy in gathering or processing data from which the financial statements are prepared;
- b. An omission of an amount or disclosure;
- c. An incorrect accounting estimate arising from overlooking or clear misinterpretation of facts; or
- d. Management's judgments concerning accounting estimates that the auditor considers unreasonable or the selection and application of accounting policies that the auditor considers inappropriate.

Applicable financial reporting framework is the financial reporting framework as applicable in Pakistan adopted by management in preparing and presenting the financial statements that is acceptable in view of the nature of the entity and the objective of the financial statements.

#### II. Ethical requirements

The '*Code of Ethics for Chartered Accountants*' (the Code) issued by the ICAP is in three parts:

- Part A – Applicable to all chartered accountants
- Part B – Chartered accountants in practice
- Part C – Chartered accountants in business

Part A of the Code establishes the fundamental principles of professional ethics for chartered accountants and provides a conceptual framework for applying those principles. The fundamental principles with which the chartered accountant is required to comply by are:

- a. Integrity
- b. Objectivity
- c. Professional competence and due care
- d. Confidentiality
- e. Professional behavior

Part B and Part C illustrates how the conceptual framework contained in Part A is to be applied by chartered accountants in practice and those in business respectively.

In case of an assurance engagement in the public interest, it is required by the Code that member of the assurance team, firms and when applicable network firms be independent of assurance clients.

### III. Relevant standards for compliance / guidance

International Standard on Auditing (ISAs) 200 - 810 gives guidance for the audit of historical financial information. The auditor shall comply with all ISAs relevant to the audit. An ISA is relevant to the audit when the ISA is in effect and the circumstances addressed by the ISA exist.

### IV. Deliverables

The deliverables of an audit of historical financial information must include:

#### a. Audit report

Audit report enhances the credibility of the financial statements and is the most important and the only deliverable of the auditor which is available to the public. ISA 700, 705 and 706 deals with audit reports issued under the general purpose framework while ISA 800, 805 and 810 deals with audit reports issued under a special purpose framework.

In Pakistan, all companies incorporated under the Companies Ordinance, 1984 (the Ordinance) follow the audit format as specified in Form 35A of the Ordinance while banking companies follow Form 35B. For consolidated financial statements, the Ordinance specifies a format under Form 35C. All other companies including retirement funds are to follow the report format specified under ISA 700. ICAP has issued ATR 17 'Auditors' Report to the Trustees / Board of Governors / Management Committee' (Revised - 2015).

## Types of Audit opinion

There are two types of audit opinion, unmodified (or clean) and modified, which should be considered by auditors based on circumstances and sufficiency and appropriateness of audit evidences obtained.

### i. Unmodified (or clean audit) opinion

The unmodified or clean audit opinion is expressed by the auditor when the auditor concludes that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

### ii. Modified audit opinion

There are three types of modified opinions, namely, a qualified opinion, an adverse opinion and a disclaimer of opinion.

The auditor shall modify the opinion in the auditor's report when:

- The auditor concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement; or
- The auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement

The auditor's judgment about the nature of the matter giving rise to the modification, and the pervasiveness of its effects or possible effects on the financial statements, affects the type of opinion to be expressed.

	<b>Auditor's Judgment about the Pervasiveness of the Effects or Possible Effects on the Financial Statements</b>	
Nature of matter giving rise to the modification	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

### **Qualified Opinion**

The auditor shall express a qualified opinion when:

- i. The auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements; or
- ii. The auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, but the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive.

### **Adverse Opinion**

The auditor shall express an adverse opinion when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements.

### **Disclaimer of Opinion**

The auditor shall disclaim an opinion when the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, and the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive.

The auditor shall disclaim an opinion when, in extremely rare circumstances involving multiple uncertainties, the auditor concludes that, notwithstanding having obtained sufficient appropriate audit evidence regarding each of the individual uncertainties, it is not possible to form an opinion on the financial statements due to the potential interaction of the uncertainties and their possible cumulative effect on the financial statements.

