



**The Institute of
Chartered Accountants
of Pakistan**

**CA
PAKISTAN**

PRESIDENT

Date: October 7, 2020

Name: Khalilullah Shaikh, FCA

Title: President

Company: The Institute of Chartered Accountants of Pakistan (ICAP)

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Dear IFAC,

Subject: Letter to Confirm Institutional Support for the SMO Action Plan

This letter is to confirm that the leadership of the Institute of Chartered Accountants of Pakistan (ICAP) has reviewed the information contained in the SMO Action Plan prepared by Institute of Chartered Accountants of Pakistan (ICAP) as part of the IFAC Member Compliance Program and will provide institutional support for its implementation.

On behalf of the leadership of the Institute of Chartered Accountants of Pakistan (ICAP), I endorse publication of the SMO Action Plan on the IFAC website in the interests of transparency and to demonstrate our commitment to enhancing the quality and credibility of the accountancy profession worldwide.

Sincerely,

(Signature of President or Chairman of the Board or equivalent)

(Institute of Chartered Accountants of Pakistan (ICAP))

(October 7, 2020)

(Established under the Chartered Accountants Ordinance, 1961 - X of 1961)

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BACKGROUND NOTE ON ACTION PLANS

SMO Action Plans are developed by IFAC Members and Associates to demonstrate fulfillment of IFAC Statements of Membership Obligations (SMOs). SMOs require IFAC Members and Associates to support the adoption¹ and implementation² of international standards and other pronouncements issued by independent standard-setting boards under the auspices of IFAC as well as by the International Accounting Standards Board (IASB); and to establish a Quality Assurance (QA) review and Investigation and Disciplinary (I&D) systems.

IFAC Members and Associates conduct a self-assessment against the requirements of SMOs and identify areas where improvements are needed. Based on the results of the assessment, Members and Associates develop an SMO Action Plan to (a) demonstrate how they fulfill the requirements of the SMOs and (b) where some requirements are not yet addressed, to present plans towards their fulfillment.

SMO Action Plans are designed to be ever-green documents that provide a comprehensive description of the accountancy profession and its legislative and regulatory environment in the jurisdiction as well as the actions undertaken by IFAC Members or Associates to support adoption and implementation of international standards and best practices.

Regular updates of the SMO Action Plans are required as part of the IFAC Member Compliance Program.

Use of Information

Please refer to the [Disclaimer](#) published on the Compliance Program website.

ACTION PLAN

IFAC Member:	The Institute of Chartered Accountants of Pakistan (ICAP)
Original Publish Date:	April 2009
Last Update:	October 2020
Next Update:	October 2023

¹ *Adoption* is concerned with the decision that international standards are appropriate for use in specific national financial reporting environments and with the actions necessary to effect those decisions, including incorporation into national requirements or requiring the use of international standards through law. Adoption may include a process to review draft international standards, translation, public exposure of proposed standards, approval, incorporation into national requirements as necessary, and promulgation of final standards, and, where applicable, a convergence process to eliminate or minimize differences between international and national standards.

² *Implementation* may include a process to build awareness of the adopted standards, provide relevant education and training, develop or disseminate implementation guidance and any other activities that promote proper understanding and use of the standards in practice.

GLOSSARY

ASB	Accounting Standards Board
AOB	Audit Oversight Board
ASEC	Auditing Standards & Ethics Committee
CPD	Continuing Professional Development
DTS	Directorate of Technical Services
ETCOM	Education and Training Committee
ICAP	Institute of Chartered Accountants of Pakistan
IES	International Education Standards
IFAC	International Federation of Accountants
IFRS	International Financial Reporting Standards
IPSAS	International Public Sector Accounting Standards
ISA	International Standards on Auditing
ISQC 1	International Standard on Quality Control 1
NRC	Northern Regional Committee
PS&TAC	Professional Standards and Technical Advisory Committee
PSC	Public Sector Committee
QAB	Quality Assurance Board
QAD	Quality Assurance Department
QCR	Quality Control Review
SBP	State Bank of Pakistan
SECP	Securities & Exchange Commission of Pakistan
SMO	Statements of Membership Obligations
SMP	Small and Medium Practices
SRC	Southern Regional Committee

Action Plan Subject: SMO 1–Quality Assurance
Action Plan Objective: Development of Quality Assurance Program in line with SMO 1

Background:

The QCR Program is integral to the ICAP's regulatory framework. It was established to develop and maintain compliance of professional standards amongst the firms engaged in the audits of limited companies, particularly the listed entities, as the Listed Companies (Code of Corporate Governance) Regulations applicable in Pakistan (since 2002) requires a satisfactory QCR rating as mandatory for firms conducting audits of listed entities. This reflects the ICAP's commitment to protecting the stakeholders'/public interest and also maintaining rigorous self-regulatory standards.

In 1987, the Council of the ICAP constituted the Quality Control Review (QCR) Committee with the key objective of establishing a quality control review framework in respect of audits of financial statements conducted by the firms. To bring more transparency and independence the QCR Committee was transformed into the Quality Assurance Board in 2005 with the induction of 3 nominees of the Securities and Exchange Commission of Pakistan (SECP) and one nominee of State Bank of Pakistan (SBP).

In 2016 the Audit Oversight Board (AOB), an independent audit regulator was formed with the collaboration of ICAP and the Securities and Exchange Commission of Pakistan last year. Members of that board were nominated during the year.

Those audit firms which carry out or intend to carry out audits of public interest companies are required to register themselves with the AOB in accordance with section (1) of section 36T of the SECP Act, 1997.

However, the ICAP is still playing an important role in the QCR process after the introduction of the AOB, as the QCR's are being performed by the ICAP and decision on the basis of those are being made by the QAB. The AOB is independently reviewing the QAB and QAD's work in that regard on periodic basis. The AOB is registering audit firms on the recommendation of QAB.

