



Auditing Standards & Ethics Board Due Process & Procedures Handbook

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I. Introduction

1. This Due Process and Procedures Handbook (the Handbook) sets out the process that the Auditing Standards & Ethics Board (ASEB) follows in adoption and implementation of high-quality auditing and assurance standards and code of ethics for Chartered Accountants, issuance of guidance and to deal with all related matters. It has been prepared to inform stakeholders about the way in which the ASEB recommends adoption of the auditing and assurance standards issued by International Auditing and Assurance Standards Board (IAASB) and the Code of Ethics for Professional Accountants (thereafter referred to as code of ethic) issued by International Ethics Standards Board for Accountants (IESBA) of the International Federation of Accountants (IFAC), develops auditing frameworks and local standards on auditing, issues auditing guidance, and also includes how stakeholders can participate in the process.
2. The procedures set out in the Handbook, in the aggregate, are described as “Due Process”. They are designed to serve the public interest by addressing the need for transparency of the standard-adoption and setting process, extensive consultation and responsiveness to input received from all stakeholders. The due process procedures are critical in maintaining the objectivity of the standard adoption process and the quality of the pronouncements and guidance issued by the ASEB. The basic ingredients of due process are information gathering, discussion and consultation.
3. The ASEB’s due process is built on its Terms of Reference (ToRs), approved by the Council of the Institute of Chartered Accountants of Pakistan’s (ICAP). ICAP as a premier accountancy body established under the statute in 1961 serves the public interest at large.
4. The ASEB’s Terms of Reference can be found at www.icap.org.pk. The Handbook provides a detailed description of the ASEB’s working mechanism.
5. The formal due process procedures for the ASEB specify the necessary steps it must take to ensure that its activities have benefited from a thorough and effective consultation process.
6. From time to time the ASEB reviews how it is operating to determine whether some of these new and additional steps should be embedded into its due process. Similarly, such reviews could remove or amend due process steps that impede, rather than enhance, the efficient and effective implementation and development of the standards and issuance of technical guidance and responses to the stakeholders.
7. Questions about due process or the ASEB’s adherence to the procedures described in this Due Process Handbook should be addressed to the ASEB’s Chair or the Secretary ASEB.

II. Function

8. The ASEB's function comprises:

- To review and recommend the adoption of the auditing and assurance standards issued by International Auditing and Assurance Standards Board (IAASB) and the Code of Ethics for Professional Accountants issued by International Ethics Standards Board for Accountants (IESBA) of the International Federation of Accountants (IFAC) to the Council after due consultation with all the stakeholders and to facilitate members in their implementation;
- To review provisions of the applicable laws and regulations on the eligibility, duties and rights of auditors, and to make suggestions to relevant forums/regulators with the approval of the Council, and provide necessary guidance to members accordingly;
- To interact with relevant sector regulators of public interest entities on matters of audit of financial statements;
- To maintain a register of public interest entities and their auditors for engagement to promote public trust;
- To review selected audit reports issued during the year and develop guidance on matters arising out of such review;
- To develop guidance and publication on audit matters to improve audit practices. This may include auditing frameworks, local standards on auditing, audit & assurance report formats, circulars, guidelines, audit bulletin, FAQs, case studies, regional-analysis on audit remuneration and other guidance material specifically considering auditing issues of industry and financial statements components for members facilitation;
- To respond to queries on technical issues related to auditing, ethical and allied matters (including queries on ISAs, ICAP Code of Ethics for Chartered Accountants, provisions of corporate laws relating to audit, ethics and allied matters, code of corporate governance and secretarial practices, and relevant provisions of the Chartered Accountants Ordinance (CAO), 1961), raised by members, the Council, the regulatory authorities or any other statutory body/ Government.
- To hold meeting(s) of auditors of public interest entities with participation of regulators and entities, as per the Board's discretion;
- To prepare and submit comments on exposure drafts or other communications issued by IAASB and IESBA, after taking the views of membership into consideration.
- To coordinate with the international organizations such as IFAC, SAFA, CAPA, IOSCO etc. on matters relating to auditing, ethics and allied matters in consultation with the Chairperson of the Committee.
- To direct the auditors on any matter, where compliance is required by SECP.
- To hold seminars, webinars, conferences, roundtables, dialogues, surveys on matters related to audit of financial statements for members knowledge-sharing and capacity building.

