



### Inside

Committee Activities

National Updates

International Updates

Pakistan Stock Market – KSE-100 Index  
Fluctuations

Rupee-Dollar Parity

Topic of the month – Model Audit Practice  
Manual for CMAs (Audit Execution and  
Reporting)

Legal Privileges available to Cost and  
Management Accountants (CMAs)

### Message from the Chairman

It gives me immense pleasure to present the fifth 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



## Committee Activities

### Launch of 'COVID-19 RESOURCES HUB'

The coronavirus (COVID-19) is sweeping the globe and causing colossal damage to human lives; the figure of death almost reaching 100,000 and still the virus is spreading like wildfire. The COVID-19 pandemic has shaken the foundations of global economies and affected the everyday lives of global communities.

In order to keep our members abreast with the latest news and updates regarding the coronavirus (COVID-19) and steps taken up by the Government to cope up with this pandemic, the Institute has created a resource hub on the web portal of ICMA Pakistan, which may be accessed through the following link:-

<https://www.icmap.com.pk/covid19.aspx>

This 'COVID-19 RESOURCES HUB' provides useful insight on COVID-19 initiatives taken by the Institute and the Pakistan Government in the wake of situation arising out of outbreak of coronavirus pandemic. The information on this hub would be regularly updated. We hope our members would stay tune to latest developments being posted on this hub to navigate through this critical time.

### Technical Session on the Online Integration of Businesses

Federal Board of Revenue (FBR) proposed amendments in the Income Tax Rules, 2002 by inserting a new chapter regarding Online Integration of Businesses through S.R.O. 296(I)/2020 for public comments. According to draft, the provisions of this newly introduced Chapter shall also apply to the Accountants. To prepare a comprehensive feedback to the FBR in this regard, the Chairman TSPD Committee called a Technical Session of practicing members on April 15, 2020 through Zoom software. Worthy Members participated in the session and formulated detailed proposals for onward submission to the FBR.

### Technical Updates

During the lockdown situation in the country, the Institute continuously updated 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.

# National Updates

## Corporate Sector

### 1. REGULATORY RELIEF TO DILUTE IMPACT OF CORONAVIRUS (COVID-19) FOR CORPORATE SECTOR

Securities and Exchange Commission of Pakistan (SECP) vide their Circular No. 10 of 2020 notified relief to corporate sector to dilute impact of Coronavirus (Covid-19).

The SECP in discharge of its statutory responsibilities for beneficial regulation of corporate sector seeks to clarify as follows:-

i) Impact of general relaxation in holding annual general meetings on annual financial statements and filing deadline for first quarter financial statements:

In view of Circular 06/2020 dated March 22, 2020 a thirty days general extension in holding annual general meeting (the "AGM") was provided to all companies facing difficulties in holding their annual general meetings for year ended December 31, 2019.

Now, the said extension is being simultaneously extended to listed companies under Section 223(2) of the Act, for laying their annual financial statements in the AGM. Moreover, SECP shall facilitate companies for grant of extension in filing of first quarter financial statements on application sent to SECP via email.

ii) Requirement of disseminating information to shareholders through post:

Pursuant to section 55 and section 223(6) of the Act, the companies can circulate the notices of general meetings and annual reports to members, by post or electronically. Further, the public companies which are already required under S.R.O 1196 (1)/2019 dated October 3, 2019 to post the notice of meeting on their website in English and Urdu language along with the annual financial statements can post the same at PUCAR system of Pakistan Stock Exchange Limited (for listed companies) and also publish the notice of meeting in one English & one Urdu language newspaper.

Companies should draw attention of members through public notice in print media and inform them about the electronic source from where notice, reports etc. may be accessed. Moreover, companies should also endeavor to disseminate the notices and reports to the members electronically via email addresses, WhatsApp numbers etc.

iii) Filing of interim financial statements other than first quarter financial statements:

The law does not provide for any relaxation in timeline for filing quarterly financial statements except for first quarter financial statements. However given the extraordinary circumstances, companies are advised to prioritize public safety, while ensuring corporate compliance, and the SECP shall give due consideration to all underlying circumstances while enforcing regulatory compliance.

iv) Requirement to hold a Board of Director ("BOD") meeting once in every quarter:

The law does not provide for any specific relaxation in requirement of holding of BOD meeting once in every quarter. However, in terms of section 179 of the Act companies are encouraged to pass resolution by the directors through circulation. Given the extraordinary circumstances, companies are advised to prioritize public safety, while ensuring corporate compliance, and the SECP shall give due consideration to all underlying circumstances while enforcing regulatory compliance.

v) Companies to make necessary work arrangements for ensuring regulatory compliances:

As safety of employees is priority of the companies during the coronavirus (COVIT-19) outbreak, therefore companies are encouraged to make necessary arrangements for the use of technology and related applications in order to enable them to work from home to meet the regulatory compliances.

For further details, please visit the following links:-

<https://www.secp.gov.pk/document/circular-10-of-2020-regulatory-relief-for-corporate-sector-to-dilute-covid-19-impact/?wpdmdl=38897>

### 2. SRO 273(I)/2020 – MODIFICATION IN THE EFFECTIVE DATE OF IFRS-9

SECP vide their SRO 273(I)/2020 modified the effective date of IFRS-9.

SECP, in exercise of the powers conferred by section 510, read with sub-section (1) of sections 225 of the Companies Act 2017 (XIX of 2017), and in modification of S.R.O. 1332 (I)/2019 dated November 7, 2019, modified the effective date for applicability of International Financial Reporting Standard 9 - Financial Instruments in place of International Accounting Standard 39 (Financial Instruments: Recognition and Measurement) for Non-Banking Finance Companies as "Reporting period/year ending on or after June 30, 2021 (earlier application is permitted)".

For further details, please visit the following links:-

<https://www.secp.gov.pk/document/sro-273i-2020-change-in-the-effective-date-of-ifrs-9/?wpdmdl=38900>

### 3. RELIEF FROM REQUIREMENTS CONTAINED IN IFRS 9

Securities and Exchange Commission of Pakistan (SECP) vide their S.R.O. 278 (I)/2020 allowed all companies relief from the requirements contained in IFRS 9 (IAS 39, IFRS for SMEs and AFRS for SSEs), requiring recording of fair value adjustments of equity instruments held as FVPL (Fair Value through Profit or Loss) in the Statement of Profit or Loss, as at March 31, 2020 as below:-

a) Gain/loss, if any, due to fair value measurement of FVPL equity instruments, held as at March 31, 2020, may be shown in the Statement of Changes in Equity, as a separate component of equity.

b) The amount taken to equity as per (a) above, including any adjustment/effect for price movements shall be taken to the Statement of Profit or Loss for the year/period ending June 30, 2020.

c) The amount of loss taken to equity as per (a) above, shall be treated as a charge to statement of profit or loss for the purposes of distribution as dividend, where applicable.

Companies and mutual funds willing to follow the full requirements of IAS-39/ IFRS 9, IFRS for SMEs and AFRS for SSEs as applicable are encouraged to do so.

All companies and mutual funds opting for the treatment in Para-a above, shall disclose prominently on the face of their Statement of Financial Position, Statement of Profit or Loss and Directors' Report the parameters used by them in determination of the value of their investments and the figures arrived at under both regular and especially opted accounting treatment, that is to say, the requirement of International Financial Reporting Standards regarding disclosure of such departure have been complied with.

For further details, please visit the following links:-

<https://www.secp.gov.pk/document/s-r-o-278-i-2020-relief-from-requirements-contained-in-ifrs-9/?wpdmdl=38929&refresh=5e8bf4320e5c01586230322>

#### 4. CIRCULAR NO. 11 OF 2020 - RELAXATION FROM CERTAIN PROVISIONS OF NON-BANKING FINANCE COMPANIES AND NOTIFIED ENTITIES REGULATIONS, 2008 AND CIRCULARS DUE TO COVID-19 PANDEMIC

Securities and Exchange Commission of Pakistan (SECP) vide their Circular No. 11 of 2020 dated April 9, 2020 allowed following relaxations to the Asset Management Companies (AMCs) for 90 days or as mentioned below in relation to compliance with certain requirements of the NBFC Regulations and circulars issued thereunder:-

- Time period to regularize the exposure limits breach under Regulation 55(13) of the NBFC Regulations is extended from four months to six months.
- Time for announcement of daily NAY as per the requirement of Circular No. 11 of 2009 dated March 26, 2009 is extended from 18:30PM to the start of next working day.
- Time for submission of monthly returns for the month of March 2020 as per the requirement of Circular No.1 of 2010 dated January 15, 2010 is extended for 10 days, i.e. by April 20, 2020.
- Maximum limit for application of discretionary discount as per Annexure-I, Chapter 3 of Circular No. 33 of 2012 dated October 24, 2012 has been enhanced as per following table:-

	Rated	Unrated
Duration up to 2 Years	+400/-200 bps	+100 bps
Duration over 2 years	+300/- 100 bps	+100 bps

- The time period for classification of a debt security to non-performing category is extended from 15 days to 180 days as per the requirement of annexure II of Circular No. 33/2012 dated October 24, 2012. Debt securities which are regular in payment of mark up, however, deferred the payment of principal for one year as per the agreement shall be treated as performing. Debt securities which are rescheduled/restructured between these 180 days shall continue to be treated as performing. These relaxations, shall stand expired on March 31, 2021; and afterwards prevailing instructions on the subject shall be applicable.
- AMCs may inform investors through SMS or email in lieu of account statement to comply with the requirements of Circular No. 26 of 2015 dated July 27, 2015.
- Requirement for obtaining IFMP Certifications as per Circular No. 41 of 2016 dated December 30, 2016 is extended from six months to nine months.
- Deadline for implementation of Circular No. 2 of 2020 dated February 6, 2020 is extended for further 60 days.

