The Institute of Chartered Accountants of Pakistan

e Technical Update

June 2009

Contents . . . .

ICAP House
Chartered Accountants Avenue
Clifton, Karachi. (Pakistan)
UAN: 111-000-422
PABX: 9251636-39
Fax: 9251626
E-mail: info@icap.org.pk
Website: http:www.icap.org.pk

IASB Update

Exposure Draft : Fair Value Measurement

(Due Date for Comments to IASB 28 September 2009)

The proposed guidance deals with how fair value should be measured where it is required by existing standards.

If adopted, the proposals would replace fair value measurement guidance contained within individual IFRSs with a single, unified definition of fair value, as well as further authoritative guidance on the application of fair value measurement in inactive markets.

Reasons for Publishing the Exposure Draft

The proposed IFRS defines fair value, establishes a framework for measuring fair value and requires disclosures about fair value measurements. IFRSs require some assets, liabilities and equity instruments to be measured at fair value. However, guidance on measuring fair value has been added to IFRSs piecemeal over many years as the International Accounting Standards Board or its predecessor decided that fair value was an appropriate measurement or disclosure basis in a particular situation.

As a result, guidance on measuring fair value is dispersed across many IFRSs and it is not always consistent. Furthermore, the current guidance is incomplete, in that it provides neither a clear measurement objective nor a robust measurement framework. The Board believes that this adds unnecessary complexity to IFRSs and contributes to diversity in practice.

The Board's objectives for publishing the proposed IFRS are:

(a) to establish a single source of guidance for all fair value measurements required or permitted by IFRSs to reduce complexity and improve consistency in their application;

(b) to clarify the definition of fair value and related guidance in order to communicate the measurement objective more clearly; and

(c) to enhance disclosures about fair value to enable users of financial statements to assess the extent to which fair value is used and to inform them about the inputs used to derive those fair values.

The proposed IFRS does not require additional fair value measurements.

Overview of the Proposals in the Exposure Draft

- **FV definition.** The IASB proposes an exit price definition of FV: "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date".

- **Most advantageous market.** FV measurement of an asset or liability assumes sale or transfer in the most advantageous market for the asset or liability available to the entity.

- **Measurement assumptions.** FV measurement of an asset or liability should use the assumptions that market participants would use in pricing the asset or liability.

- **Highest and best use of an asset.** FV measurement of an asset assumes that the asset will be sold to a market participant who will use it at its highest and best use.

- **Assume transfer of a liability.** FV measurement of a liability assumes that the liability is transferred to a market participant at the measurement date.

- **Day one gains/losses.** In four cases identified in the ED, FV measurement at initial recognition might differ from the transaction price. An entity would recognise any resulting gain or loss unless the relevant IFRS for the asset or liability requires otherwise.

- **Valuation techniques.** The ED proposes guidance on valuation techniques, including specific guidance on markets that are no longer active. Valuation techniques must be consistent with the 'market approach', 'income approach' or 'cost approach'. An entity would choose the valuation technique most appropriate in the circumstances and for which sufficient data are available to measure fair value.

- **Hierarchy of inputs to valuation.** The ED proposes a fair value hierarchy that prioritises into three levels the inputs to valuation techniques used to measure fair value:

    - Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

    - Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (ie as prices) or indirectly (ie derived from prices).

    - Level 3 inputs are inputs for the asset or liability that are not based on observable market data (unobservable inputs).

- **Disclosures.** The ED proposes various disclosures about how assets and liabilities were measured at fair value — "information that enables users of its financial statements to assess the methods and inputs used to develop those measurements and, for fair value measurements using significant unobservable inputs (Level 3), the effect of the measurements on profit or loss or other comprehensive income for the period".

The Exposure Draft can be downloaded at: **www.iasb.org**

Exposure Draft: Prepayments of Minimum Funding Requirement (Proposed Amendments to IFRIC 14)

(Due Date for Comments: 27 July 2009)

IASB has published for public comment an exposure draft of proposed amendments to IFRIC 14. The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction.