III. Composition of ASEB

9. The ASEB composition is as follows:

- Fourteen (14) members to be nominated by the Council of which not more than four (4) are Council members, including the Chair.
- 01 nomination by the Board of Securities Exchange Commission of Pakistan (SECP)
- 01 nomination by the Board of State Bank of Pakistan (SBP)
- 01 nomination by the Board of Pakistan Stock Exchange (PSX)
- 01 nomination from the Auditor General of Pakistan (AGP)
- 01 nomination from the ICAP Quality Assurance Board (QAB)

IV. Guiding Principles

10. The ASEB recommends for adoption and reviews standards and issues guidance through a comprehensive and independent process that encourages broad participation, objectively considers all stakeholder views, and considers public interest with the aim to improve audit regime.
11. ASEB members exercise their judgment after research, due process, and careful deliberation.
12. The due process requirements are built on the following principles:
- i. **Public interest focus** - ensuring due process in adoption /setting standards and developing guidance is followed effectively with proper regard for the public interest
 - ii. **Transparency** - the ASEB conducts its standard adoption / setting process in a transparent manner and making public the information on which the Board's decisions are based;
 - iii. **Consultation** - the ASEB considers the perspectives of those affected by the auditing and assurance standards, code of ethics and related material;
 - iv. **Accountability** - the ASEB analyzes the potential effects of its proposals on the relevant stakeholders and explains the rationale for why it made the decisions in recommending adoption, developing or changing a standard; and
 - v. **Clear timely communication** - Each stage of due process of adoption of auditing and assurance standards, code of ethics and shall be communicated to stakeholders clearly and in timely manner.

Transparency

13. The ASEB publicizes its contact information and encourages stakeholders to communicate with it at every stage of the standard adoption / setting process. The ASEB maintains a communications plan for outreach to the public and carries out specific activities in accordance with that plan to achieve transparency of its standard adoption/ setting activities.
14. To promote the transparency of the ASEB's activities various materials are posted for the information of stakeholders at www.icap.org.pk. These materials may include:
- a) information about the ASEB and its due process;
 - b) project pages, which inform stakeholders of the status of projects and plans for future activities;

- c) decision summaries for meetings of the ASEB;
 - d) discussion papers and exposure drafts published by the IAASB, IESBA and ASEB for public comment;
 - e) background information and basis for conclusions documents for completed projects (if required); and
 - f) information updates on the topical issues.
15. The auditing and assurance standards and code of ethics recommended for adoption are notified by ICAP.

Consultation

16. The ASEB operates on the principle that wide consultation with interested and affected parties enhances the quality of auditing and assurance standards and code of ethics, and also ensures effective implementation of the standards. ASEB can carry out consultation through various means, including, consulting with its project Working Groups that it may establish, auditors, regulators, audit committees, users and academics. Other methods of consultation include issuing documents for stakeholders' comments, including discussion papers and exposure drafts, roundtables and fieldwork.

Fieldwork

17. The Directorate of Technical Services may sometimes use fieldwork to gain a better understanding of how a proposal is likely to affect those who use auditing and assurance standards and code of ethics standards.
18. Fieldwork can be undertaken in different ways, including:
- interviews with individual preparers, auditors, regulators or investors who are likely to be affected by the proposals;
 - consultative round tables of key stakeholders; and
 - surveys.

Clear timely communication

19. ASEB endeavors at all times to keep the stakeholders informed of important developments about the ASEB's operations and activities.