For further details, please visit the following link:-  
<https://www.secp.gov.pk/document/circular-no-11-of-2020-relaxation-from-certain-provisions-of-nbfc-and-notified-entities-regulations-2008-circulars-due-to-covid-19/?wpdmdl=39063&refresh=5e9150684e40f1586581608>

#### 5. PREVENTIVE MEASURES AGAINST CORONAVIRUS DISEASE (COVID-19)

Securities and Exchange Commission of Pakistan (SECP) vide their Circular No. 13/2020 dated April 14, 2020 notified following preventive Measures against Coronavirus Disease (COVID-19):-

- The Company Registration Offices (CROs) and facilitation centers shall remain closed, as per advice of the local authorities for public dealing, until further instruction.
- Inspection of documents/record of companies as provided in regulation 19 of the Company (Registration Offices) Regulations, 2018, has been stopped. However, in dire need only online inspection may be allowed by respective CROs Incharges on case to case basis.

- As the companies are facing difficulties in responding to the queries/letters of Companies Registration Offices (CROs), the time limit of response has been enhanced to 30 days.

For further details, please visit the following link:-  
<https://www.secp.gov.pk/document/circular-no-13-f-2020-preventive-measures-against-coronavirus-disease-covid-19/?wpdmdl=39076&refresh=5e9697bf1c65d1586927551>

#### 6. GUIDELINES FOR PERFORMANCE EVALUATION OF THE BOARD OF DIRECTORS, CHIEF EXECUTIVE OFFICER AND CHIEF REGULATORY OFFICER

SECP vide their S.R.O. 301(I)/2020 notified basic guidelines for performance evaluation of the board of directors, chief executive officer and chief regulatory officer. Keeping in view the size, complexity and structure of the SRO, the board can formulate its performance evaluation framework in the light of these Guidelines.

For the performance evaluation of the board of directors, the board needs to act on a fully informed basis in the best interest of the institution and its stakeholders. It has overall responsibility to approve and oversee implementation of the company's strategic objectives.

The SECP has issued some of the specific issues/questions that should be considered in performance evaluation of a board. The board may adopt both quantitative and qualitative techniques, while carrying out the process of performance evaluation. These may also include informal bottom-up appraisals including the management's perspective on the board's effectiveness. The chairman shall discuss the results/findings in the final report with the board.

The board shall annually evaluate performance of overall board, the CEO and the CRO, whereas the same shall be undertaken (facilitated) by an external independent evaluator at least once every three years.

Subsequent to the performance evaluation process, the identified issues, weaknesses and challenges need to be addressed adequately through a proper action plan. The chairman and the nomination committee shall also formulate the requisite strategies and action plans to address the identified challenges/issues. Final report containing the results/findings and strategies/plans to address the issues shall be shared with the SECP.

For further details, please visit the following link:-  
<https://www.secp.gov.pk/document/sro-301-i-2020-guidelines-for-performance-evaluation-of-board-of-directors-ceos-and-cros/?wpdmdl=39073&refresh=5e9694a07ce6e1586926752>

#### 7. RELAXATION IN RENEWAL OF LICENSES OF INSURANCE BROKERS, INSURANCE SURVEYORS AND AUTHORIZED SURVEYING OFFICERS (ASOS) DURING THE CORONA VIRUS OUTBREAK

SECP vide their Circular No. 12 of 2020 dated April 13, 2020 allowed relaxation to the insurance brokers, insurance surveyors, and authorized surveying officers (ASOs) in their renewal of licenses due to the Coronavirus outbreak.

The SECP issued the following guidelines regarding renewal of their licenses:-

- Any insurance broker/insurance surveyor/ ASO whose license has expired or will expire during the period from March 15, 2020 to May 15, 2020 shall continue to carry on its business without renewal of its current license with the Commission;
- The above relaxation shall be effective for a period of 2 months i.e., it shall end on May 15, 2020. The respective insurance brokers, insurance surveyors, and ASOs shall be bound to file their applications prior to the deadline of May 15, 2020;

- iii) Upon receipt of the applications, licenses shall be renewed effective from the date of expiry of the previous licenses;
- iv) Insurance brokers, insurance surveyors, and ASOs facing difficulties to arrange documents, required under the Ordinance for renewal of license may avail the above-mentioned relaxation;
- v) While surveyors/ASOs can file applications online through e-services, insurance brokers may send their applications to the Commission via email until the expiry of the lockdown; and
- vi) All insurance companies/ general takaful operators shall continue to do business with insurance brokers/insurance surveyors/ASOs considering the grace period of two (2) months for any license expired after March 15, 2020.

For further details, please visit the following link:-  
<https://www.secp.gov.pk/document/circular-no-12-of-2020-relaxation-in-renewal-of-licensing-of-insurance-brokers/?wpdmdl=39069&refresh=5e9697bf1e83c1586927551>

#### **8. REGULATORY RELIEF TO DILUTE IMPACT OF CORONAVIRUS (COVID-19)**

Securities and Exchange Commission of Pakistan (SECP) vide their Circular No. 18 of 2020 dated April 27, 2020 notified Regulatory Relief to dilute impact of Coronavirus (COVID-19).

According to the Circular, the Regulated Persons are facing various difficulties due to the Coronavirus while ensuring compliance with regulatory requirements related to reporting and submission of information in the manner prescribed under Directive 55(1)/2020 dated January 28, 2020.

SECP, in discharge of its statutory responsibilities for effective AML/CFT regulation of its regulated financial sector, clarified the following:-

##### i) Relaxation in submission of quarterly information under Directive 55(1)/2020:

In view of Directive 55(1)/2020 dated January 28, 2020 a thirty days extension in filing of AML/CFT quarterly information is provided to all RPs facing difficulties in submission of information for period ended March 31, 2020 that is required to be submitted by April 30, 2020.

Now, the said extension to submit quarterly information is being extended till May 31, 2020 for the quarter ended March 31, 2020 only.

##### ii) Companies to make necessary work arrangements for ensuring regulatory compliances:

As safety of employees is priority of the companies during the coronavirus (COVID-19) outbreak, therefore RPs are encouraged to make necessary arrangements for the use of technology and related applications in order to enable them to work from home to meet the regulatory compliances.

For further details, please visit the following link:-  
<https://www.secp.gov.pk/document/circular-no-18-of-2020-regulatory-relief-to-dilute-impact-of-covid-19/?wpdmdl=39161&refresh=5ea7aa72026e11588046450>

#### **9. SECP GUIDELINES FOR COOPERATION AND ASSISTANCE TO FOREIGN REGULATORY AUTHORITIES**

Securities and Exchange Commission of Pakistan (SECP) vide their notification on April 29, 2020 issued guidelines for cooperation with international regulatory bodies to strengthen detection and deterrence of cross-border financial misconducts.

Under the law governing financial regulators in the country, the SECP can seek and aid on reciprocal basis to international regulators for assisting in any inquiry or investigation for contravention of laws

relating to financial services. The law also authorises SECP to require production of any information or document from any person on the request of the requesting authority. These guidelines will allow for cooperation not only in investigations but also in other types of inquiry, as part of a compliance program for preventing illicit activities.

For further details, please visit the following link:-  
<https://www.secp.gov.pk/document/secp-guidelines-for-cooperation-and-assistance-to-foreign-regulatory-authorities/?wpdmdl=39167&refresh=5eaa5d66038b21588223334>

#### **10. WITHDRAWAL OF SRO 924(I)/2015 REGARDING JAMAPUNJI**

Securities and Exchange Commission of Pakistan (SECP) vide their S.R.O. 346 (I)/2020 withdrew its earlier Notification S.R.O. 924(I)/2015 dated 9th September, 2015, with immediate effect. The SRO made it mandatory for the companies listed on stock exchanges to incorporate the message on 'JamaPunji', while issuing annual accounts and balance sheets of companies. The same is now withdrawn by the SECP.

