



## PAKISTAN STOCK EXCHANGE LIMITED

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PSX/N- 4967

August 23, 2017

### NOTICE FOR ALL TREC HOLDERS OF THE EXCHANGE

#### SUBJECT: INDEPENDENT ASSURANCE REPORT AND GUIDELINES ON INTERNAL CONTROL FRAMEWORK AND COMPLIANCE FUNCTION OF SECURITIES BROKERS

This is in continuation to PSX Notice No. PSX/N-4809 dated August 16, 2017 pertaining to the "Guidelines on Internal Controls System and Compliance Function of Securities Brokers".

Moreover, reference to the Securities Exchange Commission of Pakistan ("SECP") vide letter No. SMD/SE/2(7)/2002 dated August 11, 2017 the Institute of Chartered Accountants of Pakistan ("ICAP") has developed the "Guidelines on Internal Control System and Compliance Function of Securities Brokers" (the Guidelines) required under the provisions of the Securities Brokers (Licensing and Operations) Regulations 2016. The institute has also developed the format of the related "Independent Assurance Report on the Internal Control system of Securities Brokers" (Independent Assurance Report).

The same is hereby notified to all concerned.

**Naveed Akbar Raja**  
Manager - Operations

Copy to:

- 1) The Executive Director (PRDD), SMD, SECP
- 2) The Chief Executive Officer, PSX
- 3) Acting Chief Regulatory Officer, PSX
- 4) The Head of Operations, CDC
- 5) All Head of Departments, PSX
- 6) Notice Board & Website - PSX



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**Independent Assurance Report on the Internal Control system and Compliance Function of the Securities Brokers**

To the members of [ \_\_\_\_\_ (the Securities Broker) ]

**1. Introduction**

We have undertaken a limited assurance engagement, as required under Regulation 35(5) of the Securities Brokers (Licensing and Operations) Regulations, 2016 (the Regulations) issued by the Securities and Exchange Commission of Pakistan (SECP), to assess whether during the period from \_\_\_\_\_ to \_\_\_\_\_, the Securities Broker has, in all material respects:

- a) maintained systems and controls adequate to identify with reasonable accuracy the assets held on behalf of the customer and distinguish such assets from the proprietary assets of the Securities Broker;
- b) implemented an adequate internal control system and compliance function commensurate with the size and nature of services performed by the Securities Broker; and
- c) has established a compliance function that performed its functions with efficiency.

**2. Criteria**

The criteria against which the Securities Broker's internal control system (including the controls implemented to identify assets held on behalf of the customer and distinguish such assets from the proprietary assets of the Securities Broker) and efficiency of compliance function is evaluated, are the internal controls and compliance procedures set out within the 'Guidelines for the Internal Control System and Compliance Function for the Securities Brokers' (the Guidelines) issued by the ..... read with the Regulations and the Securities Act, 2015 (the Criteria).

**3. Responsibility of the Board of Directors/ Management**

The Board of Directors/ management is responsible for establishing and maintaining systems and controls to identify and distinguish assets held on behalf of customers and establishing and maintaining an effective internal control system and compliance function in accordance with the Criteria. This responsibility includes designing, implementing and effectively operating throughout the period, the said systems, controls and compliance function commensurate with the size of the Securities Broker.

**4. Limitations**

Because of the inherent limitations of internal controls, including the possibility of collusion or management override of controls, material misstatements and significant deficiencies due to fraud or error may not be prevented or detected on a timely basis. Further, our limited assurance conclusion is based on the historical information provided by the management, and projection to future periods of any evaluation or conclusion about the suitability of design and/ or operating



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effectiveness of the internal controls and compliance function would be inappropriate.

**5. 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.

**6. Our responsibility and summary of work performed**

Our responsibility is to express a limited assurance conclusion on the adequacy of systems and controls designed and implemented by the Securities Broker to identify and distinguish the assets held on behalf of the customer, and on the adequacy of internal control system and operation of the compliance function, based on the procedures which we have performed and the evidence we have obtained. We conducted our limited assurance engagement in accordance with International Standard on Assurance Engagements 3000 (Revised), 'Assurance Engagements Other than Audits or Reviews of Historical Financial Statements' issued by the International Auditing and Assurance Standards Board (the standard). The standard requires that we plan and perform this engagement to obtain limited assurance about whether systems over identification and distinguishing of assets held on behalf of customers, adequate internal controls and compliance function as required under the Regulations and explained under the Criteria were suitably designed and operated effectively to achieve the related control and compliance objectives, throughout the period from ..... to .....

