



**ICMA**  
Pakistan

# Monthly Technical Updates

on Accounting, Taxation & Laws

December 2019 | Vol: 19.2

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## Message from the Chairman

I feel proud to present the second issue of TSPD Monthly Technical Updates on Accountancy, Taxation and Laws for the month of December 2019.

This document was launched in the last month and the directorate had made utmost efforts to make it beneficial and effective for the practicing profession, however, we still feel that there is a lot of areas which we can be covered in the upcoming issues for which we need suggestions/ inputs from 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. Please do share your comments on [tspd@icmap.com.pk](mailto:tspd@icmap.com.pk).

Ghulam Mustafa Qazi, FCMA  
Chairman TSPD Committee



## Feature News

Initiative for the month

### Launch of Monthly Queries & Replies

Technical Support and Practice Development (TSPD) Directorate, has launched Monthly Queries & Replies, which is a compilation of Queries raised by the practicing members and at the TSPD Forum their replies.

The idea behind its launch is to provide a compiled version of the technical queries and their replies to the members which were raised at the TSPD WhatsApp Forum. It will serve as a ready reference for resolution of queries of similar nature arising in future. The Directorate acknowledges the active participation of worthy practicing members at the Forum. This document is prepared for practicing members at TSPD WhatsApp Forum only. Members interested to acquire this document may share their mobile numbers at [tspd@icmap.com.pk](mailto:tspd@icmap.com.pk).



### Appreciation on the launch of Monthly Technical Update

#### Message from the Honorary Secretary

I would like to appreciate the efforts of Mr. Ghulam Mustafa Qazi, Chairman TSPD Committee, Mr. Aamir Ijaz Khan, Executive Director ICMA Pakistan and TSPD Directorate on successful launching of Monthly Technical Updates. These publications enable the members to view updates related to our profession in the field of Accountancy, Taxation and Laws promulgated during the month. It also keeps the members aware with the current affairs of the country, economy, profession and activities of the Institute.

I also encourage members to provide their valuable suggestions for the uplift of profession and the Institute.

Shehzad Ahmed Malik, FCMA  
Honorary Secretary



### Messages from Members

Sayyid Mansoob Hasan, FCMA

I really appreciate this initiative of Technical update by the TSPD Directorate. Hope that members will be benefitted from the compiled version of technical updates. Keep up the good work.

Mr. Zahid Farooq, FCMA

That's a very good initiative. A big round of applause for this step.

Mr. Farough Ali, FCMA

I appreciate the work of TSPD department for preparing the monthly issue of Technical Updates. I hope that it will be helpful for the members at large.

## Committee Activities

### 30th Technical Support and Practice Development (TSPD) Committee

Technical Support & Practice Development (TSPD) Committee organized its 30th meeting at ICMA Pakistan Islamabad campus and connected through video link at Karachi, Lahore, Faisalabad and Multan. The meeting was held under the chairmanship of Mr. Ghulam Mustafa Qazi, Chairman TSPD Committee. The meeting was attended by the Committee members and TSPD secretariat.



### Appreciation on the launch of TSPD News at Glance

TSPD Directorate launched an exclusive daily issue of News at Glance the last month. Members appreciated the efforts of TSPD Directorate on this new initiative. Besides daily news updates, the document provide a glimpse of daily stock market, bullion rates and currency exchange rates. The Directorate received thumping applause and appreciation not only from the practicing members but also from members at large who have shown their interest to acquire updates on daily basis.



## National Update

### Taxation

#### 1. EXTENSION IN DATE OF FILING OF INCOME TAX RETURNS/ STATEMENTS FOR TAX YEAR 2019

Federal Board of Revenue (FBR) vide their Circular No. 18 of 2019 dated December 31, 2019 extended the date of filing of Income Tax Returns/Statements for the Tax Year 2019 as under:-

- The date of filing of Return of Total Income / Statements of final taxation for Individuals and Associations of Persons for the Tax Year 2019 which was due on September 30, 2019 and extended up to December 31, 2019 is hereby further extended up to January 31, 2020.
- The date of filing of Return of Total Income / Statements of final taxation for Companies for the Tax Year 2019, which was due on September 30, 2019 and extended up to December 31, 2019, in respect of those companies who have paid ninety five percent of the admitted tax liability on or before 30.09.2019, is hereby further extended up to January 31, 2020.
- The date of filing of Return of Total Income / Statements of final taxation for Companies for the Tax Year 2019, which was due on December 31, 2019, is hereby extended up to January 31, 2020.

For further details, please visit the following link:-  
<http://download1.fbr.gov.pk/Docs/201912312212582396831.01.20.pdf>

#### 2. EXTENSION IN DATE OF ONLINE INTEGRATION OF TIER-1 RETAILERS

Federal Board of Revenue (FBR), in exercise of the powers conferred under Section 74 of the Sales Tax act, 1990, extended the time limit for online integration of tier-1 retailers' outlets with Board's computerized system for real time reporting of sales up to December 15, 2019, as provided in sub-rule (2) of rule 150ZEA of Sales Tax Rules, 2006.

For further details, please visit the following link:-

[http://download1.fbr.gov.pk/Docs/2019124171235158372019-12-04\(Realtimeintegration\).pdf](http://download1.fbr.gov.pk/Docs/2019124171235158372019-12-04(Realtimeintegration).pdf)

#### 3. DRAFT AMENDMENTS IN CUSTOMS RULES, 2001 – INCLUSION OF A NEW SUB-CHAPTER “INTERNATIONAL SHIPMENT”

Federal Board of Revenue (FBR) vide their S.R.O. 1538(I)/2019 notified draft amendments in Customs Rules, 2001 by including a new sub-chapter “International Shipment”.

The proposed sub-chapter is inserted in Chapter XXI, after Sub-Chapter VIII. According to the draft, following procedure is prescribed for the movement of the International Transshipment (IT) cargo through any sea port in Pakistan, which shall be distinctly manifested as such in the IGM/carrier declaration uploaded electronically in the Customs Computerized System by the shipping line or its agent. Such manifest shall necessarily include the following information, namely:-

- port of loading;
- via port (name of the transshipment port of Pakistan);
- port of destination (final port of discharge at foreign destination);
- bill of lading (B/L) No;
- name of foreign exporter;
- and name of foreign importer.