For further details, please visit the following link:-  
<https://www.secp.gov.pk/document/sro-346-i-2020-withdrawal-of-sro-924i-2015-jamapunji/?wpdmdl=39188&refresh=5eaafef8de561588264623>

#### **11. DRAFT CORPORATE INSURANCE AGENTS REGULATIONS, 2020**

SECP vide their S.R.O. 343 (I)/2020 issued draft Corporate Insurance Agents Regulations, 2020.

The Regulations are applicable to all corporate insurance agents of life and non-life insurers including the family and general takaful operators. The relevant provisions of these Regulations are also applicable to the distribution of insurance through technology based channels.

These Regulations shall be applicable on all new insurance business written on or after January 1, 2021 by insurers under their agency agreements with corporate insurance agents. However, the insurer and the corporate insurance agent shall make amendments in the existing agency agreements, wherever necessary, to comply with these Regulations no later than December 31, 2020. The insurer shall send a written confirmation, signed by the designated insurance executive, to the Commission mentioning that the necessary changes have been completed and the relationship with the corporate insurance agent complies with the requirements of these Regulations.

The draft can be downloaded from the following link:-  
<https://www.secp.gov.pk/document/sro-343-i-2020-draft-corporate-insurance-agents-regulations-2020/?wpdmdl=39182&refresh=5eaafef952241588264623>

SECP sought public suggestions on the above draft. Worthy Members are requested to kindly review the draft and forward their valuable comments/ suggestions/ feedback to [tspd@icmap.com.pk](mailto:tspd@icmap.com.pk) latest by May 22, 2020 for onward submission to SECP.

## **Taxation**

#### **12. REDUCTION IN TAXES AND DUTIES ON IMPORT AND SUPPLY OF VARIOUS FOOD ITEMS**

Federal Board of Revenue (FBR) vide their S.R.O. 287 (I)/2020 dated April 07, 2020 reduced duties and taxes on the import and local supply of essential food items including withdrawal of additional customs duty on the import of edible oil and oil seeds till June 30, 2020. The FBR has also announced abolition of advance income tax on the import of pulses till June 30, 2020.

According to the SRO, a new clause is inserted in Part II after clause (24C) stating that the rate of tax under Clause (a) of sub-section (1) of Section 153, in case of a person, other than a company, as a recipient of payment for goods supplied to the Utility Stores Corporation of Pakistan shall be 1.5 percent of the gross amount of payment in respect of supply of tea, spices, salt, dry milk, sugar, pulses, wheat flour and ghee for the period commencing from the date of issuance of this notification till 30th June, 2020.

Provided that this clause shall not be applicable to supply of tea, spices, salt and dry milk, which are sold under a brand name: Provided further that this clause shall not be applicable where rate of tax under clause (a) of sub-section (1) of Section 153 is less than 1.5 percent of the gross amount of payment under any provisions of the ordinance.

The provision of Section 148 of the Income Tax Ordinance 2001 shall not apply to persons importing pulses for a period commencing from the date of issuance of this notification till 30th June, 2020.

Moreover, according to another S.R.O. 288(I)/2020, FBR notified exemption from 2.0 percent additional Customs duty on the import of oil seeds and edible oil. FBR also notified exemption from 2.0 percent advance income tax for person importing pulses till June 30, 2020.

For further details, please visit the following links:-  
[http://download1.fbr.gov.pk/SROs/2020471942337277SRO287\(I\)of2020.pdf](http://download1.fbr.gov.pk/SROs/2020471942337277SRO287(I)of2020.pdf)  
[http://download1.fbr.gov.pk/SROs/2020471941044709SRO-288\(I\)-2020-7.4.2020.pdf](http://download1.fbr.gov.pk/SROs/2020471941044709SRO-288(I)-2020-7.4.2020.pdf)

### 13. EXTENSION IN DATE OF ONLINE INTEGRATION OF TIER-I RETAILERS

FBR vide their notification dated April 2, 2020 extended the time limit as provided in sub-rule (2) of rule 150ZEA of Sales Tax Rules, 2006, up to April 30, 2020, for online integration of tier-1 retailers' POSs with Board's computerized system for real time reporting of sales subject to the condition that such tier-1 retailers furnish in writing their willingness to integrate all their POSs in terms of aforesaid Rules to the respective RTOs / LTUs by April 20, 2020.

For further details, please visit the following links:-  
[http://download1.fbr.gov.pk/Docs/2020421344051312020-04-02\(1Extensioninonlineintegration\).pdf](http://download1.fbr.gov.pk/Docs/2020421344051312020-04-02(1Extensioninonlineintegration).pdf)

### 14. DRAFT AMENDMENT IN THE INCOME TAX RULES, 2002 – INCLUSION OF A NEW CHAPTER “ONLINE INTEGRATION OF BUSINESSES”

FBR vide their S.R.O. 296 (I)/2020 dated April 09, 2020 issued draft amendments in the Income Tax Rules, 2002 by inserting a new chapter VIIA regarding Online integration of businesses.

According to the draft, online integration of businesses would be compulsory for different categories of integrated businesses and enterprises including hospitals, hotels/restaurants, medical practitioners/consultants, courier/cargo services, pathological laboratories, health clubs/gyms, accountants and pharmacies, photographers, medical care centres, medical diagnostic laboratories, inter-city travel by road and services provided by beauty parlours, clinics and slimming centres, guest houses, marriage halls, marquees and other categories of integrated enterprises.

The provisions shall apply to all persons whose principal place of business is anywhere in Pakistan in case of a company. In all other cases, where principal place of business is within the civil limits including cantonments of districts specified in Karachi, Lahore, Islamabad, Faisalabad, Rawalpindi Multan, Peshawar, and Gujranwala.

The integrated enterprises shall install such fiscal electronic device and software, as approved by the board, available on its website with complete technical instructions for installation, configuration, and

integration.

The person shall notify to the board, through the computerised system, of all the establishments (notified establishments), from which they intend to carry on business and shall register each point of sale (POS) to activate the integration duly providing the following information: POS registration number (to be provided by the system); name of business like branch name; branch address; POS identification number, and registration date.

The integrated enterprise shall maintain the record of all the bills and transactions made from a notified establishment and also at the notified central location. The taxpayer shall provide access to such premises as well as the specific record required to the Inland Revenue officer as authorised by the commissioner concerned.

To download the draft for further details, please visit the following link:-  
<http://download1.fbr.gov.pk/SROs/20204915423920SRO29609-Apr-202015-09-28.pdf>

### 15. EXEMPTION FROM INCOME TAX TO THE PM COVID-19 PANDEMIC RELIEF FUND-2020

FBR vide their S.R.O. 300 (I)/2020 dated April 10, 2020 made further amendments in the Second Schedule to the Income Tax Ordinance, 2001 to allow exemption from Income Tax to the PM COVID-19 Pandemic Relief Fund-2020.

According to the SRO, the provisions of section 151, 231A, 231AA and 236P shall not apply to the Prime Ministers COVID-19 Pandemic Relief Fund-2020. Moreover, the provisions of section 236P shall not apply at the time of transfer of any sum to the Prime Ministers COVID-19 Pandemic Relief Fund 2020.

For further details, please visit the following link:-  
<http://download1.fbr.gov.pk/SROs/20204101444437572SRO300of2020.pdf>

### 16. AMENDMENTS IN ISLAMABAD CAPITAL TERRITORY (TAX ON SERVICES) ORDINANCE, 2001

FBR vide their S.R.O.326(I)/2020 dated April 27, 2020 notified amendments in the Islamabad Capital Territory (Tax on Services) Ordinance, 2001 by making further amendments in its notification No. SRO 495(I)/2016 dated July 04, 2016. According to the SRO, the sales tax on services on the following sectors is brought to zero percent from Five percent:-

Service Description	PCT headings
Construction services. Excluding: i) construction projects (industrial and commercial) of the value (excluding actual and documented cost of land) not exceeding. Rs. 50 million per annum. (ii) the cases where sales tax is otherwise paid as property developers-or promoters. (iii) Government civil works including Cantonment Boards. (iv) construction of industrial zones, consular buildings and other organizations exempt from income tax. (v) Residential construction projects where the covered area does not exceed 10,000 square feet for the house and 20,000 square feet for the apartments	9824.0000 and 9814.2000
Services provided by property dealers and realtors	-

A new category is also inserted in the said notification as under:-

S No.	Service Description	PCT headings	Conditions
"12.	Services provided by property developers and promoters (including allied services) relating to low-cost housing schemes sponsored or approved by Naya Pakistan Housing and Development Authority or under Government's Ehsaas programme	9807.0000 and respective subheadings of heading 98.14	Zero per cent subject to the condition that no input tax adjustment or refund shall be admissible"

For further details, please visit the following link:-  
<http://download1.fbr.gov.pk/SROs/20204271542631325SRO326OF2020DATED27.04.2020--AMENDMENTINICTORDINANCE,2001.pdf>

#### 17. AMENDMENT IN SRO 1190 DATED 02.10.2019

FBR vide their S.R.O.344(I)/2020 dated April 29, 2020 made amendments to the S.R.O. 1190 dated October 02, 2019.