QUALITY CONTROL REVIEW (QCR) PROGRAM FRAMEWORK, 2019

After formation of AOB, and its legal framework, a need was felt to align the QCR Framework with AOB regulations and the International best practices. Hence the QCR framework was jointly reviewed by AOB and ICAP and necessary changes were made. The QCR Framework, 2019 was approved by the Council in its 313th meeting held on April 25 - 26, 2019 and has become applicable from June 15, 2019.

Following are salient features of the revised QCR Framework 2019:

1. Satisfactory QCR will now be categorized into following two categories:
 - (i) Satisfactory; or
 - (ii) Satisfactory, with improvements required.
2. In addition to overall unsatisfactory conclusion of Engagement Review and Firm Review, other factors would also be considered for assigning unsatisfactory QCR Rating;

3. Integration of ISQC 1 and engagement rating into a single firm rating;
4. Concept of review committee has been done away with;
5. Increase in frequency of QCR from 2 ½ years to two years for firms that have issued audit reports of PICs within last two calendar years;
6. QCR of Firms other than the above shall be subject to review once in every three years
7. The Firm at the time of submission of list of all audit engagements to QAD under clause 9.3 shall declare that the Firm and all its partners:
 - i) are in compliance with the requirements related to qualification and disqualification of auditors as specified in the Companies Act, 2017 at the date of submission of such declaration; and
 - ii) were also compliant with such requirements in respect of the audit engagements included in the list submitted under clause 9.3.

The revised framework is also available for download at <https://www.icap.org.pk/wp-content/uploads/QA/circular/circular-2-2019.pdf>

Review of the Firms under International Standard on Quality Control – 1 (ISQC 1)

The Council of the ICAP on January 22, 2008 made ISQC 1 “Quality Control for Firms that perform Audits and Reviews of Historical Financial Information and Other Assurance and Related Services Engagements” mandatory for all firms undertaking audits of listed entities for accounting periods beginning on or after 1 July 2009.

In March 2012 the scope of ICAP QCR Programme was further extended by SECP. Requiring all non-listed companies, falling under the definition of 'Economically Significant Companies' (ESC) to appoint QCR rated firms as their statutory external auditors. The requirement of this directive was made effective from the financial year beginning on or after July 01, 2012. In 2015 SECP has brought further changes and the auditors of unlisted companies of following categories are required to have satisfactory QCR rating from ICAP:

- 1) Public Interest Company;
- 2) Large Sized company; and
- 3) Public Interest and large Sized company which is either associations not for profit or limited by guarantee.

#	Start Date	Actions	Completion Date	Responsibility	Resource
<i>Adoption and Support for Implementation of the International Standard on Quality Control (ISQC 1)</i>					
1.	January 2008	Develop a self-assessment checklist to help firms assess and demonstrate their level of compliance with ISQC 1. The following four action steps below pertain to the steps taken by ICAP at the recommendatory stage of ISQC 1's adoption (before July 2009). These steps were taken to prepare and facilitate the firms for the mandatory implementation of ISQC 1 for accounting periods beginning on or after July 1, 2009.	Completed March 2008	Quality Assurance Board	Quality Assurance Department (QAD)
2.	April 2008	Develop an ISQC 1 Manual in the form of a CD ROM containing checklists and forms for all areas of the standard. Firms should be able to comply with the requirements of ISQC 1 by customizing these documents according to their own requirements.	Completed October 31, 2008	Quality Assurance Board	QAD
3.	July 2008	Hold roundtable meetings to provide a discussion forum to practicing members for sharing their views and implementation issues concerning ISQC 1.	Completed March 2009	Quality Assurance Board	Quality Assurance Board/QAD
4.	July 1, 2008	Initiate a mentoring program to assist firms with the implementation of ISQC 1.	Completed June 30, 2010	Quality Assurance Board	QAD
5.	October 1, 2010	Monitor compliance with ISQC 1 of firms which have been given satisfactory rating to conduct audit of the following: 1) Public Interest Company; 2) Large Sized company; and 3) Public Interest and large Sized company which is either associations not for profit or limited by guarantee.	Ongoing	Quality Assurance Board	QAD
<i>Further Development of the Quality Control Review (QCR) Program</i>					
6.	October 2008	Constitute a task force/committee that will be responsible for revising the QCR framework in accordance with the requirements of SMO 1, revised ISAs and ISQC 1.	September 2009 Completed	Quality Assurance Board	QAD / Committee

#	Start Date	Actions	Completion Date	Responsibility	Resource
7.	July 1, 2009	An inclusion of new section in the Chartered Accountants Ordinance, 1961 has been recommended to make the QCR mandatory for all firms.	January 1, 2012 (subject to amendment by legislators)	Secretary/ President	ICAP Legal Department
8.	May 2010	Develop a checklist for ISQC 1 compliance to be completed by the reviewer at the time of visit of firm under the said standard.	August 2010 Completed	Quality Assurance Board	QAD
9.	January 2011	The QAB also issued a revised "ISQC 1 Implementation Guide" (previously known as ISQC 1 Manual) with the dual objective of providing guidance and understanding of the requirements of ISQC 1 as well as to augment its acceptability and implementation within SMPs. The guide is available for download at ICAP website at the following link: http://www.icap.org.pk/wp-content/uploads/QA/ISQC1ImplementationGuide.pdf	April 2011 Completed	Quality Assurance Board	QAD
<i>New Developments</i>					
10.	2014	To bring further improvements/ clarity and transparency in the Quality Control Review Framework in line with best practices and with AOB legal framework, the Council in its 313 th meeting held on April 25-26, 2019 approved the revised QCR Program Framework.	April 2019 Completed	Council	QAD
<i>Maintaining Ongoing Processes</i>					
11.	Ongoing	Continue to ensure that ICAP's Quality Control Review (QCR) program is operating effectively and continues to be in line with requirements of SMO 1 as far as practicable. This includes periodic review of the operation of the QCR system and updating the Action Plan for future activities where necessary.	Ongoing	Quality Assurance Board	QAD