The draft also explains the unloading of IT containers of the transshipment of containerized cargo. Oversized, bulk and break-bulk cargo shall be examined by the Customs upon discharge and examination report along with the pictures of the cargo shall be uploaded in the Customs Computerized system against B/L. Upon filing of online declaration for transshipment, the details of the cargo shall be reconciled with the imported cargo.

According to SRO, shipping line shall execute a bond for ensuring to follow Customs rules & regulations and for immediate removal of the goods from port in case the same is required by an officer not below the rank of Collector of Customs. The Collector of Customs, after recording the reason of such direction in writing, shall require the shipping line of immediate removal of transshipment cargo. The draft proposes that the facility for International Transshipment shall not be available to cargo containing arms and ammunition, explosives, radioactive materials, goods and technologies relating to Nuclear and Biological Weapons and restricted commodities under the UNSC sanctions.

The draft can be downloaded from the following link:-  
[http://download1.fbr.gov.pk/SROs/20191291612328979SRO1538\(I\)2019.pdf](http://download1.fbr.gov.pk/SROs/20191291612328979SRO1538(I)2019.pdf)

FBR sought public comments on the said draft. Worthy members are requested to kindly review the draft and provide valuable comments/inputs to [tspd@icmap.com.pk](mailto:tspd@icmap.com.pk) latest by December 19, 2019 for onward submission to FBR.

of their homes or offices using internet/mobile banking facilities, through 14000 plus ATMs or any of the 15000 plus branches of commercial banks across the country. So far Rs.346 billion has been collected through this mechanism. The collections through the ADCs/OTC modes are likely to grow exponentially as the awareness about the mechanism improves.

SBP is also running an awareness campaign to familiarize the taxpayers, tax bar associations, chambers of commerce, clearing and forwarding agents and business community at large about the ADC and OTC payment mechanisms. Seminars and awareness sessions are being arranged across the country through the field offices of SBP Banking Services Corporation.

For further details, please visit the following link:-  
<http://www.sbp.org.pk/>

## Corporate Sector

### 6. CRITERIA FOR QUALIFIED CAPITAL AND ITS TERMS AND CONDITIONS FOR NON-BANKING FINANCE COMPANIES ENGAGED EXCLUSIVELY IN THE BUSINESS OF ISSUANCE OF GUARANTEES TO ENHANCE THE QUALITY OF DEBT INSTRUMENTS ISSUED TO FINANCE INFRASTRUCTURE PROJECTS IN PAKISTAN

Securities and Exchange Commission of Pakistan (SECP) vide their Circular No.17/2019 dated December 6, 2019 notified criteria for Qualified Capital and its Terms and Conditions for Non-Banking Finance Companies Engaged Exclusively in the business of Issuance of Guarantees to Enhance the Quality of Debt Instruments Issued to Finance Infrastructure Projects in Pakistan.

SECP for the purposes of regulations 15B and 17 of the Non-Banking Finance Companies and Notified Entities Regulations, 2008 specified the 'Qualified Capital' and its terms and as under:-

"Qualified Capital" means the aggregate of Callable Capital and Contingent Capital (including any drawdown thereunder);  
 Explanation:- For the purposes of this clause the expressions:-

i) "Callable Capital" means share capital that, in terms of a written agreement entered into between the NBFC and a sponsor, shareholder and/or investor, as the case may be, is agreed to be subscribed on the following terms and conditions:-

- (a) the shares shall be fully subscribed over a period of twenty four (24) months from the date of the written agreement;
- (b) during the subscription period specified in sub-clause (a), the obligation to subscribe to shares shall be irrevocable and on demand, at the sole discretion of the NBFC; and
- (c) the subscription obligation shall be secured by a bank guarantee or standby letter of credit from a commercial bank rated AAA or higher by a credit rating agency registered with the Commission;

ii) "Contingent Capital" means long term commitment for finance that, in terms of a written agreement entered into between the NBFC and a Qualified Financial Institution(s), is provided as a second loss facility on the following terms and conditions:-

- (a) at any time, the Contingent Capital, in aggregate, shall not exceed one and a half (1.5) times of the sum of paid up share capital and Callable Capital of the NBFC;
- (b) the commitment shall, in accordance with the terms thereof, be irrevocable, confirmed and fully committed;
- (c) the long term commitment and the finance thereunder shall be available on a revolving basis;
- (d) the finance under the commitment shall be callable on demand upon a Capital Event and at the sole discretion of the NBFC or on a direction by the Commission (after giving the NBFC a reasonable opportunity of a hearing), which shall be binding on the NBFC ; and

## Petroleum

### 4. POL PRICES REVISED AS PER OGRA RECOMMENDATIONS

Ministry of Finance vide its press release dated December 31, 2019 notified that the Government revised the prices of petroleum products for the month of January 2020 as recommended by OGRA. The new POL prices are as follows:-

Product	Existing Prices w.e.f 01-12-2019	New Prices w.e.f 01-01-2020	Increase (+)/ Decrease (-)
MS (Petrol)	113.99	116.60	+ 2.61
High Speed Diesel (HSD)	125.01	127.26	+ 2.25
Kerosene (SKO)	96.35	99.45	+ 3.10
Light Diesel Oil (LDO)	82.43	84.51	+ 2.08

For further details, please visit the following link:-  
[http://www.finance.gov.pk/press\\_releases.html](http://www.finance.gov.pk/press_releases.html)

## Monetary

### 5. SBP ABOLISHED FEE ON PAYMENT OF GOVERNMENT TAXES THROUGH ADCs AND OTC

State Bank of Pakistan (SBP), vide its press release dated December 28, 2019 and FD Circular No.4 of 2019, notified to abolish the Fee on Payment of Government Taxes through ADCs and OTC.

