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Auditing Updates

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Revised Framework for Assurance engagements & Revised International Standard on Assurance Engagements (ISAE), ISAE 3000 'Assurance Engagements other than Audits or Reviews of Historical Financial Information'

The Framework provides a structure for the development of the ISAs, Standards on Review Engagements and Standards on Assurance Engagements. It describes the elements and objectives of an assurance engagement and identifies engagements to which these Standards apply.

The Framework also provides a frame of reference for:
1. Assurance practitioners; and
2. Others involved in assurance engagements, including the intended users of an assurance report and those engaging an assurance practitioner.

With the issuance of revised Framework, ISAE 3000 was also revised to align it with the changes. The revised ISAE contains requirements, application and other explanatory material specific to reasonable and limited assurance, attestation engagements, but can also be applied to 'direct engagements' if the requirements are adapted and supplemented as necessary. Revised ISAE 3000 has become effective for assurance reports dated on or after 15 December 2015.

The revised standard would apply to engagements such as statements on the effectiveness of internal control, to assurance on sustainability reports and possible future engagements addressing integrated reporting. Revised ISAE outlines the various professional requirements an auditor must follow in undertaking their work, such as ethical requirements, engagement acceptance, quality control, planning and performing the engagement, and the reporting bligations. The revision has sought to balance the standard's robustness with the need for innovation and flexibility as assurance engagements evolve.

Some of the changes made in ISAE include:

- Limiting the ISAE within the context of attestation engagements only, rather than both attestation engagements and direct engagements, but allowing its use in direct engagements.
- Including additional application material highlighting how the nature and extent of procedures may vary between 'reasonable assurance' (expressed in a positive form) and 'limited assurance' engagements.
- The adoption of a 'columns' approach to more clearly delineate the key requirements where the work effort differs between reasonable and limited assurance, and further clarify the work effort through terminology changes and other guidance.
- Giving greater emphasis to the importance of auditor's consideration of whether the criteria are suitable.
- Providing additional guidance on the form and content of the auditor's report.

Invitation to Comment - Enhancing Audit Quality in the Public Interest A focus on Professional Skepticism, Quality Control and Group Audits

In order to be pertinent with persistently changing happenings, IAASB has developed invitation to comment (ITC) in order to assist in high quality audits. This ITC focuses on three priority topics – professional skepticism, quality control and group audits which when achieved will enhance public trust and confidence in financial statements and financial reporting.

This ITC outlines the public interest issues which IAASB believe should be addressed as a matter of priority and provides high-level insight into the direction the IAASB could take. This ITC is intended to facilitate responses from those interested in the more detailed aspects of our consultation, including:

How our standards currently address various matters.

- Concerns we have noted about these matters.
- Possible actions we may take in response, including highlighting specific areas in our standards that we might improve to enhance audit quality.
- More specific questions we would like to have answered.

Deadline for sending comments to IAASB is May 16, 2016.

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Development of Auditing Framework for Retirement Benefit Funds

AuSC considered the need for developing Auditing Framework for Retirement Benefit Funds and have studied international best practices in the form of manuals/guidelines available. The matter is under active consideration of the Committee.

Accounting; New IFRS 13 impact on auditor's scope of work

Auditing FV of Non-Financial Assets

The auditor shall consider MP's ability for Highest and Best Use (HBU) either by:

- Generating economic benefits by using the asset or
- Selling the asset to another MP who would then use the asset.

HBU in combination with other assets:
FV is the price received in a current sale to MP assuming the asset will be used in combination with those assets.

HBU on a stand-alone basis:
FV is the price received in a current sale, to a MP that would use the asset on a standalone basis.

Application to Liabilities and an Entity's Own Equity Instruments

While auditing the FV of liabilities or an entity's own equity instruments (EOEI), the auditor shall consider:
When a quoted price for the transfer of an identical/similar liability or EOEI is not available, and that identical/similar item is:
Held by another party as asset Measure FV from perspective of MP at the measurement date by:

- Using QP in an AM for the identical item, of if NA
- Using other observable inputs, of if NA
- Using another VT.