### **Scope limitations and their implications**

If the auditor is unable to obtain sufficient appropriate audit evidence due to scope limitations imposed by management and the auditor concludes that the possible effects could be both material and pervasive, the auditor has the following course of action available to him:

- i. Withdraw from the audit and communicate matters relating to the withdrawal with those charged with governance and with the regulators where required

- ii. Where withdrawal is not practicable or possible, issue a disclaimer of opinion

Key differences in the different modified reports discussed above are:

	Qualified	Adverse	Disclaimer
Opening paragraph	Audited	Audited	Engaged
Auditor responsibility paragraph	Obtained audit evidence to provide qualified opinion	Obtained audit evidence to provide adverse opinion	Unable to obtain evidence to form an opinion
Basis of opinion paragraph	Description & amount of qualification (except if impracticable)	Description & amount of qualification	Reason for scope limitation
Opinion paragraph	Except for	Do not give a true and fair view	Do not issue an opinion

For illustrative examples, please refer the appendix of ISA 705 ‘Modifications to the opinion in the independent auditor’s report’.

### Emphasis of matter and other matter paragraph

Certain circumstances require the auditor to draw the attentions of the users to significant matters which although are presented and disclosed in the financial statements, are of such significant nature that their inclusion in the audit report enhances the understanding of the users. The inclusion of an emphasis of matter paragraph or other matter paragraph does not affect the auditor’s opinion.

An Emphasis of Matter paragraph does not construe qualified opinion.

**Emphasis of Matter paragraph** – A paragraph included in the auditor’s report that refers to a matter appropriately presented or disclosed in the financial statements that, in the auditor’s judgment, is of such importance that it is fundamental to users’ understanding of the financial statements.

An emphasis of matter paragraph shall be:

- Included right after the opinion paragraph
- Shall give a clear reference to the matter being emphasized and its disclosure in the financial statements
- Indicate that the auditor’s opinion is not modified in respect of the matter emphasized.

Examples of circumstances where the auditor feels a matter of emphasis is necessary:

- An uncertainty relating to the future outcome of exceptional litigation or regulatory action.
- Early application (where permitted) of a new accounting standard (for example, a new International Financial Reporting Standard) that has a pervasive effect on the financial statements in advance of its effective date.
- A major catastrophe that has had, or continues to have, a significant effect on the entity's financial position.

Certain ISAs specifically require the inclusion of an emphasis of matter paragraph. These are:

- ISA 210, 'Agreeing the Terms of Audit Engagement' - paragraph 19(b)
- ISA 560, 'Subsequent Events' – paragraph 12(b) and 16
- ISA 570, 'Going Concern' – paragraph 19
- ISA 800, 'Special Considerations' – Audits of Financial Statement prepared in accordance with Special Purpose Frameworks – paragraph 14

For illustrative examples of emphasis of matter paragraph in an audit report please refer Appendix 3 of ISA 706 '*Emphasis of Matter Paragraph and Other Matter Paragraph in the Independent Auditor's Report*'.

**Other Matter paragraph** – A paragraph included in the auditor's report that refers to a matter other than those presented or disclosed in the financial statements that, in the auditor's judgment, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.

The content of the other matter paragraph should clearly state that such information is not required to be presented and disclosed in the financial statements. The placement of the other matter paragraph depends on the nature of the information to be communicated. If the purpose is to draw the user's attention to matters relevant to their understanding of the audit of the financial statements, then it is included immediately after the opinion paragraph and any emphasis of matter paragraph.

Certain ISAs specifically require the inclusion of other matter paragraph. These are:

- ISA 560, 'Subsequent Events' – paragraphs 12(b) and 16
- ISA 710, 'Comparative Information – Corresponding Figures and Comparative Financial Statements' – paragraphs 13–14, 16–17 and 19



- ISA 720 'The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements' – paragraph 10(a)

## **b. Management Letter**

Matters relevant to the audit engagement must be communicated with those charged with governance on a timely basis irrespective of the size and structure of the audit client. The requirements for communication with those charged with governance are intended to be scalable. For example, when auditing smaller entities, the auditor may communicate in a less structured manner with those charged with governance than when auditing listed or larger entities.

The auditor's responsibility in relation to the audit and the requirement for independence for listed entities may be communicated at the start of the engagement while significant findings from the audit along with deficiencies in internal control are typically communicated towards the end of the audit engagement through a Management Letter

ISA 265 'Communicating Deficiencies in Internal Control to Those Charged with Governance and Management', details the auditor's responsibility in appropriately communicating the deficiencies identified during the audit.

Deficiency in internal control exists when:

- A control is designed, implemented or operated in such a way that it is unable to prevent, or detect and correct, misstatements in the financial statements on a timely basis; or
- A control necessary to prevent, or detect and correct, misstatements in the financial statements on a timely basis is missing.