The amendments is made to notify that all Tier-1 retailers who have integrated all their POSs with the FBR, in terms of Chapter XIV-AA of Sales Tax Rules, 2006, may adjust input tax to the extent of ninety-five percent of the output tax for that period and the excess amount shall be carried forward to the next period. Earlier, this facility was for retailers also importing goods in bulk and operating chains of stores.

The substitution made by FBR is also compared in the following table:-

Previous SRO 1190 dated 02.10.2019	Amendment made through SRO 344 dated 29.04.2020
"Retailers also importing goods in bulk and operating chains of stores".	"All Tier-1 retailers who have integrated all their POSs with the Board in terms of Chapter XIV-AA of Sales Tax Rules, 2006."

For further details, please visit the following link:-  
<http://download1.fbr.gov.pk/SROs/2020429134820294SRO344OF2020DATED29.04.2020--AMENDMENTINSRO1190OF2019.pdf>

#### 18. EXTENSION IN DATE FOR PAYMENT/ SUBMISSION OF SALES TAX AND FEDERAL EXCISE RETURNS FOR THE TAX PERIOD OF JANUARY, FEBRUARY AND MARCH, 2020

FBR vide their notification dated April 30, 2020 further extended the date of payment/submission of Sales Tax and Federal Excise Return for the tax period of January, February & March, 2020 as per following:-

Tax Period	Due/Extended Date	F. Extended UPTO
<b>January, 2020</b>		
Payment Date	15.02.2020(extended upto12.04.2020)	12.05.2020
Submission Date	18.02.2020 (extended upto15.04.2020)	15.05.2020
<b>February, 2020</b>		
Payment Date	15.03.2020(extended upto12.04.2020)	12.05.2020
Submission Date	18.03.2020 (extended upto15.04-2020)	15.05.2020
<b>March, 2020</b>		
Payment Date	15.04.2020(extended upto27.04.2020)	12.05.2020
Submission Date	18.04.2020 (extended upto30.04.2020)	15.05.2020

For further details, please visit the following link:-  
<http://download1.fbr.gov.pk/Docs/2020430164586469ExtensionSTR.pdf>

#### 19. EXTENSION IN DATE FOR FILING OF ANNEX-H FOR THE TAX PERIOD OF JULY, 2019 TO NOVEMBER, 2019

FBR vide their notification dated April 30, 2020 extended the time limit for filing of Annex-H for the tax period of July - November, 2019 up to 15.05.2020.

For further details, please visit the following link:-  
<http://download1.fbr.gov.pk/Docs/20204301545236335ExtensonAnnex-H.pdf>

### Monetary

#### 20. REFINANCE SCHEME FOR PAYMENT OF WAGES & SALARIES TO THE WORKERS AND EMPLOYEES OF BUSINESS CONCERNS

In order to combat the impact of COVID-19 and to help the businesses in payment of wages and salaries to their workers and employees and thereby support continued employment in this challenging environment, State Bank of Pakistan (SBP) has introduced a temporary refinance scheme for payment of wages and salaries to the workers and employees of the business concerns. This Scheme is expected to ease cash flow constraints of the employers and thereby avoid layoffs.

The Scheme aims to finance wages and salaries of permanent, contractual, daily wagers as well as outsourced employees of existing as well as new borrowers of banks and DFIs for the months from April 2020 to June 2020. Government Entities, Public Sector Enterprises, Autonomous Bodies and Financial Institutions will not be eligible under this Scheme.

Maximum Financing Limit: Maximum financing limit of a borrower under this scheme will be determined in the following manner:-

Category	Wage Bill for 3 months	Loan Limit	Maximum Loan Limit
(1)	(2)	(3)	(4)
A	Less than or equal to Rs. 200 million	100% of actual 3 months wage bill	Rs. 200 million
B	More than Rs. 200 million and less than or equal to Rs. 500 million	Rs. 200 million or 75% of 3 months wage bill, whichever is higher	Rs. 375 million
C	More than Rs. 500 million	Rs. 375 million or 50% of actual 3 months wage bill, whichever is higher	Rs. 500 million

The repayment of financing under the Scheme will start from January 2021. The repayment will be made in equal 8 quarterly instalments. Maximum 5% per annum (p.a.) for end users. SBP rate of service charges for banks/DFIs will be 2% p.a. per annum for corporate/commercial borrowers and 1% p.a. for SME borrowers. SBP will allow additional subsidy of 1% p.a., by reducing its rate of refinance/service charges, for borrowers that are on active taxpayers lists under the Income Tax Ordinance, 2001.

Validity of the Facility is 30th June 2020.

For further details, please visit the following link:-  
<http://www.sbp.org.pk/press/2020/Pr-10-Apr-20.pdf>

## 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>

Worthy Members are requested to please review the above EDs and forward their valuable feedback/ comments/ inputs to [tspd@icmap.com.pk](mailto:tspd@icmap.com.pk) latest by September 01, 2020 for onward submission to IPSASB.



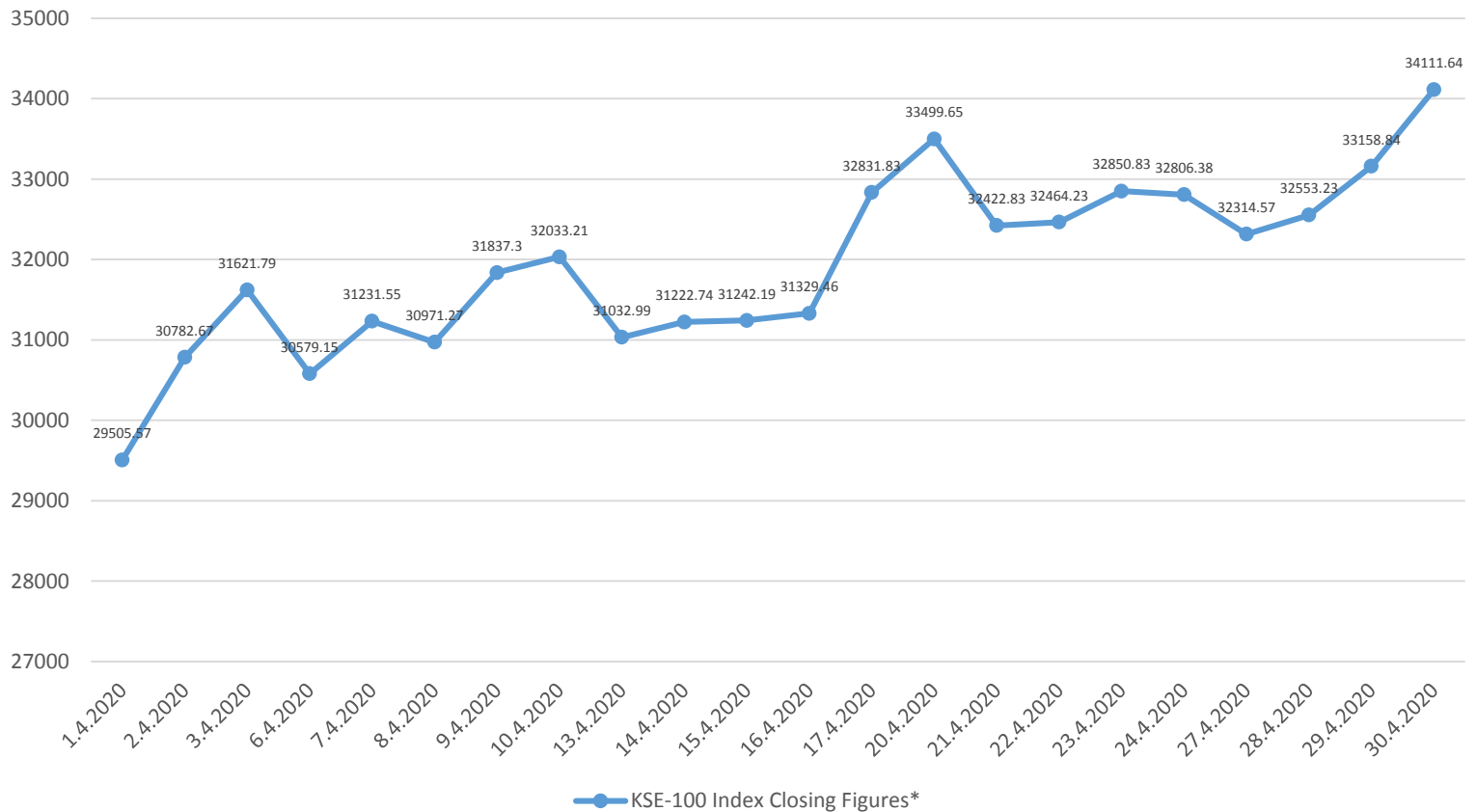
## Pakistan Stock Market

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

Date	KSE-100 Index Closing Figures*	Date	KSE-100 Index Closing Figures*	Date	KSE-100 Index Closing Figures*
1.4.2020	29505.57	10.4.2020	32033.21	21.4.2020	32422.83
2.4.2020	30782.67	13.4.2020	31032.99	22.4.2020	32464.23
3.4.2020	31621.79	14.4.2020	31222.74	23.4.2020	32850.83
6.4.2020	30579.15	15.4.2020	31242.19	24.4.2020	32806.38
7.4.2020	31231.55	16.4.2020	31329.46	27.4.2020	32314.57
8.4.2020	30971.27	17.4.2020	32831.83	28.4.2020	32553.23
9.4.2020	31837.30	20.4.2020	33499.65	29.4.2020	33158.84
				30.4.2020	34111.64

