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### Message from the Chairman

It gives me immense pleasure to present the fourth issue of TSPD Monthly Technical Updates. This issue covers a variety of topics related to Taxation, Stock Market, Audit, Monetary & Corporate Sector which we believe that members will find informative and helpful in discharging their professional assignments.

To make this publication purposeful for professional accountants we need the inputs of our worthy members. I, therefore, request all our practicing members in particular and members in general, to share their valuable suggestions and ideas for its improvement and also identify topics of technical interest, which the Committee may consider for arranging seminars, workshops and training programs beneficial for the practicing members in terms of their capacity building and value addition.

Moreover, I also request all of you to take safety measures to prevent yourself and your family from Coronavirus (COVID-19). May ALLAH Almighty protect the world from this virus.

Please do share your comments on [tspd@icmap.com.pk](mailto:tspd@icmap.com.pk).

**Ghulam Mustafa Qazi, FCMA**  
Chairman TSPD Committee



## Feature News

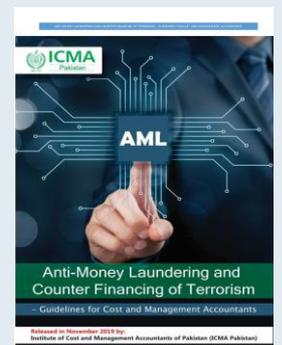
### The ICMA Pakistan AML Framework and Guidelines

Government of Pakistan, under section 5(7)(a) of the Anti-Money Laundering Act, 2010 (AML Act), through its notification dated December 23, 2019 notified ICMA Pakistan as a Self-Regulatory Body (SRB) of Cost and Management Accountants (CMAs) in respect of AML/CFT supervision. As an SRB, the Institute is obligated to prescribe regulatory and supervisory measures for the CMAs in practice falling under the scope of DNFBPs, to ensure compliance with the provisions and obligations specified under the AML Act. Keeping on view the significance of AML and CFT requirements for the Cost and Management Accountants, the institute prepared the Framework and Guidelines in this regard, titles as under:-

- Framework for Regulation and Supervision of CMAs to Comply With the Requirements of Anti-Money Laundering and Countering the Financing of Terrorism (“The ICMA Pakistan AML Framework”)



- Anti-Money Laundering and Counter Financing of Terrorism –Guideline for Cost and Management Accountants (“The ICMA Pakistan AML Guidelines”)



The above documents are prepared in consultation with the members of the Institute and other stakeholders. Final drafts of both the Framework and Guidelines are uploaded on the website of the Institute for the understanding and implementation of the Worthy Practicing Members. The documents can be accessed through the following links:-

The ICMA Pakistan AML Framework

<https://www.icmap.com.pk/ICMAAMLFramework.pdf>

The ICMA Pakistan AML Guidelines

<https://www.icmap.com.pk/ICMAAMLGuidelines.pdf>

Members are requested to please share their valuable inputs/ suggestions and comments in this regard at [tspd@icmap.com.pk](mailto:tspd@icmap.com.pk).

# Committee Activities

## Technical Session to formulate budgetary proposals on the Federal Budget 2020-21

Each year ICMA Pakistan prepares Fiscal Budget Proposals in consultation with the members of the Institute and arranges Technical Sessions to deliberate and finalize the proposals. The FBR also requested ICMA Pakistan to submit proposals on the upcoming Budget 2020-21.

In this connection, the Technical Support & Practice Development (TSPD) Committee organized a Technical Session to formulate budgetary proposals on the Federal Budget 2020-21 on March 13, 2020 at Karachi, Lahore, Islamabad, Faisalabad and Multan through video link.

Worthy Members participated in the session and formulated detailed proposals for onward submission to the FBR.



## Registration of CMA Firms

The Institute had introduced the process for Registration of CMA Firms that would help the Quality Assurance Board (QAB) in awarding quality ratings to CMA Firms. The registration process was devised by the TSPD Directorate & started in 2016. The practicing members are now required to get their CMA Firms registered with ICMA Pakistan. During the month, three new CMA Firms registered with the Institute.

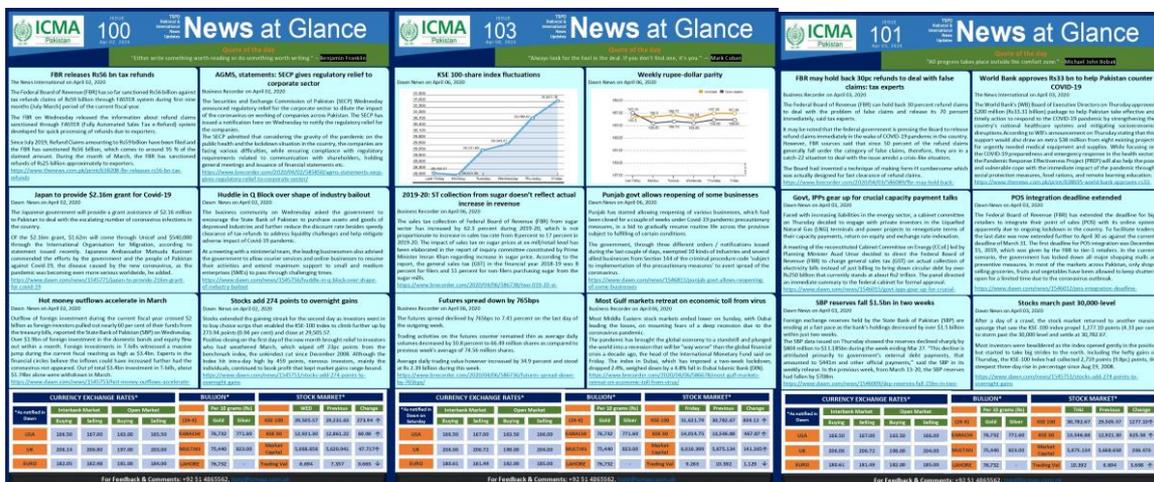
## Technical Updates

The Institute is continuously updating its members through the circulation of regular Technical Updates. The members are now being immediately updated with latest SROs, Rules, Circulars, Notifications, etc. During the month, technical updates on more than twenty topics were circulated amongst the members covering updates on taxation, monetary and corporate sectors.

## TSPD News at Glance

In order to keep the practicing members of the Institute abreast with the daily National and International News related to the business, economy and profession, TSPD continued to circulate the exclusive daily issue of News at Glance on the TSPD Forum. In addition to the daily news updates, the document also provides a glimpse of daily stock market, bullion rates and currency exchange rates.