#	Start Date	Actions	Completion Date	Responsibility	Resource
<i>Review of ICAP's Compliance Information</i>					
12.	May 26, 2008	Review the SMO Action Plan and update sections relevant to SMO 1. Once updated, inform IFAC compliance staff about the updates in order for the compliance staff to republish updated information.	Ongoing	QAD	QAD

Action Plan Subject: SMO 2–International Education Standards for Professional Accountants and Other Pronouncements Issued by the IAESB
Action Plan Objective: Adoption of IES 8 and Ongoing Adoption of IAESB Pronouncements

Background:

The Directorate of Education, Training & CPD is responsible to ensure that the Institute remains compliant, with the education pronouncements of IFAC. Currently, the Institute has adopted all the education standards issued by IAESB and is fully compliant with these standards as illustrated below:

- IES 1: The minimum entry requirement equivalent is Higher School Certificate or equivalent qualification. However, graduates also join the qualification with applicable credits. Further details on ICAP's streams are available at <https://www.icap.org.pk/do-ca/entry-routes/> .
- IES 2: The competence areas of professional accounting education programs detailed in IES2 are incorporated throughout the curriculum of the CA program. For details visit the link: <https://www.icap.org.pk/students/study-resources/>
- IES 3: The key professional skills highlighted in IES 3 are assessed by the Institute through various methods such as written examinations, practical training under supervision of a member of the Institute and training in Registered Accounting Education Tutors.
- IES 4: ICAP's education and training system ensures development of professional values and adherence to the code of ethics issued by the Institute.
- IES 5: ICAP has mandatory practical training periods varying from 3, 3.5 to 4 years based on the qualification or years of education on commencement of training. The training is regulated under the Byelaws and Training Regulations issued by the Institute.
- IES 6: The four levels of the qualification are; Assessment of fundamental competencies (AFC), Certificate in Accounting and Finance (CAF), Certified Finance and Accounting Professional (CFAP) and Multi-subject Assessments (MSA).
The Multi-subject Assessments are set mainly based on case studies and scenario type questions. The overall assessment scheme ensures that the core objectives of the IES are duly fulfilled.
- IES 7: Members are required to complete at least 120 hours or equivalent learning units of relevant professional development activity in each rolling three year period, of which 60 hours or equivalent learning units should be verifiable.
Every member is required to complete at least 20 hours or equivalent learning units in each year; and track and measure

learning activities to meet the given requirements.					
<p>IES 8: The requirements of the IES with regard to the professional competence that professional accountants performing the role of an Engagement Partner responsible for audits of financial statements is fulfilled through education program that contains relevant assessments and compulsory training in practice for at least two years. Maintenance of said competencies is currently the responsibility of the professional accountants through CPD activities relevant to the role of an Engagement Partner to audit professionals. The Institute is deliberating on prescribing specific and structured CPD requirements for all members in practice.</p>					
#	Start Date	Actions	Completion Date	Responsibility	Resource
<i>Steps for Further Improvement of IES 8 Compliance</i>					
13.	July 2016	Discuss the CPD requirements of revised IES 8 in house and make comparison with the existing policies and procedures of ICAP. Identify areas that need improvement.	Completed on July 27, 2016	Director Education & Training	Directorate of Education & Training
14.	August 1, 2016	Prepare a proposal for changes and improvement in existing rules, regulations and guidelines keeping in view CPD requirement mentioned in IES 8.	Completed December 31, 2016	Continued Professional Development (CPD) Committee	Directorate of Education & Training
15.	January 1, 2017	<ul style="list-style-type: none"> – Consult members in general and practicing firms in particular on any changes in existing rules, regulations and guidelines. – Redraft new rules, regulations and guidelines accordingly, if necessary. 	Completed March 31, 2017	Director Education & Training	Directorate of Education & Training
16.	April 1, 2017	Recommend the Council any changes in rules, regulations and guidelines, if necessary.	Completed May 31, 2017	CPD Committee	Directorate of Education & Training
17.	June 1, 2017	Approve changes in rules, regulations and guidelines.	2020	The Council	CPD Committee

#	Start Date	Actions	Completion Date	Responsibility	Resource
<i>Maintaining Ongoing Processes</i>					
18.	June 1, 2009	<p>Regularly visit IFAC's website and prepare comments on new Exposure Drafts from IAESB via the following process:</p> <ul style="list-style-type: none"> • Understand the requirements of the new education standards; • Discuss these within ETCOM and CPD Committees; • Recommend their adoption to the Council; • If adopted, update ICAP's curriculum accordingly; • Announce the implementation date of new curriculum; and <p>Update IFAC.</p>	Ongoing	Director Education & Training and Director Examinations	Directorate of Education & Training and Directorate of Examinations
19.	June 1, 2009	<p>Continue to ensure that ICAP's curriculum is in compliance with the requirements of SMO 2. This includes periodic review of ICAP's curriculum and updating the Action Plan for future activities where necessary.</p>	Ongoing	Director Education & Training and Director Examinations	Directorate of Education & Training and Directorate of Examinations
<i>Review of ICAP's Compliance Information</i>					
20.	May 26, 2008	<p>Update SMO Action Plan in sections relevant to SMO 2. Once updated inform IFAC compliance staff about the updates in order for the compliance staff to republish updated information.</p>	Ongoing	Director Education & Training and Director Examinations	Directorate of Education and Training and Directorate of Examinations

Action Plan Subject: SMO 3–International Standards and other Pronouncements Issued by the IAASB
Action Plan Objective: Adoption and Promulgation of IAASB Pronouncements

Background:

The ICAP Council is the authority responsible for adopting standards. ICAP has adopted all ISAs to date verbatim. Further, all amendments are adopted automatically.