\*As published in Daily Dawn

KSE-100 Index Closing Figures\*



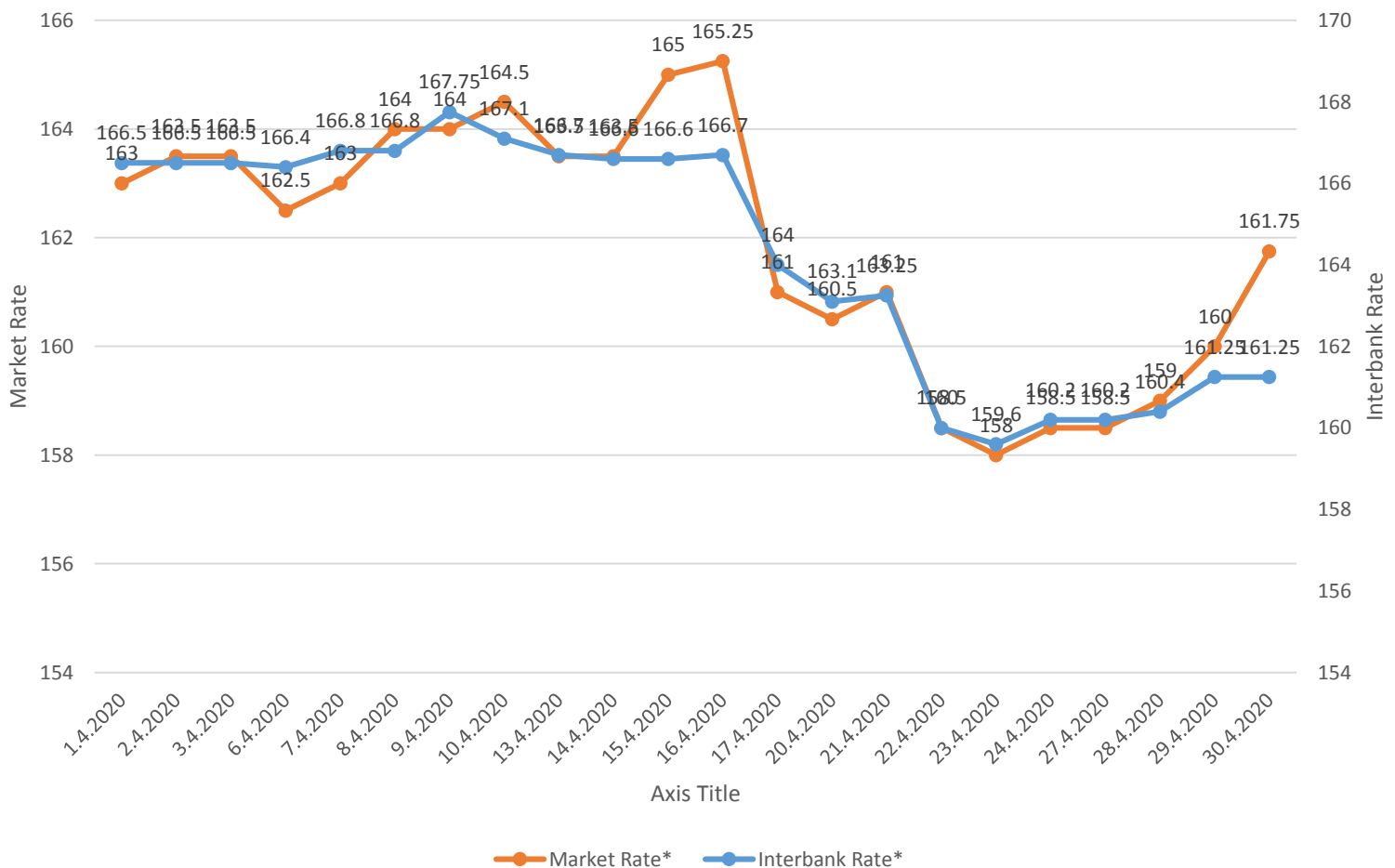


## Rupee-Dollar Parity

Date	Interbank Rate*	Market Rate*	Date	Interbank Rate*	Market Rate*	Date	Interbank Rate*	Market Rate*
1.4.2020	166.50	163.00	10.4.2020	167.10	164.50	21.4.2020	163.25	161.00
2.4.2020	166.50	163.50	13.4.2020	166.70	163.50	22.4.2020	160.00	158.50
3.4.2020	166.50	163.50	14.4.2020	166.60	163.50	23.4.2020	159.60	158.00
6.4.2020	166.40	162.50	15.4.2020	166.60	165.00	24.4.2020	160.20	158.50
7.4.2020	166.80	163.00	16.4.2020	166.70	165.25	27.4.2020	160.20	158.50
8.4.2020	166.80	164.00	17.4.2020	164.00	161.00	28.4.2020	160.40	159.00
9.4.2020	167.75	164.00	20.4.2020	163.10	160.50	29.4.2020	161.25	160.00
						30.4.2020	161.25	161.75

\*As published in Daily Dawn

Rupee-Dollar Parity during April, 2020



# Model Audit Practice Manual

## Audit Execution and Reporting

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. Audit sampling, Types of audit procedures, Substantive audit procedures on varying heads of accounts, Form and contents of audit report, Significant communications and finalization of audit report and Procedures for cost audits are elaborated in the Manual. The below document is prepared in order to enable the readers to recognize the Audit Execution and Reporting.

### Selection of Items for Testing

- Selecting All Items (100%)
- Selection of Specific Items
- Audit Sampling

### Factors affecting Selection of Items

- Understanding of entity
- Assessed risk of material misstatement
- Inherent risk
- Materiality
- Population characteristic
- Number of items in population
- Cost and time required
- Relevance and reliability of information to be used as evidence

### Selecting All Items

- If the auditor concludes that specific audit areas are required to be fully examined in order to express his opinion on the financial statements, he will evaluate the 100% population that make up of class of transaction or account balance.
- 100% is unlikely in case of test of controls and more common for test of details.

### Selection of Specific Items

- Higher Value or Key Items
- Items above Certain Amount
- Items Needed for Further Information

### Selection of Specific Items – Risk

#### Non -Sampling Risk

- The judgmental selection of specific items is subject to non-sampling risk. The results of the audit procedures applied to selected items cannot be projected to entire population; accordingly, selective examination of specific items does not provide audit evidence concerning the remainder of the population.
- Non-sampling risk is due to inappropriate audit procedures, misinterpretation of audit evidence and failure to recognize them in statements.

#### Audit Sampling

- Conduct Audit of Less than 100% items
- Apply Approach on Entire Population
- All Units have Equal Chances of Selection

### Selection of Items – Risk

#### Sampling Risk

- Sampling risk is the risk that the auditor's conclusion, in case the entire population is subject to same audit procedures as are selected samples, could be different from the conclusion drawn from audit procedures performed on selected samples.

### Types of Erroneous Conclusions

#### Affecting audit effectiveness

- Test of Controls– Risk of over reliance
- Substantive Test of Details–Risk of Incorrect acceptance

### **Affecting audit efficiency**

- Test of Controls– Risk of under reliance
- Substantive Test of Details–Risk of rejection

### **Sampling Approaches**

- Statistical
  - Random Selection or use of probability theory
  - Systematic Selection
  - Monitory Unit Sampling
- Non -Statistical
  - Haphazard Selection
  - Block Selection

### **Planning for Sample Selection**

- Steps for planning samples are:
  - Determine objectives of test
  - Define errors and deviations being sought
  - Decide sample size
  - Identify the population and sampling unit

### **Objectives of Test**

- It is the responsibility of the auditor to consider the specific objectives to be achieved and the combination of audit procedures that is likely to best achieve the specified objectives.
- Both tests of control and substantive procedures can be performed to the items of population selected through audit sampling techniques.

### **Definition of Errors and Deviation**

- Consider what constitutes an error by referring to the objectives of the test.
- The objective of test of control is to identify the deviations from the prescribed control procedures.
- The objective of test of details or substantive testing is the identification of errors or misstatements in recorded transactions or balances.