Alhamdulillah! We have circulated the 100 issues of TSPD News at Glance.



The newsletters provide a comprehensive overview of financial news and market data. Each issue includes:

- News Articles:** Short summaries of key financial events, such as 'FBR issues Rs16m grant for relief', 'ASMS, statements: SFC gives regulatory relief to corporate sector', and 'Weekly rupee-dollar parity'.
- Financial Data Tables:** Tables for Currency Exchange Rates, Bullion, and Stock Market performance across various indices and sectors.
- Market Updates:** Brief reports on market trends, such as 'Stocks march past 10,000 level' and 'S&P reissues fall \$1.5bn in two weeks'.

# National Updates

## Corporate Sector

### 1. AMENDMENTS TO THE ASSOCIATIONS WITH CHARITABLE AND NOT FOR PROFIT OBJECTS REGULATIONS, 2018

Securities and Exchange Commission of Pakistan (SECP) vide their S.R.O. 145(I)/2020 notified amendments to the Associations with Charitable and Not for Profit Objects Regulations, 2018.

According to the notification, the SECP has revised the fit and proper criteria for promoters, members, directors and chief executive officer of the charitable and not-for-profit organizations (NPOs) by including the independent director in the exclusion of Solvency and financial soundness, as under:-

Reg. #	Regulations, 2018	Proposed amendments
Regulation 10, sub-regulation (2), clause (ii)	<b>Solvency and financial soundness.</b> - A person must fulfil the requirement, in order to act as promoter, director or chief executive officer of the company that there is no instance of overdue or past due payment to a financial institution, irrespective of amount, appearing in the latest Consumer Credit Information Report (CCIR) of the person and of the companies, firms, sole proprietorship etc. where the person is a chief executive, director (other than nominee director), owner or partner, etc.	<b>Solvency and financial soundness.</b> - A person must fulfil the requirement, in order to act as promoter, director or chief executive officer of the company that there is no instance of overdue or past due payment to a financial institution, irrespective of amount, appearing in the latest Consumer Credit Information Report (CCIR) of the person and of the companies, firms, sole proprietorship etc. where the person is a chief executive, director (other than nominee director <b>and independent director</b> ), owner or partner, etc.

For further details, please visit the following link:-

<https://www.secp.gov.pk/document/sro-145-i-2020-amendments-to-associations-with-charitable-and-not-for-profit-objects-regulations-2018/?wpdmdl=38706>

### 2. CIRCULAR NO 4 OF 2020 – INVESTMENT IN UNITS OF EXCHANGE TRADED FUNDS BY EQUITY ORIENTED COLLECTIVE INVESTMENT SCHEMES

Securities and Exchange Commission of Pakistan (SECP) vide their Circular No. 4 of 2020 dated March 3, 2020 allowed Asset Management Companies (AMCs) to invest in units of Exchange Traded Funds (ETF) on behalf of Collective Investment Schemes (CIS).

SECP allowed AMCs to invest in units of ETF on behalf of CIS subject to following conditions:-

- Equity oriented CIS namely equity, asset allocation, balanced and index schemes may take exposure in units of Exchange Traded Funds maximum up to 10% of net assets of such CIS.
- An AMC shall charge single management fee in case of investment in the units of ETF if both the equity oriented CIS and ETF are being managed by the same AMC.

For further details, please visit the following link:-

<https://www.secp.gov.pk/document/circular-no-4-of-2020-investment-in-units-of-exchange-traded-funds-by-equity-oriented-collective-investment-schemes/?wpdmdl=38704>

### 3. DRAFT AMENDMENTS IN THE AUDITORS (REPORTING OBLIGATIONS) REGULATIONS, 2018

Securities and Exchange Commission of Pakistan (SECP) vide their S.R.O. 141(I)/2020 proposed amendments to the Auditors (Reporting Obligations) Regulations, 2018, detailed as under:-

Reg. #	Regulations, 2018	Proposed amendments
6(i)	in case of a listed company, the review report on statement of compliance with the Listed Companies (Code of Corporate Governance) Regulations, <del>2017</del> shall be on the format as provided in Annexure-VI; and	in case of a listed company, the review report on statement of compliance with the Listed Companies (Code of Corporate Governance) Regulations, <b>2019</b> shall be on the format as provided in Annexure-VI; and
Annex VI (Para 1)	Review Report on the Statement of Compliance contained in Listed Companies (Code of Corporate Governance) Regulations, <del>2017</del> We have reviewed the enclosed Statement of Compliance with the Listed Companies (Code of Corporate Governance) Regulations, <del>2017</del> (the Regulations) prepared by the Board of Directors of _____ (Name of the Company) for the year ended _____ in accordance with the requirements of regulation <del>40</del> of the Regulations.	Review Report on the Statement of Compliance contained in Listed Companies (Code of Corporate Governance) Regulations, <b>2019</b> We have reviewed the enclosed Statement of Compliance with the Listed Companies (Code of Corporate Governance) Regulations, <b>2019</b> (the Regulations) prepared by the Board of Directors of _____ (Name of the Company) for the year ended _____ in accordance with the requirements of regulation <b>40</b> of the Regulations.
Annexure VI (Para 4)	The Regulations require the Company to place before the Audit Committee, and upon recommendation of the Audit Committee, place before the Board of Directors for their review and approval, its related party transactions <del>and also ensure compliance with the requirements of section 208 of the Companies Act, 2017</del> . We are only required and have ensured compliance of this requirement to the extent of the approval of the related party transactions by the Board of Directors upon recommendation of the Audit Committee. <del>We have not carried out procedures to assess and determine the Company's process for identification of related parties and that whether the related party transactions were undertaken at arm's length price or not.</del>	The Regulations require the Company to place before the Audit Committee, and upon recommendation of the Audit Committee, place before the Board of Directors for their review and approval, its related party transactions. We are only required and have ensured compliance of this requirement to the extent of the approval of the related party transactions by the Board of Directors upon recommendation of the Audit Committee.

For further details, please visit the following link:-

<https://www.secp.gov.pk/document/sro-141-i-2020-draft-amendments-in-the-auditors-reporting-obligations-regulations-2018/?wpdmdl=38705>

#### 4. COMPANIES (FURTHER ISSUE OF SHARES) REGULATIONS, 2020

Securities and Exchange Commission of Pakistan (SECP) vide their S.R.O. 233(1)/2020 dated March 16, 2020 issued Companies (Further Issue of Shares) Regulations, 2020.

