

# SPOT ON!

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## Auditing Updates

### ***ISA 720 (Revised), The Auditor's Responsibilities Relating to Other Information***

In recent past, great amount of detailed information has become part of corporate reporting.

Organizations are also making diverse use of documents other than annual reports for external communication purpose such as, management reports, statements on corporate governance or on internal control and risk assessments. Work is being done to explore ways to better integrate information in financial

statements, Management's Discussion and Analysis (MD&A), and other reporting areas.

Therefore, IAASB in order to ensure that ISA 720 appropriately reflects today's detailed financial reporting requirement and meet user's expectations and auditor's responsibilities, revised the ISA. IAASB sought to;

- ❖ Improve audit quality by bringing greater consistency in the diverse range of OI;
- ❖ Increase the value of the audit, through enhancing the auditor's responsibilities with respect to the OI; and
- ❖ Improve transparency by explicating auditor's responsibilities in their reports under the ISA 720 (Revised) and the outcome of their work relative to the OI.

Where there is a material inconsistency between the OI and the financial statements, the auditor is required to compare selected amounts or other items in the OI with such amounts or other items in the financial statements. The auditor's report will always include a separate Other Information section when the auditor has obtained some or all of the OI as of the date of the auditor's report.

Main Revisions in Scope and Auditor's Work Effort ISA 720 (Revised) applies to "Other Information." Other Information is financial or non-financial information (other than financial statements and the auditor's report thereon) included in annual report. An Annual Report is prepared on annual basis by management or TCWG in accordance with laws, regulation or customs to

provide stakeholders about the information on entity's operation, financial results and financial position.

This standard is effective for audits of financial statements for period ending on or after December 15, 2016.

### ***Changes to the IESBA Code Addressing Certain Non-Assurance Services Provisions for Audit and Assurance Clients***

***“Auditor independence is foundational to public trust in the external audit,” said IESBA Chairman Dr. Stavros Thomadakis.***

“Auditor independence is foundational to public trust in the external audit,” said IESBA Chairman Dr. Stavros Thomadakis. For this cause, the International Ethics Standards Board for Accountants (IESBA) released final pronouncement “Changes to the Code Addressing Certain Non-Assurance Services Provisions for Audit and Assurance Clients” on April 14, 2015. The changes enhance the independence provisions in the Code of Ethics (the Code) by not permitting auditors to provide certain prohibited non-assurance services to public interest entity (PIE) audit clients in emergency situations, and ensuring that they do not assume management responsibility when providing non-assurance services to audit clients.

### ***Adoption of Clarified ISA 600 ‘Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)’ by ICAP***

Through ICAP circular No.5 /2015, the ICAP Council in its 263rd meeting held on April 4, 2015 approved the applicability of the Clarified ISA 600. This ISA will be effective for audits of financial statements for periods beginning on or after July 1, 2015.

#### ***Objectives of ISA 600***

This standard deals with auditing of group audits which involves component auditors. This standard is also useful when audit involves other auditors that are not group audit. The objectives of ISA 600 are:

- ❖ Determine whether to act as the auditor of the group financial statements; and
- ❖ If acting as group auditor:
  - ❖ Communicate with component auditors about the scope and timing of their work on financial information related to components and their findings; and
- ❖ Obtain sufficient appropriate audit evidence regarding the financial information of components and consolidation process to express an opinion on whether group financial statements are prepared, in all material respects, in accordance with the applicable financial

reporting framework.

### ***Assurance & Related Services Guidance Booklet for Stakeholder’s Awareness***

This Booklet is developed by AuSC for the benefit of members and other stakeholders. It 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 ICAP in order to ensure consistency and enhance the quality of the profession. Members are advised to use this Booklet as a reference guide when selecting type of assurance and related services. The Booklet is in printing stage and will be available from ICAP Facilitation center soon.

### ***Guide for implementation of ISQC 1 for SMPs***

ISQC 1 acknowledges that smaller firms may have more limited internal resources but the standard allows SMPs to customize their firms’ policies keeping in view of their size of firm. Despite this flexibility SMP faces practical difficulties in practical implementation of this standard. SMPs feel that the policies and procedures referred to in ISQC 1 depend upon the various factors such as the size and operating characteristics of the firm but no guidance in respect of the policies and procedures is provided in ISQC 1. SMPs also fear that Human Resource requirement of ISQC 1 are very subjective and in the absence of any clear guidance/standardized documentation this may lead

to confrontation with the reviewer/inspector of the Institute at the time QCR visit to firm.

EQCR and Monitoring are other areas where SMPs faces challenges & major hindrance in full implementation of ISQC 1.

This matter was under debate since long, therefore, the Council considering the practical problems of SMPs, advised the Committee to develop guide for Implementation of ISQC 1. The matter is currently under discussion of the Committee.

# Legal and Regulatory Updates

## *Revised ICAP Code of Ethics for Chartered Accountants 2015*

The existing Code of Ethics was revised in May 2008 and issued to members. The journey of the revised code started since 2009, when International Ethics Standards Board for Accountants (IESBA) of IFAC made major structural changes and introduced new requirements. In order to adopt the revised IESBA Code, the relevant Committee of the Institute took up the review of Codes issued by IESBA from 2009 to 2014 and after an exhaustive study, adopted the latest IESBA Code subject to some changes.

### Key Changes to the Code

- ❖ Split of current section 290 'Independence' into Section 290, dealing with audit and review engagements and Section 291, dealing with other assurance engagements;
- ❖ New and consistent drafting conventions have been adopted throughout the revised Code i.e. the term 'should' has been replaced with 'shall';
- ❖ Enhanced explanation of the Conceptual Framework Approach'. This includes a requirement to apply safeguards, when necessary, to eliminate threats or reduce them to an 'acceptable level';
- ❖ The Code includes a revised description of the 'threats', together with modified examples of circumstances which create threats;
- ❖ Network firms are required to be independent of audit clients of other firms within the network;
- ❖ Requirements and application guidance addressing situations where, as a result of a merger or acquisition, an entity becomes a related entity of an audit client;
- ❖ A new section of Management Responsibilities has been introduced;
- ❖ New terms are defined: 'Public Interest Entities (PIE)', 'Key Audit Partner (KAP)', 'Those Charged with Governance', 'Engagement Team', 'Professional Activity';
- ❖ Extending independence requirements for audits of listed entities to all PIEs;
- ❖ Cooling off period must be met before a KAP or firm Managing Partner joins PIE audit clients as Director, Officer or employee on important position;
- ❖ Extending partner rotation requirements to all PIEs and to all KAPs;
- ❖ Strengthening some of the provisions related to non-assurance services to audit clients;
- ❖ Requiring a pre or post issuance review if total fees from a public interest audit client exceed 15% of the total fees of the firm for two consecutive years;
- ❖ Prohibiting KAPs from being evaluated on or compensated for selling non-assurance services to their audit clients;
- ❖ Provisions relating to conflict of interest situations and addressing breach of a requirement of the Code have been added;
- ❖ In order to avoid duplication, all sections/clauses related to Companies Ordinance 1984, listing regulations and Code of Corporate Governance reproduced anywhere in the ICAP Code of Ethics have now been deleted.



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