### **Sample Size**

- Determine sample size to reduce the sample risk at an acceptable low level.
- Determine the sample size either through use of statistical formula or the exercise of professional judgment.

### **Population and Sampling Unit**

- Identify the population and the sampling unit strictly in accordance with the objectives of the audit test.
- While selecting the samples, auditor shall ensure that population is appropriate and complete.
- For test of controls, the population must have the same control characteristics.

### **Stratification**

- Stratification is one of several method of sample selection. Stratification is dividing population in creating relatively homogeneous group.
- This method is widely used for substantive testing

The application of any one or combination of these methods may be appropriate depending upon:

- the particular circumstances; and
- the practicality and efficiency of different methods

### **Types of Test**

- Test of Controls
- Substantive Tests
  - Test of details of balances
  - Substantive tests of transactions
  - Substantive analytical procedures

### **Test of Controls**

A test of controls is an audit procedure to test the effectiveness of a control used by a client entity to prevent or detect material misstatements. Depending on the results of this test, auditors may choose to rely upon a client's system of controls as part of their auditing activities.

### **Substantive testing**

Substantive testing is an audit procedure that examines the financial statements and supporting documentation to see if they contain errors. These tests are needed as evidence to support the assertion that the financial records of an entity are complete, valid, and accurate.

### **Audit Assertions**

- C - Completeness
- E - Existence
- A – Accuracy & Authentication
- V - Valuation
- O – Ownership & Occurrence
- P – Presentation & Disclosure

### **Substantive Audit Procedures**

#### Property and Equipment

- Obtain schedule of fixed assets including capital work in progress
- Check costing and cross costing of the schedule
- Check that fixed assets register is properly prepared
- Reconcile balances of fixed assets register, general ledger, subsidiary ledger
- Agree prior year figures to prior year financial statements
- Test (vouch) for additions and deletions during year
- Assess the appropriateness of depreciation/ amortization method with regards to flow of economic benefits and useful life of the assets
- Re-calculate depreciation expense for the year
- Document logical commercial reason(s) for major addition or disposal of the fixed assets
- Check the following:-
  - Capital expenditure does not contain any portion of revenue expenditure.
  - Proper invoices of the vendor's.
  - Client's capitalization policy
- Check that CWIP is transferred to fixed assets after certificates for completion etc.
- Agree closing balances of the schedule with financial statements
- Check physical verification of assets
- Check for title of assets
- Check log books for vehicles usage
- Check presentation and disclosure in accordance with applicable IAS/AFRS and local legislations

### **Substantive Audit Procedures**

#### Investments

- Obtain schedule of investments
- Agree prior year figures to prior year financial statements
- Check movement in investments, including selected addition and deletions during the year
- Check sample transaction to ensure exercise of detective controls
- Check that investments are made after specific approval
- Check title of investments
- Check if any investment is under lien
- Agree closing balances of the schedule with financial statements
- Check the physical or third party verification of investments
- Obtain schedule of investment income earned and check that same has been properly accounted for
- Check presentation and disclosure in accordance with applicable IAS/AFRS and local legislations

### **Substantive Audit Procedures**

#### Stocks and Inventories

- Obtain the list of inventories
- Check selected transactions for purchases, returns and sales.
- Check selected transactions for inventory receipt and issuance
- Verify that periodical physical counting of the inventories is done by the client.
- Check the inventories on sample basis to ensure reliability.
- Perform cut-off procedures
- Check that basis of valuation of inventory (FIFO or Average) is appropriate and consistently followed.
- Verify cost of closing stock with Net Reliable Value (NRV) by comparing raw material with last invoice from supplier.
- Get aging of inventories and compute provisions of obsolete etc.
- Agree closing balances of the schedule with financial statements
- Check presentation and disclosure in accordance with applicable IAS/AFRS and local legislations
- If the auditor is unable to observe the physical inventory at the balance-sheet date, perform the following procedures
  - Observe the physical inventory at a subsequent date
  - Test inventory transactions occurring between the balance-sheet date and the date of the subsequent physical inventory procedures.

- Vouch inventory purchases to receiving documents and vendor invoices.
- Vouch cost of sales transactions to customer purchase orders and shipping documents
- Review documentation of the physical count taken by the client at the balance-sheet date.
- Trace selected quantities from the inventory listing to the count sheets or tags, and from the count sheets or tags to the inventory listing
- Compare gross profit for the last month of the year under audit to gross profit for the first month of the subsequent period to assess reasonableness of cutoff

#### **Substantive Audit Procedures**

##### Trade Receivables

- Obtain party wise schedule and verify the balances from ledger, subsidiary ledgers
- Check costing and cross costing of the schedule
- Check opening balances from working papers of last audit period.
- Check credit limits are accorded with the approvals
- Obtain and analyze the aging of debtors.
- Check that no undue favor to the aging debtors is accorded.
- Calculate provisions of doubtful debts based on age analysis.
- Check composition of debtors and perform invoice testing
- Check subsequent clearance of debtors.
- Circulate and obtain independent balance confirmation to selected parties and evaluate the results.
- Verify approvals for write-off of the debtors.
- Agree closing balances of the schedule with financial statements
- Check presentation and disclosure in accordance with applicable IAS/AFRS and local legislations

#### **Substantive Audit Procedures**

##### Loan and Advances

- Obtain party-wise movement schedule of loans, advances
- Verify details with ledgers,
- Check costing and cross costing of the schedule
- Compare current year balances and expense with last year balances and expenses. Evaluate the significant variations.
- Identify nature and purpose of loans and advances
- Check that the loans/advances are given in accordance with the policy and procedures
- Obtain aging of loans and advances and check for long-outstanding amounts
- Check that the adjustments / refunds are properly accounted for in the ledgers and financial statements
- Obtain independent confirmation from selective parties.
- Check subsequent clearance of outstanding balances
- Agree closing balances of the schedule with financial statements
- Check presentation and disclosure in accordance with applicable IAS/AFRS and local legislations

#### **Substantive Audit Procedures**

##### Deposit and Prepayments

- Obtain party-wise movement schedule of deposits and prepayments
- Verify details with ledgers,
- Check costing and cross costing of the schedule
- Identify nature and purpose of deposits and prepayments
- Compare current year balances and expense with last year balances and expenses. Evaluate the significant variations.
- Obtain agreements for deposits and prepayments and ensure that the amounts are properly accorded
- Check that the deposits due for refund / adjustments have been properly accounted for in the ledgers and financial statements
- Check that prepaid amounts are properly charged to related expense accounts periodically
- Agree closing balances of the schedule with financial statements
- Check presentation and disclosure in accordance with applicable IAS/AFRS and local legislations

#### **Substantive Audit Procedures**

##### Cash and Bank Balances

- Obtain a list of cash locations and list of bank accounts
- Compare the balances of current year with previous year and note significant variation
- Perform physical counting of cash at the year end
- Perform surprise cash count during audit to detect the risk of fraud, if any
- Obtain list of authorized signatories for bank and check that the same have been consistently applied for all designated transactions.
- Check segregation of duties among custodian of cash, accounting personal and approving authority.

- Check logical commercial reasons for opening of new bank accounts and closing of the bank accounts during the period under audit.
- Obtain approvals for new accounts opened and closed during the year, if any
- Circulate independent confirmations of bank balance from all banks and evaluate results
- Check that proper bank reconciliation statements are prepared and approved.
- Examine the bank reconciliation statement for the following:-
  - Long outstanding cheques are properly followed.
  - Deposits are cleared timely
  - Un-presented cheques
  - Check subsequent clearance of outstanding items
- Agree closing balances of the schedule with financial statements
- Check presentation and disclosure in accordance with applicable IAS/AFRS and local legislations

**Substantive Audit Procedures**

Shareholder's Equity

- Obtain a schedule of equity stating number of shares authorized, issued and outstanding
- Ensure that number of shares and amount of issued, authorized and paid, are strictly according to memorandum of association and Form "A"
- Reconcile the balances of equity of current audit period, with prior period and ensure reasonableness regarding changes during the audit period
- Analyze the unusual changes, if any and get management explanation to clarify the state
- Agree closing balance with financial statements
- Check presentation and disclosure in accordance with applicable IAS/AFRS and local legislations

**Substantive Audit Procedures**

Shareholder's Equity

- Obtain schedule of long term liabilities
- Compare the balances of current period with prior periods and observe any significant change
- Analyze the unusual changes & obtain explanation
- Reconcile the balances of current audit period with ledgers, subsidiary ledger
- Check opening balance with working papers of last audit period
- Obtain related agreements and check that the liabilities are accounted for in accordance with the agreements
- Circulate independent confirmation from the parties for the balances and related terms
- Ensure that interest is accurately calculated and properly accounted for in the related expense or asset account
- Agree closing balance with financial statements
- Check presentation and disclosure in accordance with applicable IAS/AFRS and local legislations