Draft of these regulations was earlier published in the official Gazette vide Notification No. S.R.O. 33(1)/2020 dated January 15, 2020 by the SECP.

These regulations shall apply to the companies issuing further capital by way of right shares; other than right shares; bonus shares; employee stock option schemes; and shares with different rights including preference shares. They shall come into force at once except in the case of issues announced on or before the date of these regulations.

For further details, please visit the following link:-

<https://www.secp.gov.pk/document/the-companies-further-issue-of-shares-regulations-2020/?wpdmdl=38789>

#### 5. DIRECTIVE UNDER SECTION 12 OF THE SECURITIES ACT, 2015

SECP vide their notification today issued directive to the Board of Directors of Pakistan Stock Exchange Limited.

The notification was issued, in exercise of the powers conferred under section 12 of the Securities Act, 2015, in the interest of the public and to ensure integrity of the securities markets and proper management of systemic risks.

SECP directed the Pakistan Stock Exchange Limited (PSX) to only allow Blank Sale transactions in Deliverable Futures Market (DFM) on Uptick or Zero-Plus Tick, as defined in the PSX Regulations. The Uptick or Zero-Plus Tick rule shall be applicable for DFM April 2020 contract on the list of securities enclosed as Annexure. Non-compliance with directions of the SECP is subject to actions under the Securities Act, 2015.

For further details, please visit the following link:-

<https://www.secp.gov.pk/document/directive-under-section-12-of-securities-act-2015/?wpdmdl=38800>

#### 6. THE DRAFT NON-BANKING FINANCE COMPANIES AND COLLECTIVE INVESTMENT VEHICLES ACT, 2020

Securities and Exchange Commission of Pakistan (SECP) on March 20, 2020 proposed the Non-Banking Finance Companies and Collective Investment Vehicles Act, 2020.

The Draft Act is a modernized, dedicated and consolidated framework for the non-banking finance companies and collective investment vehicles (notified entities). It envisages introduction of various concepts for stimulating market development, promoting ease of doing business, upgrading applicable prudential and supervision requirements and introducing mechanisms for enhanced investor protection. It may be noted that promulgation of the draft Act would result in repeal of Part VIII A of the Companies Ordinance, 1984 and section 457 of the Companies Act, 2017.

The draft can be downloaded from the following link:-

<https://www.secp.gov.pk/document/draft-non-banking-finance-companies-and-collective-investment-vehicles-act-2020/?wpdmdl=38804>

#### 7. CIRCULAR NO 6 OF 2020 – RELAXATION FROM CERTAIN PROVISIONS OF COMPANIES ACT, 2017 DUE TO COVID-19

Securities and Exchange Commission of Pakistan (SECP) vide their CIRCULAR NO.6/ 2020 notified relaxation from certain provisions of Companies Act, 2017 due to CoVID-19.

Due to the CoVID-19 (Coronavirus), many businesses around the world has been affected. Accordingly, the SECP allowed the following

relaxations in relation to compliance with requirements of the Companies Act, 2017:-

a) All companies which are facing difficulties in timely holding the annual general meeting (the "AGM") for the year ended on December 31, 2019, are hereby allowed a general extension for a period of 30 days as provided in section 132 of the Act for holding their AGMs. The companies can now hold their AGM for the year ended on December 31, 2019 on or before May 29, 2020.

b) The companies, whose election of directors is due before or in the aforesaid AGM, may file impediment reports with the concerned registrar under section 158(2) of the Act citing the reasons for delay in holding the election of directors.

c) Accordingly, any statutory return which is required to be filed on or after 24th March, 2020 may be filed with the concerned registrar with the delay of 30 days of occurrence of any event without any additional filing fee as no penal action shall be taken for the late filing.

For further details, please visit the following links:-

<https://www.secp.gov.pk/document/draft-non-banking-finance-companies-and-collective-investment-vehicles-act-2020/?wpdmdl=38804>

### Taxation

#### 8. AMENDMENT IN S.R.O 812 (1)/2016 DATED 2ND SEPTEMBER, 2016 – OMISSION OF WHITE CRYSTALLINE SUGAR FROM THE FIRST SCHEDULE TO THE CUSTOMS ACT, 1969

FBR vide their S.R.O. 233(1)/2020 dated March 18, 2020 made amendments to its Notification No. S.R.O. 812(1)/2016 dated September 02, 2016.

The S.R.O. 812(1)/2016 fixes the values of white crystalline sugar falling under PCT heading Nos. 1701.9910 and 1701.9920 of the First Schedule to the Customs Act, 1969 as under:-

S	Description	Value
(1)	(2)	(3)
1	Domestically produced white crystalline sugar	Rs 60 per kg
2	Imported white crystalline sugar	US\$ 725 per MT

FBR through the above SRO omitted both the above clauses.

For further details, please visit the following link:-

<http://download1.fbr.gov.pk/SROs/20203181333123166SRO233OF2020DATED18.03.2020-VALUEOFSUGAR.pdf>

#### 9. FBR EXEMPTS DIFFERENT KINDS OF DIAGNOSTIC SUPPORT AND HEALTH SAFETY ITEMS FROM DUTIES, TAXES

Federal Board of Revenue (FBR) vide their notifications 235, 236 and 237(1)/2020 dated March 20, 2020 exempted customs duty, regulatory duty, additional customs duty, withholding tax and sales tax on the import of 61 different kinds of Diagnostic Support and health safety items including medical equipment/machinery and apparatus like coronavirus detection kits, surgical masks, multimode ventilator with air compressor, face shields and other medical equipment for a period of three months.

The period of three months may be extended for another three months by the Board on the recommendation of the Ministry of National Health. Services Regulation & Coordination (MNHSR&C) if adverse circumstances related to COVID19 pandemic prevail.