The proposed amendments are aimed at correcting an unintended consequence of IFRIC 14, an interpretation of IAS 19 Employee Benefits. As a result of the interpretation, entities are in some circumstances not permitted to recognise as an asset some prepayments for minimum funding contributions.

IFRIC 14 *IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* was issued in July 2007 with mandatory application for annual periods beginning on or after 1 January 2008. This exposure draft contains proposals by the International Accounting Standards Board to amend IFRIC 14. The proposals would remove an unintended consequence arising from the treatment of prepayments in some circumstances when there is a minimum funding requirement.

The Exposure Draft can be downloaded from: **www.iasb.org**

IASB Progress Update on IAS 39 Replacement

The IASB published an update on the progress of its comprehensive review of IAS 39 *Financial Instruments.*.

IASB has revised its April 2009 timetable for the comprehensive review of its standard on the recognition and measurement of financial instruments: IAS 39.

The revised timetable calls for the publication for public comment of an exposure draft on the classification and measurement of financial instruments during July 2009, with the objective of issuing a standard in time for 2009 year-end financial statements.

IFAC Update

Clarity Project Completed; Clarified ISAs / ISQC 1 Featured on New IAASB Website

The IAASB has completed its Clarity Project with the release, in March 2009, of the final seven clarified International Standards on Auditing (ISAs) following the consideration and approval of due process by the Public Interest Oversight Board.

With the Clarity Project's completion, all 36 ISAs and International Standard on Quality Control (ISQC) 1 have been revised in accordance with the IAASB's clarity conventions. These revisions will make the standards clearer and easier to understand, implement and translate. The clarified standards go into effect for audits of financial statements for periods beginning on or after December 15, 2009.

To help in the implementation of the new standards, the IAASB has developed an online Clarity Center (http://web.ifac.org/clarity-center/index). The Center provides a full set of the final standards, marked text showing changes from the original standards, a project history, and commonly asked questions and answers. In addition, the IAASB is developing a set of support modules, which will also be accessible from the Clarity Center, that will feature video and slide presentations highlighting key changes in the standards.

Guidance Issued for Enhancing Corporate Governance

The Professional Accountants in Business (PAIB) Committee has released a new International Good Practice Guidance document, titled *Evaluating and Improving Governance in Organizations,* to help professional accountants in business enhance governance and improve organizational performance.

The document includes a framework, a series of fundamental principles, supporting guidance, and references on how PAIBs can contribute to evaluating and improving governance in organizations.

The guidance encourages organizations to achieve a balance between conformance with regulations and driving organizational performance. It was designed to complement existing governance codes, such as the *OECD Principles of Corporate Governance* (2004) issued by the Organization for Economic Co-operation and Development (OECD).

The PAIB Committee has also issued a separate document, *Preface to IFAC's International Good Practice Guidance,* which sets out the scope, purpose, and due process of the committee's International Good Practice Guidance series.

Both *Evaluating and Improving Governance in Organizations* and the *Preface to IFAC's International Good Practice Guidance* can be downloaded free of charge from the PAIB section of the IFAC online bookstore at: **www.ifac.org/store.**

IPSASB Reaffirms its IFRS Convergence Strategy with Emphasis on Financial Instruments

The International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC) reaffirmed its commitment to its global convergence program and the development of standards dealing with financial instruments.

The IPSASB confirmed that it will continue its full consultation on exposure drafts (EDs): ED 37, Financial Instruments: Presentation, ED 38, Financial Instruments: Recognition and Measurement, and ED 39, Financial Instruments: Disclosures, while recognizing the intention of the International Accounting Standards Board (IASB) to modify aspects of its current standards relating to the measurement of financial instruments. The IPSASB will consider any changes ultimately adopted by the IASB in due course. It can be viewed at: **www.ifac.org/MediaCenter/?q=node/view/650**

IFAC Board Organizes G-20 Accountancy Summit; Focuses on Initiatives to Strengthen the Profession

The Board of the International Federation of Accountants (IFAC) agreed to hold a G-20 Accountancy Summit on July 23-24 in London to obtain the perspectives of accountancy institutes on how the profession can best contribute to strengthening the global financial system.