The fee on payment of government taxes and duties through Alternate Delivery Channels (ADCs) and Over-the-Counter (OTC) is abolished w.e.f January 1, 2020. Currently, the taxpayers pay Rs.10 to Rs.50 per transaction for payment of taxes through ADCs depending on the amount of tax paid, and Rs.50 per transaction for the payments through OTC. This fee will be borne by SBP instead of taxpayers from January 1, 2020.

The decision is part of SBP efforts to promote digital payments and is likely to attract larger number of taxpayers towards digital payment of government taxes and duties. The mechanism for online collection of taxes and duties was introduced in March 2018 in collaboration with Federal Board of revenue (FBR) with the primary objective of taxpayers' facilitation. The tax payers can pay their taxes from the convenience

- (e) the commitment shall be replaced by the NBFC if the financing entity ceases to be a Qualified Financial Institution;
- iii) "Qualified Financial Institution" means a local or an international or multilateral financial institution rated AAA by a credit rating agency registered with the Commission;
- iv) "Capital Event" means the depletion of the equity (after the Callable. Capital has been completely drawn down by the NBFC) of the NBFC.

**Terms and Conditions,-**

- i) The NBFC shall not take any exposure against the Qualified Capital unless it has obtained a certificate from its statutory auditor that all the requirements specified above have been complied with;
- ii) The certificate shall be supported by a legal opinion from a reputed law firm and copy of the certificate along with the legal opinion shall be submitted to the Commission; and
- iii) With regard to its Qualified Capital, the NBFC, in relevant notes to its financial statements, shall make disclosures, which are necessary for the users to understand its salient features.

For further details, please visit the following link:-  
<https://www.secp.gov.pk/document/circular-no-17-of-2019/?wpdmdl=37456>

**7. REGULATORY SANDBOX GUIDELINES, 2019**

Securities and Exchange Commission of Pakistan (SECP) issued Regulatory Sandbox Guidelines, 2019 in order to promote innovation in financial services in insurance, non-banking finance as well as the capital markets.

Regulatory Sandbox is a tailored regulatory environment for conducting limited scale, live tests of innovative products, services, processes, and/or business models in a controlled environment for a limited period of time so as to assess their viability to be launched on full-scale, and to determine the compatible and enabling regulatory environment that will be conducive for the innovative solutions. The objective of these Guidelines is to purposefully meet the above.

The Regulatory Sandbox is primarily applicable for new products, services or business models which have not been addressed under existing laws and regulations; or these new ideas bring an innovative approach to the market and there exists considerable uncertainty in terms of unexpected adverse outcomes or existing regulatory framework does not fully address the solutions proposed to be experimented through the regulatory sandbox. The applicants can apply for inclusion in a cohort which is a complete lifecycle of the regulatory sandbox implementation in which a set of applicants enter in order to test their innovation in a specified time.

For further details, please visit the following link:-  
<https://www.secp.gov.pk/document/secp-regulatory-sandbox-guidelines-2019/?wpdmdl=37476>

**8. ACCEPTANCE OF DONATIONS FROM FOREIGN SOURCES WITHOUT PRIOR PERMISSION**

SECP vide their Circular No. of 2019 issued legal framework for licensing of associations formed with charitable and not for profit objects (companies licensed under section 42 of the Companies Act, 2017).

Sub-section (2) of section 42 of the Act empowers the SECP to grant license on such conditions as it may think fit. SECP vide SRO 733(1)2018 dated June 07, 2018 issued the Associations with Charitable and Not for Profit Objects Regulations, 2018, which are binding on all companies licensed under section 42 of the Act. Regulation 7 of the Regulations provides conditions applicable to section 42 companies.

Attention is invited to the following condition contained in sub regulation (xxii) of Regulation 7 of the Regulations which is reproduced as under:-

"the company shall not appeal, solicit, receive, or accept donations from foreign sources except with the prior permission, clearance or approval from the relevant authorities as may be required under any law or specified by the Government."

It has been noted that certain companies licensed under section 42 of the Act, receive foreign funding/donations without obtaining prior permission from relevant authorities in contravention to the requirements of aforementioned regulations. Accordingly, all companies licensed under section 42 of the Act, which intend to receive foreign funding/donations, are hereby directed to apply to the Commission along with eight (08) sets of following documents for seeking prior permission from Ministry of Interior.

- (i) Latest Memorandum & Articles of the Association of the company;
- (ii) Certified copy of latest Form B of the company;
- (iii) Resumes and affidavits of the chief executive and directors of the company as per the format specified in the Regulations and
- (iv) CNICs/passports of all the directors & chief executive of the Company.

For further details, please visit the following link:-  
<https://www.secp.gov.pk/document/circular-no-16-of-2019/?wpdmdl=37475>

**9. MINIMUM AMOUNT OF PAID UP CAPITAL**

Securities and Exchange Commission of Pakistan (SECP) vide their S.R.O. 1566 (I)/2019 specified that the minimum amount of paid up capital for incorporation of a corporate restructuring company is Rs. 500 million (five hundred million rupees).

SECP notified the SRO, in consultation with the State Bank of Pakistan and after approval of Ministry of Finance.

For further details, please visit the following link:-  
<https://www.secp.gov.pk/document/s-r-o-1566-i-2019-minimum-amount-of-paid-up-capital/?wpdmdl=37547>

**10. SECURITIES LENDING BY ASSET MANAGEMENT COMPANIES ON BEHALF OF COLLECTIVE INVESTMENT SCHEMES**

Securities and Exchange Commission of Pakistan (SECP) vide their Circular No. 18 of 2019 dated December 20, 2019 prescribed the following conditions for lending of securities by Asset Management Companies on behalf of Collective Investment Schemes:-

- a) An Asset Management Company on behalf of Collective Investment Schemes namely equity, asset allocation, balanced and index schemes may lend equity securities maximum up to 10% of net assets of such Collective Investment Scheme out of its equity portfolio.
- b) An Asset management company on behalf of Collective Investment Scheme shall lend securities only through platform provided by an authorized intermediary for the purpose of securities lending and borrowing as per the Securities (Leveraged Markets and Pledging) Rules, 2011.
- c) An Asset Management Company shall make necessary amendments in offering document of respective CIS and given necessary notice to the unit holders as per the requirements 44(7) of NBFC Regulations 2008.