To view the list of items please visit the following links:-

<http://download1.fbr.gov.pk/SROs/20203201932245185SRONO.235of2020dated20.3.2020.pdf>

#### 10. EXTENSION IN DATE FOR SUBMISSION OF SALES TAX AND FEDERAL EXCISE RETURNS ALONGWITH ANNEXURES FOR TAX PERIOD OF JANUARY, 2020 AND FEBRUARY, 2020

Federal Board of Revenue (FBR) vide their notifications extended the date of payment/submission of Sales Tax and Federal Excise Returns for the tax period of January, 2020 & February, 2020 as per following details:-

Tax Period	Due Date	Extended Date
<b>January, 2020</b>		
Submission Date	18.02.2020 (extended up to 28.02.2020)	15.04.2020
<b>February, 2020</b>		
Payment Date	15.03.2020	31.03.2020
Submission Date	18.03.2020 (extended up to 25.03.2020)	15.04.2020

For further details, please visit the following links:-

[http://download1.fbr.gov.pk/Docs/202032414339389612020-03-24\(ExtensionindateforSTreturns\)..pdf](http://download1.fbr.gov.pk/Docs/202032414339389612020-03-24(ExtensionindateforSTreturns)..pdf)

### Monetary

#### 11. FACILITATION REGARDING PAPER-BASED CLEARING OPERATIONS IN THE WAKE OF COVID-19

State bank of Pakistan (SBP) vide their PSD Circular No. 04 of 2020 notified facilitation to the customers regarding Paper-based Clearing Operations in the wake of COVID-19.

According to the Circular, the SBP tried to reduce the person-to-person interactions and to provide ease of services to the customers in its bid to curb the potential spread of COVID-19 pandemic.

The Circular allows Banks/MFBs to provide following services to their customers:-

- Direct Cheque Deposit Facility

Under this facility:

- a) A crossed cheque may be presented by payee/beneficiary directly into the paying/drawee bank, instead of their bank branches as per the existing practice.
- b) In this case, funds may be transferred by the paying/drawee bank

either through RTGS customer fund transfer - MT102 or Over the Counter (OTC) IBFT or Bank's internal online system (in case both payer & payee banks are the same).

c) Before debiting their customer's account, the paying/drawee bank must take all necessary precautions including but not limited to customer call back or multifactor authentication to verify the authenticity/genuineness of the instrument and verification of their respective customers. Similarly, before crediting the customer account, the payee/beneficiary bank must ensure the authenticity of the customer's credentials as well.

- Doorstep Cheque Collection Facility

Under this facility, Banks/MFBs may make arrangements to collect cheque from registered addresses of their customers upon their request.

- Drop box Cheque Collection Facility

Under this facility, the customers may drop their cheques in drop boxes of their Banks, installed in selected branches.

Further, the Banks may allow their Corporates/Priority customers to send them the scanned image of the cheque along with relevant details of the Beneficiary either through registered emails or through mobile Apps of their banks to push funds from their accounts to the payee bank. However, such arrangement must be duly agreed with the customer under proper Terms & Conditions along with complete disclosure of risks and liabilities. The Paying/Drawee bank shall implement all necessary controls including call back confirmation or multifactor authentication to ascertain the authenticity and genuineness of the instrument and identity of the payee. Upon satisfactory validation, Paying/drawee bank may transfer funds to beneficiary bank using MT 102 of RTGS (PRISM).

Moreover, to minimize person-to-person interaction, Banks/MFBs may also make arrangements with the Clearing House (NIFT) for clearing their cheques through Image Based Clearing (IBC) functionality as per the agreed SOPs between NIFT and banks.

For further details, please visit the following links:-

<http://www.sbp.org.pk/psd/2020/C4.htm>

## International Update

#### 1. IPSASB ISSUES EXPOSURE DRAFTS ON REVENUE AND TRANSFER EXPENSES

The International Public Sector Accounting Standards Board (IPSASB) on February 21, 2020 released three Exposure Drafts (ED), titled as under:-

- ED 70, Revenue with Performance Obligations
- ED 71, Revenue without Performance Obligations
- ED 72, Transfer Expenses

The three exposure drafts are published together to highlight for respondents the linkages between the accounting for revenue and transfer expenses. ED 70 is aligned with IFRS 15, Revenue from Contracts with Customers, while extending the income recognition approach in that standard to address common public sector transactions which include performance obligations, including those where the ultimate beneficiary is a third party. It is intended to supersede IPSAS 9, Revenue from Exchange Transactions, and IPSAS 11, Construction Contracts. ED 71 is an update of IPSAS 23, Revenue from Non-Exchange Transactions (Taxes and Transfers) that addresses some of the issues encountered in its application. Unlike the current revenue standards, which classify revenue based on an exchange or non-exchange distinction, ED 70 and ED 71 differentiate revenue transactions based on whether or not the transaction has a performance obligation, which is defined as a promise to transfer goods or services to a purchaser or a third-party beneficiary. ED 71 also provides public sector-specific guidance on capital transfers for the first time. ED 72 proposes guidance for transfer expenses, where a transfer provider provides resources to another entity without receiving anything directly in return. In providing guidance for the first time on the expense side of transactions that may be accounted under the revenue EDs by other public sector organizations, ED 72 includes proposals for transactions with and without performance obligations.

The EDs can be accessed through the following link:-

<https://www.ipsasb.org/news-events/2020-02/ipsasb-issues-exposure-drafts-revenue-and-transfer-expenses>

