

**PUBLIC INTEREST LAW
ASSOCIATION OF PAKISTAN**

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016



A·F·FERGUSON&CO.

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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Letter ASR 0806
dated October 17, 2016

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) inter alia 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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Letter ASR 0806
dated October 17, 2016

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

A handwritten signature in black ink, appearing to read 'A. Ferguson', is written over the typed name 'A. Ferguson'.

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INDEPENDENT AUDITORS' REPORT TO THE EXECUTIVE COMMITTEE

We have audited the annexed balance sheet of **Public Interest Law Association of Pakistan (here-in-after referred to as "the Association")**, as at June 30, 2016 and the related income and expenditure account, statement of changes in accumulated fund and cash flow statement together with the notes forming part thereof (here-in-after referred to as the financial statements), for the year then ended.

The financial statements have been prepared by the management in accordance with the cash receipts and expenditure incurred basis of accounting as described in note 2.1 to the annexed financial statements

The Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash receipts and expenditure incurred basis of accounting as described in note 2.1 to the annexed financial statements, and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the approved auditing standards as applicable in Pakistan. Those standards require that we comply with the ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, if any, made by the management, as well as evaluating the overall presentation of the financial statements.

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

In our opinion the financial statements present fairly, in all material respects, the cash receipts and expenditure of the Association for the year ended June 30, 2016 on the basis of accounting as described in note 2.1 to the financial statements.

Emphasis of matter paragraph

We draw attention to note 2.4 to the accompanying financial statements which indicates that 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 that may cast significant doubt about the Association's ability to continue as a going concern. Our opinion is not qualified in respect of this matter.

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Chartered Accountants

Engagement Partner: **Rashid A. Jafer**

Dated:

Karachi

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PUBLIC INTEREST LAW ASSOCIATION OF PAKISTAN
BALANCE SHEET
AS AT JUNE 30, 2016

	Note	2016	2015
		----- Rupees -----	
ASSETS			
Non-current assets			
Operating fixed assets	4	113,875	134,416
Long-term loan to employee		-	30,000
		113,875	164,416
Current assets			
Short-term investments	5	-	376,074
Current maturity of long-term loan to employee		30,000	-
Deposits		1,500	1,500
Cash and bank balances	6	42,116	130,320
		73,616	507,894
Total assets		<u>187,491</u>	<u>672,310</u>
LIABILITIES			
Non-current liabilities			
Deferred liability - provision for gratuity		63,625	83,625
Current liabilities			
Advance against annual subscription fee		-	1,200
Short-term loan payable		20,000	-
Accrued expenses	7	35,552	42,536
		55,552	43,736
Total liabilities		<u>119,177</u>	<u>127,361</u>
NET ASSETS		<u>68,314</u>	<u>544,949</u>
REPRESENTED BY:			
Accumulated fund		<u>68,314</u>	<u>544,949</u>
CONTINGENCIES AND COMMITMENTS			
	8		

The annexed notes 1 to 11 form an integral part of these financial statements.

Executive Committee Member

Executive Committee Member

PUBLIC INTEREST LAW ASSOCIATION OF PAKISTAN
 INCOME AND EXPENDITURE ACCOUNT
 FOR THE YEAR ENDED JUNE 30, 2016

	Note	2016	2015
		----- Rupees -----	
INCOME			
Members' subscription		151,200	206,800
Donations		1,550,300	540,000
		1,701,500	746,800
Less: Litigation related cost		-	(230,000)
		1,701,500	516,800
Capital gain on sale of investments		17,824	195,573
Dividend income		9,198	2,851
Other income		1,200	11,200
		1,729,722	726,424
GENERAL AND ADMINISTRATION EXPENDITURE			
Salaries, wages and benefits		1,650,210	1,317,625
Staff commission		6,480	20,140
Entertainment expenses		12,943	6,910
Travelling and conveyance		126,959	33,454
Communication expenses		54,448	46,805
Repair and maintenance		42,500	40,270
Printing and stationery		49,843	85,394
Depreciation	4	98,141	79,576
Auditors' remuneration		23,296	20,800
Water and electricity charges		27,118	10,360
Bank charges		9,942	3,070
Conferences and seminars		61,690	30,410
Miscellaneous expenses		42,787	31,005
Total expenditure		2,206,357	1,725,819
Deficit for the year before taxation		(476,635)	(999,395)
Taxation	3.8	-	-
Deficit for the year after taxation		(476,635)	(999,395)

The annexed notes 1 to 11 form an integral part of these financial statements.

Executive Committee Member

Executive Committee Member

PUBLIC INTEREST LAW ASSOCIATION OF PAKISTAN
STATEMENT OF CHANGES IN ACCUMULATED FUND
FOR THE YEAR ENDED JUNE 30, 2016

	<u>Accumulated Fund Rupees</u>
Balance as at July 1, 2014	1,544,344
Deficit for the year after taxation	(999,395)
Balance as at June 30, 2015	<u>544,949</u>
Deficit for the year after taxation	(476,635)
Balance as at June 30, 2016	<u><u>68,314</u></u>

The annexed notes 1 to 11 form an integral part of these financial statements.