This circular is issued by the SECP without prejudice to the requirements prescribed under Securities (Leveraged Markets and Pledging) Rules, 2011.

For further details, please visit the following link:-  
<https://www.secp.gov.pk/document/circular-no-18-of-2019/?wpdmdl=37571>

## International Update

### 11. IAASB ENHANCES AND MODERNIZES ISA 315 FOR A MORE ROBUST RISK ASSESSMENT

The International Auditing and Assurance Standards Board (IAASB) released revised International Standard on Auditing (ISA) 315 (Revised 2019), its revised standard for identifying and assessing risks of material misstatement.

ISA 315 (Revised 2019) is an important part of the IAASB's efforts to improve audit quality globally. In finalizing the changes, the IAASB focused on the understandability, complexity and length of the standard, and made enhancements and clarifications to encourage a more consistent and robust risk assessment, which forms the foundation of the auditor's efforts to gather sufficient appropriate audit evidence. The revisions also modernize the standard to keep up with the evolving environment in which businesses operate, in particular in relation to technology, as well as a focus on why procedures are required.

ISA 315 (Revised 2019) becomes effective for financial statement audits for periods beginning on or after December 15, 2021.

Due to the foundational nature of this revised standard, the IAASB will undertake activities to support effective and consistent application of the changes. An implementation plan has been developed which lays out the planned activities and estimated timing.

For further details, please visit the following link:-

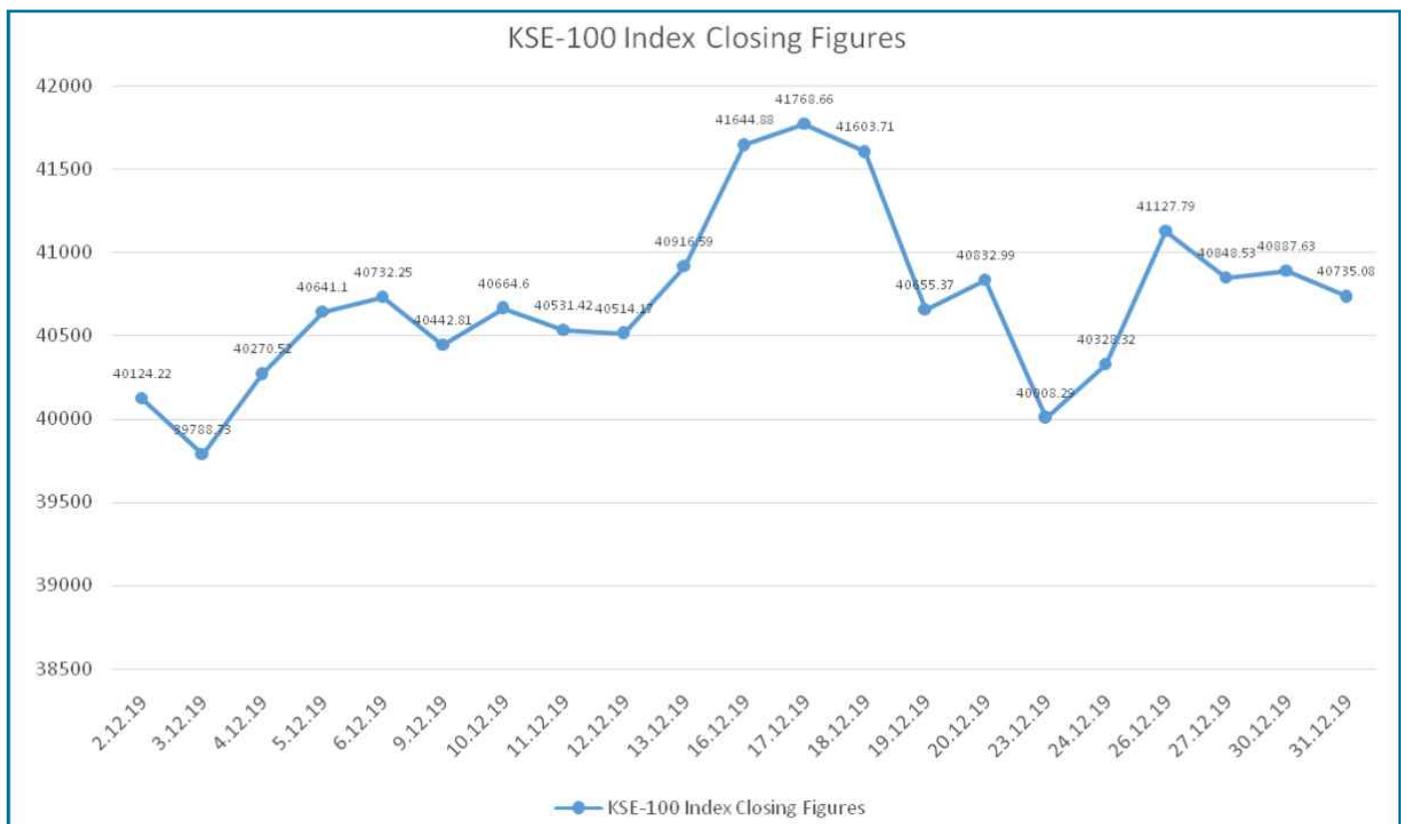
<http://www.iaasb.org/news-events/2019-12/iaasb-enhances-and-modernizes-isa-315-more-robust-risk-assessment-0>

## Pakistan Stock Market

### Pakistan Stock Market – KSE-100 Index Fluctuations during December 2019

Date	KSE-100 Index Closing Figures*	Date	KSE-100 Index Closing Figures*	Date	KSE-100 Index Closing Figures*
2.12.19	40124.22	11.12.19	40531.42	20.12.19	40832.99
3.12.19	39788.73	12.12.19	40514.17	23.12.19	40008.29
4.12.19	40270.52	13.12.19	40916.59	24.12.19	40328.32
5.12.19	40641.10	16.12.19	41644.88	26.12.19	41127.79
6.12.19	40732.25	17.12.19	41768.66	27.12.19	40848.53
9.12.19	40442.81	18.12.19	41603.71	30.12.19	40887.63
10.12.19	40664.60	19.12.19	40655.37	31.12.19	40735.08