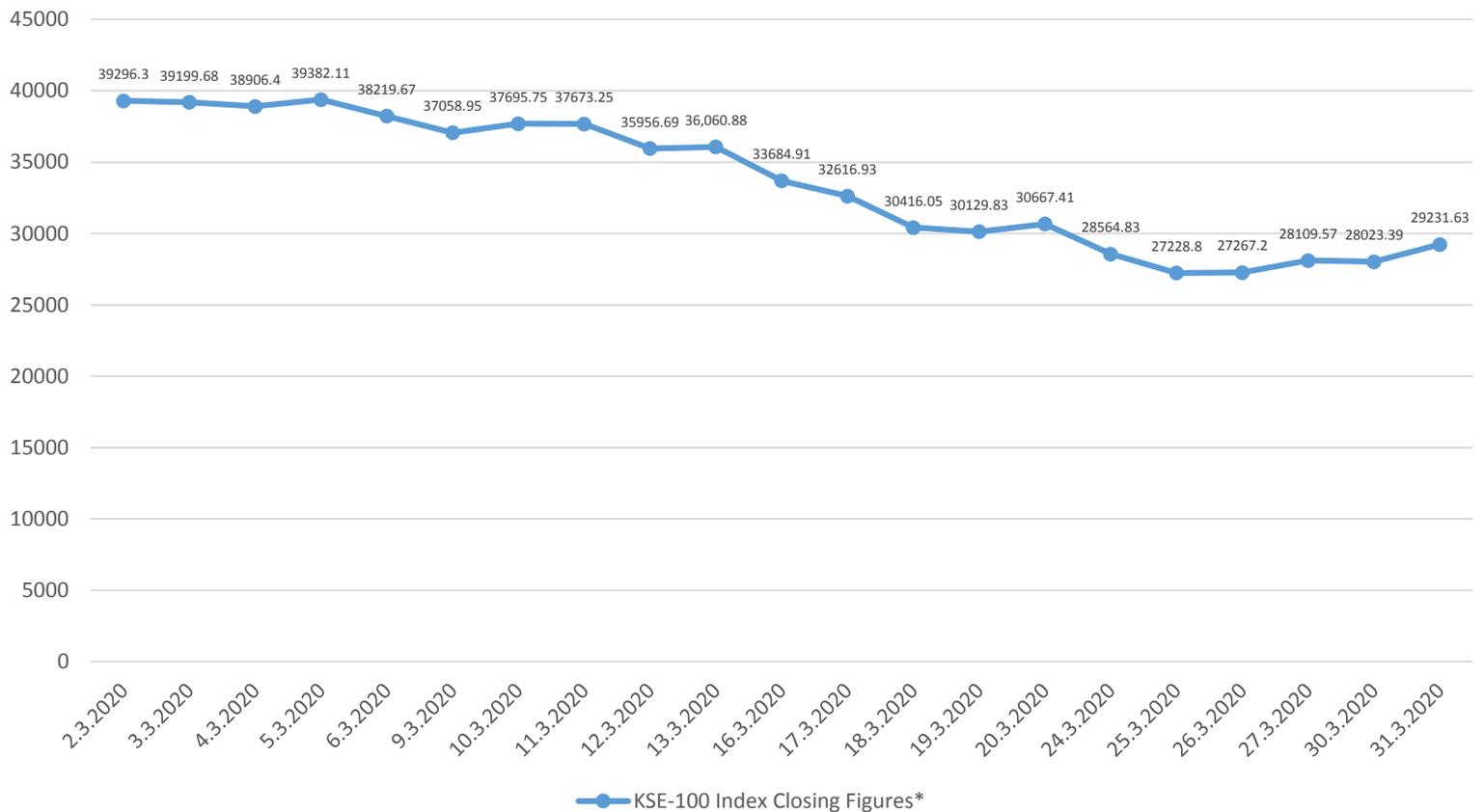
# Pakistan Stock Market

## Pakistan Stock Market – KSE-100 Index Fluctuations during February 2020

Date	KSE-100 Index Closing Figures*	Date	KSE-100 Index Closing Figures*	Date	KSE-100 Index Closing Figures*
2.3.2020	39296.30	11.3.2020	37673.25	20.3.2020	30667.41
3.3.2020	39199.68	12.3.2020	35956.69	24.3.2020	28564.83
4.3.2020	38906.40	13.3.2020	36,060.88	25.3.2020	27228.80
5.3.2020	39382.11	16.3.2020	33684.91	26.3.2020	27267.20
6.3.2020	38219.67	17.3.2020	32616.93	27.3.2020	28109.57
9.3.2020	37058.95	18.3.2020	30416.05	30.3.2020	28023.39
10.3.2020	37695.75	19.3.2020	30129.83	31.3.2020	29231.63