A limited assurance engagement involves assessing the suitability in the circumstances of Securities Broker's use of the Criteria as the basis for the systems and controls to identify and distinguish assets held on behalf of customers and the basis for internal control system and compliance function, assessing the risks of material misstatement and significant deficiencies due to fraud or error, responding to the assessed risks as necessary in the circumstances, assessing the effectiveness of internal control system and compliance function which commensurate with the size and nature of services performed by the Securities Broker. A limited assurance engagement is substantially less in scope than a reasonable assurance engagement in relation to both the risk assessment procedures and the procedures performed in response to the assessed risks.

The procedures performed in a limited assurance engagement vary in nature and timing from, and as explained above are less in extent than the reasonable assurance engagement; consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed.



Accordingly, the procedures selected were based on our professional judgement. Within the scope of our work, we performed amongst other the following procedures: *(these are the suggested work performed that may be modified and other procedures added as performed and relevant for the respective engagement conditions.)* (Refer note 1)

- 7. Description of the matter(s) giving rise to the exceptions (if any) (Refer note 2)
  - a) \_\_\_\_\_;
  - b) \_\_\_\_\_; [insert exceptions, if any]

- 8. Highlight non-compliance(s) (if any) with the Framework (Refer note 3)  
We highlight below instance(s) of non-compliance with the internal control system and compliance function implemented by the Securities Broker as reflected in the paragraph reference where it/these is/are stated in the Criteria:

<u>Paragraph Reference</u>	<u>Description</u>
i- .....	.....
ii- .....	.....
iii- .....	.....

- 9. Limited assurance conclusion  
Our conclusion has been formed on the basis of, and is subject to, the matters outlined in this report. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our limited assurance conclusion.

Based on our limited assurance engagement, nothing has come to our attention (except for the effect of the matters reported in the paragraph above), that causes us to believe the Securities Broker in accordance with the Criteria, during the period from ..... to ....., in all material respects:

- (a) has not maintained systems and controls adequate to enable us to identify with reasonable accuracy, the assets held on behalf of the customer and distinguish such assets from the proprietary assets of the Securities Broker;
- (b) has not implemented an adequate internal control system and compliance function commensurate with the size and nature of services performed by the Securities Broker; and
- (c) has not established a compliance function that performed its functions with efficiency.

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

\_\_\_\_\_  
Signature  
Chartered accountants

[Place / City]

\_\_\_\_\_  
Assurance engagement partner



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**Note 1:** Procedures will depend upon the auditor's judgment and may vary with the scope of work. Following procedures may be relevant for the engagement:

- a) Visited the Securities Broker's office and discussed with management, compliance and operations team on the adequacy and effectiveness of internal controls and compliance function in accordance with the Guidelines;
- b) Reviewed the systems documentation, such as manuals, flow charts and job descriptions;
- c) Walkthrough of the internal controls procedures and compliance function procedures to gain understanding of implemented controls and procedures and assess control risks;
- d) Reviewed the reliability of the information and their operating effectiveness;
- e) Enquired from personnel to obtain relevant information or representation that included knowledge, additional information and affirmation regarding the control of procedures and compliance function procedures and corroborating evidence of the control procedures and compliance function procedures;
- f) Inspected, on a sample basis, of the documents and records indicating performance of the control procedures and compliance function including those relating to entity level controls, brokerage operations, finance, fixed assets, trade debts, investments, cash and bank, expenses and information technology (mention whichever is applicable);
- g) Evaluated the effect of the findings of the substantive procedures performed on the effectiveness of internal controls and compliance function;
- h) Observed the application or existence of specific control and compliance procedures as represented;
- i) Reviewed the Securities Broker's control and compliance function activities that contribute to the mitigation of risks to an acceptable level;
- j) Reviewed the Securities Broker's general control and compliance function activities over technology to support the achievement of objectives; and
- k) Re-performed, on a sample basis, the control or processing application of the control procedures and compliance function procedures to check the accuracy of their operation.

The procedures performed are related to the reporting period from xxxxxx to xxxxxx and did not extend to any assertions made by the Securities Broker regarding events subsequent to the period end. Further, the procedures included the review to the extent where such compliance can be objectively verified; and the authenticity of documents produced by the Securities Broker's was not checked by contacting the respective parties.

**Note 2:** Include when it is applicable.

This section shall comprise of matter(s) which is/are giving rise to modified conclusion. The modified conclusion (qualified or adverse or disclaimer) shall be stated in section 9 of the assurance report in accordance with ISAE 3000.



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**Note 3:** This section comprise of matters of non-compliances identified during the engagement that are although not material on an overall basis but clearly other than of trivial nature.