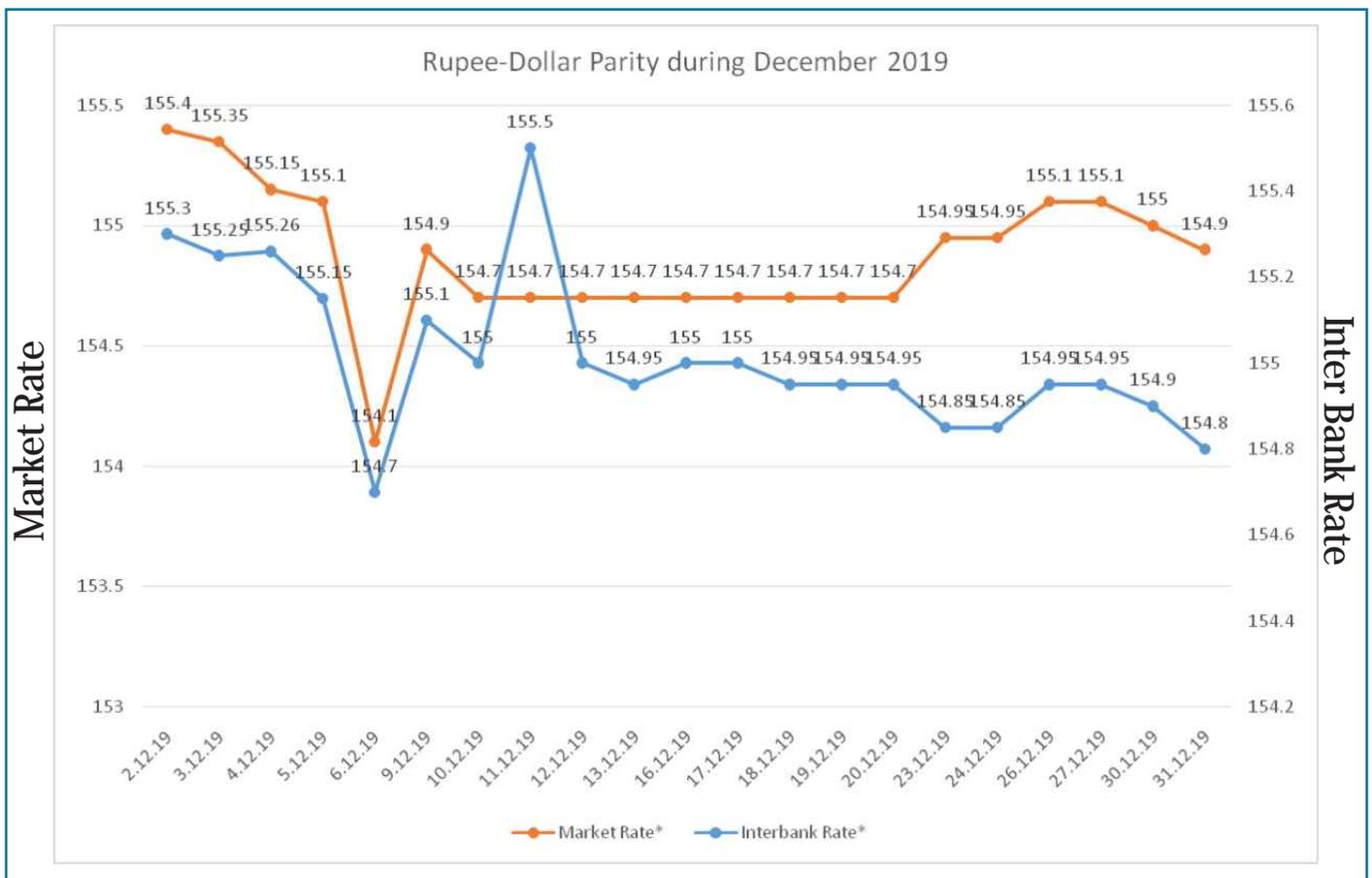
\*As published in Daily Dawn



## Rupee-Dollar Parity

Date	Interbank Rate*	Market Rate*	Date	Interbank Rate*	Market Rate*	Date	Interbank Rate*	Market Rate*
2.12.19	155.30	155.40	11.12.19	155.50	154.70	20.12.19	154.95	154.70
3.12.19	155.25	155.35	12.12.19	155.00	154.70	23.12.19	154.85	154.95
4.12.19	155.26	155.15	13.12.19	154.95	154.70	24.12.19	154.85	154.95
5.12.19	155.15	155.10	16.12.19	155.00	154.70	26.12.19	154.95	155.10
6.12.19	154.70	154.10	17.12.19	155.00	154.70	27.12.19	154.95	155.10
9.12.19	155.10	154.90	18.12.19	154.95	154.70	30.12.19	154.90	155.00
10.12.19	155.00	154.70	19.12.19	154.95	154.70	31.12.19	154.80	154.90

\*As published in Daily Dawn



# Audit Working Papers Review Techniques

A QAB Publication

The document is prepared in order to enable the readers to conduct review of audit working papers files and to ensure that the sufficient appropriate Audit evidence has been obtained to support the conclusion reached, and that the work delegated by the audit partner has been properly completed with the economy, efficiency and effectiveness.

## WHY DO WE AUDIT FINANCIAL STATEMENT- NEED FOR AUDIT?



### OBJECTIVE OF AUDIT

To express an opinion on the financial statements, whether or not the financial statements present fairly.

### PURPOSE OF REVIEW

- ISA 200 "Objectives and General Principles Governing an Audit of Financial Statements" states the objectives of an audit of financial statements as "To enable the auditor to express an opinion on the financial statements..."
- ISA 500 "Audit Evidence" requires that the auditor should obtain sufficient appropriate audit evidence to be able to draw reasonable conclusion on which to base the audit opinion.