Audit report format has been aligned with ISA 700 (revised) and has been notified by the SECP through Auditor (Reporting Obligations) Regulations 2018, effective for periods ending on or after 30 June 2018.

The latest adoption status of ISAs is posted on the ICAP website on a regular basis. Responses to Exposure Drafts and Discussion Papers are sent to IAASB regularly through the Institute’s Auditing Standards & Ethics Committee (ASEC). <http://www.icap.net.pk/standards/isaadoption>

To keep all the members of the Institute informed on developments in auditing standards, all the IAASB pronouncements are communicated via monthly newsletter and a quarterly Audit Bulletin. The newsletter is also sent to members by e-mail and the same is also posted on the Institute’s website.

The quarterly Audit Bulletin is circulated to members by e-mail and is also uploaded on the Institute’s website it covers international and local developments in audit, legal and regulatory requirements and updates of the ASEC.

There is coordination with the CPD department for developing relevant CPD programs consisting of seminars, workshops, round tables and conferences covering diverse issues.

From time to time different articles and audit booklets are issued to facilitate and provide guidance to members.

#	Start Date	Actions	Completion Date	Responsibility	Resource
<i>Adoption of All IAASB Pronouncements</i>					
21.		Responses to Exposure Drafts and Discussion Papers are sent to IAASB regularly through the Institute’s Auditing Standards & Ethics Committee (ASEC).	Ongoing	Auditing Standards & Ethics Committee (ASEC)	DTS and Information Technology Department
<i>New Developments</i>					
22.	April 30, 2015	ISA 701 has been adopted by the by the Council.	June 2016	ASEC	DTS and ASEC

#	Start Date	Actions	Completion Date	Responsibility	Resource
23	April 30, 2015	<p>After the due process the audit report has been aligned with ISA 700 (Revised) and SECP has issued the same through Auditor (Reporting Obligations) Regulations 2018, effective for periods ending on or after 30 June 2018.</p> <p>To facilitate implementation of the new Auditors report model the following initiatives and measure have been taken:</p> <ul style="list-style-type: none"> • Awareness sessions were conducted for all stakeholders in the major cities. • Sector wise illustrative Key Audit Matters (KAM) have been compiled on the ICAP website: http://www.icap.net.pk/nar/kam • Guidance has been issued 'New Auditors Report your questions answered' : http://www.icap.net.pk/wp-content/uploads/2018/08/New-Auditors-Report-Your-Questions-Answered.pdf 	June 2018 (completed)	ASEC	DTS, ASEC and Southern Regional Committee (SRC) and Northern Regional Committee (NRC)
<i>Supporting Implementation of IAASB Pronouncements</i>					
24.	Ongoing	<p>To create awareness, Small and Medium Practice (SMP) workshops and Continuing Professional Development (CPD) activities like seminars, round tables and conferences are planned in coordination with the Quality Assurance Department (QAD) and CPD Department:</p> <ul style="list-style-type: none"> • Identify workshop and CPD topics, especially covering the clarified ISAs; • Identify trainers and volunteers for conducting the workshops and CPD sessions; and • Coordinate and develop a workshop and CPD calendar and communicate to Trainees and Members. 	Ongoing	CPD, QAD and DTS	CPD staff and Southern Regional Committee (SRC) and Northern Regional Committee (NRC)

#	Start Date	Actions	Completion Date	Responsibility	Resource
25.	Ongoing	To create awareness of changes and developments in auditing and accounting standards the Institute compiles and circulates the 'Technical Update' section of the monthly newsletter. It is posted on the Institute's website and a printed version is sent to members. The Institute's Newsletter and website timely covers all significant updates related to ISAs. Links to IFAC Exposure Drafts are sent to all members for their comments.	Ongoing (monthly)	DTS	Publication staff
26.	October 2014	To keep members abreast with the local and international Auditing practices, Institute has taken the initiative for developing a quarterly Audit Bulletin.	Ongoing (quarterly)	ASEC and DTS	DTS and Publication staff
<i>Monitoring Compliance of Members' Activities with Auditing Standards</i>					
27.	Ongoing	Monitor compliance of members' activities with the auditing standards through the Quality Assurance Department which is responsible for conducting Quality Control Reviews of audited financial statements of both listed and private companies. For further details please refer to SMO 1 response.	Ongoing	QAB and QAD	QAD and Quality Assurance Board
<i>Review of ICAP's Compliance Information</i>					
28.	May 26, 2008	Review the SMO Action Plan and update section relevant to SMO 3. Once updated inform IFAC compliance staff about the updates in order for the compliance staff to republish updated information.	Ongoing	Director DTS	Technical staff

Action Plan Subject: SMO 4–IESBA Code of Ethics for Professional Accountants
Action Plan Objective: Adoption and Support of Implementation of the Revised IESBA Code of Ethics

Background:

The Institute in July 1990 adopted the IFAC Code of Ethics for Professional Accountants for the first time with some amendments. Then in May 2008, the Institute’ Code was revised and issued to members. After that in July 2009, the International Ethics Standards Board for Accountants (IESBA) of IFAC issued a revised Code of Ethics for Professional Accountants, clarifying requirements for all professional accountants and significantly strengthening the independence requirements of auditors. Since 2009 to 2014, major structural changes and new requirements were introduced by IESBA in the Code.