Board members considered the implications of the financial crisis and heard reports from the chairs of IFAC's independent standard-setting boards on their initiatives to update and develop new international auditing, education, ethics, and public sector accounting standards, particularly in those areas that would help the profession to address issues related to the financial crisis, and to adopt and promote their adoption and use by a wide group of stakeholders. Such adoption and implementation is vital to improving the transparency of the financial system and is consistent with G-20 recommendations.

In addition, the Board discussed how IFAC can best support small and medium practices, including assisting them in addressing issues emerging from the financial crisis and increasing awareness of the role of professional accountants in business in risk management, corporate governance, and transparent financial reporting. It can be viewed at: **www.ifac.org/MediaCenter/?q=node/view/648**

IFAC 2008 Annual Report Highlights Initiatives during Credit Crisis and Need for Convergence to Global Standards

The International Federation of Accountants (IFAC) released its 2008 annual report, highlighting initiatives to help restore global financial stability and in addition describing how some of IFAC's core work developing international standards and guidance became even more relevant in the current economic environment.

The report features messages from IFAC's immediate Past President Fermín del Valle, IFAC Chief Executive Officer Ian Ball, and Public Interest Oversight Board Chair Professor Stavros Thomadakis, who commented, "As in past years, IFAC has continued its commitment to the public. In addition, it includes reports from the chairs of the Consultative Advisory Groups to IFAC's independent standard-setting boards.

A key feature of the report is its Service Delivery section, which compares IFAC's planned services with those delivered in five areas:

- Standards and Guidance
- Promoting Quality
- International Collaboration Activities
- Representation of the Accountancy Profession in the Public Interest
- Information Services

The annual report describes the actions taken, over the past year, by IFAC and its standard-setting boards in advancing convergence of auditing, ethics, and public sector accounting standards; revising and updating the independence standards of the Code of Ethics for Professional Accountants; establishing a new framework for International Education Standards; and developing new benchmark guidance for professional accountants in business, as well as for small and medium-sized practices.

The IFAC 2008 annual report can be downloaded from the IFAC website at: **www.ifac.org/About/2008-annual-report.php**

SECP Update

- SECP Circular No 15 - Additional conditions to modaraba authorization certificate
- SECP Circular No 16 - Religious Board for Modarabas has been re-constituted for a term of three years and would start functioning with immediate effect.
- SECP Circular No 17 - Re-launched an amnesty scheme, 'Companies Regularization Scheme', to give relief to those companies and their management, which have, in the past, defaulted in the filing of various statutory returns under the Companies Ordinance, 1984. The scheme shall remain operative, for a period of forty-five days from 15th May, 2009, and shall apply to the defaults committed up to 31st December, 2008. The scheme is applicable on all types of companies other than listed companies. These include non-listed public companies, private companies, associations not-for-profit, trade organizations, companies limited by guarantee and foreign companies.
- SECP has deferred for two years the implementation of increase in minimum capital requirement for leasing companies
- SECP Circular No 18 read with SRO 388(I)/2009 – Amendments made to Second Schedule of Modaraba Companies and Modaraba Rules, 1981 regarding the scale of fees
- SECP SRO 444(1)/2009 – Amendments to Sixth Schedule of Companies Ordinance relating to application processing fees
- SECP SRO 445(1)/2009 – Amendments in the Listed Companies (Substantial Acquisition of Voting Shares and Takeovers) Regulations 2008