### THINGS TO DO AT REVIEW

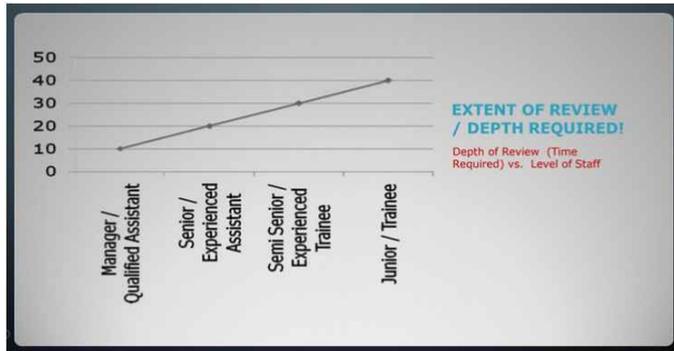
- The work has been performed in accordance with professional standards and regulatory and legal requirements and the agreed / standard scope.
- Appropriate consultations have taken place and the resulting conclusion has been documented and implemented.

- The evidence obtained is sufficient and appropriate to support the auditor's report.
- All standard procedures have been performed and documented before the issuance of the auditor's report.
- The work performed supports the conclusions reached.
- There is no need to revise the nature, timing and extent of work performed – and if there is; necessary changes are made accordingly.

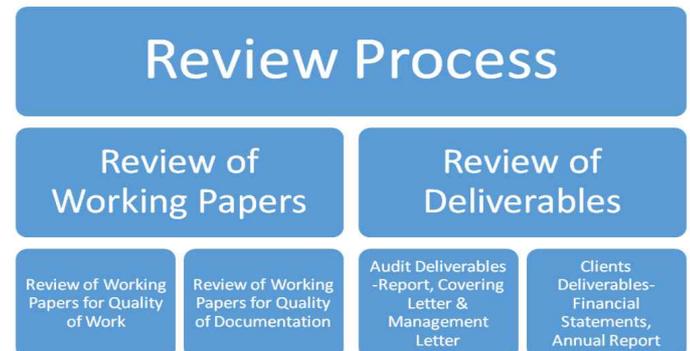
### WHEN REVIEW IS CONDUCTED.....?

- There is a misconception that review can only be performed at the end of audit or at the culmination of audit.
- Review is an ongoing process and should be done through out the audit during the following phases:-
  - ▶ Planning
  - ▶ Testing of controls / Compliance testing
  - ▶ Substantive testing
  - ▶ Conclusion and reporting

## HOW MUCH TO REVIEW...?



## HOW TO CONDUCT REVIEW...?



# Review of Financial Statements

## RESPONSIBILITY FOR REVIEW OF FINANCIAL STATEMENTS

- The management of the Company is responsible for the preparation of financial statements.
- However, since the auditor has to report on the same, he still has to perform a detailed review of the same.
- Auditor should ensure that:
  - ▶ the financial statements comply with the applicable financial reporting framework;
  - ▶ these are comparable within industry;
  - ▶ all the relevant disclosures have been adequately made and drafted;
  - ▶ financial statements are in accordance with the books of account – company law report format;
  - ▶ financial statements are free from errors, including clerical and arithmetical errors.
- Ensure that the Companies Ordinance 1984 and International Financial Reporting Standards' requirements and disclosures have been complied with. (Preferably use Financial Statements Disclosures Checklist)
- Ensure that if the company is subject to any other ordinance or regulations, disclosures required by these have also been included in the financial statements e.g. companies including Societies, NGOs etc..

## USE OF DISCLOSURE CHECKLISTS

- Preferably there should be disclosure checklists for the same like:
  - ▶ Financial Statements Disclosure Checklist,
  - ▶ Companies Ordinance 5th Schedule Disclosure Checklists
  - ▶ IFRS / AFRS Disclosure Checklists etc.
- Don't leave it on your staff – ask them to fill, but always review by yourself or some senior person (manager, supervisor)
- Ask your staff to refer it with the financial statements set. It will be helpful in review

## PURPOSE OF FINANCIAL STATEMENTS

- Financial statements are:
 

“Structured representation of the financial position and financial performance of an entity.”
- Objective:
 

To provide information about:

  - ▶ the financial position,
  - ▶ financial performance, and
  - ▶ cash flows

of an entity that is useful to a wide range of users in making economic decisions.

## COMPONENTS OF FINANCIAL STATEMENTS

- General purpose financial statements comprise of:
  - Balance Sheet
  - Profit and loss account
  - Statement of changes in equity
  - Cash flow statement
  - Notes to the financial statements

## PRESENTATION OF FINANCIAL STATEMENTS

- Variation in presentation may arise from difference in:
  - ▶ Nature of business of the entity
  - ▶ Type of Company (private limited, AOP, MSE, SSE etc.)
  - ▶ Consolidated or unconsolidated accounts
  - ▶ Management judgement on matters not specified by statute / standards
- Identification of each f/s component
- Name of reporting entity
- Specified if accounts related to group entity
- Balance sheet date/period of account
- Presentation currency
- Level of rounding used in presenting amounts
- Comparatives
- F/s amounts supported by adequate notes
- Each F/s component signed by director and chief executive.