The auditor may include the following in the Management Letter:

- i. A description of the deficiencies and an explanation of their potential effects. In explaining the potential effects of the significant deficiencies, the auditor need not quantify those effects. The significant deficiencies may be grouped together for reporting purposes where it is appropriate to do so. The auditor may also include suggestions for remedial action on the deficiencies, management's actual or proposed responses, and a statement as to whether or not the auditor has undertaken any steps to verify whether management's responses have been implemented



- ii. Sufficient information to enable those charged with governance and management to understand the context of the communication. In particular, the auditor shall explain that:
- The purpose of the audit was for the auditor to express an opinion on the financial statements;
  - The audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control; and
  - The matters being reported are limited to those deficiencies that the auditor has identified during the audit and that the auditor has concluded are of sufficient importance to merit being reported. It may be indicated that if more extensive procedures had been performed on internal control, the auditor might have identified more deficiencies to be reported, or concluded that some of the reported deficiencies need not, in fact, have been reported.

The auditor should not report in writing that no significant deficiencies were discovered during an audit of financial statements because of the potential that the limited degree of assurance associated with such a report will be misunderstood.

When timely communication is important, the auditor should communicate the deficiencies identified during the course of the audit rather than at the end of the engagement. The decision about whether to issue an interim communication should be determined based on the relative significance of the matters noted and the urgency of corrective follow-up action required.

Appendix 1 of ISA 260 'Communication with Those Charged with Governance' lists down the specific requirements in others ISAs where communication with those charges with governance is required.

Topic	ISA
Fraud	ISA 240 – paragraphs 21, 38(c)(i) and 40-42
Non compliance with laws and regulations	ISA 250 – paragraphs 14, 19 and 22-24
Significant deficiencies in internal controls	ISA 265 – paragraph 9
Uncorrected misstatements	ISA 450 – paragraphs 12-13
Refusal to allow external confirmations	ISA 505 – paragraph 9
Misstatements in opening balances	ISA 510 – paragraph 7
Transactions with related parties	ISA 550 – paragraph 27
Subsequent events	ISA 560 – paragraphs 7(b)-(c), 10(a), 13(b), 14(a) and 17
Going concern	ISA 570 – paragraph 23
Findings from the group audit	ISA 600 – paragraph 49
Planned use of the internal audit function	ISA 610 – paragraph 18
Modifications in the audit report	ISA 705 – paragraphs 12, 14, 19(a) and 28
Inclusion of emphasis of matter or other matter paragraph	ISA 716 – paragraph 9
Misstatement in prior period financial statements audited by another firm of chartered accountants	ISA 710 – paragraph 18
Misstatement in other information in documents containing the financial statements	ISA 720 – paragraphs 10, 13 and 16

## 4.2. Review of historical financial information

The review of historical financial statements is a limited assurance engagement.

International Standard on Review Engagement (ISRE) 2400 ‘Engagements to review financial statements’ and ISRE 2410 ‘Review of interim financial information’ give guidance on review engagements.

### I. Objective

#### Review of historical financial information

The objectives in a review of financial statements under ISRE 2400 are to:

- Obtain limited assurance, primarily by performing inquiry and analytical procedures, about whether the financial statements as a whole are free from material misstatement, thereby enabling the auditor to express a conclusion on whether anything has come to the auditor’s attention that causes the auditor to believe the financial statements are not prepared, in all material respects, in accordance with an applicable financial reporting framework; and

- Report on the financial statements as a whole.

ISRE 2400 does not address a review of an entity's financial statements or interim financial information performed by an auditor who is the independent auditor of the entity's financial statements.

### **Review of interim financial information**

The objective of an engagement to review interim financial information is to enable the auditor to express a conclusion whether, on the basis of the review, anything has come to the auditor's attention that causes the auditor to believe that the interim financial information is not prepared, in all material respects, in accordance with an applicable financial reporting framework. The auditor makes inquiries, and performs analytical and other review procedures in order to reduce to a moderate level the risk of expressing an inappropriate conclusion when the interim financial information is materially misstated.

The objective of a review of interim financial information differs significantly from that of an audit conducted in accordance with ISAs. A review of interim financial information does not provide a basis for expressing an opinion whether the financial information gives a true and fair view, or is presented fairly, in all material respects, in accordance with an applicable financial reporting framework.