SBP Update

- Asian Development Bank (ADB) signed trade financing agreements with 5 Pakistan banks, allowing the LCs of these banks to be accepted worldwide with the guarantee of ADB
- BPRD Circular No 9 (2009) – All microfinance banks are directed to deposit, with Central Depository Company of Pakistan Ltd (CDC), sponsor shares and subsequently issued bonus/right shares issued to sponsors of Microfinance banks.
- BPRD Circular No 10 (2009) - Amendments in Microfinance Credit Guarantee Facility. In partial modification of the guidelines for Microfinance Credit Facility issued vide BPRD Circular No. 15 dated December 19, 2008, it has been decided to further incentivize commercial banks to provide whole sale funds to eligible Microfinance Banks/Institutions under the MCGF.
- FSCD Circular No 6 – Rate of remuneration for June 2009 on Special Cash Reserve Account(US$) maintained with the State Bank of Pakistan is 0%
- SBP has allowed foreign clients of National Commodity Exchange Limited (NCEL) to trade at the exchange through Special Convertible Rupee Accounts (SCRA)
- BSD Circular Letter No. 4 – SBP revised the date for reporting the consumer rating/ scoring in the e-CIB system to 31 December 2009. Progress reports to be submitted by 15 July and 15 October

- BPRD Circular No 11 (2009) – pensions may be disbursed through all branches of all the licensed banks and banks may be instructed to transfer the amount of pension in the pensioners account on the procedure adopted for payment of salaries

- IBD Circular No 2 (2009) – Revision of Capital Adequacy Requirements for Islamic Banking Branches

- BPRD Circular Letter No. 16(2009) – Format for reporting of data of unclaimed deposit. It has now been decided that Banks/DFIs shall provide the requisite data as per the revised scheme of format.

- SMEFD Circular Letter No 7 – Financing facilities under the LTFF scheme shall also be available to export oriented units/projects which presently are not eligible under LTFF scheme for import of generators/captive power plants

- FSCD Circular No 7 – Changes in rules governing Primary Dealer System

- FSCD Circular No 8 – Applications are invited from interested financial institutions for appointment as Primary Dealer of Government Securities for the year 2009-10

- FSCD Circular No 9 – With effect from 15 June 2009 Foreign Exchange Exposure Limit (FEEL) of Authorised Dealers (Ads) will be calculated as 20% of their paid up capital (free of losses) with a maximum cap of Rs 2,000,000

FBR Update

- Amendment has been made in rule 11 of the Capital Value Tax Rules 1990 for Form No. CVT-1

- Federal Budget 2009-10 has been announced on June 13, 2009

ICAP News

- Circular 5 of 2009 issued Auditors' Report Format under ATR 19 (Revised 2008), 'Identification of Audit Engagement Partner in the Auditors' Report on the Financial Statements'. The circular can be downloaded at:**www.icap.org.pk/web/links/0/circulars.php**

- Circular 6 of 2009 issued Formats of Review Reports on Interim Financial Information to be issued under ISRE 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". The circular can be downloaded at: **www.icap.org.pk/web/links/0/circulars.php**

- The Best Corporate Report Awards 2008 ceremony was held on Monday the June 15, 2009 in Pearl Continental, Karachi. The ceremony was organized by the Joint Committee of the Institute of Chartered Accountants of Pakistan (ICAP) and Institute of Cost and Management Accountants of Pakistan (ICMAP). Syed Salim Raza, Governor, State Bank of Pakistan was the Chief Guest of the Ceremony. List of award winners for 2008 is available on ICAP website.

- Evaluation Criteria for Best Corporate Report Awards 2009 has been uploaded on ICAP Website and is available at:**www.icap.org.pk/web/links/0/bestcorporatereportawards.php**

Technical Advisory Committee Opinions

Enquiry -1

Applicability of IAS - 28 'Investment in Associates' on Modarabas

We feel that the implementation of IAS-28 for the Modaraba sector be exempted for the following two reasons:

The scope of IAS-28 clearly states as under:

> "The standard does not apply to investments that would otherwise be associated interests of venturers in jointly controlled entities held by venture organizations, mutual funds, unit trusts and similar entities when those investments are classified as held for trading and accounted for in accordance with IAS 39 - Financial Instruments: Recognition and Measurement. Those investments are, measured at fair value with changes in fair value recognized in profit or loss in the period in which they occur"
>
> Modarabas being of the similar nature funds or unit trusts are required to be exempted from the implications of IAS-28.