## BASIC ACCOUNTING PRINCIPLES

- Fair presentation and compliance with IFRS / IAS / AFRS
- Going Concern
- Accrual basis of accounting
- Cash basis of accounting in case of Receipt and Payment Account
- Consistency of presentation
- Materiality and aggregation
- Off setting
- Comparative information

## REVIEW OF CASH FLOW PRESENTATION

- Please review sample cash flow statements
- Cash flows may be prepared under the indirect or direct method.
- These methods affect the method of arriving at operating cash flows only

- Discussion will follow the line items of the sample cash flow:
  - ▶ from operating activities
  - ▶ from investing activities
  - ▶ from financing activities
  - ▶ cash & equivalents
- Cash flows are prepared in accordance with the requirements of IAS 7

#### REVIEW OF STATEMENT OF CHANGES IN EQUITY

- Please review sample statements of changes in equity
- Statement may either show:
  - ▶ All changes in equity
  - ▶ Changes other than transactions with equity holders

#### VARIATIONS FOR INDUSTRIES

- Variations can be seen in presentation & disclosures of f/s for different industries, e.g.:
  - ▶ Manufacturing companies
  - ▶ Service industry
  - ▶ Trading entities
  - ▶ Media companies
  - ▶ Section 42 Companies
  - ▶ INGOs / NGOs
  - ▶ Societies

#### FINANCIAL STATEMENTS' REFERENCE WITH WORKING PAPERS

- Always check that there is a complete referenced set of financial statements available in file, which is referenced and linked with both the working papers and final adjusted trial balance along with additional internal referencing.
- Check that such set is appropriately casted and referenced.
- Recheck referencing and recheck casting on a test basis – if you are not doing that it means that your reputation is in the hand of some inexperienced guys.
- Ensure that financial statements comprise of a complete set of statements as prescribed by IFRS, or by relevant statute.
- Ensure that proper notes to the financial statements have been provided.
- Ensure that correct period covered by the accounts appear on:
  - ▶ the balance sheet,
  - ▶ profit and loss account,
  - ▶ statement of changes in equity,
  - ▶ cash flow statement, and
  - ▶ notes to the financial statements
- Check cross referencing of the major figures to working paper file
- Don't forget the small ones altogether – otherwise, your staff will always forget them
- Check them on a test basis also.

#### INTERNAL CROSS REFERENCING OF FINANCIAL STATEMENTS

- Check internal cross reference between various figures in financial statements i.e. between various statements and notes.
- Examples include:
  - ▶ Number of shares in notes, face of BS and as appearing in EPS disclosure;
  - ▶ Cash and cash equivalents in notes, BS and CF;
  - ▶ Reserves and Unappropriated / accumulated balance of profit / loss between BS and SCE;
  - ▶ Profit before tax in PL and CF;
  - ▶ Depreciation in CF and notes.

#### COMPARATIVE FIGURES REVIEW

- Ensure that last years' figures appearing in the financial statements are traced by the staff from last years' signed financial statements.
- Check on a test basis, particularly to identify instances where they have been rearranged to ensure proper treatment and disclosure.
- Ensure that wherever last years' figures have been rearranged, the following have been disclosed in the notes to the financial statements:
  - ▶ Nature
  - ▶ Amount
  - ▶ Reason

#### REVIEW OF NOTES TO FINANCIAL STATEMENTS

- Ensure that accounting policies for all major areas are defined.
- Specifically check the notes and disclosures requiring technical expertise and judgment capability for appropriate disclosures.
- Examples include the notes relating to financial instruments – as to whether an item is financial instrument or not e.g.
  - ▶ deferred tax,
  - ▶ prepayments and
  - ▶ intangible assets
- Similarly, check the notes requiring complex computations e.g. EPS and income tax reconciliation.
- Match financial instruments disclosures with each other, and with relevant notes, and get them referred with working papers.
- Check non-monetary disclosures and ensure that these are referred with the working papers.
- Check related party and other related disclosures e.g. remuneration of key executives and refer with working papers.
- Check for post balance sheet date events and similar other disclosures. There should be proper documentation in the file.

## WORKING PAPERS REVIEW

### DOCUMENTATION OF WORK

In audit – you can never prove anything to have been done unless you document it...

How to document – attach supports, use work programs and then sign them off, write work done and tick marks etc.

**IF IT IS NOT DOCUMENTED; IT IS NOT DONE!**

### IMPORTANCE OF WORKING PAPERS

- Document the planning, performance and review of audit work
- Provide the principal support for audit communications like....
- Observations,
- Conclusions, and
- Final report
- Facilitate third party reviews and re-performance requirements
- Provide a basis for evaluating the audit activity's quality control

### CHARACTERISTICS OF WORKING PAPERS

- Complete
- Timely
- Accurate
- Organized
- Relevant
- Concise

### ELEMENTS OF WORKING PAPER

- Name of the Client
- Period Covered by the Audit
- Subject Matter
- Indexing / File Reference
- Initials (signatures of staff who prepared)
- Date when prepared
- Initials (Signature of staff who reviewed)
- Date when reviewed
- In case of working paper prepared by client staff
  - ▶ Date the working papers were received
  - ▶ Initials of the audit team member who carried out the audit work

### CATEGORIES OF WORKING PAPER REVIEW

- Working papers review can be categorized into following:
  - ▶ Detailed Review;
  - ▶ Review by Partner;
  - ▶ Tax Review;
  - ▶ Specialist Review; and
  - ▶ Independent Quality Review;
- There should be two objectives of review:
  - ▶ Quality of work, and
  - ▶ Quality of papers.

### DETAILED REVIEW

- The engagement manager / supervisor of the audit team should perform a detailed review of the working papers.
- Review the audit strategy document and ensure that:
  - ▶ planning materiality has been set using an appropriate basis;
  - ▶ all significant accounts being identified;
  - ▶ tests of controls have been properly designed;
  - ▶ substantive Procedures have been appropriately planned and performed
- Review tax planning and review memorandum and discuss the issues with the tax personnel (where applicable);

- Review the minutes of AGM, EGM, BOD meetings or extracts;
- Ensure that related party transaction checklist has been completed;
- Ensure that the final trial balance has been referenced with the working papers / financial statements after duly ensuring that balances as per the books of account accord with the same;
- Review the letters from lawyers and other consultants with whom management consulted with respect to claims and/or potential claims;
- Review the reports from other specialists (actuaries, valuers etc.) on which we are relying;
- Ensure that letter of representation is correctly dated and contains confirmation of all key representations made to auditors;
- Ensure that appropriate audit work has been performed in accordance with International Auditing Standards – and the additional scope requirements of the company law and other laws are covered;
- Ensure that sufficient additional working papers exist to be satisfied that appropriate audit recognition has been given to all important amounts in the financial statements
- Ensure that the work performed has been properly evidenced;
- Ensure that numbers in the financial statements accord with our understanding of the client's business and industry;
- Ensure that audit issue memoranda covers all important accounting and auditing issues which arose during the audit;
- Ensure that the audit team and reviewers' concurrence with the conclusions reached is adequately documented;
- Ensure that audit file contains adequate notes of discussions with the client, including the reasons for all decisions reached as a result of such discussions;
- Ensure that financial statements have been properly prepared in accordance with the relevant accounting standards and laws and that the audit report is appropriate; and
- Ensure that all matters of attention have been communicated to other members of the engagement team, as appropriate.