In order to adopt the revised IESBA Code, the relevant Committee of the Institute took up the review of Codes issued by IESBA from 2009 to 2014 and after an exhaustive study, adopted the latest IESBA Code subject to some changes. The following areas of ICAP Code are more stringent than the IESBA Code:

- Fees and Other Types of Remuneration.
- Public Notices, Announcements and Communications.

The revised Code is effective for audits of financial statements for periods beginning on or after July 01, 2015.

<http://www.icap.net.pk/wp-content/uploads/2013/12/ICAP-Code-of-Ethics-2015.pdf>

Recently, the Institute has adopted the 2018 revised and restructured IESBA Code of Ethics which is effective from July 01, 2020.

<https://www.icap.net.pk/icap-code-of-ethics-2019>

At prequalification level students are tested on the Code of Ethics in the auditing examination at both intermediate and final level.

#	Start Date	Actions	Completion Date	Responsibility	Resource
<i>Adoption of IESBA Revised Code and Maintaining Ongoing Process</i>					
29.	April 29, 2010	ICAP Code of Ethics has been revised in light of 2014 IESBA Code of Ethics for Professional Accountants.	April 2015	Professional Standards & Technical Advisory Committee	PS&TAC and DTS

#	Start Date	Actions	Completion Date	Responsibility	Resource
30.	Ongoing	Send regular responses to IESBA exposure drafts. Report updates to Members through Technical Update and Quarterly Audit Bulletin.	Ongoing	ASEC DTS	ASEC and DTS Publication and Communication
<i>Support of Implementation of the IESBA Code</i>					
31.	July 2015	FAQs on ethics have been developed and the same have been placed on the website.	April 2016	Director DTS	DTS
32.	August 2015	Awareness-raising round table sessions will be held in all the major cities in Pakistan for the revised Code of Ethics.	December 2016	Director DTS	DTS and Southern Regional Committee (SRC) and Northern Regional Committee (NRC)
New Development					
33.	2018	The Institute is in the process of adopting the 2018 revised and restructured IESBA Code of Ethics. The same has been adapted where the local requirements are more stringent	July 2019	ASEC Council	DTS
34.	2018	Awareness sessions were held on NOCLAR and the revised and restructured 2018 Code of Ethics	May 2019	Director DTS	DTS and Southern Regional Committee (SRC) and Northern Regional Committee (NRC)
35.	2019	Developing FAQs and guidance	April 2020	ASEC DTS	DTS

#	Start Date	Actions	Completion Date	Responsibility	Resource
<i>Review of ICAP's Compliance Information</i>					
36.	May 26, 2008	Review changes and update SMO Action Plan sections relevant to SMO 4. Once updated inform IFAC compliance staff about the updates in order for the compliance staff to republish updated information.	Ongoing	Director DTS	DTS

Action Plan Subject: SMO 5–International Public Sector Accounting Standards and Other Pronouncements Issued by the IPSASB
Action Plan Objective: Promoting Ongoing Convergence with IPSASs

Background:

The Auditor General of Pakistan is responsible for adopting public accounting standards in Pakistan. The Government of Pakistan currently uses the cash basis of accounting that closely follows the requirements of the IPSAS Cash Basis of accounting. Since the formation of the Accounting Standards Board (ASB) in March 2017, the advocacy for adoption and promotion of IPSAS is being done by ASB, formerly the Public Sector Committee (PSC) of the Institute was working to create awareness of, and promote convergence with, the IPSASs through close collaboration between the Institute and the Government's Accounting and Accountability wings.

. The ASB includes a nominee from the Auditor General of Pakistan (AGP) . For advocacy of IPSAS and accrual based accounting in line with its strategy ASB has made presentations to the Auditor General of Pakistan (AGP) and Controller General of Pakistan explaining the benefits of the same.

Further, the Institute has representation on the AGP Policy Board, where based on its advocacy significant decisions have been made for the process of adoption of IPSAS such as aligning of AGP Accounting Manuals with IPSAS.

In April 2013 the Institute with AGP and CGA, had signed a MOU for establishing collaboration between the three organisations for the improvement of auditing, accounting, and financial management in accordance with international standards and best practices.

The Auditor General of Pakistan, with the World Bank's assistance, was working on a Project to Improve Financial Reporting and Auditing (PIFRA) to help government business enterprises in applying Cash Basis IPSAS.

Key policy reforms introduced under PIFRA were modernization of budgeting, accounting and auditing functions, installation of Integrated Financial MIS (IFMIS) and Audit MIS (AMIS) throughout the country, separation of accounting functions from Auditor General's auditing functions and massive training. Institutional reforms included the establishment of the office of CGA, replacement of century old accounting regime with New Accounting Model (NAM) and establishment of IT organisation to implement IFMIS. PIFRA has provided all processes and procedures for the commitment accounting but still AGP/CGA staff lack capacity to deal with the issues. Despite all efforts there is still a weak Management Information System and Financial Management System.

The PIFRA project has come to an end on December 31, 2014, and the project has now been taken over by the AGP/ CGA officially.

