



**The Institute of
Chartered Accountants
of Pakistan**

Circular No. 13 /2009

HEAD OFFICE

December 21, 2009

ALL MEMBERS OF THE INSTITUTE

Dear Member

COMMENTS INVITED ON THE DRAFT FRAMEWORK FOR SPECIAL REVIEW OF THE BANKS' INTERNAL CONTROL PROGRAMME UNDER THE 'GUIDELINES ON INTERNAL CONTROL' ISSUED BY THE STATE BANK OF PAKISTAN

Following the issuance of the 'Guidelines on Internal Control' by the State Bank of Pakistan (SBP) through BSD Circular No.7 dated May 27, 2004 and as modified through its BSD Circular No.6 dated March 03, 2008 and BSD Circular No.5 dated February 24, 2009, the matter of reporting on Internal Control over Financial Reporting (ICFR) has been a matter of discussion between the SBP, the Pakistan Banks Association, (PBA) and the Institute of Chartered Accountants of Pakistan (The Institute) for quite some time. As a result of these discussions the SBP has issued BSD Circular 9 dated October 12 which was revised on December 03, 2009.

The Institute understands that at present most of the banks are in the process of achieving various milestones as set out in their Internal Control programmes in line with the SBP's specified schedule of activities and they expect to accomplish only some stages during the calendar year 2009. As the work performed by the banks in those completed stages will form the basis for eventual compliance with the SBP's 'Guidelines for Internal Control' and for eventually preparing themselves to have their ICFR reviewed and reported upon by their external auditors, therefore, it is considered critical that the external auditors now perform a special review of the work undertaken by the banks in the completed stages and report the exceptions observed during their review to the management for submission to SBP. This review is expected to assist the banks in seeking some level of comfort over the nature, extent and quality of work undertaken by them in the completed stages and in identifying any aspects that may require revisions on a timely basis and before the respective banks have finalised the setting up of their internal control to be in compliance with the SBP's 'Guidelines on Internal Control'.

To ensure that the subject reviews are conducted by the banks' external auditors as of December 31, 2009 in accordance with a uniform basis the Institute has developed a draft 'Framework For Special Review of the Banks' Internal Control Programme under the 'Guidelines on Internal Control' as issued by the SBP. Under the subject framework the external auditor will be required to issue a long form report on the milestones completed by the bank under its Internal Control (IC) programme. The report would be a 'long form' report prepared on an exception basis. The framework would be applicable to those banks which are at different stages of implementation of their IC programme. The banks which have completed their IC programme can be audited under AS-5 or they may opt to be reviewed under the framework as of December 31, 2009. The draft framework is expected to be discussed with the SBP shortly.

The full text of the draft framework can be downloaded from the Institute's website at <http://www.icap.org.pk/web/links/0/standards.php>

Members are requested to send their valued comments to the Directorate of Technical Services at dtscomments@icap.org.pk latest by January 20, 2010. It would be helpful if the specific paragraph or group of paragraphs which is/are being commented upon is/are mentioned and that the matter is explained succinctly along with the proposed recommendation and the rationale for doing so

Thanking you

Yours truly

Muhammad Asif Iqbal
Director Technical Services

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