V. How the ASEB operates

A. The Chairman

20. The Chairman is appointed for a period of two years. The Chairman may serve two consecutive terms for an aggregate of four years.
21. The primary duties and authorities of the ASEB Chairman are to:
- i. Prepare short and long-range project plans of the ASEB, including the agenda of specific projects and their priorities, for submission to the members of the ASEB for approval.
 - ii. The Chairman shall prepare and submit, within three months, ASEB's annual report to the ICAP Council giving details of the work carried out during the year (July – June) including the adoption status of auditing and assurance standards and code of ethics.
 - iii. Establish ASEB's project working groups pursuant to procedures described in Section V (D) of this Handbook.
 - iv. Establish operating procedures for the ASEB and its working groups to implement and direct their broad operating processes.
22. The Chairman works in cooperation with other members of the ASEB in fulfilling ASEB's functions. The Chairman may delegate or assign particular functions, duties or projects to other members of the ASEB, the technical services staff, project working groups, or such others as the ASEB Chairperson may deem appropriate.

B. Board Members

- i. The standard term of the Board member is two years. A member may serve up to three consecutive terms, for a maximum aggregate term of six years.
- ii. The Council member nominated on the Board is eligible to complete two years irrespective of the fact that he/she remains the Council member or not.
- iii. The term of ICAP nominated members is also for two years and may be eligible for reappointed for a further term of two years.

C. Technical Staff

23. The ASEB is supported by the DTS staff possessing knowledge and experience of auditing and assurance, ethics and relevant requirements of company laws and regulations, education, and research. The DTS staff under ASEB guidance is given training to possess updated knowledge of auditing and assurance and ethical standards.

D. Project Working Groups

24. The ASEB shall establish project working groups to provide it with advice and recommendations as required. The composition of a project working group would reflect the purpose for which the group is being formed, bearing in mind the need to ensure that it draws on a diverse and broad membership.
25. Each project working group should have terms of reference, setting out the objectives of the group, the expectations from the ASEB members and responsibilities of the members to that group. The ASEB may have more than one working group on a project, for example, to provide advice on a particular aspect of a proposed standard or post-implementation review.
26. The convenor of working group may /may not be the board member depends on the nature of the task.

27. The DTS staff shall provide working group members with updates on the progress of the project. Further, DTS is to provide the ASEB with the update on the working group's project.

E. Due Process to deal with Technical Queries on Auditing and Ethics matters

28. As discussed in Annexure A of TOR s of board, the technical queries will be dealt in the following manner:
- a. An unambiguous and concise enquiry from a member should be received in the specified 'Technical Enquiry Form' to DTS containing full particulars of the enquirer;
 - b. ASEB would not deal with queries which involve legal interpretations or matters which are pending in the Court of law or with the regulators/ or any ICAP committee or subjudiced.
 - c. Enquiry from regulators would be accepted only when it is received from Director or above level.
 - d. No enquiry requiring a written response shall be entertained over phone.
 - e. The decision to refer the written enquiry to the ASEB will be made after consulting with the Chairman keeping in view the technical nature of the matter;
 - f. In case the opinion has already been issued previously, then the reply should be sent to the enquirer within seven days of the receipt of the Form, with the approval of the Chairman.
 - g. In case the enquiry is referred to ASEB then formal reply of the enquiry will be issued to the enquirer within a month from the receipt of the Form. In case of delay in response, the enquirer should be informed accordingly.
 - h. For urgent enquiry, the opinion will be obtained by circulating the draft DTS response through email. The reply will be sent to the enquirer with the consensus of members and approval of the Chairperson.
 - i. The enquiries responded in the form of opinions will be uploaded on the website in the form of 'Selected Opinions'. The identity of the enquirer will not be disclosed in the published Selected Opinions.
 - j. A view expressed by ASEB would represent nothing more than the opinion of the Board and not the official opinion of the Council and cannot be challenged. Disclosure to this fact as a 'disclaimer' shall be the part of all the written opinions issued to the enquirer.
 - k. The queries conforming to above Rules should be addressed to the Secretary ASEB, The Institute of Chartered Accountants of Pakistan and should be acknowledged within three working days of the receipt of the Form.

