

Guide Series



SECP

**SECURITIES AND EXCHANGE
COMMISSION OF PAKISTAN**

GUIDE ON FINANCIAL STATEMENTS

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INTRODUCTION

This guide outlines the various provisions relating to preparation, presentation, approval, contents of the financial statements and other ancillary matters related to the financial statements of a company as laid down under relevant provisions of the Companies Act 2017.

This is a guide only and should be read with the relevant legislation. You will find the relevant provisions of law in Sections 220 to 239 of the Companies Act, 2017. Some of the other relevant legislations may include:

- SECP Rules, Notifications and Circulars etc.; and
- Listing Regulations/ Corporate Governance Rules/Regulations

CHAPTER-1

Preparation, maintenance and approval of the Financial Statements:

1. What are financial statements?

Financial statements are written records that convey the business activities and the financial performance of a company. In terms of section 2(33) of the Companies Act, 2017 (the Act), the financial statements include:

- a) a statement of financial position as at the end of the period;
- b) a statement of profit or loss and other comprehensive income or in the case of a company carrying on any activity not for profit, an income and expenditure statement for the period;
- c) a statement of changes in equity for the period;
- d) a statement of cash flows for the period;
- e) notes, comprising a summary of significant accounting policies and other explanatory information;
- f) comparative information in respect of the preceding period; and
- g) any other statement as may be prescribed.

2. Is every company required to prepare the financial statements?

Yes, in terms of section 220 of the Act, every company is required to prepare and maintain books of accounts and financial statements at its registered office address or any other place as per Board of Directors' (BOD) decision (the address of such other place is notified to registrar). In addition, certain companies, as mentioned in the Third Schedule of the Act, the financial statements are prepared, in accordance with the requirements of the applicable financial reporting framework, including various accounting standards:

- The financial statements should reflect true position of the affairs of the company.
- Any non-compliance of requirements/applicable standards/IFRS may result in fine and imprisonment as defined under the provisions of the Act.

3. What is the financial period of the financial statements? Financial period is the period for which the financial statements are prepared by the company. The financial period of the annual financial statements cannot be more than more than 12 months, except:

- where it is the preparation of the first financial statements after the date of incorporation.
- in case where special approval from registrar has been obtained.

The BOD of a holding company shall ensure that, its financial year and each of its subsidiaries coincides with each other, except where in their opinion there are good reasons against it, an application may be filed with the Commission requesting extension of the financial year of the subsidiary of holding company.

4. What are the requirements relating to audit of the financial statements?

All the companies are required to ensure the audit of the annual financial statement, other than the companies having paid-up capital not more than Rs.1 million (Section 223 of the Act):

- In case of a private company having a paid-up capital of not more than Rs. 1 million rupees, the financial statements shall also include an affidavit signed by the CEO or director stating that the financial statements have been approved by the BOD.

5. Who approves the financial statement?

The financial statements, approved by the BOD and are signed on behalf of the board by the chief executive and at least one director of the company. In the case of Public and Licensed companies, the requirements of Code of Corporate Governance are also required to be complied.

- If the CEO is not available in Pakistan, then the financial statements may be signed by at least two directors.
- The financial statements of a single member company shall be signed by one director.

6. When the financial statements are laid before the Annual General Meeting?

After the financial statements have been authorized / approved by the Board of Directors (BOD), the financial statements must be laid before the members in the Annual General Meeting (AGM) within 120 days from the close of the financial year-end. Extension 30 days may be allowed by the Commission (for listed companies) and registrar (for other companies) to lay the financial statements.

This requirement is not applicable on single member companies.

7. What are the members and debenture-holders' right to get the copies of financial statements?

Any member and debenture holder (including the trustees for holders of debentures) of the company are entitled to receive a copy of any financial

statement and auditor's report on request and on payment of the fee as fixed by the company.

8. Is it required to send the financial statements with the notice of AGM?

Yes. The notice of the AGM shall be sent at least 21 days prior to the date of the meeting to all the entitled members and shall accompany following:

- a) audited financial statements
- b) unaudited financial statements (if audit is not required)
- c) affidavit signed by the CEO or director stating that the financial statements have been approved by the BOD (for private companies with paid-up capital not more than Rs.1 million)
- d) audit report, directors' report (if applicable)
- e) chairman's review report (in case of listed companies).