Modarabas are required to distribute 90% of their profits, after setting aside to the mandatory reserve as allowed under the law, to their Certificate holders. The adoption of 1AS-28 has two aspects, as explained below:

> In case of profitable associated concerns investments, the adoption of IAS-28 results in the recognition and subsequently distribution of unrealized profits to the certificate holders, which is against the prudence conservatism concept of basic accounting principles. The adoption results in recognition of profits via profit and loss accounts and its subsequent distribution to certificate holders, which has not yet been realized by the Modaraba.

However, in case of loss making associated concerns investments, the accounting treatment of IAS 28 adoption properly results in the recognition of losses, though required under Basic Accounting Principles. In these cases, the adoption results in recognition of losses via profit and loss account, though unrealized but have taken place for the Modaraba. As such it is right for the Modaraba to book these losses via its profit and loss account.

As such we propose as under:

- All profitable associated concern investments by the Modaraba be accounted for on the basis of realization of profits in the shape of receipt of dividends. In case of disposal of investment, the realized capital gain arising on the sale of such investment be booked via profit and loss statement.

- All loss making associated concern investments by the Modaraba be accounted for on the basis of AS 28, all losses be recognized via profit and loss account as prescribed under IAS 28. In case of subsequent improvement in the results of the associated concern investment, the losses booked in earlier years be reversed via profit and loss statement to the extent of the losses booked by the Modaraba in earlier years via profit and loss statement. In case of disposal of such investment, the capital gain/loss arising on the sale of such investment be booked via profit and loss statement.

We understand the adoption of the above mentioned procedure will truly reflect the investments made in associated concerns in the books of the Modaraba.

Committee's View

We would like to clarify that unit trusts will fall out of the scope of IAS 28 only if investment is initially classified as held for trading or designated at fair value through profit or loss, in which case it would be accounted for under IAS 39.

Further, we would like to draw your attention to paragraph 17 of IAS 28:

> 17 The recognition of income on the basis of distributions received may not be an adequate measure of the income earned by an investor on an investment in an associate because the distributions received may bear little relation to the performance of the associate. Because the investor has significant influence over the associate, the investor has an interest in the associate's performance and, as a result, the return on its investment. The investor accounts for this interest by extending the scope of its financial statements to include its share of profits or losses of such an associate. As a result, application of the equity method provides more informative reporting of the net assets and profit or loss of the investor.

The above paragraph which is self explanatory emphasizes the need for applying equity method of accounting which is considered to be most appropriate from investor's perspective.

For availing the tax exemption based on distribution of 90% profit, a clarification may be sought from Federal Board of Revenue, if the unrealized gains can be excluded.

Enquiry -2

Elucidation Required regarding Accounting and Financial Reporting Standards for Medium Sized Entitities (MSEs) Issued by ICAP

With reference to the above mentioned subject, we need your professional advice regarding definition of Medium Sized Entities (MSE) clause (c) as compared with definition of Economically Significant Entities (ESE). Clause (c) specifies that an entity shall not be classified as Medium sized entity if it holds assets in a Fiduciary capacity for a broad group of outsiders, such as a bank, insurance company, securities broker/dealer, pension fund, mutual fund or investment banking entity.

Further definition of Economically Significant Entity (ESE) is as follows:

> "An entity is considered to be economically significant if it has:
>
> (i) Turnover in excess of Rs.1 billion, excluding other income;
>
> (ii) Number of employees in excess of 750;
>
> (iii) Total borrowings (excluding trade creditors and aaccrued liabilities) in excess of Rs.500 million.

In order to be treated as economically significant any two of the criterion mentioned in (i), (ii) and (iii) above have to met. The criterion followed will be based on the previous year's audited financial statements. Entities can be delisted from this category where they do not fall under the aforementioned criteria for two consecutive years."

