



**The Institute of
Chartered Accountants
of Pakistan**

**CA
PAKISTAN**

HEAD OFFICE

Circular No. 4 / 2018

March 26, 2018

ALL MEMBERS OF THE INSTITUTE

Dear Member

Statement of Compliance for the Financial Statements prepared under the Companies Act, 2017

The companies are required to prepare statutory financial statements for the periods ended after December 31, 2017 in accordance with the financial reporting requirements of the Companies Act, 2017 (the Companies Act).

The Institute has previously issued statements of compliance for the financial statements prepared in accordance with the financial reporting frameworks prescribed in the repealed Companies Ordinance, 1984. The details of relevant circulars are as under:

ICAP Circular	Statement of compliance
Circular No. 7/2007	Statement of compliance for the companies other than Medium-sized entities and Small-sized entities
Circular No. 2/2017	Statement of compliance for the financial statements prepared using IFRS for SMEs and Revised AFRS for SSEs
Circular No. 8/2017	Statement of compliance for the financial statements of companies formed/licensed under section 42 and section 43 of the Companies Ordinance, 1984
Circular No. 7/2010	Revision in auditors' review report format on interim financial information and the statement of compliance

However, the above mentioned statements of compliance require revision due to the enactment of the Companies Act and applicability of the financial reporting requirements thereunder.

Financial reporting frameworks under the Companies Act

Under section 224 of the Companies Act, companies have been classified in various categories. Further, the third schedule of the Companies Act outlines the categorization criteria and applicable financial reporting framework including the presentation and disclosure requirements of the fourth and fifth schedule of the Companies Act. These are summarized as under:

Sr. #.	Class of company	Applicable accounting framework	Applicable schedule
1	Public interest company (PIC)	International Financial Reporting Standards (IFRS Standards) issued by International Accounting Standards Board (IASB) as notified under the Companies Act	Fourth schedule (applicable to listed PIC) Fifth schedule (applicable to other than the listed PIC)
2	Large-sized company	IFRS Standards issued by IASB as notified under the Companies Act	Fifth schedule

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



Sr. #.	Class of company	Applicable accounting framework	Applicable schedule
3	Medium-sized company	IFRS for Small and Medium-sized Entities (IFRS for SMEs) issued by IASB as notified under the Companies Act	Fifth schedule
4	Small-sized company	Revised Accounting and Financial Reporting Standard for Small-Sized Entities issued by the Institute of Chartered Accountants of Pakistan (ICAP) as notified under the Companies Act	Fifth schedule

- Further, in accordance with the third schedule of the Companies Act:
 - The companies formed / licensed under section 42 or section 45 of the Companies Act in addition to IFRS Standards or IFRS for SMEs (whichever is applicable) and the fifth schedule are also required to comply with the Accounting Standard for Not for Profit Organizations (Accounting Standard for NPOs) issued by ICAP as notified under the Companies Act.
 - The subsidiaries of listed companies shall follow the requirements of the fourth schedule of the Companies Act.
- Moreover, in accordance with section 225 of the Companies Act, the statutory financial statements can also be prepared in accordance with the IFRS Standards issued by IASB. In such case the presentation and disclosure requirements of the fourth schedule or fifth schedule (whichever is applicable to the company) are in addition to the disclosure requirements specified in the IFRS Standards issued by IASB, and accordingly are also required to be followed.

The revised and new statements of compliance for the financial statements

For members' guidance, following statements of compliance for the statutory financial statements prepared under the Companies Act (related to different financial reporting frameworks/ class/ nature of companies) have been included:

Statement of compliance (reference #.)	Applicable financial reporting framework / Class / Nature of company
Annual statutory financial statements	
A	Financial statements prepared in accordance with IFRS Standards issued by IASB as notified under the Companies Act, 2017
B	Financial statements prepared in accordance with IFRS for SMEs issued by IASB as notified under the Companies Act, 2017
C	Financial statements prepared in accordance with Revised Accounting and Financial Reporting Standard for Small-Sized Entities as notified under the Companies Act, 2017
D	Financial statements of companies formed / licensed under section 42 or section 45 of the Companies Act, 2017



Statement of compliance (reference #.)	Applicable financial reporting framework / Class / Nature of company
E	Financial statements prepared in accordance with IFRS Standards issued by IASB
F	Financial statements of Mutual Funds
G	Financial statements of Insurance companies (<i>Extracted from the Annexure II of the Insurance Rules 2017</i>)
H	Financial statements of Banks (<i>Extracted from the BPRD Circular 2 of 2018, 'Revised Forms of Annual Financial Statements'</i>)
Interim financial statements	
I	Quarterly financial statements of the listed companies

A. Financial statements prepared in accordance with IFRS Standards issued by IASB as notified under the Companies Act, 2017

“These financial statements have been prepared in accordance with the accounting and reporting standards as applicable in Pakistan. The accounting and reporting standards applicable in Pakistan comprise of:

- International Financial Reporting Standards (IFRS Standards) issued by the International Accounting Standards Board (IASB) as notified under the Companies Act, 2017; and
- Provisions of and directives issued under the Companies Act, 2017.