#	Start Date	Actions	Completion Date	Responsibility	Resource
<i>Promote IPSASs to the Government</i>					
37.	December 5, 2008	Provide recommendations with detailed guidance to the Government on a regular basis on areas that need improvement such as commitment accounting, strengthening boards of public sector companies, convergence from cash to accrual basis of accounting, debt reconciliation, consolidation and definition of state ownership policy, corporate governance and sustainability of government finances in the long term.	Ongoing	Accounting Standards Board (ASB)	ASB and DTS
38.	December 5, 2008	Coordinate through the ASB with the Accountant General and Auditor General Offices and other important stakeholders to organize meetings, seminars and roundtables to raise awareness of IPSAS.	Ongoing	ASB	ASB and DTS
39.	July 01, 2010	Included Cash based IPSAS in the Chartered Accountancy examination syllabus. The objective is to give qualified CAs with a working knowledge of the IPSAS in the management of Government entities.	Completed	Education & Training Committee	DTS and DET
<i>New Development</i>					
40.	September 2014	<p>To disseminate the importance of Public Finance Management (PFM). The Institute had organized a two day Public Finance Management Conference in collaboration with the World Bank Group and U.S Agency for International Development (USAID), in the power hub of Pakistan – Islamabad, on November 25 and 26, 2014.</p> <p>Continuing this initiative the second PFM Conference was held on May 02, 2016 in collaboration with 'The Chartered Institute of Public Finance and Accountancy'. The theme of the conference was 'PFM for Service Delivery'.</p> <p>The Conferences were a step in continuation to the efforts of ICAP to strengthen and enhance the public finance management system of the country. PFM Booklet 2014 has been published and issued to Finance Ministry for their information and necessary action and work is ongoing on the</p>	Ongoing	Secretariat	Secretariat

#	Start Date	Actions	Completion Date	Responsibility	Resource
		2016 booklet. The third PFM Conference was held on May 8, 2018 in collaboration with the CIPFA. The theme of the conference was ' Good Governance – Helping Deliver Better Public Services '.			
41.	October 2014	The enforcement of 'Public Sector Companies (Corporate Governance) Rules 2013' (Rules) is an important step for improving governance and transparency of public sector companies. With the implementation of Rules, the Institute has issued review report formats for the listed and unlisted public sector companies and by also commenting on the FAQs developed for the guidance of public sector companies. The same have been notified by the SECP.	October 2015	Director DTS	Coordination Committee of SECP and ICAP
New Development 2018 -19					
42.	2018	In 2018, the Accounting Standards Board (ASB) of ICAP hosted a meeting with the Auditor General of Pakistan (AGP) in which the scope for implementation of the accrual accounting in the public sector was discussed and advocated. Further, the Chairman of ASB also attended the Policy Board meeting of AGP in which in which a presentation was given by him on gaps between existing accounting practices in public sector and the accrual accounting. As a result AGP has started the process of aligning its Accounting Manuals with IPSAS and has also commenced the process for implementation of accrual accounting in the Public Sector as a part of "P for R Project" which is funded by the World Bank.	Ongoing	ASB	ASB and DTS
<i>Review of ICAP's Compliance Information</i>					

#	Start Date	Actions	Completion Date	Responsibility	Resource
43.	May 26, 2008	Review the SMO Action Plan and update the section relevant to SMO 5. Once updated inform IFAC compliance staff about the updates in order for the compliance staff to republish updated information.	Ongoing	Director DTS	DTS

Action Plan Subject: SMO 6–Investigation and Discipline
Action Plan Objective: Strengthening the Investigation and Disciplinary Mechanism

Background:

The process of investigation proceedings carried out by the Council /Investigation Committee of the Institute is governed by the Chartered Accountants Ordinance, 1961.

Under the Chartered Accountants Ordinance, 1961, misconduct proceedings can be initiated against a member or student of the Institute. A complaint in this regard may be lodged by any member of the Institute or any other aggrieved person to the Secretary of the Institute who is required to place the matter before the Investigation Committee. The Complaints are dealt with at two forums. Firstly, the Investigation Committee, which is a fact finding body, conducts the inquiry and forwards its findings in the form of a report to the Council. The Council, which is an elected body of members (including four members nominated by the Federal Government, one of them is usually the Chairman of the Securities & Exchange Commission of Pakistan) , on receiving the report of the Investigation Committee makes a decision on the case. The member/student against whom the investigation proceedings have been initiated is given ample opportunity to respond to the charges both written or through personal presence.

If the Council concurs with the findings of the Investigation Committee, that the accused **member** is guilty of professional misconduct specified in Schedule I of the Chartered Accountants Ordinance, 1961, it makes orders under section 20D of the Chartered Accountants Ordinance, 1961 (which specifies the punishments for members). If the Council is of the opinion that the member of the Institute is guilty of professional misconduct specified in Schedule II (significant professional offences), it refers the case to the High Court with its recommendations thereon.

If after providing an opportunity of hearing to the accused **student**, the Council concurs with the findings of the Investigation Committee, that the student is guilty of any professional misconduct specified in Schedule III (irregularities), it makes orders under section 20E of the Chartered Accountants Ordinance, 1961 (which specifies the punishments for students).

#	Start Date	Actions	Completion Date	Responsibility	Resource
<i>The Investigation & Disciplinary (I&D) Mechanism</i>					
44.	February 2015	To further strengthen the I&D mechanism the Council after the due process has proposed a comprehensive set of amendments in the Chartered Accountants Ordinance, 1961 and the same are under the process of legislative approval. .	Due to lengthy process of approval of legislation, it would be difficult to provide a completion date at this point in time.	ICAP Council	ICAP Secretariat
<i>Review of I&D Mechanism</i>					
45.	October 2016	Establishing time frame targets for disposal of investigation cases by the Investigation Committee.	Ongoing process	ICAP Secretariat & Investigation Committee	ICAP Secretariat & Investigation Committee
46.	Ongoing	Periodic review of the I&D Mechanism requirements covered in the Chartered Accountants Ordinance, 1961 to make relevant changes and to periodically ensure that all the requirements are fully and substantively implemented and the I&D mechanism functions effectively and efficiently.	Ongoing	ICAP Secretariat and Chairman - Investigation Committee	ICAP Secretariat and Investigation Committee
<i>Raising Awareness of the I&D Mechanism</i>					
47.	Ongoing	Provide new Members with the Members' Hand Book (which contains the Chartered Accountants Ordinance, 1961 and the Chartered Accountants Bye laws, 1983) at the time of registering for Membership.	Ongoing	Secretary	Membership
48.	Ongoing	Publish news about the findings and decisions of the ICAP Council on investigation cases from time to time in the Institute's publications. Annually the Investigation Report is published in the ICAP Annual Report giving information relating to the process and reconciliation of investigation cases for the period.	Ongoing	Secretary	ICAP Secretariat