Professional advice required:

Comparing the preceding paragraphs, what is the appropriate classification of an entity if it falls under the clause (c) of **"Medium Sized Entities"** definition, and also does not fulfill the conditions for eligibility as an **"Economically Significant Entity".**

Committee's Views

Your attention is drawn to the following paragraphs of Technical Release 5 (Revised 2006) issued by ICAP:

2.5 The Institute further directs its members that while expressing an opinion on financial statements of entities that do not qualify to be treated as MSE or SSE as per the definition given in paragraphs 2.4.3 above (except for public utility entities or similar entities that provide an essential public service or regulatory agencies that do not fall under the jurisdiction of Securities and Exchange Commission of Pakistan (SECP), they shall ensure compliance with the International Accounting Standards (IASs)/ International Financial Reporting Standards (IFRSs) as adopted by the Council and notified by the SECP under section 234(3) of the Companies Ordinance, 1984

In view of the above the entity will be required to comply with the requirements of IFRS while preparing their financial statements.

Enquiry -3

A) Maintenance of Register of Mortgages u/s 135 of the Companies Ordinance, 1984

B) Maintenance of Fixed Assts Register as per ICAP TR-6

We seek your guidance relating to the Auditors responsibilities for non-maintenance of the above registers by the client.

Background

We mentioned in the Management Letter the non-maintenance of Mortgages register and Fixed Assets register.

We understand that our responsibility is limited to ML unless it is material. All the documents and evidences relating to Mortgage and charges and fixed assets were verified by us.

We request you to kindly provide ICAP guidance on the above case.

Committee's Views

The objective of an audit of financial statements is to enable the auditor to express an opinion whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework. In order to form an opinion on the financial statements, the auditor performs the audit procedures in accordance with the International Standards on Auditing (ISA). We would like to draw your attention towards the following paragraphs of ISA 500 "Audit Evidence":

2. **The auditor should obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the audit opinion.**

3. "Audit evidence" is all the information used by the auditor in arriving at the conclusions on which the audit opinion is based, and includes the information contained in the accounting records underlying the financial statements and other information. Auditors are not expected to address all information that may exist. Audit evidence, which is cumulative in nature, includes audit evidence obtained from audit procedures performed during the course of the audit and may include audit evidence obtained from other sources such as previous audits and a firm's quality control procedures for client acceptance and continuance.

4. Accounting records generally include the records of initial entries and supporting records, such as checks and records of electronic fund transfers; invoices; contracts; the general and subsidiary ledgers, journal entries and other adjustments to the financial statements that are not reflected in formal journal entries; and records such as work sheets and spreadsheets supporting cost allocations, computations, reconciliations and disclosures. The entries in the accounting records are often initiated, recorded, processed and reported in electronic form. In addition, the accounting records may be part of integrated systems that share data and support all aspects of the entity's financial reporting, operations and compliance objectives.

5. Management is responsible for the preparation of the financial statements based upon the accounting records of the entity. The auditor obtains some audit evidence by testing the accounting records, for example, through analysis and review, reperforming procedures followed in the financial reporting process, and reconciling related types and applications of the same information. Through the performance of such audit procedures, the auditor may determine that the accounting records are internally consistent and agree to the financial statements. However, because accounting records alone do not provide sufficient audit evidence on which to base an audit opinion on the financial statements, the auditor obtains other audit evidence.

By applying the audit procedures, the auditor comes to a conclusion whether or not:

a) All assets, liabilities and equity reported in the financial statements exist;

b) The entity holds or controls the rights to all assets and liabilities are the obligations of the entity.

c) All assets, liabilities and equity that should have been recorded have actually been recorded.

d) All assets, liabilities, and equity are included in the financial statements at appropriate amounts and any resulting valuation or allocation adjustments are appropriately recorded.