Simultaneous to above, the listed companies are also required to dispatch the above documents to the Commission, registrar and the securities exchange and also post the same on its website.

If any copy of financial statements is issued, circulated or published without the attachments as listed above, and every officer of the company who is in default shall be liable to a penalty as given in section 236 of the Act.

9. What are the requirements to file financial statements with the SECP?

Every company, other than the private companies having paid-up capital of not more than Rs.10 million, are required to file the copies of the financial statements with the registrar in physical or electronic mode,

- within 30 days of the AGM in case of the listed companies
- within 15 days of the AGM in case of any other companies.

The following reports shall also be filed with the annual financial statements:

- a) auditors' report
- b) directors' report including pattern of shareholding on the format of Form-20
- c) chairman's review report (in case of listed companies).

10. Is it mandatory to prepare the directors' report with the financial statements?

Directors are required to prepare the directors' report for each financial year. However, this requirement is exempt for:

- the private companies (not being public company's subsidiary), and
- having paid-up capital not more than Rs.3 million.

The directors' report shall be attached to the financial statements and shall state the state of affairs of the company. In case of public companies, private companies which are subsidiary of public company and listed companies, section 227 of the Act lists down the specific matters to be included in the directors' report.

11. Are there any additional requirements related to Financial Statements and Directors' Report of Association with Charitable and Not-for-Profit Objects?

Yes, under Regulation 104 of the Companies Regulations, 2024, such a company shall clearly disclose its policy for receipt, investment and utilization of Islamic donations, as mentioned in clause (xii) of regulation 100, in the financial statements and shall also disclose amount of such donations and avenues where utilized. Moreover, its directors' report prepared under the Act shall also include information, pertaining to—

- (i) compliance with the relevant provisions of the Companies Act;
- (ii) compliance with all the provisions and conditions of these regulations;
- (iii) compliance with the all conditions provided in the license (if any); and
- (iv) confirmation to the effect that prior security clearance in terms of these regulations, in respect of foreign donation, foreign member, foreign director and foreign chief executive officer, if any, has been obtained.

12. Are there any additional requirements related to Financial Statements and Directors' Report of Foreign Companies?

Yes, under Regulation 25 of the Companies Regulations, 2024, every foreign company shall, in every year within the time period as mentioned in sub-section (2) of section 437 of the Act, file the following accounts together with a list of Pakistani members and debenture-holders and of the places of business of the company in Pakistan—

- (i) three copies of accounts in respect of the company's operations in Pakistan, pursuant to clause (a) of sub-section (1) of section 437 of the Act; and
- (ii) three copies of the accounts and documents as referred to in clause (b) of sub-section (1) of section 437, together with such additional documents, if not already attached, as are required to be annexed with the accounts referred to in clause (a) of sub-section (1) of section 437; or
- (iii) three copies of the accounts together with the documents as referred to in clause (c) of sub-section (1) of section 437:

In case of online submission, the company shall file only one copy of the accounts as required to be filed by the company under this regulation.

CHAPTER-2

Contents of the Financial Statements:

1. What should be the contents of the financial statements?

The contents and disclosure requirements of the financial statements have been defined under Fourth and Fifth Schedule of the Act, on the basis of 4 classifications of the companies as defined in the Third Schedule of the Act (i.e. Public Interest, Large Sized, Medium Sized and Small Sized companies). Third Schedule also identifies the applicable accounting frameworks that each class of the companies should adopt. Third Schedule as prescribed under the Act is appended below for reference:

Classification Criteria of Company		Applicable Accounting Framework	Relevant Schedule of Companies Act
1. Public Interest Company (PIC)			
a)	Listed Company	IFRS	4th Schedule
[b)	Non-listed Company which is:		
	(i) a public sector company as defined in the Act; or		
	registered and/or licensed under the		
	(ii) Administered Legislation or Rules, or regulations made thereunder, as follows, -		
	Non-banking Finance Companies which are Asset Management Companies, Pension Fund Managers, REIT Management Companies or Deposit Taking NBFCs;		
	a) Modaraba Company		
	b) Insurer		
	c) Securities Exchange		
	d) Commodity Exchange		
	e) Central Depository		
	f) Clearing House; or		
	Registered, notified and/or licensed under the Banking Companies Ordinance, 1962 (LVII of 1962) or Microfinance Institutions Ordinance, 2001 (LV of 2001), as follows:		
	(iii) a) Banking Company including Foreign Banking Company		
	b) Microfinance Bank		
	c) Development Finance Institution (DFI)		
	d) all companies engaged in production and sale of sugar	IFRS	5th Schedule