Where provisions of and directives issued under the Companies Act, 2017 differ from the IFRS Standards, the provisions of and directives issued under the Companies Act, 2017 have been followed.”

B. Financial statements prepared in accordance with IFRS for SMEs issued by IASB as notified under the Companies Act, 2017

“These financial statements have been prepared in accordance with the accounting and reporting standards as applicable in Pakistan. The accounting and reporting standards applicable in Pakistan comprise of:

- International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs) issued by the International Accounting Standards Board (IASB) as notified under the Companies Act, 2017; and
- Provisions of and directives issued under the Companies Act, 2017.



Where provisions of and directives issued under the Companies Act, 2017 differ from the IFRS for SMEs, the provisions of and directives issued under the Companies Act, 2017 have been followed.”

C. Financial statements prepared in accordance with the Revised Accounting and Financial Reporting Standard for Small-Sized Entities as notified under the Companies Act

“These financial statements have been prepared in accordance with the accounting and reporting standards as applicable in Pakistan. The accounting and reporting standards applicable in Pakistan comprise of:

- Revised Accounting and Financial Reporting Standard for the Small-Sized Entities (Revised AFRS for SSEs) issued by the Institute of Chartered Accountants of Pakistan as notified under the Companies Act, 2017; and
- Provisions of and directives issued under the Companies Act, 2017.

Where provisions of and directives issued under the Companies Act, 2017 differ from the Revised AFRS for SSEs, the provisions of and directives issued under the Companies Act, 2017 have been followed.”

D. Financial statements of companies formed / licensed under section 42 or section 45 of the Companies Act, 2017

“These financial statements have been prepared in accordance with the accounting and reporting standards as applicable in Pakistan. The approved accounting and reporting standards applicable in Pakistan comprise of:

- *International Financial Reporting Standards (IFRS Standards) / *International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs) issued by the International Accounting Standards Board (IASB) as notified under the Companies Act, 2017;
- Accounting Standard for Not for Profit Organizations (Accounting Standard for NPOs) issued by the Institute of Chartered Accountants of Pakistan as notified under the Companies Act, 2017; and
- Provisions of and directives issued under the Companies Act, 2017.

Where provisions of and directives issued under the Companies Act, 2017 differ from the *IFRS Standards / *IFRS for SMEs or the Accounting Standard for NPOs, the provisions of and directives issued under the Companies Act, 2017 have been followed.”

** Please include whichever is applicable.*

**E. Financial statements prepared in accordance with IFRS Standards issued by IASB**

“These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS Standards) issued by the International Accounting Standards Board (IASB). In addition the disclosure requirements of the ****fourth / fifth** schedule of the Companies Act, 2017 have also been complied.”

Where disclosure requirements of the ****fourth/ **fifth** schedule of the Companies Act, 2017 differ from the IFRS Standards issued by IASB, the requirements of the IFRS Standards issued by IASB have been followed.

*** Please include whichever is applicable.*

F. Financial statements of Mutual Fund

“These financial statements have been prepared in accordance with the accounting and reporting standards as applicable in Pakistan. The accounting and reporting standards applicable in Pakistan comprise of:

- International Financial Reporting Standards (IFRS Standards) issued by the International Accounting Standards Board (IASB) as notified under the Companies Act, 2017;
- Provisions of and directives issued under the Companies Act, 2017 along with part VIIIA of the repealed Companies Ordinance, 1984; and
- Non-Banking Finance Companies (Establishment and Regulations) Rules, 2003 (the NBFC Rules), Non-Banking Finance Companies and Notified Entities Regulations, 2008 (the NBFC Regulations) and requirements of the Trust Deed.

Where provisions of and directives issued under the Companies Act, 2017, part VIIIA of the repealed Companies Ordinance, 1984, the NBFC Rules, the NBFC Regulations and requirements of the Trust Deed differ from the IFRS Standards, the provisions of and directives issued under the Companies Act, 2017, part VIIIA of the repealed Companies Ordinance, 1984, the NBFC Rules, the NBFC Regulations and requirements of the Trust Deed have been followed.”

G. Financial statements of the Insurance Company

“These financial statements have been prepared in accordance with the *******accounting and reporting standards as applicable in Pakistan. The accounting and reporting standards comprise of:

- International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as are notified under the ********Companies Act, 2017; and
- Provisions of and directives issued under the ********Companies Act, 2017 and Insurance Ordinance, 2000, Insurance Rules 2017 and Insurance Accounting Regulations, 2017.