A Fixed Assets Register (FAR) is kept by a company for internal control purposes, as it allows a company to keep track of details of each fixed asset, ensuring control and preventing misappropriation of assets. It also keeps track of the correct value of assets, which allows for computation of depreciation and for tax and insurance purposes. The FAR generates accurate, complete, and customized reports that suit the needs of management.

As per Section 2 (5) of the Companies Ordinance 1984 "**books of account**" include accounts, deeds, vouchers, writings and documents, maintained on paper or computer network, floppy, diskette, magnetic cartridge tape, CD-Rom or any other computer readable media.

A company normally maintains various documents as "books of account" like general ledger, voucher, cash book, good received note, party ledger, purchase book, FAR etc. FAR is one of the secondary accounting records which may be maintained by a company as its books of account. Thus, FAR may be considered to be one of the sources to verify fixed assets but not the only source.

Section 255 requires an auditor to give an opinion whether or not proper books of account as required by this Ordinance have been kept by the company. Section 230 requires a company to maintain proper books of account with regard to its assets, liabilities, sales, purchases, receipts, payments and production.

If a company does not maintain its "books of account" in a manner that the auditor is not able to obtain sufficient appropriate audit evidence for material account balances, the auditor would be required to modify the audit report appropriately.

In the absence of FAR, if the auditor is able to satisfactorily verify fixed assets from other accounting records, modification of audit report does not seem to be necessary. Conversely, the audit report would be modified if the auditor is not able to obtain sufficient appropriate audit evidence for material fixed asset balance(s).

Further, the responsibility of maintaining records under section 135 of the Companies Ordinance, 1984 (Company's register of mortgages) is that of the Company. The auditor cannot be held responsible for the noncompliance.

ATR-20 Auditor's Reporting Responsibilities in respect of Non- Compliances with Laws or Regulations, clarifies as follows:

5. It should also be noted that it is not the purpose of the audit nor the responsibility of the auditor to highlight the contraventions of corporate and other laws.

7. Additionally, in case of non compliance with laws and regulations, the ISA 250 also requires the auditor to report the same to members of management charged with governance.

8. Hence it is concluded that an infraction of laws or regulations, the financial implication of which is not material to the financial statement do not require the modification of the auditors opinion. The auditor should follow the guidance given in paragraphs 6 and 7 above

The auditor is not necessarily required to modify the audit report if he is able obtain sufficient appropriate audit evidence through alternative sources such as Form 10 & 17, and bank letters etc., in the absence of Register of Mortgages under section 135 of the Companies Ordinance, 1984.

Local News Brief

- Three year long 9 point "Economic Stabilization-poverty Reduction Agenda" from 2009-2011 has been finalized aimed at eradication poverty from the society
- American Business Council recognized by the Government as the sole representative body representing the interest of member companies with investments and brand franchise from the USA
- Macro economic framework for 2009-10 sets exports target of $19.9 billion
- Joint declaration issued at the conclusion of Pakistan, Iran and Afghanistan trilateral summit
- In order to capture halal food market in the world Ministry of Livestock and Dairy Development has introduce "Halal food production technology and certification system", which will help increase the country's exports in international markets especially in Muslim countries.
- Karachi Stock Exchange (KSE/N-3159) amends regulations governing risk management
- Islamic Banks have come up with two types of inter-bank trading agreements in their effort to develop a proposed Sharia compliant inter bank market. Inter bank Musharaka and Inter bank Wakala agreements were finalized as standard contracts for the Islamic Banking Industry
- Karachi Stock Exchange (KSE/N-3176) – notified members that effective from 1 June 2009, under Cash Settled Futures(CSF) and Stock Index Futures(SIFC), Exposure Margins shall require being deposited 100% in terms of Cash and/or Bank Guarantee with the Clearing House of the Exchange
- Pak Qatar Group to set up Islamic Bank
- The management of House Building Finance Corporation Limited (HBFCL) is planning to float some 282 million (41 percent) shares in the market to overcome financial crunch. Details made exclusively available to Business Recorder on Friday revealed that the corporation would offer pre-IPO to the International finance Corporation (IFC) of 69 million shares (Rs.0.68 billion), which would be 10 percent of the total number of shares.
- The government has replaced PDL on petroleum products, with carbon tax, in the 2009-10 budget (Business Recorder).
- KSE/N 3660 – Amendments in the Listing Regulations of KSE
- KSE/3363 – Recomposition of KSE-Mezzan 30 INDEX (KMI 30)
- KSE introduces mobile Karachi Automated Trading System (MKATS)

