SPOT ON!

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Auditing Updates

Addressing Disclosures in the Audit of Financial

Financial statements are becoming progressively more complex, and therefore appropriate, relevant and high-quality disclosures have become increasingly important to users of financial statements. Financial statements are now more likely to include a variety of disclosures, ranging from the more traditional disclosure items to more subjective or explanatory qualitative disclosures. Different financial reporting frameworks may establish diverse disclosure requirements, and preparers may find it necessary to supplement these requirements with additional disclosures in order for the financial statements to achieve fair presentation.

The financial crisis necessitated immediate action to address the quality of financial statement (FS) disclosures. Users rely on the audit to enhance the degree of confidence they place on the financial information contained in FS. Therefore, an improvement in the quality of FS disclosures will enhance the credibility of FS. Following changes provide an overview of revisions in disclosures that took place due to reconsiderations of different ISAs and do not constitute the formation of a new ISA.

Disclosures comprise explanatory or descriptive information, set out as required, expressly permitted or otherwise allowed by the applicable financial reporting framework (AFRF), on the face of a financial statement, or in the notes, or incorporated therein by cross-reference.

Explanatory or descriptive information required to be included in the financial statements by the AFRF may be incorporated therein by cross-reference to information in another document, such as a management report or a risk report. “Incorporated therein by cross-reference" means cross-referenced from the financial statements to the other document, but not from the other document to the financial statements.

Changes for Auditor's Focus

ISAs	CHANGE
ISA 200	Change to definition of financial statements and enhancement to related application material.
ISA 210	New application material – encouraging management to provide information for disclosures earlier in the audit process, such as, include in the engagement letter the responsibilities of management in relation to providing all information relevant to the financial statements in a timely manner.
ISA 240	New application material – considering whether there is intentional misstatement of disclosures that may constitute fraud.
ISA 260 (Revised)	New application material - communicating with those charged with governance regarding financial statements and disclosures earlier in the audit process, such as, discuss with those charged with governance, as well as in the engagement team discussion, the planned approach to addressing changes to the financial reporting requirements, or the entity's environment, financial condition or activities, including the impact on disclosures.
ISA 300	New application material – encouraging auditors to consider disclosures earlier in the audit process, such as, plan for audit procedures for the related disclosures as part of the planned audit procedures for account balances, classes of transactions and events and on disclosures that are not directly related to account balances, classes of transactions or events.
ISA 315 (Revised)	Enhanced requirements and new application material - highlighting the need for attention to information in disclosures obtained from outside of the general and subsidiary ledgers in the planning process. Revised assertions to integrate audit procedures for disclosures with account balances and transactions.
ISA 320	New introductory and application material - emphasizing that materiality needs to be considered for qualitative disclosures.
ISA 330	Enhanced requirements and new application material – strengthened procedures around the reconciliation of the financial statements and consideration of the adequacy of the presentation and disclosure in the financial statements.
ISA 450	New application material – emphasizing that misstatements in disclosures need to be accumulated and evaluated.
ISA 700 (Revised)	Enhanced requirements and new application material - strengthening the audit procedures auditors perform when evaluating the financial statements.
EFFECTIVE DATE: Above mentioned changes are applicable for periods ending on or after December 15, 2016.	

Legal and Regulatory Updates

SECP enforces International Financial Reporting Standards for SMEs & SSEs

On 10 September 2015, the securities and Exchange Commission of Pakistan (SECP) has approved the adoption of International Financial Reporting Standards (IFRS) for Small and Medium Sized Entities (SMEs) and Accounting and Financial Reporting Standards for Small Sized Entities (AFRS for SSEs). **The adoption of IFRS is effective from annual financial periods beginning on or after January 1, 2015.**

Following this, all non-listed public limited companies, which includes in the category of SMEs, are required to file their annual financial statements (AFS) in accordance with the IFRS for SMEs issued by International Accounting Standards Board (IASB). Similarly, all the Small Size Entities (SSEs) are required to prepare their AFS in accordance with Revised AFRS for SSEs issued by ICAP.

The adoption of IFRS for SMEs by the SECP shall enhance the credibility of information by giving additional useful disclosures and comprehensive information. In addition, the public non-listed companies shall either follow the IFRS or IFRS for SMEs only while preparing their AFS.

Annual Statement of Compliance with section 11 & 12 of the Insurance Ordinance, 2000

The SECP vide its letter dated 13 October 2015, requires all registered insurers/takaful operators to furnish the Annual Certificate of Compliance duly signed by the CEO/ Principal Officer along with two directors confirming compliance with the provisions of Section 11 "Conditions imposed on registered insurers" and Section 12 "Criteria for sound and prudent management" on the prescribed format. The certificate is required to be certified by the statutory auditor of the insurer and should be submitted to SECP within 45 days of the date of this letter.

In case if certain requirements of the certificate are not complied within the prescribed period then the same should be stated in the declaration along with reasons for non-compliance. Noncompliance of aforesaid sections will be penalized.

Audited Net Capital Balance Certificate

On 01 July 2015, Karachi Stock Exchange (KSE), issued a letter which require all Trading Right Entitlement Certificate (TREC) holders of KSE to submit their Net Capital Balance Certificate (NCBC) duly audited by a QCR rated practicing Chartered Accountants firm and computed in accordance with Rule 2(d) of the Third Schedule of Securities and Exchange Rule, 1971 and as per Guidelines/ Clarifications attached with the letter. The guidelines provide certain explanation with respect to director's loan. The wordings of the prescribed certificate are not in accordance with ISAs. To specify the certificate wordings for special purposes required under law, the Auditing Standards Committee is working to develop guideline for issue of certificates for special purposes by chartered accountant firms after which the issue of inconsistent certificate format is expected to be resolved.

SECP revises format of Review Report on Statement of Compliance of Public Sector Companies (Corporate Governance Compliance) Guidelines, 2013

The SECP has recently revised the Public Sector Companies (Corporate Governance Compliance) Guidelines, 2013 (the Guidelines) by revising the format of the review report on Statement Of Compliance (SOC) from the auditors to the members as specified in Schedule III.

The revised format contains explanation of responsibility of the auditor as well as the management of public sector companies.

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Send your valuable feedback or comments to:

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