F. Stakeholder's Engagement

29. One of the key board's functions would be to interact with all stakeholders and relevant regulators. The ASEB undertakes the following types of public consultation:
- a. interacting with relevant sector regulators of public interest companies (PIC) on matters of audit of financial statements;
 - b. holding of at least annual meeting of auditors of PICs with participation of regulators and entities, as per the Board's discretion
 - c. meeting with audit committees of PIC on the complex or recurring auditing matters;
 - d. roundtable discussion groups and information sessions, including educative webinars, to seek specific engagement with, and comment from, stakeholders on selected topics;
 - e. exposing for public comment a draft of any proposals; and
 - f. making wider appeals to stakeholders generally, including the use of surveys /questionnaires.

VI. ASEB Meetings

30. The ASEB's discussions of potential projects, technical issues and decisions take place during its meetings.
31. The ASEB meets at least four times per year. Additional meetings may be convened at the Chair's request.
32. The quorum of ASEB will be at least eight members (representing 40% of the Board membership) including the Chairperson.
33. ASEB meeting cannot be attended by proxy by any of its member.
34. The ASEB by mutual consensus may invite non-members to attend and participate in its meetings on any specific matter/ agenda. Individuals or organizations with interests or expertise in a particular project may be invited to provide background briefings to the ASEB and to respond to questions.
35. Before each ASEB meeting, the DTS staff prepares agenda and working papers for review and approval by ASEB Chairman. Agenda is normally distributed to the ASEB members at least five (5) working days before the ASEB meeting at which they are scheduled for discussion to allow members sufficient time to consider and assess the information and recommendations.
36. During its meetings, the ASEB also discusses comments and suggestions arising from information gathered by the DTS staff, and from consultations with the ASEB's working groups and with other interested parties through roundtable meetings and comment letters.
37. The DTS staff summarizes ASEB's decisions related to public interest, and a decision summary approved by the chairman is published at www.icap.org.pk. The ASEB project pages are also updated to reflect the ASEB's decisions.
38. Minutes of the meeting are prepared by the ASEB Secretary, and circulated to ASEB members within fifteen working days of the meeting.

A. Approving a document

39. Before initiating any project, the ASEB Chairman consults the ASEB members during a meeting to gauge the level of support. If there is sufficient support, the ASEB instructs the DTS staff to prepare a draft document (discussion paper, exposure draft, standard, guide or any other material).
40. For each project, the DTS staff maintains a summary of due process steps required, including how these steps have been complied with and the reasons for any non-compliance. This due process summary is made available to the ASEB members. In voting to approve a document for issuance, the ASEB members are required to state whether or not they are satisfied that due process has been appropriately followed.
41. The voting requirements for approving the ASEB's documents are as set out in below section.
42. In voting to approve a document, the ASEB members are required to vote according to their own beliefs rather than the views of their firm or organization. All votes taken in an ASEB meeting are documented in the minutes of that meeting. The minutes are approved at a subsequent meeting and constitute proper evidence of the ASEB's decision.

B. Voting on Standards and Guides

43. All the ASEB members are required to vote to recommend the adoption of auditing and assurance standard or code of ethics to the Council, or to develop local auditing standard or auditing technical release or Frameworks and Guide, to the Council, either in person or through e-mail. The affirmative vote of at least fourteen (14) members (70% of board members) either in person or through email communication is required for approval of the aforementioned documents.

44. Whereas, for decision on matters in the ordinary course such as issue of an exposure draft, response to a query and issuance of format of audit and assurance report, a vote of majority members present in the meeting would be required.

C. Dissenting view

45. An ASEB member who proposes to dissent from the publication of exposure draft, recommendation to adopt a standard, issuance of the final standard / auditing frameworks/ local standards on auditing, or Code of ethics, audit & assurance report formats, guidance on auditing matters, or response to a query make his/her intentions known during the ASEB meeting. Dissenting opinions are expressed by the ASEB member concerned during the meeting will be documented in the minutes of the meeting.

Instances where voting by all the ASEB members is required if a member is not present in the said meeting then he/ she can share their view through e-mail either in support or dissent of the matter, including any observations or recommendations on the same.

D. Wording of dissents

46. Dissenting members should work with the DTS staff to formulate the wording of any dissent. Dissenting opinions should clearly explain the basis for the dissent and include an outline of an alternative approach to that proposed in the exposure draft, or required by the standard or the response to query or in the wordings of audit & assurance report formats, any other document voted by the ASEB.