#	Start Date	Actions	Completion Date	Responsibility	Resource
49.	January 2010	A Manual containing decisions of the Council on investigation cases has been developed which is being referred during meetings of the Council and Investigation Committee for guidance and consistency purposes.	Completed	Secretary	ICAP Secretariat and Investigation Committee
<i>Review of ICAP's Compliance Information</i>					
50.	May 26, 2008	Review the SMO Action Plan and update the section relevant to SMO 6. Once updated inform IFAC compliance staff about the updates in order for the compliance staff to republish updated information.	Ongoing	Secretary	ICAP Secretariat

Action Plan Subject: SMO 7–International Financial Reporting Standards and Other Pronouncements issued by the IASB
Action Plan Objective: Implementation of IFRS

Background:

All IAS/IFRS except IFRS 1 have been adopted by ICAP and notified by Securities Exchange Commission of Pakistan (SECP) for public interest companies, listed companies and large sized companies.

All IAS/IFRS (effective as of January 1 2020) except IFRS 1 have been adopted by ICAP and notified by SECP.

There are a few exceptions, meaning that though IAS/IFRS has been adopted, it is not fully implemented or is deferred for application to some entities on the directions of the regulator in the country. These include:

- IAS 39 & 40 and IFRS 7, which have been deferred by State Bank of Pakistan (SBP) for financial entities falling under its purview as it has prescribed recognition and measurement criteria of financial instruments for such financial entities separately.
- IFRIC 4 ‘Determining whether an Arrangement contains a Lease’ and IFRIC 12 ‘Service Concession Arrangements’ owing to practical problems IFRIC 4 and IFRIC 12 have been held in abeyance for Independent Power Producers (IPPs). All IPPs and power companies have exemption from IFRIC 4 and IFRIC 12 and are also allowed capitalization of Exchange Differences having foreign currency loans in relaxation of the requirements contained in IAS 21 and are encouraged to gradually apply IAS 39.

IFRS 16 has been adopted, subsequently the earlier granted exemptions to all companies from IFRIC 4 ‘Determining whether an Arrangement contains a Lease’, and power companies specific exemption from IAS 39 (Embedded derivative) and IAS 21 (Capitalization of exchange losses) under the ‘grandfathering approach”. would no longer be available to new contracts of companies after 01 Jan 2019.

- IFRS 9 will be effective for banks and DFIs from periods beginning on or after January 1, 2021 (BPRD Circular 4 dated October 23, 2019.)

Further, through SRO 985(I)/2019 (02-09-2019) , in respect of companies holding financial assets due from the Government of Pakistan, the requirements contained in “IFRS 9 (Financial Instruments) with respect to application of Expected Credit Losses method” shall not be applicable till 30th June, 2021, provided that such companies shall follow relevant requirements of IAS 39 – Financial Instruments: Recognition and Measurement, in respect of above referred financial assets during the exemption period.

Current ICAP Process

Currently ICAP is following the under mentioned process for adoption of IFRS:

1. The matter of adoption is first considered by the Accounting Standards Board (ASB) which identifies any issues that may arise on

adoption.

2. ASB, after considering the local environment, determines how the adoption and implementation can be facilitated i.e. whether a sufficient transition period should be given to a particular sector, or all sectors, or if the issue requires amendments in local regulations.
3. If the identified issues necessitate amendments in the local regulations then the matter is referred to the SECP and/or SBP through the Coordination Committees of ICAP and SECP/SBP.
4. After the satisfactory resolution of issues the ASB recommends adoption of the standard to the Council .
5. The Institute recommends the adoption to the SECP for notification in the Official Gazette.

The Institute, as part of its strategy, has been persuading both the SECP and SBP to eliminate deviations in adoption of IAS/IFRS through the respective Co-ordination Committees.

Progress Made to Date to Overcome Problems in Adoption of IFRS/IAS

The developments in this regard include amendments in the Fourth & Fifth Schedules of the Companies Act 2017 made by SECP.

1. On the recommendation of ICAP, the SECP has notified the IFRS for SMEs issued by IASB which is applicable by Medium Sized Companies defined as a non- listed company (excluding the companies licensed/formed under Section 42 and Section 43 of the Companies Act, 2017) which is not a:
 - a.Public Interest Company; or
 - b.Large Sized Company; or
 - c.Small Sized Company other than a non- listed public company.
2. Small and Medium Sized Company formed/licensed under Section 42 and Section 43 which has an annual gross revenue including other income / revenue of less than Rs.200 million.

Whereas the '*Revised Accounting and Financial Reporting Standards for SSEs*' is applicable on:

1. Small Sized Companies defined as other than a non-listed public company having :
 - a.Paid up capital not exceeding Rs. 10 million, and
 - b.Turnover not exceeding Rs.100 million.

The State Bank of Pakistan is currently considering application of IAS 40 and to the banks and DFIs.

ICAP is working together with regulators to ensure that in Pakistan all sectors become fully compliant with IFRS to the maximum extent possible taking in consideration the limitations.