**Substantive Audit Procedures**

Deferred Liabilities

- Check deferred liabilities regarding pension, as under:-
  - Obtain copy of the pension policy of the company.
  - Check payment of contribution of client towards fund as per policy.
  - Check that requirements of IAS-19 are complied with
- Check deferred liabilities regarding gratuity:-
  - Obtain copy of gratuity policy of the company.
  - Verify that contributions are verified with last salary.
  - Verify date of appointment and reconcile the date relating to gratuity.
  - Ensure compliance of IAS-19 for deferred liabilities relating to gratuity.
- Check deferred liabilities against taxation
  - Reconcile the balances with ledgers and working papers of the previous audit period
  - Obtain schedule of tax base of each component of balance sheet along with workings
  - Review cumulative temporary differences as of the balances sheet date
  - Review reversal of cumulative temporary differences and obtain managements representations regarding scheduled reversal
  - Review the tax-planning strategy of the client and ensure that all valid strategies that could materially affect deferred taxes, have been identified and accounted for
- Agree closing balance with financial statements
- Check presentation and disclosure in accordance with applicable IAS/AFRS and local legislations

**Substantive Audit Procedures**

Finance Lease Liabilities

- Obtain schedule showing complete details of finance and operating leases of current and prior years for evaluation
- Ensure that schedule is complete through inquiries from management

- Obtain copies of lease agreements and reconcile the schedule with the agreements
- Review new lease agreements for approval and ensure that principal portion has been recorded as liability, against assets
- Reconcile the balance and transactions relating to leases with subsidiary ledgers
- Reconcile the balances of prior period and obtain explanation for any unusual items and significant variation
- Obtain independent confirmation from lessors to ascertain the correctness of the data
- Review the security of documents
- Recalculate lease finance charge and check that the same has been properly accounted for
- Check that rental of the lease is paid according to amortization schedule
- Ensure that payments are made through banking channel
- Ensure that lease liabilities are properly bifurcated into current and non-current
- Agree closing balance with financial statements
- Check presentation and disclosure in accordance with applicable IAS/AFRS and local legislations

#### **Substantive Audit Procedures**

##### Trade and other payables

- Obtain party-wise schedule of trade and other payables
- Check costing and cross costing of the schedule
- Reconcile the opening balances with last year audit working paper files
- Reconcile balances of trade creditors, purchases, payments, with ledger etc. and get explanation for unusual items
- Calculate trade creditor's turnover and compare with previous periods
- Critically check the payments at the close of the fiscal year
- Check that if there are any significant purchases, at the close of fiscal Year. Investigate for any abnormality
- Check the invoices, for recording at appropriate timing
- Trace selected disbursements, from receiving documents, purchase invoices and other supplementary documents
- Ensure that liabilities are owed by the company
- Obtain independent confirmations from selected parties
- Check for subsequent payments of the vendors
- Check subsequent bank statement for the purposes of identification of unrecorded liabilities (Test of unrecorded liabilities)
- Agree closing balance with financial statements
- Check presentation and disclosure in accordance with applicable IAS/AFRS and local legislations

#### **Substantive Audit Procedures**

##### Accrued Liabilities

- Obtain schedule / break-up of accrued expenses
- Analyze the accrued expenses and compare with prior periods for unusual items
- Obtain reasons for significant changes in the accrued expenses, in any
- Reconcile the balance of accrued expenses liabilities with ledger, subsidiary ledgers
- Reconcile the opening balances with last year audit working paper files
- Evaluate the policy for recording accrued expenses
- Check the selected accruals for correctness
- Check for subsequent payment/ adjustments of accrued expenses
- Agree closing balances with the ledgers and financial statements

#### **Substantive Audit Procedures**

##### Contingencies and Commitments

- Obtain schedule of contingencies and commitments at the year end
- Obtain clients policy for contingency and commitments for identifying, evaluation and accounting
- Obtain confirmation from legal advisor of the company regarding litigation and claims that are disclosed in the financial statements
- Verify the documents concerning litigation, claims and un asserted claims
- Review bank confirmation for contingent liabilities, letters of credit and compensating balance arrangements
- For tax contingencies, get professional opinion of the tax consultant of client to ensure the degree and extent of exposure
- Review the bank guarantee letter agreement and prepare summary as per confirmations received from the banks
- Review vendors' contracts and list of purchase orders for significant commitments
- Obtain the client's representation for contingencies and commitments as part of the financial statement representations letter

#### **Substantive Audit Procedures**

##### Revenue

- Get comparative monthly analysis of sales from the client
- Analytical procedures be performed on sales, based on sales by developing an expected amount of sales based on previous year's figures or current period economic conditions, significant difference be evaluated

- Reconcile the balance of sales/ sales returns with ledgers
- Check complete process of few selected invoices to ensure reasonableness for proper recording.
- Ensure that sales are made and recorded in accordance with approved sales policy
- Perform cut-off procedures for sales orders, sales and sales returns etc.
- Reconcile the sales invoices with sales orders for particular of the customer, product description, quantities and price of the product
- Review selected sales invoices and shipping documents to ensure the accuracy and validity of purchases/ Receipt
- Check presentation and disclosure in accordance with applicable IAS/AFRS and local legislations

#### **Substantive Audit Procedures**

##### **Cost of Sales**

- Reconcile the cost of sales of current period with previous audit period and analyze the unusual variation
- Compare gross profit margin with comparable margins for preceding periods with comparable margins of industry and with budget and margins of the current period. Investigate unusual fluctuations of the profits
- Review the gross profit ratio's and evaluate the results
- Check cost of sales by product line and division or other business segments
- Review the budget expenses with actual expected and evaluate the variances. For unusual changes investigate the reasons and obtain explanation from the management for remedial action
- Review purchase/ supply agreement for charging the prices and investigate any unusual transaction
- Reconcile cost of sales recorded in the book of accounts with corresponding credit to inventory accounts
- Ensure that purchase price of imported items are translated and recorded in according with IAS 21 and IAS 39, as applicable
- Select few transactions to check client's inventory cut off procedures and controls transactions (few after physical inventory data and few before physical inventory data).
- Check that basis for allocation of overheads is rational
- Ensure that basis for allocation of overhead is consistently applied
- Check the treatment of overhead variance and obtain reasons for abnormal variances
- Check presentation and disclosure in accordance with applicable IAS/AFRS and local legislations

#### **Substantive Audit Procedures**

##### **Expenses – Staff Payroll**

- Check that the payroll expense is recorded correctly in GL
- Check employee contracts to ensure that payroll did not contain fake employees
- Check that payroll is properly prepared and approved by relevant authority
- Check the activities over initiation and authorization, recording and processing and reporting

#### **Substantive Audit Procedures**

##### **Expenses – All others**

- Reconcile expenses of the current period with previous period to evaluate any unusual change
- Reconcile the budget and amount with actual expenses and inquire the circumstances for unusual variation
- Verify that expense vouchers are supported with complete documents as per company's policy
- Obtain and review rent agreement and ensure that payments are made, strictly according to the approved agreement
- Get schedule of legal and professional expenses and ensure that payments are made for the services rendered according to approved contract agreements
- Select sample transactions that expenses are approved as per company's policy and approved by appropriate authority
- Ensure that client recalculate the financial charges, levied by the bank. Check few transactions by calculating the financial charges

#### **Other Considerations**

- Evaluation of going concern
- Compliance with regulatory framework
- Related party transactions
- Compliance with labor laws
- Taxation
- Subsequent events

#### **Reporting**

##### **Form and Contents of Auditor's Report**

- Title – Independent auditors report
- Addressee – as per engagement letter
- Introductory paragraph
  - Company name
  - Statements are audited



- Title of each statements audited
- Reference to policy noted
- Date or period covered
- Management responsibility for statements
- Auditors' responsibility
- Auditors' opinion
- Other reporting responsibilities
- Signature of auditor
- Date of report
- Auditors' address – location
- Identification of engagement partner

#### **Formats of Auditor's Report**

- Companies Act
  - Private Limited Companies
  - NPOs established under Section 42
- Applicable Cost Audit Rules – for cost audits
- Banking companies Ordinance, 1962
- Insurance Act, 1932
- International Standards on Auditing
- Other applicable guidelines (INGOs)

#### **Forms of Audit Opinion**

- Clean or Unqualified
- Modified Opinion
  - Qualified Opinion
  - Adverse Opinion
  - Disclaimer of Opinion
- Emphasis of matter paragraph
- Other matter paragraph

#### **Pervasive effects**

- Pervasive effects on financial statements are those that, in auditors' judgement:
  - Are not confined to specific elements, accounts or items of the financial statements;
  - If so confined, represent or could represent a substantial proportion of the financial statements; or
  - In relation to disclosures, are fundamental to users' understanding of the financial statements

#### **Clean or Unqualified opinion**

When the auditor concludes that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

#### **Modification to Auditor's opinion**

- Modify the audit opinion when:
  - It is concluded that, based on audit evidence obtained, the financial / cost statements as a whole are not free from material misstatement;OR
  - The auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatements.