VII. Publication

47. The DTS staff in consultation with the Chairman decides the communication material to accompany the release of an ASEB approved guide, recommendation to adopt a standard or Code of ethics and audit & assurance report formats etc.
48. Depending on the nature of the new requirements, the DTS staff may also develop, and make freely available, presentations and other communications materials.

Post-publication procedures and maintenance

49. After the issuance or adoption of a standard or code, issuance of a guide or other resource material on auditing, ethics and allied matters having wider application and relevance, the DTS consults with the ASEB's relevant working group and other interested parties (determined in consultation with the Chairman) to evaluate whether unexpected issues have arisen from the implementation of the above referred items and the potential effect of its provisions. If necessary, the ASEB may consider amending the local standard or code, guide or other guidance material, to clarify or otherwise address issues that have arisen.
50. From time to time, there may be a need for an editorial correction such as a correction to a cross-reference or typographical error etc. Such corrections do not alter the technical meaning of the text. They are made without exposure with the approval of the ASEB Chairman. ASEB members are informed of any such change and may request that it be discussed at an ASEB meeting prior to the change being made to the Guide.

VIII. Post-Implementation Review

51. A Post-Implementation Review (PIR) is an opportunity to assess the effect of a new standard or code of ethics or major amendment in auditor's report. The review considers whether the standard/ code has achieved the intended objectives and the issues that were important or contentious during the development or adoption of the standard / code of ethics, as well as issues that have come to the attention of the ASEB after the standard / code was published / notified. The DTS staff also consults the wider audit community or relevant stakeholders to help the ASEB identify areas in which possible unexpected implementation problems were encountered.
52. The ASEB generally conducts a PIR of each new standard. A PIR normally begins after the new requirements have been applied for two years. However, on the basis of its initial assessment, the ASEB may decide not to conduct a PIR or that it would be premature to undertake a review at that time.
53. In addition to PIRs that respond to a new standard the ASEB may decide to conduct a PIR in response to changes in the auditor's reporting and/or legal and regulatory requirements, or in response to concerns about the quality of a standard that have been expressed by the Council or stakeholders.
54. The ASEB normally allows a minimum of 60 days for comment on a post-implementation Request for Information.
55. The ASEB considers the comments that it has received from the Request for Information along with the evidence and information that it has obtained from any additional analysis. When the ASEB has completed its deliberations, it presents its findings at the ASEB meeting. The ASEB may consider making minor amendments to the standard/code or preparing an agenda proposal for a broader revision of the standard. There is no presumption that a PIR will lead to any changes to a standard. The ASEB may also continue informal consultations throughout the implementation of the standard or the amendment to the standard.

IX. Consultancy

A. Due Process

56. Due process steps that the ASEB must follow before it can recommend adoption of a standard or code of ethics or proposed audit and assurance report format or guideline are:
 - a) debating any proposals in one or more meetings;
 - b) exposing for public comment a draft of any proposed new standard, or proposed amendment to a standard or code of ethics or proposed guideline;
 - c) including in each exposure draft of an ASEB developed proposal an explanation of the reasons for the proposals and their expected effects;
 - d) considering in a timely manner comment letters and other input received on the proposals;
 - e) considering whether exposure draft of an ASEB developed standard / guide should be exposed again;
 - f) publishing a background information and basis for conclusions document for ASEB developed final standards;
57. ASEB provides a minimum comment period for ASEB developed standards and Guide, as follows:
 - i. new ISA or code of ethics – 30 days;
 - ii. new other local standard – 30 days;

- iii. new auditing framework or Guide or auditing technical release or if revision is required in any of these document (if ASEB decides to issue an Exposure Draft) – 21 days;
 - iv. re-exposure of the standard – 20 days after consideration of comments received on an exposure draft;
 - v. PIR – 40 days.
58. Although the ASEB is required to adhere to due process and to inform of its actions, a failure to do so does not render a standard invalid. If the ASEB becomes aware, after approving a standard or code of ethics or audit and assurance report format or guide, that it has not adhered to due process as described in this Due Process Handbook, it will consider whether any action is necessary. The ASEB would consider the significance and nature of the aspect of due process not adhered to in determining if any action is necessary and what that action might be.