2. Large Sized Company (LSC)			
(a)	Non-listed Company with:	IFRS	5th Schedule
	(i) paid-up capital of Rs.200 million or more; or		
	(ii) turnover greater than Rs.800 Million, or (ii) Employees 750 or more		
(b)	A Foreign Company with turnover of Rs. 1 billion or more		
(c)	Non-listed Company licenced/ formed under Section 42 / Section 45 of the Act having annual gross revenue (grants/ income/ subsidies/ donations) including other income / revenue of Rs.200 million or more.	IFRS and Accounting Standards for NPOs	5th Schedule
3. Medium Sized Company (MSC)			
(a)	Non-listed Company with:	IFRS for SMEs	5th Schedule
	(i) paid-up capital less than Rs.200 million;		
	(ii) turnover upto Rs.800 million, and (ii) Employees less than 750		
(a)	Private Company with:	IFRS for SMEs	5th Schedule
	(i) paid-up capital of greater than Rs. 10 million but less than Rs. 200 million		
	(ii) turnover greater than Rs.150 million but not exceeding Rs.800 million or (ii) employees more than 250 but less than 750		
(b)	A Foreign Company with turnover of Rs. 1 billion or		
(c)	A Foreign Company which have turnover less than Rs. 1 billion		
(d)	Non-listed Company licenced/ formed under Section 42 or Section 45 of the Act Which has annual gross revenue (grants/ income/ subsidies/ donations) including other income or revenue less than Rs.200 million.	IFRS for SMEs and Accounting Standards for NPOs	5th Schedule
4. Small Sized Company (SSC)			
	A private company having:	Revised AFRS for SSEs	5th Schedule
	(i) paid-up capital up to Rs. 10 million;		
	(ii) turnover not exceeding Rs.150 million and (ii) Employees not more than 250		

(IFRS means International Financial Reporting Standards)

NOTE:

- The classification of a company shall be based on the previous year's audited financial statements.
- The classification of a company can be changed where it does not fall under the previous criteria for two consecutive years.
- The number of employees means the average number of persons employed by a company in that financial year calculated on monthly basis.
- Subsidiary companies of a listed company shall follow the requirements of the Fourth Schedule.
- The Medium Sized Companies that are otherwise required to follow IFRS for SMEs and Accounting Standards for NPOs, may opt to follow the IFRS notified by the Commission for the preparation of financial statements.
- The Small Sized Companies that are otherwise required to follow revised AFRS for SSEs may opt to follow IFRS notified by the Commission or IFRS for SMEs.

CHAPTER-3

Consolidated Financial Statements:

1. What are consolidated financial statements?

In simple words, consolidated financial statements are prepared by the parent / holding companies, that present the assets, liabilities, equity, income, expenses and cash flows of a parent and its subsidiaries as those of a single economic entity.

2. Which companies are required to prepare consolidated financial statements?

Holding / parent companies are required to prepare and attach the consolidated financial statements to its own financial statements. However, this requirement is exempt if:

- holding company is a private company, and
- paid-up capital of each of the holding and subsidiary companies are not more than Rs.1 million.

For the purpose of above, a company is a holding company if it meets the following criteria:

- a) it controls the composition of the board of its subsidiary, having power to appoint or remove all or majority of its directors, or
- b) it exercises or controls more than 50% of its subsidiary's voting securities either by itself or together with one or more of its subsidiary companies.

3. Who will sign the consolidated financial statements?

The same individual directors and / or CEO who signed the individual financial statements of the holding company, shall also sign the consolidated financial statements.

4. What are any other specific requirements relating to consolidated financial statements?

The consolidated financial statements shall also include any group material information, qualification or note which are not already included in the holding company's own financial statements which are deemed important from point of view of the members.

Auditor of the holding company shall also report on the consolidated financial statements and shall have same rights and duties as are defined by the Act for auditor of any other companies.

A holding company may pass a resolution to authorize representatives to inspect the books of account kept by any of its subsidiaries, which shall be opened for inspection during business hours.