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Executive Committee Member

Executive Committee Member

PUBLIC INTEREST LAW ASSOCIATION OF PAKISTAN
 CASH FLOW STATEMENT
 FOR THE YEAR ENDED JUNE 30, 2016

	Note	2016	2015
		----- Rupees -----	-----
CASH FLOWS FROM OPERATING ACTIVITIES			
Deficit for the year before taxation		(476,635)	(999,395)
Adjustments for non-cash items:			
Depreciation		98,141	79,576
Provision for gratuity		44,500	83,625
		<u>(333,994)</u>	<u>(836,194)</u>
Decrease in current assets			
Advance Tax		-	809
Deposits		-	1,500
		-	2,309
Increase / (decrease) in current liabilities			
Advance against annual subscription fee		(1,200)	(1,200)
Short-term loan payable		20,000	-
Accrued expenses		(6,984)	21,736
		11,816	20,536
Gratuity paid		(64,500)	-
Loan to employee		-	(30,000)
		<u>(386,678)</u>	<u>(844,849)</u>
Net cash used in operating activities		<u>(386,678)</u>	<u>(844,849)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Fixed capital expenditure		(77,600)	-
Investments - net		376,074	947,140
Net cash generated from investing activities		298,474	947,140
Net (decrease) / increase in cash and cash equivalents		(88,204)	102,291
Cash and cash equivalents at the beginning of the year		130,320	28,029
Cash and cash equivalents at the end of the year	6	<u>42,116</u>	<u>130,320</u>

The annexed notes 1 to 11 form an integral part of these financial statements.

Executive Committee Member

Executive Committee Member

**PUBLIC INTEREST LAW ASSOCIATION OF PAKISTAN
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

1 LEGAL STATUS AND ACTIVITIES

Public Interest Law Association of Pakistan (hereinafter called "the Association") was registered under the Societies Registration Act, 1860 on February 1, 2011. The Association operates as an independent, voluntary, non-profit organisation approved by the Federal Board of Revenue under Section 2(36)(c) of the Income Tax Ordinance, 2001 read with Rules 212 and 220 of the Income Tax Rules, 2002. The registered office of the Association is situated at 4th Floor, Adamjee House, I.I.Chundrigar Road, Karachi, Pakistan.

The main objectives of the Association are to promote, support, undertake and pursue public interest litigation in Pakistan and to provide legal assistance and services to government and non-government institutions, local traditional and other groups and individuals so as to enhance and support their endeavours to protect human, public and fundamental rights.

2 BASIS OF PREPARATION

2.1 Statement of compliance

These financial statements have been prepared on a cash receipts and expenditure incurred basis of accounting which is a comprehensive basis of accounting other than the generally accepted accounting principles. Under the cash receipts and expenditure incurred basis of accounting, revenue is recognised when received and expenses are recognised when incurred.

2.2 Accounting convention

These financial statements have been prepared under the historical cost convention.

2.3 Critical accounting estimates and judgments

The preparation of financial statements in conformity with approved accounting standards requires the management to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities, income and expenses. It also requires the management to exercise its judgment in the process of applying the Association's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience including expectations of future events that are believed to be reasonable under the circumstances. The area where assumptions and estimates are significant to the Association's financial statements or where judgment was exercised in application of accounting policies is depreciation which is charged on operating fixed assets (note 4).

2.4 Going concern

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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been applied consistently to all the years presented unless otherwise stated.

3.1 Operating fixed assets

These are stated at cost less accumulated depreciation and accumulated impairment losses (if any). Depreciation is charged using the straight line method in accordance with the rates specified in note 4 and after taking into account any residual values, if significant. Depreciation is charged on additions from the date the asset becomes available for use while no depreciation is charged in the month of disposal. The residual values and useful lives are reviewed and adjusted, if appropriate, at the end of each reporting period.

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Subsequent costs are included in the assets' carrying amounts or recognised as separate assets, as appropriate, only when it is probable that future economic benefits associated with the assets will flow to the Association and the costs of the items can be measured reliably.

Gains and losses on disposals of assets, if any, are included in the income and expenditure account in the period of disposal.

Repairs and maintenance expenses are charged to the income and expenditure account in the period in which these are incurred.

3.2 Financial instruments

Financial instruments carried on the balance sheet include short-term investments, cash and bank balances, long-term loan and accrued expenses.

Financial assets and liabilities are recognised when the Association becomes a party to the contractual provisions of the instrument. Financial assets are derecognised when the rights to receive cash flows from them have expired or have been transferred and the Association has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognised when the obligations under the liabilities are discharged, cancelled or expired.