Incase requirements differ, the provisions or directives of the ****Companies Act, 2017, the Insurance Ordinance, 2000, the Insurance Rules, 2017, the Insurance Accounting Regulations, 2017, shall prevail.”

- *The above wording of statement of compliance has been extracted from Annexure II of the Insurance Rules 2017, and following necessary changes have been made:*

**** The term “approved accounting standards” replaced with “accounting and reporting standards”, in accordance with the Companies Act 2017.*

***** The term “Companies Ordinance, 1984” replaced with the “Companies Act 2017”.*

- Please also include Takaful Rules, 2012, if applicable.

H. Financial statements of the Bank

“These financial statements have been prepared in accordance with the *****accounting and reporting standards as applicable in Pakistan. The accounting and reporting standards comprise of:

- International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as are notified under the Companies Act, 2017;
- Islamic Financial Accounting Standards (IFAS) issued by the Institute of Chartered Accountants of Pakistan as are notified under the Companies Act, 2017;
- Provisions of and directives issued under the Banking Companies Ordinance, 1962 and the Companies Act, 2017; and
- Directives issued by the State Bank of Pakistan (SBP) and the Securities and Exchange Commission of Pakistan (SECP).

Whenever the requirements of the Banking Companies Ordinance, 1962, the Companies Act, 2017 or the directives issued by the SBP and the SECP differ with the requirements of IFRS or IFAS the requirements of the Banking Companies Ordinance, 1962, the Companies Act, 2017 and the said directives, shall prevail.”

- *The above wording of statement of compliance has been extracted from State Bank of Pakistan’s issued BPRD Circular 2 of 2018, and following necessary change has been made:*

****** The term “approved accounting standards” replaced with “the accounting and reporting standards”, in accordance with the Companies Act 2017.*

I. Quarterly financial statements of listed companies

“These condensed interim financial statements have been prepared in accordance with the accounting and reporting standards as applicable in Pakistan for interim financial reporting. The accounting and reporting standards as applicable in Pakistan for interim financial reporting comprise of:



- International Accounting Standard (IAS) 34, *Interim Financial Reporting*, issued by the International Accounting Standards Board (IASB) as notified under the Companies Act, 2017; and
- Provisions of and directives issued under the Companies Act, 2017.

Where the provisions of and directives issued under the Companies Act, 2017 differ with the requirements of IAS 34, the provisions of and directives issued under the Companies Act, 2017 have been followed.”

With regard to quarterly financial statements of listed companies, following explanatory notes should also be considered:

- In case of specialized entities (e.g. Banks, Insurance, NBFC etc.) the wordings of the statement of compliance for quarterly financial statements should be modified to incorporate specific financial reporting requirements contained in the relevant statutes/regulations/rules of these specialized entities.
- If the quarterly financial statements of listed company have been prepared in accordance with the IFRS issued by IASB, the above statement of compliance would be as follows:

“These condensed interim financial statements have been prepared in accordance with the International Accounting Standard (IAS) 34, *Interim Financial Reporting*.”

Following explanatory notes provide additional information / guidance on the above statements of compliance:

Note 1 - Islamic Financial Accounting Standards used in the preparation of financial statements

If an entity is also required to follow Islamic Financial Accounting Standards as notified under the Companies Act, 2017, the following sentence should be added to the statement of compliance (*prescribed in A to G and I above*):

“Islamic Financial Accounting Standards (IFAS) issued by the Institute of Chartered Accountants of Pakistan as notified under the Companies Act, 2017.”

Further, the reference to IFAS shall also be included in the last paragraph of the statement of compliance.

“In case the requirements of the Companies Act, 2017, ^----- differ from the (^^IFRS Standards/ IFRS for SMEs/ AFRS for SSEs or Accounting Standard for NPOs) or IFAS, the requirements of Companies Act, 2017 ^----- have been followed.”

^ Please also mention other applicable statutory laws, rules and regulations, as applicable to the company.

^^ Please include whichever is applicable.



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Note 2 - Statement of compliance of other specialized entities

In case of specialized entities (e.g. Modaraba, Microfinance banks etc.) the wordings of the statement of compliance would be modified to incorporate specific financial reporting requirements contained in the relevant statutes/regulations/rules of these specialized entities.

Note 3 - Specific exemptions / deferments of IFRS Standards

The companies which are preparing statutory financial statements in accordance with IFRS Standards issued by IASB as notified under the Companies Act, and said companies have also been granted specific exemptions/deferments from the application of the specified IFRS Standard/s (by SECP or SBP) should disclose this information in the statement of compliance (as an additional note).

Members are advised to take note of the above statements of compliance.

Yours truly

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