Not held by another party as asset Measure FV using a VT from perspective of MP that either:

- Owes the liability
- Has issued the claim on equity

Liabilities with Non-performance risk or demand feature

Non-performance risk (NPR)
The auditor needs to consider following while auditing FV of such liability whether:

- NPR is reflected in FV of liability and includes an entity's own credit risk;
- NPR is same before and after the transfer of the liability;
- NPR considers entity's credit risk (CR) and other factors that might influence the occurrence of obligation.

Demand feature
The auditor, while auditing FV of such liability, needs to consider that FV shall not be less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.
FV hierarchy
FV hierarchy categorizes inputs to following three levels for Valuation Techniques (VT):
Level 1: Observable quoted prices (QP), in active markets (AM).
Level 2: QPs are not available (NA) but FV is based on observable market data.
Level 3: Unobservable inputs.

Application to Financial Assets and Financial Liabilities with Offsetting Positions in Market Risks (MR) or Counter Party (CR)

Where a group of financial assets and liabilities are exposed to MR or CR, then entity is permitted to apply an exception of offsetting exemption to FV. In such a case, the auditor needs to consider that either FV would be the price:

- Received to sell asset for a particular risk exposure, or
- To transfer a liability for a particular risk exposure

i) Exposure to MR: When using the offsetting exception, the auditor needs to ensure whether:

- Price applied is within the bid-ask spread that is most representative of FV to entity's net.
- MR, within the offset group are substantially the same:

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Legal and Regulatory Updates

Companies Bill 2015

The Securities and Exchange Commission of Pakistan (SECP) issued the draft Companies Bill 2015 on November 29, 2015. In order to expedite industrial and corporate sector growth, the Companies Ordinance was amended on a piece meal basis. These fragmented amendments resulted in overlapping in the regulatory framework which necessitated strict examination of existing legal framework in order to protect interests of stakeholders.
The draft Companies Bill may be accessed at http://www.secp.gov.pk/pdf/Draft_Companies_Bill_2015.pdf

SECP's Guidelines on Going Concern Reporting in Financial Statements for Directors and Companies

It was considered necessary to issue these guidelines which are primarily a compilation of the requirements of the Companies Ordinance, 1984, corporate governance requirements, accounting and auditing standards regarding going concern assessment and reporting.

The objective is to assist companies' management/ directors in making their assessment of going concern assumption as a basis of accounts preparation and to make appropriate reporting in the financial statements and also to auditors in the following manner:

- In providing guidance to company management in line with its responsibilities under applicable financial reporting framework regarding;
    - assessment of appropriateness of use of going concern assumption as a basis of accounts reparation;
    - requisite disclosures in financial statements when material uncertainties about going concern ability of a company exist due to difficult economic, operational or other conditions; and
    - Preparation of financial statements on other than going concern
    - basis when going concern assumption is not considered appropriate.
- Performing assessment of company's going concern ability and its evaluation by the auditors in presence of a formal and duly documented going concern assessment by the company management.
- Clarifying the respective duties of directors and auditors as well as regulator's expectation from each one of them with respect to the above mentioned actions.

[redacted] regulatory Framework for NBFC's

SECP has notified amendments in Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003, Non-Banking Finance Companies, Notified Entities regulations, 2008 and Private Fund Management Regulations, 2015 on November 30, 2015.

Strategic Amendments

- Non-Banking Finance Corporations (NBFC) have been divided into two categories; Lending NBFCs and Fund Management NBFCs.
- The concept of small and mid-sized non-deposit taking NBFCs has been introduced with reduced equity requirements of Rs. 50 million.
- A model of Non-Banking Micro Finance Companies has been introduced to facilitate micro entities.
- The concept of alternative fund for high net worth investors has been presented with a separate framework for private fund management.
- The idea of Capital Adequacy Ratio has been presented for deposit raising NBFCs. Asset Management Companies have been allowed to undertake other fund management activities.
- The concept of Expense ratio including the reduction in management fee has come to cap the maximum expenses.

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Send your valuable feedback or comments to:

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