



**The Institute of
Chartered Accountants
of Pakistan**

Circular No. 12 /2009

HEAD OFFICE

December 17, 2009

ALL MEMBERS OF THE INSTITUTE

Dear Members

OUTSOURCING OF TAX AUDIT TO CHARTERED ACCOUNTANTS FOR THE TAX YEAR 2008

Pursuant to a Memorandum of Understanding (MoU) agreed between the Federal Government and the Institute of Chartered Accountants of Pakistan (ICAP), the Federal Board of Revenue (FBR) has now commenced the process of outsourcing of tax audits to firms of Chartered Accountants under the Tax Audit Framework (TAF). The FBR has in this respect issued a letter No. 1(7)-S (T.A)/2009(Corp.) dated December 11, 2009, a copy of which is attached for your ready reference.

The guidelines to be followed by firms of chartered accountants for carrying out the tax audit are included in the TAF, as developed by ICAP and notified as mentioned in FBR's aforesaid letter. The complete version of the TAF is available on ICAP's website <<http://www.icap.org.pk/web/links/0/taxation.php>>

The Federal Government had, through the Minister for Finance and Economic Affairs and the officials of the FBR, approached ICAP for the development of a framework to conduct audits of companies, incorporated under the Companies Ordinance, 1984, liable to collect and / or pay tax and / or duty under the provisions of the Income Tax Ordinance, 2001, the Sales Tax Act, 1990 and the Federal Excise Duty, 2005. ICAP had undertaken the task of developing the subject framework as a national duty by employing the expertise available to it through its members. The TAF was formalized following extensive deliberations amongst the officials of the FBR and the members of the Taxation Committee of ICAP. It is expected that members of ICAP shall conduct the subject tax audits with the same spirit. We believe that Pakistan's chartered accountancy profession shall in this manner contribute to the Federal Government's efforts towards a fair collection of taxes and duties which is an important element for achieving sustainable economic growth.

On behalf of ICAP, I would like to place on record the keen interest taken by Mr. Shaukat Tareen, Federal Minister for Finance and Economic Affairs and Mr. Sohail Ahmed, Chairman FBR, without whose support the TAF would not have been formalized.

Further and on behalf of ICAP I acknowledge the contribution of Syed Mohammad Shabbar Zaidi, as the Chairman of the outgoing Taxation Committee and its members in developing the draft TAF and that of Syed Asad Ali Shah, in his capacity as the President of ICAP in concluding the MoU with the Federal Government. ICAP's present Taxation Committee took over the task of reviewing the draft TAF and liaising with the FBR for getting it finalized and eventually notified.

The Taxation Committee of ICAP plans to conduct workshops at Karachi, Lahore and Islamabad to assist its practicing members to understand the requirements of the TAF. The Chairman FBR has also expressed an interest for similar programmes to be run for the benefit of the tax assessing authorities. The details of such programmes will be circulated in due course.

Yours sincerely

Shaikh Saqib Masood
Chairman - Committee on Taxation
Chairman - Committee on Financial Sector

Encl.: As above

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

GOVERNMENT OF PAKISTAN
(REVENUE DIVISION)
FEDERAL BOARD OF REVENUE
(Taxpayers Audit Wing)

C.No.1(7)-S(T.A)/2009(Corp.)

Islamabad, the 11th December 2009

The Chief Commissioner,
Large Taxpayers Units/Regional Tax Offices,
Karachi/Hyderabad/Sukkur/Quetta/Multan/Faisalabad/Lahore/
Sialkot/Gujranwala/Islamabad/Rawalpindi/Peshawar/Abbottabad.

Subject: **TAXPAYERS AUDIT OF CORPORATE CASES – TAX YEAR 2008.**

I am directed to refer to the correspondence resting on the subject cited above and to say that computer based random balloting was held today on December 11, 2009 in the FBR (HQ) in the presence of representatives of trade, industry, Tax Bar Associations and media to select units/persons for audit of domestic taxes for the Tax Year 2008 (Financial year 2007-08). A list of companies selected for audit through computerized random balloting relating to your jurisdiction is enclosed herewith.

02. Your attention is also invited to the Memorandum of Understanding (MOU) dated 19.06.2009 (copy enclosed) signed between the Federal Board of Revenue (FBR), Government of Pakistan and the Institute of Chartered Accountants of Pakistan (ICAP) to outsource composite tax audits in respect of corporate cases. In accordance with the said MOU, a Tax Audit Framework (TAF) has been approved by the competent authority, a copy of which is enclosed for your guidance and further necessary action.

03. The following guidelines may, inter-alia, be followed for audit of companies included in the enclosed list:-

- The audits of the relevant taxpayers are to be made only for the Tax Year 2008 (Financial year 2007-08). However, if as a result of audit for the said year, it transpires that the relevant taxpayer is involved in tax evasion in the previous years as well, then after recording such reasons, the trail of audit may be extended with the permission of the Chief Commissioner, to such period which is admissible under the law;

In case audit of the taxpayer included in the enclosed list has already been conducted for the period under reference, the audit of the said taxpayer may not be conducted again and the matter may be reported to the Board alongwith a copy of the audit report;

- The relevant Commissioner shall assign cases for composite audit to those firms of Chartered Accountants (CAs) which are

appointed/notified by the FBR. Sectoral expertise of CAs may be kept in mind while assigning the cases;

- The selected firms of Chartered Accountants will issue an engagement letter to the Commissioner concerned for his acceptance. On acceptance of the same, the CA Firm shall file a declaration stating that it is/was neither statutory auditor nor tax consultant of the relevant taxpayer;
- After acceptance, a pre-audit meeting between the tax auditors and the Commissioner shall take place for the purpose of risk evaluation;
- Before finalization of each audit report, the CA Firm shall discuss the audit findings with the concerned Commissioner;
- The CA Firm, in final audit reports to the Commissioner, duly signed, will express its opinion for arriving at the taxable income, amount of income tax, sales tax and federal excise duty payable by the taxpayer;
- The audit by the CA Firms shall be governed by the Tax Audit Framework and the relevant tax laws;
- The audit personnel of LTU/RTO may remain associated with the selected CA Firms, for their grooming and experience;
- Fee to the Chartered Accountant Firms shall be paid by the RTO/LTU in accordance with the approved fee structure given in the TAF. Necessary funds in this respect are being allocated to each RTO/LTU by the Admin Wing separately.

04. The Chief Commissioner will personally monitor the progress of audit and keep the Board informed. A monthly report regarding the audit initiated, completed and the names of the officers/auditors who conducted the audit alongwith the amount detected and recovered (if any) may be sent to the Board (both on hard & soft copy) by the 5th of the following month.

Encl: as above.



(Nawab Khan)
Chief (Taxpayers Audit)
Tele: 051-9219649

CC: The President, Institute of Chartered Accountants of Pakistan, Chartered Accountants Avenue, Clifton, Karachi.