3.3 Short-term investments

These are stated in the balance sheet at cost.

3.4 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of cash flow statement, cash and cash equivalents comprise of cash in hand and cash at bank.

3.5 Provision for gratuity

The Association operates a gratuity scheme for its permanent employees who have completed minimum qualifying period of six months. The 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. Permanent withdrawals out of the outstanding balance of gratuity at any point in time are permitted. Remaining amount of gratuity is payable to staff at the time of retirement.

3.6 Accrued expenses

These are carried at cost which is the fair value of the consideration to be paid for the goods and services.

3.7 Revenue recognition

Members' subscription and registration fee is recognised on a receipt basis in accordance with the basis of accounting disclosed in note 2.1.

3.8 Taxation

The Association has been approved as a non-profit organisation under section 2(36)(c) of the Income Tax Ordinance, 2001 by the Commissioner Inland Revenue vide letter no. 3352 / 2011 - 12 dated May 22, 2012. As per section 100C (2) of the Income Tax Ordinance, 2001, non-profit organizations shall be allowed a tax credit equal to one hundred per cent of the tax payable subject to the fulfilment of specified conditions. The management intends to avail a tax credit equal to 100% of the tax payable. Accordingly, no tax charge has been recorded in the financial statements.

3.9 Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Association operates. The financial statements are presented in Pakistani Rupees, which is the Association's functional and presentation currency.

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4 OPERATING FIXED ASSETS

The following is a statement of operating fixed assets:

	----- 2016 -----				Total
	Furniture and fixture	Vehicles	Office equipment	Computer equipment	
----- Rupees -----					
As at July 1, 2015					
Cost	208,450	-	-	37,416	245,866
Accumulated depreciation	(81,319)	-	-	(30,131)	(111,450)
Net book value	127,131	-	-	7,285	134,416
Year ended June 30, 2016					
Opening net book value	127,131	-	-	7,285	134,416
Additions during the year	-	46,000	16,700	14,900	77,600
Depreciation for the year	(69,477)	(11,887)	(2,969)	(13,808)	(98,141)
Closing net book value	57,654	34,113	13,731	8,377	113,875
As at June 30, 2016					
Cost	208,450	46,000	16,700	52,316	323,466
Accumulated depreciation	(150,796)	(11,887)	(2,969)	(43,939)	(209,591)
Net book value	57,654	34,113	13,731	8,377	113,875
Depreciation rate (% per annum)	33.33%	33.33%	33.33%	33.33%	

	----- 2015 -----				Total
	Furniture and fixture	Vehicles	Office equipment	Computer equipment	
----- Rupees -----					
As at July 1, 2014					
Cost	208,450	-	-	37,416	245,866
Accumulated depreciation	(11,844)	-	-	(20,030)	(31,874)
Net book value	196,606	-	-	17,386	213,992
Year ended June 30, 2015					
Opening net book value	196,606	-	-	17,386	213,992
Depreciation for the year	(69,475)	-	-	(10,101)	(79,576)
Closing net book value	127,131	-	-	7,285	134,416
As at June 30, 2015					
Cost	208,450	-	-	37,416	245,866
Accumulated depreciation	(81,319)	-	-	(30,131)	(111,450)
Net book value	127,131	-	-	7,285	134,416
Depreciation rate (% per annum)	33.33%	33.33%	33.33%	33.33%	

5 SHORT-TERM INVESTMENTS

Investment in units of mutual funds

Name of the Fund	----- Number of units -----				Rupees	
	As at July 1, 2015	Purchases during the year	Bonus units received during the year	Sales / redemptions during the year	As at June 30, 2016	Cost as at June 30, 2016
Askari Sovereign Cash Fund (ASCF) *	3,714	8,380	-	12,094	-	-

* The units of ASCF were redeemed during the year.

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	2016	2015
	----- Rupees -----	
6 CASH AND BANK BALANCES		
Current account with bank	16,989	121,784
Cash in hand	25,127	8,536
	<u>42,116</u>	<u>130,320</u>
7 ACCRUED EXPENSES		
Telephone bills payable	8,730	-
Electricity bills payable	2,509	-
Auditors' remuneration payable	20,800	41,600
Other expenses payable	1,831	-
Withholding tax payable	1,682	936
	<u>35,552</u>	<u>42,536</u>

8 CONTINGENCIES AND COMMITMENTS

There were no contingencies and commitments outstanding as on June 30, 2016 and June 30, 2015.

9 CORRESPONDING FIGURES

Corresponding figures have been rearranged and reclassified, wherever necessary, for the purposes of comparison. During the current year, no significant reclassifications were made in these financial statements.

10 DATE OF AUTHORISATION

These financial statements were authorised for issue on _____ by the Executive Committee of the Association.

11 GENERAL

Figures have been rounded off to the nearest rupee.

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Executive Committee Member

Executive Committee Member