B. Participating in the IAASB/ IESBA Due Process

Due process documents

59. The IASB uses a variety of tools to consult with its stakeholders, including formal documents that either invite comments from stakeholders or inform stakeholders about the results of its public consultation:
- Request for information (RFI), Surveys and Questionnaires - which assists in gathering evidence about existing auditing practices and its impact on the audit profession, keeping in view the role of relevant regulators;
 - Discussion Paper (DP) or Research Paper (RP) - which assist in gathering information and opinions to provide evidence about whether a problem exists and, if so, whether potential solutions can be identified and developed into more specific solutions;
 - Exposure Draft (ED) - which contain specific proposals for new or revised requirements of auditing and assurance standards issued by IAASB including (International Standards on Quality Management (ISQMs), the International Standards on Auditing (ISAs), the International Standards on Review Engagements (ISREs), the International Standards on Assurance Engagements (ISAEs) and the International Standards on Related Services (ISRSs)) and code of ethics. The ED assist in gathering information and opinions to help IAASB/IESBA to refine the proposals to improve the quality of any new or revised requirements to be issued; and
 - Feedback Statement (FS) - which summarizes the findings of a project or broader consultation, such as a PIR.

The IAASB/ IESBA typically allows at least 120 days for comments on proposals and at least one year between the issue and mandatory implementation of new requirements of auditing and assurance standards and code of ethics.

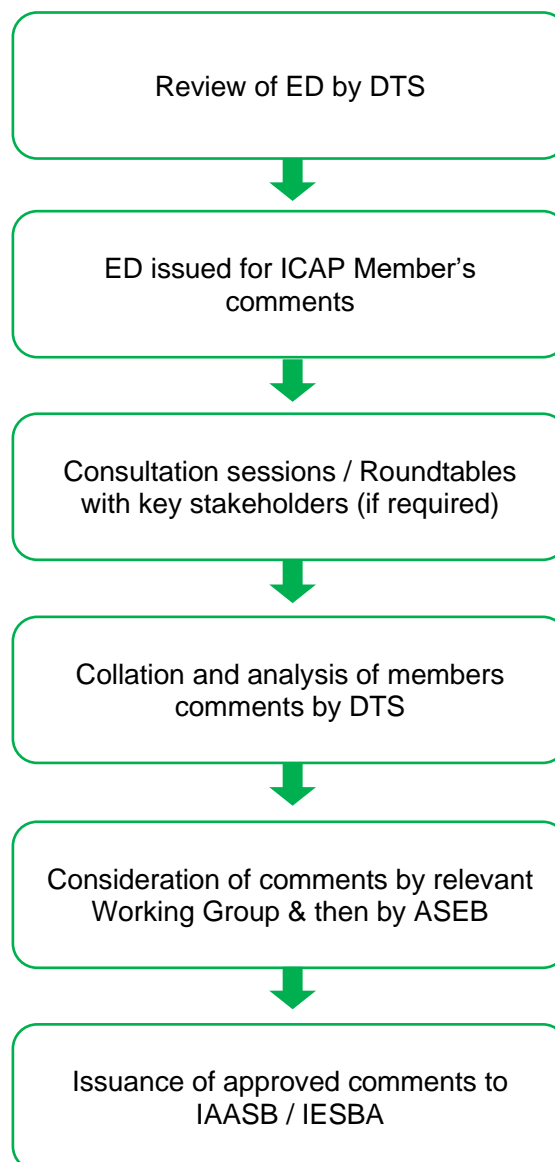
60. The ASEB generally responds to all published IAASB/ IESBA discussion papers, exposure drafts, surveys or questionnaires and similar documents in individual standard-setting projects, as well as to requests for information for post-implementation reviews. However, some IAASB/ IESBA invitations to comment may relate to topics that have little if any relevance to Pakistan stakeholders. In such cases, the ASEB may decide not to respond to the invitation to comment.
61. In forming its views, the ASEB seeks input from its working group, as appropriate, and from the relevant stakeholders. The ASEB may hold roundtables, depending on the significance and nature of the proposals or other request.

