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ALL PRACTICING MEMBERS AND AUDIT FIRMS

Dear Audit Partners and Management of Audit Firms

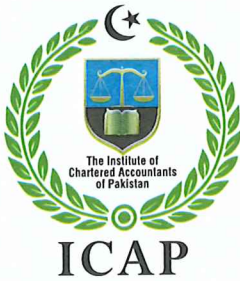
Important Communication Regarding the Implementation of ISQM 1

The Auditing Standards & Ethics Board (ASEB) is issuing this communication to provide crucial updates and guidance regarding the implementation of International Standard on Quality Management (ISQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services*, in Pakistan.

2. As you are aware, the Institute of Chartered Accountants of Pakistan (ICAP) has adopted ISQM 1, along with its consequential amendments to other International Standards, with the following effective dates:
 - **Effective Date for Designing and Implementing the System of Quality Management:** December 15, 2023, for auditors of public interest companies, and December 31, 2024, for auditors of other than public interest companies.
 - **Evaluation of the System of Quality Management:** Within one year following the effective date (i.e., by December 15, 2024, and December 15, 2025 respectively).
3. The implementation of ISQM 1 marks a significant shift in how audit firms manage and enhance the quality of their engagements. Moving beyond the previous ISQC 1, ISQM 1 emphasizes a proactive and risk-based approach to quality management. It requires firms to establish, implement, and maintain a system of quality management that is tailored to their specific circumstances and the nature and complexity of their engagements. This system is crucial for consistently providing quality engagements and enhancing public trust in the profession.
4. Under the requirements of ISQM 1, the audit firm must assign:
 - Ultimate responsibility and accountability for the system of quality management to the firm's chief executive officer or the firm's managing partner (or equivalent) or, if appropriate, the firm's managing board of partners (or equivalent);
 - Operational responsibility for the system of quality management;
 - Operational responsibility for specific aspects of the system of quality management, including:
 - i) Compliance with independence requirements; and
 - ii) The monitoring and remediation process.

5. The ISQM 1 also requires that, at least annually, the individual(s) assigned ultimate responsibility and accountability for the system of quality management, on behalf of the firm, evaluates the system of quality management and concludes whether the system of quality management provides the firm with reasonable assurance that the objectives of the system stated below are achieved:
- The firm and its personnel fulfill their responsibilities in accordance with professional standards and applicable legal and regulatory requirements, and conduct engagements in accordance with such standards and requirements; and
 - Engagement reports issued by the firm or engagement partners are appropriate in the circumstances.
6. Key Changes Introduced by ISQM 1:
- i) **Risk-Based Approach:** The standard mandates a risk assessment process to identify and respond to quality risks, rather than relying solely on policies and procedures.
 - ii) **System of Quality Management:** It emphasizes an integrated system encompassing all aspects of the firm's operations that affect engagement quality.
 - iii) **Emphasis on Governance and Leadership:** It places greater responsibility on firm leadership for establishing and maintaining a culture that supports quality.
 - iv) **Quality Objectives:** It requires to establish specific quality objectives that relate to the key components of your SOQM.
 - v) **Focus on Information and Communication:** Robust information systems and effective internal and external communication are critical.
 - vi) **Monitoring and Remediation Process:** Enhanced requirements for monitoring the system of quality management and addressing identified deficiencies.
 - vii) **Network Requirements and Network Firms:** Specific considerations for firms that are part of a network.
 - viii) **Engagement Quality Reviews:** Revised requirements for engagement quality reviews, focusing on the objectivity and competence of the reviewer.
7. To further assist your firms in the successful implementation of ISQM 1, ICAP has developed comprehensive guidance and a practical toolkit titled '**ICAP Guide & Toolkit**'. The Toolkit and other resource material are readily available on the ICAP website at: https://icap.org.pk/aseb/audit-and-assurance/icap_resources.php

We strongly encourage you to access and utilize these resources. They provide detailed explanations, illustrative examples, and practical templates to aid in understanding and applying the requirements of ISQM 1. These resources are invaluable in developing a robust and effective system of quality management tailored to your firm's specific needs.



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8. The primary purpose of this communication is to:
- Reiterate the adoption dates of ISQM 1 in Pakistan.
 - Emphasize the critical importance of establishing and maintaining a robust system of quality management under ISQM 1.
 - Specify the assigning of responsibilities for the system of quality management.
 - Highlight the key changes introduced by ISQM 1 compared to ISQC 1.
 - Draw your attention to the comprehensive guidance and toolkit available on the ICAP website to support your implementation efforts.

We encourage you to proactively engage with the available resources and seek clarification from ICAP when needed. The AESB will continue to issue relevant guidance relating to ISQM 1 implementation. By implementing the principles of ISQM 1, we can collectively enhance the quality of audit and assurance services, thereby strengthening the credibility and reliability of financial reporting in Pakistan.

Yours truly,

Farheen
8/5/25

Farheen Mirza, FCA

Deputy Director Technical Services
& Secretary Auditing Standards & Ethics Board