



**The Institute of  
Chartered Accountants  
of Pakistan**

**CA  
PAKISTAN**

**HEAD OFFICE**

**Circular No. 03 / 2023**

February 02, 2023

**ALL MEMBERS OF THE INSTITUTE**

Dear Member

**Guidance on the Assurance Report on Statement of Free Float of Shares**

The annual free float of shares of a listed company is required to be verified by the auditor under provisions of the Rulebook of the Pakistan Stock Exchange Limited (PSX). In this regard, PSX has notified the format of the '*Independent Reasonable Assurance Report on Statement of Free Float of Shares*' (through Notice No. PSX/N-4829, dated August 16, 2017).

For the computation of free float of shares, PSX, through notice No. PSX/N-448 (dated January 25, 2017) has notified that companies shall:

- Exclude shares held by directors, sponsors, senior management officers, and associates; and
- Determine the "associates" based on the definition contained in the Securities Act 2015.

Definition of associate provided in the Securities Act 2015

'Associate' defined in the Securities Act 2015, specifies various relationships of the company. The definition is provided below for reference.

"Associate in relation to:

- a) *an individual, means*
  - i. *that individual's spouse, son, adopted son, step-son, daughter, adopted daughter, stepdaughter, father, stepfather, mother, stepmother, brother, stepbrother, sister or stepsister;*
  - ii. *any company of which that individual is a director;*
  - iii. *any company in which that individual or any of the persons mentioned in sub-clause (i), has control of twenty per cent or more of the voting power in the company, whether such control is exercised individually or jointly; or*
  - iv. *any employee of that individual; or*
- b) *a company, means another company in which the first-mentioned company has control of not less than twenty per cent of the voting power in that company, and a reference in this Act to an associated person or associated company shall be construed accordingly".*

Concerns have been raised by the auditors that the above-noted definition is broad in scope and leads to practical limitations in the identification and verification of associates for the computation of free float of shares.

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

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Guidance on auditor's reporting responsibility for the verification of associate

The Auditing Standards and Ethics Committee of the Institute, in consideration of the expanded definition of associate and auditors' concerns regarding its impacts on their verification of free float computations, suggests following wordings be included by the auditors' in the Independent Reasonable Assurance Report on Statement of Free Float of Shares:

*"With respect to identification of associates of an individual as defined in section 2 (ii) (a) of the Securities Act 2015, we have obtained and relied on management's representations that are based on written declarations from individuals (i.e. directors, sponsors and senior management officers of the company) about their associates."*

The suggested wordings are for guidance purposes. The format of the '*Independent Reasonable Assurance Report on Statement of the Free Float of Shares*' after including the suggested wordings is attached as '*Appendix A*' to this Circular.

Members are advised to take note of the above.

Yours truly



Sohail Malik  
Senior Director Technical

Enclosed: as above

**INDEPENDENT REASONABLE ASSURANCE REPORT ON STATEMENT OF FREE FLOAT OF SHARES (*suggested changes are bold and underlined*)**

*(The report was notified through PSX Notice No. PSX/N-4829, dated August 16, 2017)*

**To the Chief Executive of the (name of Company)**

**1. Introduction**

We have been engaged to perform a reasonable assurance engagement on the annexed \*Statement of Free Float of Shares (the 'Statement') of ..... (the Company) as of ....., ....., ..... and ..... (mention relevant quarter end).

**2. Applicable Criteria**

The criteria against which the Statement is assessed is Regulation No. 5.7.2(c)(ii) of Pakistan Stock Exchange Limited Regulations (PSX Regulations) which requires every listed company/modaraba/mutual fund to submit directly to Pakistan Stock Exchange (PSX) an annual Free-Float Certificate duly verified by the auditor along with the annual audited accounts as prescribed under regulation 5.6.4(a) of the PSX Regulations.

**3. Management's Responsibility for the Statement/s**

Management is responsible for the preparation of the Statement as of ....., ....., ..... and ..... (mention relevant quarter end) in accordance with the applicable criteria. This responsibility includes maintaining adequate records and internal controls as determined necessary to enable the preparation of the Statement/s such that it is free from material misstatement, whether due to fraud or error.

**4. Our Independence and Quality Control**

We have complied with the independence and other ethical requirements of the Code of Ethics for Chartered Accountants issued by the Institute of Chartered Accountants of Pakistan, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The firm applies International Standard on Quality Control 1 "Quality Control for firms that perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements" and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

**5. Our responsibility and summary of the work performed**

Our responsibility is to carry out an independent reasonable assurance engagement and to express an opinion as to whether the Statement is prepared in accordance with the applicable criteria, based on the procedures we have performed and the evidence we have obtained.

We conducted our reasonable assurance engagement in accordance with International Standard on Assurance Engagements 3000 (Revised), '*Assurance Engagements other than audits or reviews of historical financial statements*' (ISAE 3000) (Revised) issued by the International Auditing and Assurance Standards Board. That standard requires that we plan and perform this engagement to obtain reasonable level of assurance about whether the Statement is free from material misstatement.

A reasonable assurance engagement in accordance with ISAE 3000 (Revised) involves performing procedures to obtain evidence about the free float of shares and related information in the Statement. The nature, timing and extent of procedures selected depend on the



practitioner's judgment, including the assessment of the risks of material misstatement, whether due to fraud or error, in the Statement. In making those risk assessments, we considered internal control relevant to ..... (name of company)'s preparation of the Statement. A reasonable assurance engagement also includes assessing the applicable criteria used and significant estimates made by management, as well as, evaluating the overall presentation of the Statement.

We have carried out the procedures considered necessary for the purpose of providing reasonable assurance on the Statement. Our assurance procedures performed included verification of information in the Statement with the underlying data and record comprising of Central Depository Company statements, forms submitted by the Company with Securities & Exchange Commission of Pakistan relating to its pattern of shareholding and other related information. Verification that the computation of free float of shares is in accordance with the PSX regulation also forms part of our assurance procedures.

**With respect to identification of associates of an individual as defined in section 2 (ii) (a) of the Securities Act, 2015, we have obtained and relied on management's representations that are based on written declarations from individuals (i.e. directors, sponsors and senior management officers of the company) about their associates.**

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**6. Opinion\***

In our opinion, the Statement as of ....., ....., ..... and ..... (mention relevant quarter end) is prepared, in all material respects, in accordance with the PSX Regulations.

**7. Restriction on use and distribution**

This report is issued in relation to the requirements as stipulated under Regulation No 5.7.2(c)(ii) of the PSX Regulations and is not to be used or distributed for any other purpose. This report is restricted to the facts stated herein and the attachments.

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Signature

Date: \_\_\_\_\_

Chartered Accountants

[Place / City]

\* Modification/Qualification of opinion, if applicable, shall be in accordance with ISAE 3000 (Revised).