62. In adopting auditing and assurance standards issued by IAASB or the IESBA code requirement, the ASEB believes that it is generally in the Pakistan's public interest to adopt those standards. While the IAASB's due process provides assurance that a new or revised requirement is suitable for adoption, the ASEB may take the additional steps of identifying whether the standard/ requirement is suitable for application in Pakistan.
63. The due process is required for the following:
- a. Adoption of new and revised auditing and assurance standards including ISAs / Code of Ethics for Chartered Accountants;
 - b. Comment on the Exposure Draft issued by IAASB and IESBA;
 - c. Development of Guideline/ Audit reporting and approval process

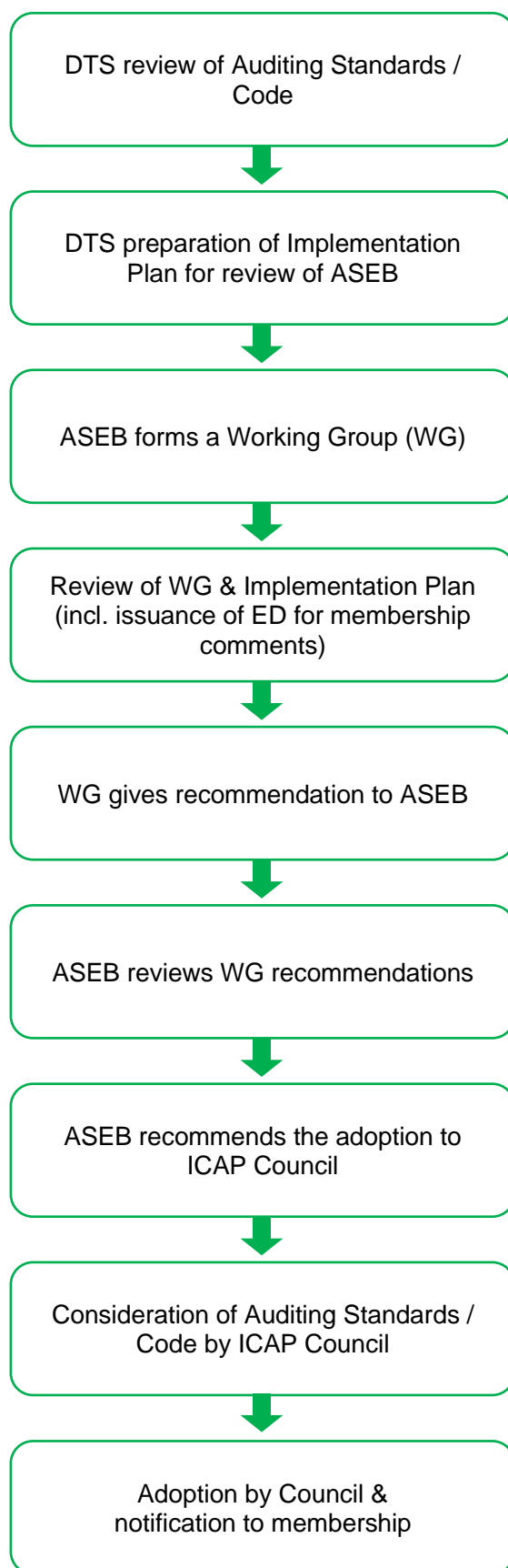
Flowcharts of the above are **enclosed** in subsequent section.

64. From time to time the ASEB reviews how it is operating, in order to determine whether new and/or additional steps should be embedded into its due process. This would improve the due process steps that will enhance the efficient and effective implementation of auditing and assurance standards including ISAs, development of the local standards, guidelines, audit & assurance report formats, issuance of technical opinions, guidance and responses to the members.