World News Brief

- **FRC publishes Discussion Paper on Reducing Complexity in Corporate Reporting**
  The Financial Reporting Council (FRC), the UK's independent regulator responsible for promoting confidence in corporate reporting and governance has published a discussion paper arising from its project on reducing complexity in corporate reporting.

  The paper's title - *Louder than Words: Principles and actions for making corporate reports less complex and more relevant* is intended to remind all of those involved in corporate reporting that it is what we all do in practice that affects the quality and readability of corporate reports.

  The paper seeks to address growing concerns about the complexity of corporate reporting. Many people point to the increasing length and detail of annual reports and the regulations that govern them as evidence that we have a problem.

  The paper recommends a commonsense approach to reducing complexity based on eight guiding principles – four for better communication in reports and four for improving the quality and effectiveness of regulations. It also recognises that there is no easy solution and that change will only happen if all of those involved in corporate reporting make a concerted effort.

  The FRC is hoping that the discussion paper will lead to debate within the UK and global financial reporting communities. The FRC welcomes comments on its paper from a wide range of constituents by 30 October 2009.

- **Audit committees take on bigger hands-on roles**
  Responding to the economic crisis, 75% of corporate audit committee members say they have taken on more hands-on roles in working with management, according to a survey by KPMG's Audit Committee Institute.

- **FRC Publishes Exposure Draft updating Going Concern Guidance for Directors**
  The Financial Reporting Council (FRC), the UK's independent regulator responsible for promoting confidence in corporate reporting and governance has published an Exposure Draft of updated guidance for directors of UK companies to assist them with their assessment of going concern and in evaluating the nature and extent of disclosures.
  The Draft will replace the existing guidance for directors of listed companies that was published in 1994. It is designed to be relevant to the directors of all sizes of UK companies including those that adopt the Financial Reporting Standard for Smaller Entities. The Draft incorporates the going concern material published in recent months in the FRC's "Update for directors" and "Guidance for directors of smaller companies". However, it will not replace that guidance until published in final form, taking account of the comments received.

- **Companies get interested in automated continuous auditing**
  The idea of using automated systems to perform ongoing internal auditing of all processes that need to be audited, as opposed to auditing samples of transactions long after they have been executed, is receiving growing acceptance. Once automated ,internal auditing is in place, it can dramatically reduce the burdens of compliance with the requirements of the payment card industry and regulatory agencies, according to this article.

- **Auditing fees were up last year, are expected to remain steady in 2009**
Despite the recession, fees for accounting and audit firms increased slightly last year, according to a survey released by the Financial Executives Research Foundation. Fees paid to external auditors were up 2.2%, fees for large companies increased an average of 4.2% and fees paid by privately held companies rose an average 3.7%, the survey found.

- Dow Jones Indexes, a leading global Index provider, and the Federation of Euro-Asian Stock Exchanges (FEAS) plan to launch the Dow Jones FEAS Indexes on Friday, June 5, 2009. This is the first time Indexes are created to measure the performance of companies across the Euro-Asian region. The three Indexes are a composite, and two regional sub-Indexes. The Dow Jones FEAS Indexes are designed to underline Index-linked investment products such as funds and structured products.

- Many companies now have very different risk-management priorities than they did just a year ago, as concerns about liquidity and fraud now top the list. The financial crisis is highlighting the importance of having a more flexible risk-management strategy, including hiring a chief risk officer and tweaking a company's business model to increase access to capital.