\*As published in Daily Dawn

KSE-100 Index Closing Figures\*

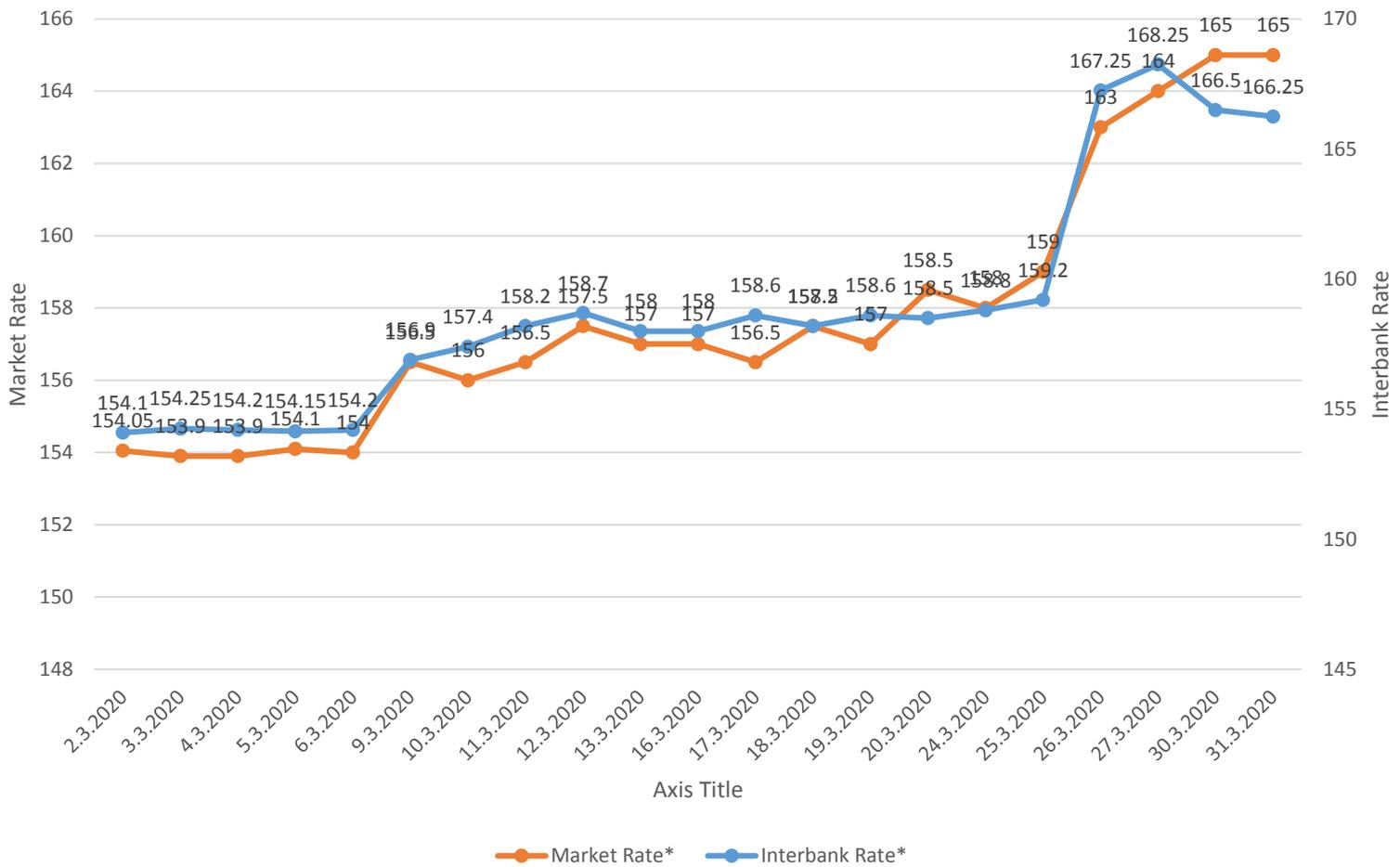


## Rupee-Dollar Parity

Date	Interbank Rate*	Market Rate*	Date	Interbank Rate*	Market Rate*	Date	Interbank Rate*	Market Rate*
2.3.2020	154.10	154.05	11.3.2020	158.20	156.50	20.3.2020	158.50	158.50
3.3.2020	154.25	153.90	12.3.2020	158.70	157.50	24.3.2020	158.80	158.00
4.3.2020	154.20	153.90	13.3.2020	158.00	157.00	25.3.2020	159.20	159.00
5.3.2020	154.15	154.10	16.3.2020	158.00	157.00	26.3.2020	167.25	163.00
6.3.2020	154.20	154.00	17.3.2020	158.60	156.50	27.3.2020	168.25	164.00
9.3.2020	156.90	156.50	18.3.2020	158.20	157.50	30.3.2020	166.50	165.00
10.3.2020	157.40	156.00	19.3.2020	158.60	157.00	31.3.2020	166.25	165.00

\*As published in Daily Dawn

Rupee-Dollar Parity during March 2020



# Model Audit Practice Manual

## Pre-Engagement Activities and Audit Planning

A QAB Publication

In order to provide guidance to the practicing members through all the stages of an audit (financial as well as cost audit), the Institute prepared guidelines in the shape of Audit Manual. Planning of audit; Assessment of risk and determination of materiality; Analytical reviews; Execution and detailed audit programs; and Reporting are elaborated in the Manual. The below document is prepared in order to enable the readers to recognize the Pre-Engagement Activities and Audit Planning.

### Pre-Engagement Activities

- Client Acceptance / Continuance
- Communication with Predecessor Auditors (NOC)
- Compliance with Independence and Ethical Requirements
- Engagement Letters
- Handling with Changes in Terms of Engagement

### New Client (Associated Risks)

- Lack of Knowledge of Business
- No Previous Experience with Management
- Transactions and Associated Risks affecting the statements

### Client Acceptance / Continuance

- Consider Nature and Purpose of Engagement
- Do We Want This Client...?
- Can We Effectively Perform This Audit...?
- Research the Client
- Assess Client Reputation, Integrity and Competence
- Identity and business reputation of principal owners and key management
- Nature of operations
- Attitude of principal owners and key management towards accounting standards, internal control environment
- Client's concern with maintaining the fee as low as possible
- Indication of scope limitations
- Reasons for change of auditors
- Identity and business reputation of related parties
- Assess the Firm's Resources and Competence
- Other Risk Concerns
- Knowledge of relevant industries or subject matter
- Experience with relevant regulatory or reporting requirements
- Sufficient personal with competence or ability to gain the necessary skills and knowledge effectively
- Experts are available
- Ability to complete engagement within reporting time

(Form 001 & 002 at Appendices)

Sources of such information are:

- Entity Website
- Third parties i.e. bankers, advisors, industry peers etc.
- Background searchers of relevant peers

### Communication with Predecessor Auditors

- Process Initiated by the Successor Auditor
- Client Permission is required to initiate the Contact as well as for the Predecessor to respond to the inquiry
- Conduct Interview with the Partner and Manager In-charge
- Discuss Risk Areas
- Obtain Copies of some or all of audit documentation

Predecessor auditor may be able to provide information that will assist the successor auditor in determining whether to accept the engagement.

The successor auditor should bear in mind that among other things the predecessor auditor and the client may have disagreed about:

- Accounting principles,
- Auditing procedures, or
- Similarly significant matters.

#### Compliance with Independence / Ethical Requirements

- Integrity;
- Objectivity;
- Professional Competence and Due Care;
- Confidentiality; and
- Professional Behavior;

The Fundamental Principles are reinforced by:

- The Leadership of the Firm;
- Education and Training;
- Monitoring; and
- A process of dealing with non-compliance

#### Engagement Letter Formal Contract (ISA –210)

- Objective and Scope of Audit
- Responsibilities of Auditor
- Responsibilities of Management
- Applicable Reporting Framework
- Expected Deliverables
- Timeline and Fee
- Management Acknowledgement for Preparation of Statements
- Management Acknowledgement for Internal Controls
- Access to Records
- Consider not accepting engagement in case of limitation on scope

#### Handling with Changes in Terms of Engagement

- Change Request by Client or by Auditor
- Evaluate the Changes for Acceptance / Rejection
- Bring in Writing
- Due to Circumstance Affecting the Entity's Environment
- Due to Misunderstanding Concerning the Nature of Service Originally Requested
- Not justified if relating to Information being Incorrect / Unsatisfactory
- Withdraw from audit engagement where possible under applicable laws; and
- Determine whether there is any obligation to report the circumstances to stakeholders, such as regulators or executive management.

### Audit Planning Procedures

#### Audit Planning –Importance

- Successful Execution and Completion of Engagement
- Proper Organization and Management of Engagement
- Selection of Team Members with Required Capabilities
- Efficient and Complete Delivery of Professional Responsibilities

#### Audit Planning –Purpose

- Understanding of Entity's Business, Industry & Environment
- Understanding of Accounting Policies and Practices / Financial Performance
- Assessment of Risk of Material Misstatement
- Formulate Overall Audit Strategy
- Planned Audit Approach for Significant Account Balances and Disclosures
- Determine Materiality
- Plan Staff

#### Overall Audit Strategy

- Kick of Meeting with Client Management
- Define and Agree Scope of Engagement
- Ascertain Reporting Objectives and Decide Timing of Activities
- Assess Nature and Timing of Communication Required with Client



- Select Team, Team Meetings and Communication
- Apply Risk Assessment Procedures
- Use Knowledge from Preliminary Assessment
- Determine Involvement on Other
- Other Significant Matters