C. Exposure Draft Consultation Process

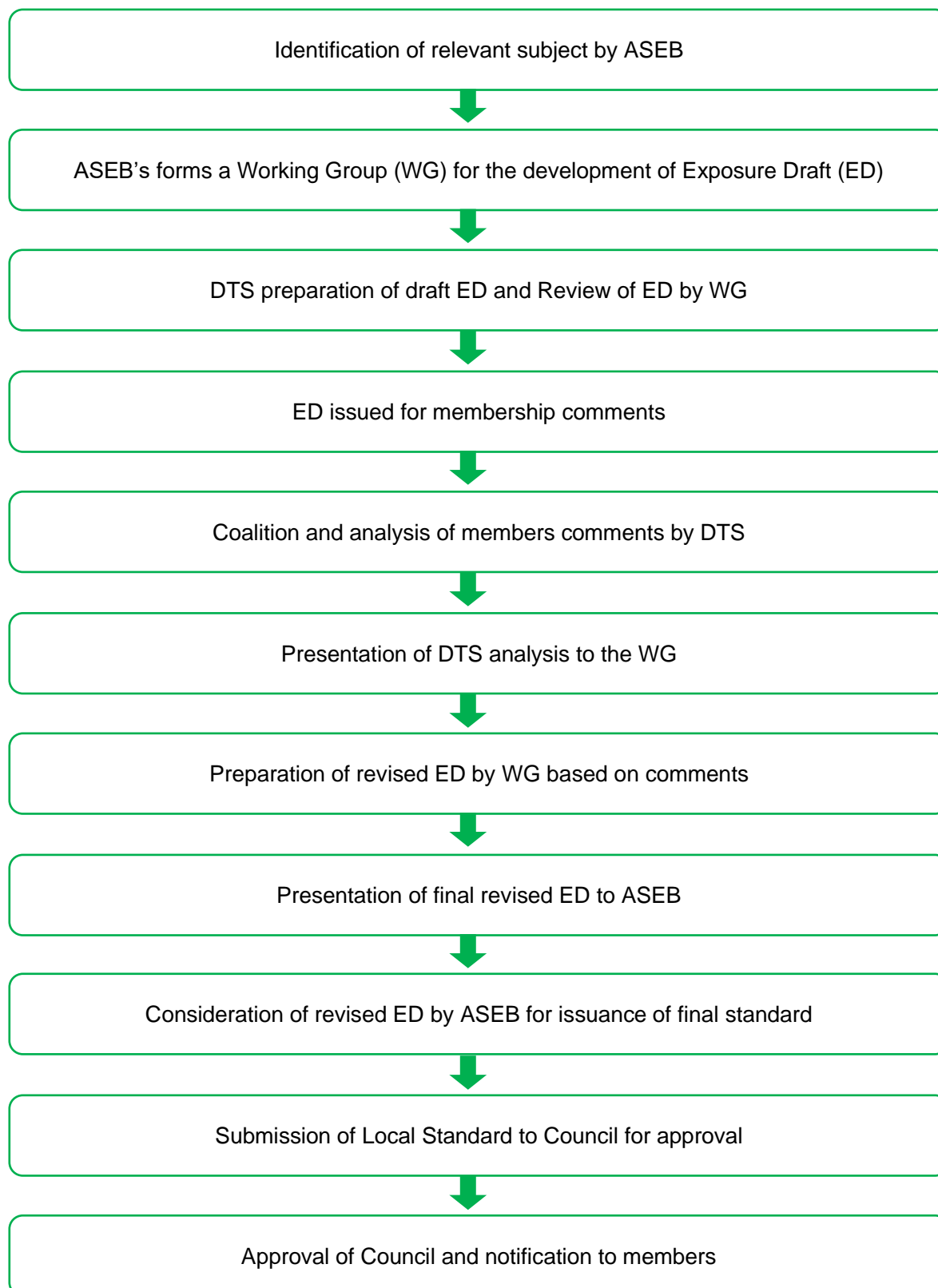


D. Due process for Adoption of Auditing & Assurance Standards / Code of Ethics



E. Due process for development of Local Standard

The ASEB develops local auditing standards complying with the following due process:



F. Due process for development of Guideline / Formats of Audit & Assurance Report/ Auditing Technical Release (ATR) and their Revisions (if required)