#### **Qualified Opinion**

- The auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in aggregate, are material, but not pervasive, to the financial / cost statements
- OR
- The auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, but concludes that the possible effect on the financial statements of undetected misstatements, if any, could be material but not pervasive.

#### **Adverse Opinion**

- The auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in aggregate, are both material and pervasive, to the financial / cost statements

#### **Disclaimer of opinion**

- The auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, but concludes that the possible effect on the financial statements of undetected misstatements, if any, could be material but not pervasive.

#### **Forms and Contents of Auditor's Report when opinion is modified**

- Basis for Modification Paragraph
- Include a paragraph that provides description of matters giving rise to the modifications:
  - Basis for Qualified Opinion
  - Basis for Adverse Opinion
  - Basis for Disclaimer of Opinion
- Opinion Paragraph
- Use the heading, as appropriate
  - Qualified Opinion
  - Adverse Opinion
  - Disclaimer of Opinion

#### **Steps before Final Audit Report**

- Referencing of financial statements
- Fill Audit Completion checklist
- Check for subsequent events
- Write cover letter to those charged with governance, as applicable
- Draft Management letter
- Obtain Management Representation Letter

#### **Referencing of Statements**

- Check format for appropriateness (report and statements)
- Perform complete spell checks
- Double check all calculations
- Double check note numbers and cross numbers
- Check that figures in sub-notes and notes are matching with the statement items
- Check that the figures in narrative notes and reports are up to date
- Check that the lead schedules in audit working paper files are matching with the updated and final financial statements
- Check that latest / updated trial balance has been filed
- Check the costing and cross costing of all the deliverables is correct and reconciled
- Check that audit completion checklist has been filled and filed
- Perform other procedures as guided

#### **Cover Letter**

- Contents
  - Addressee – BOD, President, CEO, Chairman etc.
  - Subject Line
  - Introductory Paragraph
  - Auditor's Responsibility
  - Management Responsibility
  - Outstanding information
- Confirmations
- Key Schedules, agreements, information etc.
  - Matters for specific attention
- Significant non-compliances not affecting opinion
- Key recommendations
- Significant and specific representations

#### **Management Letter**

- Include here minor control weaknesses/observations which don't affect the audit opinion
- Each identified weakness should consist of:
  - Observation
  - Risk associated with / implications
  - Recommendations from auditors
  - Management response

- Observations included in ML should be followed up in next year audit for compliance

#### **Management Representation Letter**

- Written Representation about Management Responsibilities
  - Preparation of financial statements
  - Information provided and completeness of transactions
  - Acknowledgement about disclosure of fraud
  - Whether the selection and application of accounting policies is appropriate
  - Plans and intentions affecting the carrying values
  - Actual and contingent liabilities
  - Title or control over assets
  - Compliance with aspects of laws, regulations and contractual agreements
  - Written representation on specific assertions
- Date and period covered
- Form of written representation

#### **Cost Audit**

##### **Cost Audit Comprises**

- Verification of the cost accounting records such as the accuracy of the cost accounts, cost reports, cost statements, cost data and costing technique and
- Examination of these records to ensure that they adhere to the cost accounting principles, plans, procedures and objectives.

##### **Cost Audit Objective**

- Prospective Objective:
  - Under which cost audit aims to identify the undue wastage or losses and ensure that costing system determines the correct and realistic cost of production
- Constructive Objectives:
  - Cost audit provides useful information to the management regarding regulating production, economical method of operation, reducing cost of operation and reformulating Cost accounting plans

##### **Cost Audit Procedures**

- Cost audit comprises following three steps;
  - Review
  - Verification
  - Reporting

##### **Review**

- The cost auditor should familiarize himself with the memorandum and articles of association, past audit reports on the financial accounts, annual reports issued by the board, the chairman's speech, etc.
- Review the costing system in vogue in relation to the production process and method,
- Should have detailed knowledge of the flow of production process and documents that arise or received in that course.
- A list of cost account books maintained by client should also be obtained
- Careful study and evaluation of internal controls and their operation on the cost account books
- Before audit work is taken up, all books and records should be posted up to date, vouchers for the various transactions filed serially and all working sheets made available to the auditors.
- Audit should be conducted with utmost cooperation of the staff

##### **Verification**

- A suitable program for cost audit is made.
- General procedures for expense verification as per Chapter – 3
- The audit program should be drawn out in detail, specifying each item of audit work to be carried out.
- Examination of licensed capacity, installed and utilized capacities of various products.
- Reasons for abnormal variance may be noted.
- Production in quantities for various products under reference.
- Percentage of production of the product in relation to installed capacity
- Verify the method of accounting followed for recording the quantities and value of receipts, issues and balances of all materials used in production.
- Verify consumption of major raw materials per unit of production compared with the standard requirement

- Verify variation in consumption of major raw materials per unit of production as compared to the preceding two years
- Verify confirmation received from the parties to whom materials are loaned.
- Verify the system or return of scrap and wastage.
- Verify the adequacy of records maintained to ascertain the cost of power, fuel, steam etc. If purchased, it should be shown separately.
- Allocation of power cost to departments and products has to be verified.
- Verify the total man-days of direct labor available and actual worked in the year.
- Verify the labor cost per unit of product or products under reference.
- Variations as compared to the previous two years.
- Contribution of incentive schemes towards increasing productivity and effect on the cost
- Verify the system of stores accounting for recording receipts, issues and balances.
- Non-moving items have to be checked.
- Cost per unit of production has to be verified
- Method of depreciation adopted by the company.
- The basis of allocation of depreciation of common assets to the different departments.
- The basis of charging depreciation to the cost of products.
- Variations as compared to the previous two years.
- Basis of allocation of overhead to cost centers and absorption to products.
- Comparison of actual with budget and reasons for variation.
- Amount of expenditure compared to the volume of output
- Verify the record of basis of calculation and charging of royalty and other allied payments to production cost
- Sales in quantity and value for each of the product.
- Average sales realization per unit.
- Variations compared with last two years
- Strikes, lockouts, major breakdowns in the plants, substantial power cuts, serious accident etc., may affect production.
- Costs incurred during that period may be verified and excluded from the product cost

#### **Verification of Cost Statement**

- Determination of cost following the generally accepted cost accounting principles.
- Application of costing system appropriate to the product.
- Consistency in the application of costing system and cost accounting principles.
- Verification of cost statements as to prescribed form and the prescribed content
- Elimination of material prior – period adjustments.
- Abnormal wastes and losses and other unusual transactions being ignored in determining of cost of product.
- The Costing Accounting Records Rules also prescribe the proforma of the various cost statements.

#### **Verification**

##### **WIP and Finished Goods Inventory**

- Trace unit costs from the final inventory listing to the cost accounting records
- Trace the raw material quantities used in producing the work-in-process items or the finished goods items to supporting documents (e.g., bills of material, requisition forms, production reports)
- Trace the cost of raw materials used to the vendor invoices, freight invoices, and other external documents, where appropriate
- Trace the labor hours used in producing the work in process items or finished goods items to supporting documents (e.g., time cards, time studies)
- Agree actual labor rates used to payroll records
- For overhead, test the client's overhead rate as follows:
  - Review the costs included in the overhead pool for propriety
  - Determine that overhead costs are being charged to inventory in accordance with appropriate policy (e.g., as a percentage of direct labor)
  - Identify disposition of variances between actual overhead costs incurred and overhead costs applied to production and inventory. Determine that variances are reasonable and that no excessive costs for idle plant are being charged to inventory.
  - Compare the overhead rate to the prior year for reasonableness

##### **Reconciliation with Financial Records**

- The cost records should be reconciled with the financial books of account to ensure accuracy.
- The reconciliation should be done in such a manner that profitability of the product can be correctly adjudged and reconciled with overall profit of the company.
- Variations should be correctly indicated and explained.

#### **Audit Notes**

- The power to obtain information and explanations is a tool to accomplish the duty of auditor. He should know how to use.

- In the course of audit, the auditor records on working papers the material facts observed.
- Clarifications and answers may be recorded.
- The auditor has to satisfy himself that the information and data collected and compiled therein are correct and the cost of production determined there from is fair.

#### **Reporting**

- With the help of the working papers, an audit report is issued on completion of audit.
- It should summarize the final result of audit.
- Certificate regarding correctness of the accounts should be include in the report.
- The report should consist of notes, observations and comments on the cost accounting system, financial position, stores and spare parts, depreciation, sales, abnormal non- recurring costs, etc.
- The report may also highlight other points of interest like factors responsible for the increase in cost of production.
- Suggestion regarding improvements and corrective measures to be taken

## 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 Ten 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)
25	To act as a <b>member of ADRC</b>	Income Tax Ordinance ,2001	Section 134 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