#### **Risk Assessment Procedures**

- Inquiries about the entity's business and control environment from:
  - Those Charged with Governance and Management
  - Internal Audit
  - Key Staff Involved in Transaction Initiating and Processing
  - In-house Legal Council, if any
  - Internal Tax Staff
- Analytical Procedures to Identify Unusual Transactions / Events
- Observations of Entity Environment
- Inspection of Documents and Management Reports
- Information from Prior Period Audits -Corrections / Adjustments
- Discussion among Team Members
- Use SWOT and PEST Analysis  
(Form 003 at Appendices)

#### **Key Information about Client**

- Nature of Business and History
- Product and Services
- Client Profile
- Major Customer
- Major Suppliers
- Employees
- Investments
- Financing
- Related Parties
- Litigations and Claims
- Corporate Structure and Conduct of Operations
- Objectives of Business
- Entity's Industrial Environment
- Legal and Regulatory Environment

#### **Business Control Environment**

- Legal and Operating Structure
- Culture of the Client's Entity
- Ethics Adapted by Entity
- Corporate Governance Environment
- Remuneration of Management
- Personal Profile of Management

#### **Computer Information System**

- Level of Dependence on CIS
- CIS Personnel Structure and Skills
- Security and Access Controls
- Back-ups and Recovery Procedures
- Reliability of CIS
- Data Integrity
- Data Processing and Reporting Controls  
(Form 007 of Appendices)

#### **Reporting Environment**

- Applicable Reporting Framework
- Approved Management Reporting Guidelines
- Selection and Application of Accounting Policies
- Critical Accounting Policies
- Impact of Policies on Specific Aspects of Statements & Reconciliation with Financial Records

**Key Issues:**

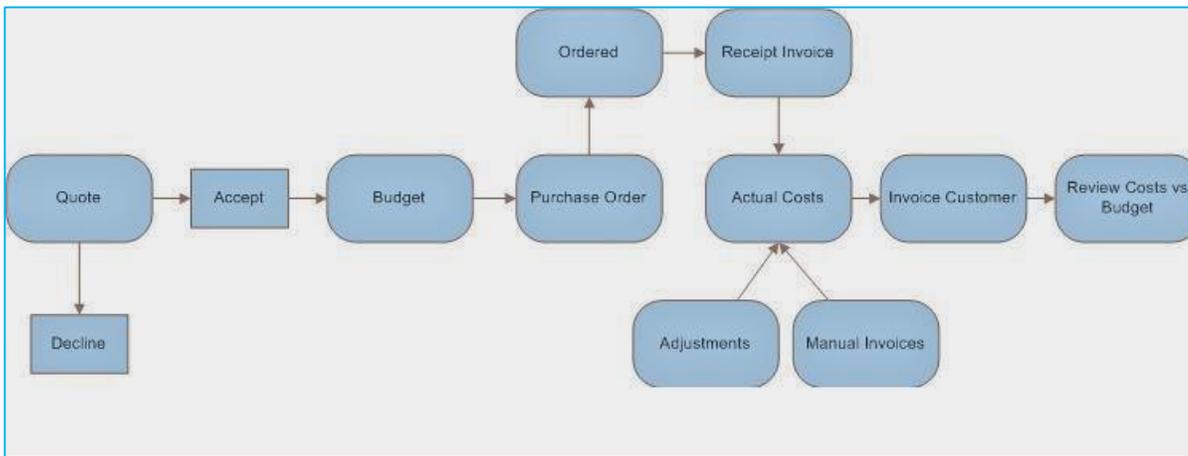
- New Accounting Pronouncements
- Going Concern
- Legal and Regulatory Changes
- Financial / Cost Analysis and Results

**Critical Areas and Expert Involvement**

- Identify Critical Areas
- Significant Estimates –Decommissioning etc.
- Property Valuations
- Employee Benefits –Actuaries
- Nature of Inventory
- Investment Valuations  
(Form 004 at Appendices “for Critical Areas “)

**Control Overview**

(Form 005 at Appendices)



The  
**Elements  
of Control  
Structure**



**Determine Audit Materiality –ISA 320**

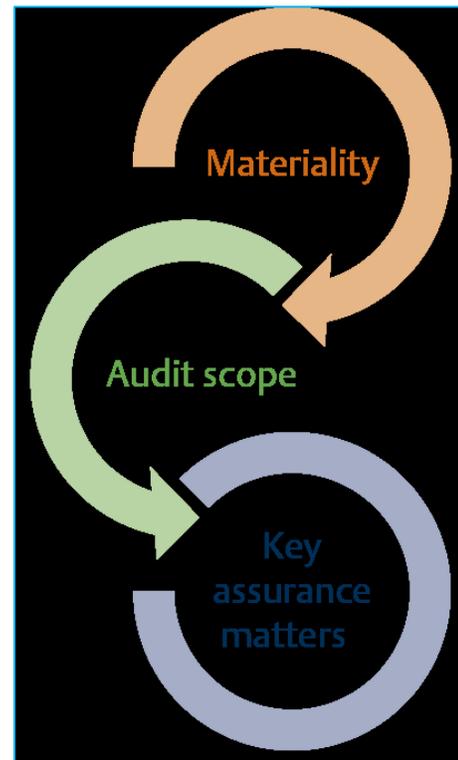
- Use Professional Judgment
- Consider both Qualitative and Quantitative Aspects
- Calculate using Quantitative Approach (%)
- Example are:

- Financial Statement Level
- Account Balance Level
- Transaction Level
- Performance Based

**Fraud Risk Assessment -ISA 240, 315 and 330**

- Professional Skepticism
- Identify Risk of Material Misstatement
- Use Analytical Procedures for Risk Assessment
- Obtain Appropriate Audit Evidence
- Discussion among Engagement Partner and Team
- Discussion with Management
- Obtain Written Representations for:
  - Responsibility for design and implementation of internal controls
  - Disclosure to Auditor of result of their assessments
  - Disclosure about their knowledge of fraud
  - Disclosure about their knowledge of any allegations for fraud (Form 006 and 008 in Appendices)

**Interrelationship among Materiality, Audit Risk and Audit Evidence**



**Example of Financial Statement Level Fraud Risk Factors**

Incentives and Pressures

- Excessive Pressure to Meet Third Party Expectations
  - Unrealistic profitability expectations
  - Critical need for funding to stay competitive or to repay debt
  - Transactions without economic justifications
  - Potential to adversely impact pending transactions
  - Overly optimistic press releases
- Threats to Financial Stability or Profitability
  - Competition / market saturation
  - Bankruptcy / takeover threat
  - Cash / funding gap, declining industry
  - New accounting, regulatory or statutory requirements
- Threats to Personal Financial Position
  - Compensation contingent on achieving aggressive targets
  - Significant financial interest / personal guarantees
- Pressures to Meet Financial Targets
  - Excessive pressure to meet targets through sales or profitability incentives
  - Inappropriate accounting estimates
  - Aggressive forecasts

