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The Executive Committee
Public Interest Law Association of Pakistan
4th Floor, Adamjee House
I.I. Chundrigar Road
Karachi

October 17, 2016

ASR 0806

Dear Sirs

DRAFT FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

We have pleasure in enclosing five copies of the draft financial statements of Public Interest Law Association of Pakistan ("the Association") for the year ended June 30, 2016 with our draft audit report thereon duly initialled by us for identification purposes. We shall be pleased to sign our report in its present or amended form after:

(a) these financial statements have been approved by the Executive Committee and signed by any two of its members authorised in this behalf;

(b) we have seen the specific approval of the Executive Committee in respect of the following:

	Rupees
• redemption of units of mutual fund	376,074
• gratuity expense	44,500
• Addition to operating fixed assets	77,600

c) we have received direct response from Allied Bank Limited (Shaheen Centre, Clifton) to our request for confirmation of balance as at June 30, 2016; and

d) we have received an appropriately signed letter of representation along the lines of the draft provided to the Executive Committee.

We take this opportunity to draw your attention to certain accounting and related matters which are set forth in the following paragraphs:

2. RESPONSIBILITIES OF THE MANAGEMENT AND THE AUDITORS IN RELATION TO THE FINANCIAL STATEMENTS

The responsibilities of the independent auditors, in a usual examination of financial statements, are explained in International Standard on Auditing 200, "Overall objectives of the independent auditor and the conduct of an audit in accordance with international standards on auditing". While the auditors are responsible for forming and expressing their opinion on the financial statements, the responsibility for the preparation of the financial statements is primarily that of the management in accordance with applicable financial reporting framework, which includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of financial statements that are free from material misstatement, whether due to fraud or error. The management's responsibilities include to provide the auditors with (i) all information, such as records and documentation, and other matters that are relevant to the preparation and presentation of the financial statements; (ii) any additional information that the auditors may request from the management; and (iii) unrestricted access to those within the entity from whom the auditors determine it necessary to obtain audit evidence. The audit of the financial statements does not relieve the management of its responsibilities. Accordingly, our examination of the books of accounts and records should not be relied upon to disclose all the errors or irregularities in relation to the financial statements.

We would like to inform the management that unless we have signed the auditors' report on these financial statements, the same shall remain and be deemed unaudited.

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3. BANK RECONCILIATION STATEMENTS

During the course of our audit we noted that bank reconciliation statements are not prepared throughout the year except at the year end as a result of which reconciling items are not identified and promptly resolved. We recommend that the management should regularly prepare and review bank reconciliation statements so as to identify and resolve the reconciling items on a timely basis.

4. PREPARATION OF FINANCIAL STATEMENTS ON A GOING CONCERN BASIS

The Association has incurred a deficit of Rs. 0.477 million for the year ended June 30, 2016 (2015: deficit of Rs 0.999 million) and the Association has a history of negative operating cash flows. These circumstances indicate the existence of a material uncertainty which may cast significant doubt about the Association's ability to continue as a going concern. However, these financial statements have been prepared on a going concern basis, which contemplates the realisation of assets and satisfaction of liabilities in the normal course of operations as management is expecting significant increase in donations in the ensuing years.

Accordingly, we have added an emphasis of matter paragraph in respect of this matter.

5. SHORT TERM LOAN PAYABLE

During our audit we noted that Mr. Saad Amanullah Khan (President) gave a short term loan of Rs 20,000 to the Association which was utilised by the Association for payment of salaries to staff. However, no terms and conditions as to its repayment have been specified.

We recommend that the grant as well as the repayment terms of the loan should be formally documented.

6. PROVISION FOR GRATUITY

The permanent employees of the Association who have completed minimum qualifying period of six months are entitled to gratuity. As explained in note 3.5 to the enclosed financial statements, provision recognised in the balance sheet in respect of gratuity is one gross salary of the respective year for every year of service completed with the Association in excess of minimum qualifying period. We understand from the management that permanent withdrawals out of the outstanding balance of gratuity at any point in time are permitted. The remaining amount of gratuity is payable to staff at the time of retirement. Moreover, only the entitlement of an employee to gratuity is explained in his appointment letter. However, the criteria for its calculation or payment is not formally documented.

We recommend that the EC should ratify the aforementioned treatment by the management of the gratuity scheme through a formally documented policy.

7. TAXATION

Section 100C of the Income Tax Ordinance, 2001 (the Tax Ordinance) interalia states as follows:

> "Non-profit organizations, trusts or welfare institutions, as mentioned in sub-section (2) shall be allowed a tax credit equal to one hundred per cent of the tax payable, including minimum tax and final taxes payable under any of the provisions of this Ordinance, subject to the following conditions, namely:-
>
> (a) return has been filed;
> (b) tax required to be deducted or collected has been deducted or collected and paid; and
> (c) withholding tax statements for the immediately preceding tax year have been filed."

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As stated in note 3.8 to the enclosed financial statements, the management intends to avail a tax credit equal to 100% of the tax payable. Accordingly, no tax charge in the enclosed financial statements has been recorded.

We recommend that the EC should ratify the aforementioned assertion of the management.

The Association has been provided with the status of a 'non-profit organization' under section 2(36) of the Tax Ordinance and being a 'non-profit organization' it intends to claim 100% tax credit under section 100C of the Tax Ordinance as stated above.

In connection with the status of the non-profit organization, rule 217 of the Income Tax Rules 2002 (the Tax Rules) has specified certain conditions i.e. prohibition of making any changes in the bye-laws and submission of statement showing names and addresses of the donors, statement showing the money set apart or kept unutilized with reasons thereof and performance evaluation report. Further, the said rule 217 states that the Commissioner Income Tax may, at any time, withdraw the status of non-profit organization in case of non-compliance of the aforementioned conditions.

We recommend that the management should conduct an exercise to determine the compliance status of the aforementioned requirements to avoid legal and tax implications.

8. FIXED ASSETS NOT TAGGED

During our audit we noted that the fixed assets were not tagged with identification numbers. In the absence of identification numbers it becomes difficult to ensure the completeness of the fixed assets appearing in the fixed assets register.

We recommend that the management of the Association should ensure that all fixed assets are tagged with identification numbers.

9. CONTINGENCIES AND COMMITMENTS

We have been given to understand by the management of the Association that there were no contingencies and commitments required to be disclosed in the financial statements.

We wish to place on record our appreciation of the courtesy and cooperation extended to us during the course of our audit.

Yours truly

AFFerguson & Co

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