A review, in contrast to an audit, is not designed to obtain reasonable assurance that the interim financial information is free from material misstatement. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review may bring significant matters affecting the interim financial information to the auditor's attention, but it does not provide all of the evidence that would be required in an audit.

## **II. Ethical requirements**

The auditor shall comply with relevant ethical requirements, including those pertaining to independence.

## **III. Reports**

The review report is either modified or unmodified. Modified reports include qualified, adverse and disclaimer of opinion. For details refer section under audit reports.

For illustrative review reports please refer Appendix 2 of ISRE 2400 and Appendix 4 and 5 of ISRE 2410.

#### 4.3. Assurance engagements other than audit and review of historical financial information

Besides audit and review of historical financial information, firms provide assurance on other subject matters. Non Audit Assurance Engagements are assurance engagements which are not audits or reviews of historical financial information. The IAASB standard dealing with such engagements is ISAE 3000. There are other standards in the 3000 series which deal with certain specific subjects as providing report on the controls at a third party, greenhouse gas statement, examination of prospective financial information, and pro forma financial statements in a prospectus.

ISAE 3000 is a very flexible standard, so there is a wide variety of possible underlying subject matters and surrounding circumstances. Examples of possible subject matters may include:

##### **Social impact**

- o Compliance with national laws
- o Sustainability reporting
- o Health and safety, for example, vaccination programs
- o Provision of a minimum wage

##### **Brand impact**

- o Compliance with data protection requirements
- o Business continuity process
- o Incident reporting system

The assurance report should include the following basic elements:

- (a) A title that clearly indicates the report is an independent assurance report.
- (b) An addressee.
- (c) An identification and description of the subject matter information and, when appropriate, the subject matter.
- (d) Identification of the criteria.
- (e) Where appropriate, a description of any significant, inherent limitation associated with the evaluation or measurement of the subject matter against the criteria.
- (f) When the criteria used to evaluate or measure the subject matter are available only to specific intended users, or are relevant only to a specific purpose, a statement restricting the use of the assurance report to those intended users or that purpose.

- (g) A statement to identify the responsible party and to describe the responsible parties and the auditor's responsibilities.
- (h) A statement that the engagement was performed in accordance with ISAEs.
- (i) A summary of the work performed.
- (j) The auditor's conclusion.

Where appropriate, the conclusion should inform the intended users of the context in which the auditor's conclusion is to be read.

In a reasonable assurance engagement, the conclusion should be expressed in the positive form.

In a limited assurance engagement, the conclusion should be expressed in the negative form.

Where the auditor expresses a conclusion that is other than unqualified, the assurance report should contain a clear description of all the reasons.

- (k) The assurance report date.
- (l) The name of the firm or the auditor, and a specific location, which ordinarily is the city where the auditor maintains the office that has responsibility for the engagement.

The IAASB in December 2013 made revision to ISAE 3000 'Assurance Engagements other than audits or reviews of historical financial statements' and along with that revised the 'International Framework for Assurance Engagements' and made related amendments in other relevant IAASB Standards. These revisions are effective for assurance reports dated on or after December 15, 2015. The above details are however based on the existing applicable standards.

## 5. INTERNATIONAL STANDARDS ON RELATED SERVICES

There are a wide array of services to meet the various needs of their clients which are not assurance, however for which IAASB has issued specific standards. These services broadly fall in the following categories:

1. Agreed upon procedures
2. Compilation

### 5.1. Agreed upon procedures

In agreed upon procedures, the auditor is engaged to carry out specified procedures of audit nature on which the auditor, entity and appropriate third parties have agreed. In Agreed upon procedures the auditor is to report on factual findings. As this is not an assurance therefore no conclusion is drawn. Using these factual findings concerned parties draw their own conclusions. The report is restricted to those parties who have agreed to the procedures to be performed since others who are unaware of the reasons for the procedures may misinterpret the results.

The auditor is required to comply with Code of Ethics. Ethical principles for this type of engagement are integrity, objectivity, competence and due care, confidentiality professional behaviour and technical standards. Independence is not a requirement for agreed upon procedures except required by the terms of engagement or law or regulation. In this case a statement to that effect would be made in the report of factual findings. Auditor is further required to conduct agreed upon procedures in accordance with ISRS 4400 and terms of engagement.