Opportunities

- Ineffective Monitoring of Management
  - Dominance / aggressive management style
  - Ineffective oversight by the Board

- Internal Control Components are Deficient
  - Ineffective systems and controls
  - Inadequate monitoring / ineffective application of controls
  - History of significant adjustments
  - Ineffective staff
- Nature of Industry or Entity's Operations
  - Significant unusual or highly complex transactions
  - Estimates involving significant judgment or uncertainties difficult to corroborate
  - Overly complex banking arrangements
  - Significant related party transactions
  - Use of intermediaries
- Complex or Unstable Organization Structure
  - Unexplained turnover of senior management
  - Controlling interest unclear
  - Overly complex corporate structure

**Example of Assertion Level Fraud Risk Factors**

- Revenue
  - False sales and customers
  - Advancing or delaying revenue
  - Manipulation of rebates and discounts
  - Misrepresentation of credit status
  - Under / over provisioning for bad debts
- Expenses
  - Under / over accruals
  - Delaying or advancing expenses
  - Manipulation of rebates and discounts
  - Misrecording of capital items
  - Hidden contract terms
- Cash
  - False cash entries
  - Hidden pledges of cash deposits
  - Teaming and lading or lapping
- Inventory
  - Standard cost manipulations
  - False ownership status
  - False quantity
  - False quality
  - False valuation
- Others
  - Misuse of merger reserves
  - Manipulation of transfer pricing
  - Manipulation of joint ventures
  - Improper valuation of assets
  - Misuse of inter-company and suspense accounts
- Other Considerations
  - Evaluate Internal Audit Function (Use Form 009)
  - Review Points Brought Forward (Use Form 011)
  - Plan Staff and Allocate Time (Use Form 012)
  - Group Audit (Use Form 010)
- Specific Topics
  - Compliance with Laws and Regulations (Use Form 037)
  - Going Concern Assumption (Use Form 038)
  - Related Party Transactions (Use Form 042)
  - Subsequent Events (Use Form 048)

## Legal Privileges Available to Cost and Management Accountants\*

Sr.	Description	Legal Statute	Relevant Section / Rule
1	To act as an <b>Auditor</b> in case of a private limited company having paid up capital of less than three million	Companies Act, 2017	Section 247(b)
2	Appointment as <b>Special Auditors</b> by FBR for Income Tax Audit	Income Tax Ordinance, 2001	Section 177 (10) Income Tax Ordinance, 2001
3	Appointment as <b>Special Auditors</b> by FBR Sales Tax Audit	Sales Act, 1990	Section 32-A of Sales Act, 1990, & SRO 539(1)/2006 dated 5th June, 2006
4	To perform <b>Audit of Cost Accounts</b> as an Auditor	Companies Act, 2017	Section 250(1)
5	<b>Audit &amp; Certification of Accounts</b> of Non Profit Organizations	Income Tax Rules, 2002	Income Tax Rules, 2002 notified through SRO 774 dated 29th July, 2006
6	Audit of Financial Statements for Agricultural Borrowers	Prudential Regulations for Agriculture Financing 2014	Part C, Regulations R-20
7	<b>Audit</b> of Financial Statements of SMEs	Prudential Regulations for Small and Medium Enterprises Financing 2013	Chapter No. 3, Regulation ME R-4
8	<b>Audit</b> of Financial Statements of Corporate and Commercial Banks	Prudential Regulations for Corporate / Commercial Banking 2011	Part B, Regulations R-3
9	To Act as <b>Legal Representative</b> of Taxpayer	Income Tax Ordinance, 2001 Income Tax Rules, 2002	Sec 223 Income Tax Ordinance, 2001 Rules 84-90 Chp XIV if Income Tax Rules, 2002
10	<b>Delegation of Function</b> by Assets Management Companies	SECP Circular, 2013	No.24/2013 dated December 06, 2013
11	Declaration for <b>Registration of Memorandum</b>	Companies Rules, 1985	Rule 4 (2) (ii)
12	Appointment as <b>Committee Member</b> on Custom matters	Customs Act, 1969	Section 195 C(2)
13	Appointment as <b>Member</b> of Settlement Commission on Custom matters	Customs Act, 1969	Section 196 K(3)
14	Appointment as <b>Accountant Member</b> of the Appellate Tribunal	Anti-Dumping Duties Ordinance, 2015	Rule 65(1)(a), No.2((1)/2015-Pub dated February 26, 2015
15	To Act as <b>Legal representative</b> in Anti-Dumping Tribunal	Anti-Dumping Duties Ordinance, 2015	No.2((1)/2015-Pub dated February 26, 2015
16	To Act as <b>Member</b> of Small Dispute Resolution Committee	Small Dispute Resolution Committees (Constitution and Procedure) Rules, 2015	Section 4(1)(b)
17	To act as an <b>Expert</b> in the Companies Act, 2017	Companies Act, 2017	Section 2(30)
18	To act as <b>Certifier</b> in the memorandum and articles	Companies Act, 2017	Section 17(3)
19	To act as <b>Auditor</b> for making report in case of return as to allotments	Companies Act, 2017	Section 70(b)
20	To act as an <b>Intermediary</b> in terms of Section 455 of the Companies Act, 2017	Intermediaries (Registration) Regulations, 2017	Section 3(i)(b)
21	To act as an <b>Internal Auditor</b> in the listed companies	Code of Corporate Governance	Code of Corporate Governance
22	To carry out the <b>Audit of Separated Accounts</b>	PTA Accounting Separation Guidelines, 2007	Sub-Clause 9(1)
23	To act as an <b>Expert in the Panel of Insolvency Experts</b>	Corporate Rehabilitation Regulations, 2019	Sub-Clause 4(ii)
24	To act as a <b>Provisional Manager and Official Liquidator</b>	Panel of Provisional Managers and Official Liquidators Regulations, 2019	Sub-Clause 4(a)

\*The above furnished details are compiled to the best of our knowledge, however, Worthy Members are encouraged to provide their inputs and feedback on the above information.

### TECHNICAL SUPPORT & PRACTICE DEVELOPMENT COMMITTEE