The following requirements / provisions of the Act shall also apply to the holding companies, as are applicable to any other companies:

- To lay the consolidated financial statements in the AGM (section 223).
- Filing of consolidated financial statements to the registrar by the holding companies (section 233).
- Right of members to request consolidated financial statements and audit report (section 235)
- Penalties for improper issue, circulation or publication of the consolidated financial statements (section 236).

CHAPTER-4

Quarterly Financial Statements:

1. What are quarterly financial statements?

Quarterly financial statements, is a type of financial statements that are issued after every three months. It simply means that a company releases four quarterly financial statements in a year.

2. Which companies are required to prepare quarterly financial statements?

Every listed company is required to prepare and file with the Commission and registrar and post on its website, the quarterly financial statements within the period of—

- 30 days of the close of first and third quarters of its financial year; and
- 60 days of the close of its second quarter of its financial year.

For example, if the financial year-end of the company is 1st July to 30th June, following quarterly financial statements will be prepared:

Quarter No.	Period	Deadline to prepare
1	1 st July to 30 th September	30 th October
2	1 st October to 30 th December	1 st March
3	1 st January to 31 st March	30 th April
4	1 st April to 30 th June	30 th July

The commission may provide an extension of maximum 30 days for filing of quarterly financial statements of first quarter, on application of the company.

3. What are any other specific requirements relating to quarterly financial statements?

The cumulative half yearly figures presented in the second quarter financial statements are required be reviewed (limited scope review) by the statutory auditors of the company in the manner and terms and conditions determined by the Institute of Chartered Accountants of Pakistan and approved by the Commission.

As per requirement of the Listed Companies (Code of Corporate Governance) Regulations, 2019, the quarterly financial statements of companies shall be published and circulated along with directors' review on the affairs of the company.

CHAPTER-5

Checklist of Financial Statements:

S No.	Description	Yes	No	N/A
1	Has the company prepared and maintained books of accounts and financial statements?			
2	Do the financial statements follow the IFRS or other applicable financial reporting standards as prescribed in Third Schedule of the Companies Act, 2017?			
3	Do the financial statements follow contents and disclosure requirements as prescribed in Fourth or Fifth Schedule of the Companies Act, 2017?			
4	If the company is a holding company, has it also prepared consolidated financial statements to consolidate the results of its subsidiaries?			
5	If answer to S No. 4 is No, has the holding company ensured that it falls under exemption? (i.e. holding company is a private company and paid-up capital of holding and subsidiaries are less than Rs. 10 million)			
6	If consolidation is applicable, has holding company ensured all other compliances of the Companies Act, 2017 relating to consolidated financial statements?			
7	Does the financial year of the annual financial statements (other than 1st year's financial statements) exceed 12 months?			
8	If answer to S.No. 7 is Yes, has the company obtained special approval from registrar?			
9	Has the company ensured audit of annual financial statements? (Not applicable for private companies, having paid-up capital more than Rs.1 million)			
10	If answer to S No. 9 is N/A, has the company attached an affidavit by CEO or director confirming approval of financial statements by BOD?			
11	Have the CEO and at least one director (or one director in case of single member companies) signed the financial statements?			

12	Has the CFO (applicable for listed companies) signed the financial statements?			
13	Are the audited financial statements laid in the AGM before the members within 120 days of close of financial year-end? (Not applicable for single member companies)			
14	Has the BOD prepared and attached Directors' report with the financial statements? (Not required for private companies, not being public company's subsidiary, having paid-up capital less than Rs. 3 million)			
15	Has the company annexed following with the notice of the AGM?			
	- Audited / unaudited financial statements			
	- Auditor's report (if applicable)			
	- Director's report (if applicable)			
	- Affidavit by CEO or director (if applicable)			
	- Chairman's review report (for listed companies)			
16	Has listed company also dispatched the documents in S No. 15 to Commission, registrar and securities exchange and posted the same on website?			
17	Are the audited financial statements, auditor report, directors report and chairman's review report (in case of listed company) filed with the registrar within 30 days of AGM of listed companies and 15 days of any other companies?			
18	Has the listed company prepared and filed quarterly financial statements with the registrar?			
19	Has the listed company ensured limited scope review of its half-yearly financial statements presented in second quarter?			
20	Has a listed company ensured all other compliances of the Companies Act, 2017 relating to quarterly financial statements?			