The terms of engagement include the purpose of engagement, nature, timing and extent of specific procedures, identification of financial information to which agreed upon procedures will be applied etc.

The auditor should plan and document the work done that provides evidence to support the factual findings. The procedures may include inquiry and analysis, observation inspection and obtaining confirmations.

Agreed upon procedures also enhance credibility of information provided to third parties such as banks, regulatory bodies, prospective investors or prospective purchases.

## 5.2. Compilation

Compilation engagements are where the auditor is engaged to assist management with the preparation and presentation of historical financial information without providing any assurance on that information and to report on the engagement in accordance with ISRS 4410 'Compilation Engagements'.

Compilation requires 'understanding of the entity' beforehand, but at the same time it's nothing like 'assurance and audit', hence it's a service provided between these two processes.

### Objective

The objective of compilation is to collect, classify and summarise the subject matter as per applicable framework, and rearranging of financial data into financial statements. The auditor shall use the expert knowledge and standards to compile it and subsequently issue a compilation report. Compilation reduces details into an understandable and manageable form.

### Considerations

While compiling historical financial information the auditor shall follow the guidance of ISRS 4410. It states:

- Plan, document and understand the entity.
- Like assurance and agreed upon procedures, compilation also requires compliance with the applicable code of ethics, as users do derive benefit from this report.
- Independence is not of the essence in compilation unless terms of engagement may require.
- Terms of engagement or law may require auditor to perform as per other than ISRS 4410.
- If ISRS 4410 is not complied then it should not be stated to have been complied with. But the standard should be followed to the furthest extent.

### ISRS 4410 requirements

Engagement letter should agree:

- Nature of engagement and that it does not involve audit
- Purpose of compilation engagement
- The applicable reporting framework
- Responsibilities of auditor and management. Management has to ensure accuracy and completeness of information



- Limitations on use and distribution of report, if any
- Compilation cannot be relied upon for detecting errors and frauds.
- Nature of information and basis of accounting
- Form of report.

### Contingencies

- If misstatements are identified, they should be agreed with management and corrected, otherwise auditor may withdraw.
- Auditor will not perform inquiry or internal control testing unless incorrect or incomplete information is provided.
- If no additional information for the incomplete information is given, auditor may withdraw.

### Content of Report

- report title;
- addressee(s), as required by the terms of the engagement;
- statement that the auditor has compiled the financial information based on information provided by management;
- description of the responsibilities of management in relation to the compilation engagement, and in relation to the financial information;
- Identification of the applicable financial reporting framework and, if a special purpose financial reporting framework is used, a description or reference to the description of that special purpose financial reporting framework in the financial information;
- Identification of the financial information, including the title of each element of the financial information if it comprises more than one element, and the date of the financial information or the period to which it relates;
- description of the auditor's responsibilities in compiling the financial information, including that the engagement was performed in accordance with this ISRS, and that the auditor has complied with relevant ethical requirements;
- A description of what a compilation engagement entails in accordance with this ISRS;



- (i) Explanations that: Since a compilation engagement is not an assurance engagement, the auditor is not required to verify the accuracy or completeness of the information provided by management for the compilation; and
  - (ii) Accordingly, the auditor does not express an audit opinion or a review conclusion on whether the financial information is prepared in accordance with the applicable financial reporting framework.
- If the financial information is prepared using a special purpose financial reporting framework, an explanatory paragraph that:
    - (i) Describes the purpose for which the financial information is prepared and, if necessary, the intended users, or contains a reference to a note in the financial information that discloses this information; and
    - (ii) Draws the attention of readers of the report to the fact that the financial information is prepared in accordance with a special purpose framework and that, as a result, the information may not be suitable for other purposes;
  - date of the auditor's report;
  - auditor's signature; and
  - auditor's address.

## 6. COMPARATIVE CHART OF ASSURANCE AND RELATED SERVICES

To ensure that the best service is provided to the client, it is very important to identify the need to engage an auditor and the form of deliverables the client is expecting. The differences in the first three services mentioned above are discussed in light of various standards below.