### A FEW THINGS TO REMEMBER IN DETAILED REVIEW

- Never rely blindly...
- Use judgmental sampling for review
- Never ignore all the small things..... Take sample
- If something is small, but may be exposed..... check it judgmentally (e.g. legal expenses, related party transaction, other income etc.)
- Learn from experience...
  - ▶ Where this client makes errors,
  - ▶ Where my staff makes errors,
  - ▶ Where do I commit mistakes?
- Everything can contain error, unless otherwise provided

### REVIEW BY PARTNER

- Position yourself properly... Assess your staff level... Assess the level of reviewer and then decide to step into the foot of the Partner or the Detailed Reviewer....
- If YES ... Continue ... If NO .... Go back and perform detailed review first... Then do it additionally....
- See the "big picture."
- Have an expectation before you review.
- Make sure all pieces fit together.
- Look for consistency with other areas you reviewed.
- Watch the level of detail — too much or too little.

Reassess

- Scope
- Testing procedure
- Sample size
- Sample selection method Materiality

### Challenges

- Yourself
- Your team
- Your client
- The financial results
- Client's verbal representations
- Work Programs

### Ask yourself.....

- In respect of each working paper under your review...
  - ▶ Does it make sense..?
  - ▶ Do I really understand the process..?
  - ▶ Can I reiterate it..?
  - ▶ Is the working paper authentic...?
  - ▶ Who provided what we requested and were we provided with the originals of the requested..?
  - ▶ Does the work support the findings..?
  - ▶ Is there any indication of fraud..?
  - ▶ Does the working paper use language that conveys assurance on work performed..?
  - ▶ Can a third party re-perform the test and produce the same result...?
  - ▶ What is the source of information provided...?
  - ▶ Is the population complete and accurate...?

### Minimum the engagement partner should do....

- Participate in the planning event to review the audit approach of the team;
- Ensure that planning materiality has been set using an appropriate basis;
- Ensure that all significant accounts and functions have been adequately identified;
- Ensure that audit strategy / planning documentation has been prepared that addresses all the audit risks;
- Ensure that TOC has been properly designed their conclusion has been adequately taken in to account for determination of audit strategy;
- Review the detailed audit programs including the budgeted time allocated to each audit procedure;
- Review sufficient audit working papers to ensure appropriate audit coverage has been done for all important financial statements amounts and disclosures;
- Ensure that adequate audit work has been performed in accordance with ISAs, and that it has been properly evidenced;
- Ensure that detailed review was adequate
- Review the numbers in the financial statements and ensure that they accord with the understanding of the client's business and industry and economy as within;
- Audit Issues Memoranda covers all important accounting and auditing issues which arose during the audit and concur with the conclusions reached;
- Ensure that the audit file contains adequate notes of discussions with the client, including the reasons for all decisions reached as a result of such discussions;
- Ensure that letter of representation is correctly dated and contains confirmation of all key representations made to the auditors;
- Evaluate, based on your experience and judgment capability as to whether the accounting policies, significant judgments and estimates are:
  - ▶ appropriate,
  - ▶ acceptable, and
  - ▶ as per industry norms;
- Ensure that going concern basis is appropriate
- Ensure that subsequent events, if any, have been properly disclosed/ accounted for.

### SPECIALIST REVIEW

- There are always a few items in an audit which might need specialist review. But at times, we have to rely on the external specialists,
- Examples include:
  - ▶ Property Valuations
  - ▶ Tax – tax, deferred tax and tax position;
  - ▶ Actuary – Insurance and defined benefit plans.
  - ▶ Legal opinions – Property titles, positions,
  - ▶ Treasury – financial institutions' treasury function
  - ▶ IT – IS audit functions;
  - ▶ Islamic finance – Islamic finance transactions;

### QUALITY REVIEW

- Quality review normally refers to a review of audit documentation in order to get a concurrent conclusion by an independent person that appropriate audit opinion has been expressed on the financial statements.
- Normally this is conducted by a partner other than the engagement partner of the audit.
- May also be performed by a senior expert with the practice.

### Things to look for:

- Team assigned to engagement has:
  - ▶ sufficient skills,
  - ▶ experience, and
  - ▶ training to execute the engagement
- Audit strategy document:
  - ▶ has been prepared;
  - ▶ Addresses all the audit risks
- General audit procedures have been performed
- Appropriate areas are covered
- Audit Issue Memoranda:
  - ▶ addresses all the issues raised
  - ▶ conclusions are appropriate and documented
- Letter of representation is:
  - ▶ correctly dated
  - ▶ contains confirmation of all key representations made

### RELIANCE ON OTHERS....?

- Never rely on your subordinates for what you, yourself feel incompetent or incapable
- Try to develop expertise yourself
- Learn from them, but not put blind reliance on them
- Evaluate the arguments given

### REVIEW AS A TRAINING TOOL

- On the job training
- Operation theater approach
- Objective of internship / job
- Direct communication channels
- Share the experience
- Technical workings – direct involvement

### ZERO BASED REVIEW

- Belief – Audit is always performed in good faith.
- Review – Should not be carried out in good faith
- Need to have audit evidence to support the audit evidence
- Never to believe on what people say including:
  - ▶ your client
  - ▶ your team and colleagues
  - ▶ your own thinking
- Always perform a Zero Based Review i.e.
  - ▶ Nothing can be believed, unless evidenced
  - ▶ Nothing is correct, unless proved

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

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

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

### TECHNICAL SUPPORT & PRACTICE DEVELOPMENT COMMITTEE