#	Start Date	Actions	Completion Date	Responsibility	Resource
<i>Promotion of Full Adoption of IASB Pronouncements</i>					
51.	March 31,2009	Adoption of IFRS 1 by ICAP. The adoption of IFRS 1 is pending as it requires unreserved statement of compliance with all IFRS standards, however, SECP and SBP have granted relaxations and exemptions from application of certain IFRS.	subject to elimination of exemptions by SECP/ SBP	ASB	Coordination Committee of SECP and ICAP, ASB and DTS
52.	Ongoing	As part of the Institute's strategy for full compliance with IFRS by Listed and Large Sized Companies other than Banks & DFIs by January 2017 ICAP has been persuading the SECP to eliminate deviations in adoption of IAS/IFRS. To take following steps: → Persuade SECP to make necessary amendments to Companies Ordinance, 1984 (CO 84). → Replace the term IAS with IFRS in CO 84. → Persuading SECP for full implementation of IAS 39 and 40 on Insurance companies respectively.	December 31, 2016 December 31, 2016 Completed	ASB	ASB and Coordination Committee of SECP and ICAP
53.	Ongoing	As part of the Institute's strategy for full compliance of IFRS by Banks and DFIs by January 2018, persuade SBP to eliminate deviations in adoption of IAS/IFRS. To take following steps: → Persuade SBP for full implementation of IFRS 9 and 40 on Banks and DFIs respectively. → Recommend withdrawal of requirements of Prudential regulations of SBP which are in conflict with IFRS.	January 2020	ASB	ASB and Coordination Committee of SBP and ICAP
54.	July 2009	IFRS for SMEs was notified by SECP and has replaced the local Standard for Medium Sized Entities. Simultaneously the local <i>Accounting and Financial Reporting Standards for SSEs</i> has been revised to be made into a standalone document.	September 2015 completed	Council	AcSC and DTS

#	Start Date	Actions	Completion Date	Responsibility	Resource
<i>New Development</i>					
55.	May 2010		January 1, 2018	ASB	AcSC and DTS
56.	November 2014	<p>The following IFRS have been notified by SECP on ICAP's recommendation for adoption:</p> <p>IFRS 15 Revenue from Contracts with Customers SECP notified IFRS 15 for all entities for annual periods beginning on or after July 1, 2018.</p> <p>IFRS 9 'Financial Instruments'</p> <p>SECP has notified IFRS 9 for all entities with an effective date from periods beginning on or after July 1 2018.</p> <p>Further, to facilitate implementation, subsequently the SECP deferred the effective date of IFRS 9 for reporting period/year ending on or after June 30, 2019 for all companies required to prepare their financial statements in accordance with the requirements of IFRS Standards. The SECP has allowed early adoption of IFRS 9 for companies that wish to do so.</p> <p>SBP vide BPRD Circular 4 dated October 23, 2019 made IFRS 9 applicable for banks and DFIs from periods beginning on or after January 1, 2021</p> <p>IFRS 16 'Leases'</p> <p>SECP has notified IFRS 16 for all entities with an effective date from periods beginning on or after January 1 2019.</p> <p>However, for banks SBP has extended the implementation date to June 30, 2019.</p>	2019 Completed	ASB	ASB and DTS

#	Start Date	Actions	Completion Date	Responsibility	Resource
57.	2018	IFRS 14 'Regulatory Deferral Accounts' IFRS 14 has been adopted by SECP and is effective from periods beginning on or after July 1, 2019.	June 2019 completed	ASB SECP	ASB
58.	2017	IFRS 17 'Insurance Contracts' ASB has recommended the adoption of IFRS 17 to SECP effective from the IASB implementation date.	2020 Subject to SECP notification	ASB SECP	ASB
59.	2017	ASB is working with SECP and SBP to eliminate the gaps that are there in IFRS implementation due to the exemptions given to various sectors. DTS publication Adoption and Application of IFRS in Pakistan provides an overview of the IFRS adoption status of Pakistan, including new IFRS applicable to December 31, 2019 financial statements. It also provides details of exemptions/deferments from IFRS granted by SECP and SBP to different companies and sectors. The publication can be accessed at: http://www.icap.net.pk/files/circular/Adoption-and-Application-of-IFRS-in-Pakistan.pdf	Ongoing	ASB SECP / SBP	ASB
Maintaining Ongoing Process					
60.	Ongoing	Send response to Exposure Drafts and Discussion Papers to IASB through the Institute's Accounting Standards Board (ASB).	Ongoing	ASB	ASB and DTS
61.	Ongoing	Plan awareness-creating CPD activities such as seminars, round tables and conferences and Small and Medium Practice (SMP) workshops in coordination with CPD and QAD: <ul style="list-style-type: none"> • Identify SMP workshop and CPD topics. • Identify trainers and volunteers for conducting the SMP and CPD sessions. • Coordinate and develop a SMP workshop and CPD calendar and communicate to Students and Members. 	Ongoing	Director CPD, QAD, and DTS	CPD staff and Southern Regional Committee (SRC) and Northern Regional Committee (NRC)

#	Start Date	Actions	Completion Date	Responsibility	Resource
62.	<i>Ongoing since October 15, 2008</i>	To create awareness of changes and developments in accounting standards the Institute compiles and circulates the 'Technical Update' section of the monthly newsletter. It is posted on the Institute's website and a printed version is sent to members. The Institute's Newsletter and website timely covers all significant updates related to IFRSs.	Ongoing (every month)	<i>Director DTS</i>	<i>Regional Coordinator Publication and Communication staff</i>
63.	Ongoing	For addressing monitoring compliance of the standards the Institute has set up an Independent Quality Assurance Board having significant representation of regulators and supported by Quality Assurance Department which is responsible for conducting Quality Control Review of audited Financial Statements of Listed and Unlisted companies. For further details please refer to SMO 1 response.	Ongoing	Quality Assurance Board	Quality Assurance Board and QAD
<i>Review of ICAP's Compliance Information</i>					
64.	<i>May 26, 2008</i>	Review the SMO Action Plan and update the sections to SMO 7. Once updated inform IFAC compliance staff about the updates in order for the compliance staff to republish updated information.	Ongoing	<i>Director DTS</i>	<i>DTS</i>