	Assurance	Agreed upon procedures	Compilation
Types of engagement	<p>A few common examples are:</p> <ol style="list-style-type: none"> <li>1. Examination of prospective financial statements</li> <li>2. Report on CSR Framework</li> <li>3. Review of compliance with CCG</li> </ol>		Preparation of financial statements
Objective of the engagement	To express a conclusion designed to enhance the degree of confidence of the intended users about the outcome of the evaluation or measurement of a subject matter against a suitable criteria	To report on factual findings based on procedures agreed with the engaging parties. The users of the report draw their own conclusion from the auditor's work	To prepare and present financial information in accordance with the financial reporting framework based on information provided by management
Parties to the engagement	The auditor, the responsible party and the intended user. For an assurance engagement, a three party relationship needs to be present. The responsible party and the intended users may be from the same entity. For e.g. the responsible party can be the management and the intended users can be those charged with governance	The auditor and all the parties who agree to the procedures	The auditor and the engaging party which is the management

	Assurance	Agreed upon procedures	Compilation
Users	The user is the third party who will rely on the report issued by the auditor in making strategic decisions	The user is the party engaging the auditor	The user is the management which has appointed the auditor to perform the service
Elements/ considerations for the engagement	<p>Before accepting the engagement the auditor should ensure that:</p> <ul style="list-style-type: none"> <li>• Relevant ethical requirements including independence and professional competence are satisfied</li> </ul> <p>The following elements are met:</p> <ul style="list-style-type: none"> <li>• A three party relationship</li> <li>• An appropriate subject matter</li> <li>• The criteria to be used is suitable</li> <li>• The auditor has access to sufficient appropriate evidence to support the conclusion</li> <li>• The conclusion is in the form of a written report</li> </ul>	<p>Before accepting the engagement the auditor should ensure that:</p> <ul style="list-style-type: none"> <li>• The engaging party is aware that the procedures performed will not constitute an audit or a review and accordingly no assurance will be expressed</li> <li>• The stated purpose of the engagement is identified</li> <li>• The information to which the agreed-upon procedures will be applied are identified</li> <li>• The nature, timing and extend of the procedures to be applied are agreed upon</li> <li>• The form of the factual findings report is communicated with the engaging party</li> </ul>	<p>Before accepting the engagement the auditor should ensure that:</p> <ul style="list-style-type: none"> <li>• The objective and scope of the engagement is identified</li> <li>• The applicable financial reporting framework is identified</li> <li>• The intended use and distribution of the report is agreed upon</li> <li>• The responsibilities of the engaging party and the auditor are identified</li> <li>• The expected form and content of the auditor's report is agreed upon</li> </ul>
Ethical requirements	The auditor should comply with the Code of Ethics for Professional Accountants including independence.	<p>The auditor should comply with the Code of Ethics for Professional Accountants.</p> <p>Independence is not a requirement for agreed upon procedures.</p>	<p>The auditor should comply with the Code of Ethics for Professional Accountants.</p> <p>Independence is not a requirement for compilation engagements.</p>

	Assurance	Agreed upon procedures	Compilation
Relevant standards for compliance / guidance	International Standards on Assurance Engagements (ISAE).	International Standards on Related Services (ISRS) 4400 'Engagement to perform agreed-upon procedures.' This standard also provides useful guidance for engagements regarding non financial information.	ISRS 4410 'Engagement to Compile Financial Statements.'
Deliverables	Assurance report depending on whether it's a reasonable assurance engagement or a limited assurance engagement.	The report on an agreed-upon procedures engagement needs to describe the purpose and the procedures applied in sufficient detail to enable the reader to understand the nature and extend of the work performed. No conclusion or opinion is expressed. The users of the report draw their own conclusion from the auditor's work. The report should restrict access / distribution to the intended users only.	The compilation report clearly states the nature of the engagement and the auditor's responsibilities in the engagement. No conclusion or opinion is expressed.

## 7. CONSULTING/ ADVISORY SERVICES

Provision of expert advice is termed as Consultancy. In a consulting engagement, the auditor applies technical skills, education, observations, experiences and knowledge. Consulting engagements entail an analytical process that typically involves some combination of activities relating to:

- objective-setting;
- fact-finding;
- definition of problems or opportunities;
- evaluation of alternatives;
- development of recommendations including actions;
- communication of results; and
- implementation and follow-up (if required).

Reports (if issued) are generally written in a narrative (“long form”) style. Generally the work performed is only for the use and benefit of the client. The nature and scope of work is determined by agreement between the auditor and the client. Any service that meets the definition of an assurance engagement is not a consulting engagement but an assurance engagement.

Consultancy relates to design and development of new methods, approaches and strategies for an organization.

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