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13-48 / 1796
July 29, 2021

The Board of Directors
MCB - Arif Habib Savings and Investments Limited
2nd Floor, Adamjee House
I.I. Chundrigar Road
Karachi

Dear Board members,

**DRAFT FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021 OF**

- **ALHAMRA ISLAMIC INCOME FUND (AHIIF);**
- **PAKISTAN INCOME FUND (PIF)**
- **MCB PAKISTAN ASSET ALLOCATION FUND (PAAF);**
- **MCB PAKISTAN SOVEREIGN FUND (PSF)**

We are pleased to enclose the draft financial statements of **AHIIF, PIF, PAAF and PSF** (collectively referred to as 'the Funds') for the year ended June 30, 2021 prepared by the management of MCB-Arif Habib Savings and Investments Limited (here-in-after referred to as the Management Company) together with our draft audit report thereon. We have initialed the draft financial statements and the draft audit reports thereon for the purpose of identification only and we shall be pleased to issue our final audit reports, in the present or amended form, after we have received / completed the following:

a. The financial statements, with or without modifications, approved by the Board of Directors (the Board) of the Management Company and signed on its behalf by the Chief Executive Officer (CEO), Chief Financial Officer (CFO) and a Director of the Management Company duly authorised for this purpose;

b. A copy of the minutes of meeting of the Board approving these financial statements;

c. Board's specific approvals for the items listed in Annexure C to this letter;

d. Management representation letters duly signed by the CEO and CFO of the Management Company;

e. The final draft of 'other information' to be included in the financial statements as required by ISA 720 – 'The Auditor's Responsibilities Relating to Other Information' to consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated;

f. Engagement Quality Control Review (EQCR), which is an independent review of the audit engagement as a part of our quality assurance procedures of the firm required by the International Standards on Auditing; and

g. Responses to our confirmations request shared with the management separately.

The enclosed draft financial statements shall remain and be deemed un-audited unless these have been approved by the Board and signed by the Chief Executive Officer, Chief Financial Officer and one Director authorized to do so on its behalf and the audit reports on these financial statements have been signed by us.

**2. Responsibilities of the auditors and the Board in relation to the financial statements**

The responsibilities of the independent auditors in a usual examination of financial statements are explained in Non-Banking Finance Companies and Notified Entities Regulations, 2008 (the Regulations) and International Standards on Auditing as applicable in Pakistan. While the auditors are responsible for forming and expressing their opinion on the financial statements, the responsibility for their preparation and fair presentation in accordance with the requirements of the accounting and reporting standards as applicable in Pakistan is that of the Board of the Management Company. The Board and management's responsibilities include the maintenance of adequate accounting records and internal control, the selection and application of accounting policies and safeguarding of the assets of the Funds. The audit of the financial statements does not relieve the Board 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, which may be material in relation to the financial statements.

**3. Key Audit Matter (KAM)**

In light of the requirements of International Standard on Auditing – 701 "Communicating Key Audit Matters in the Independent Auditor's Report" we are required to communicate in our audit report those matters that in our professional judgment were of most significance in the audit of the financial statements of the current period.

In view of the above, we have determined valuation and existence of investments as KAM and have included the same in our audit reports of respective Funds.

**4. Significant matters highlighted during the audit**

Our audit has highlighted certain significant matters which are set forth in the ensuing paragraphs. These matters came to our knowledge during the conduct of normal audit procedures designed primarily with a view to express an opinion on the Funds' financial statements. The matters set forth cannot, therefore, be expected to include all possible issues that a more extensive special examination may have highlighted. This letter also includes some important communications that we are required to make under ISA 260 - Communication with Those Charged with Governance.

**4.1 Tax notice received by Alhamra Islamic Income Fund for the financial year 2018**

ALHIIF has received a notice from the Federal Board of Revenue (FBR)under sub Section (9) of the Income Tax Ordinance, 2001 with respect to the Section 122, on July 08, 2020 stating that the return filed by the fund has declared Rs. 137 million as exempt business income despite the fact that the fund distributed zero amount from accounting income as per cash flow statement and statement of movement in unit holders' fund of audited accounts for the year ended June 30, 2018. FBR has concluded that the fund did not fulfill the condition of distribution of 90% of accounting income among its unit holders under clause (99) of part I of the Second Schedule. Management informed us that FBR neither considered the subsequent payment of cash dividend which was approved by the Board of Directors on July 4, 2018 nor considered the distributions made during the year to outgoing unitholders on redemption of units

The fund has filed appeal with the Commissioner Inland Revenue- Appeals to grant stay on January 15, 2021 in respect of the tax demand notice received and has also filed petition in the Sindh High Court dated January 16, 2021 to grant stay against the tax demanded. Sindh High Court in its decision dated January 18, 2021 has stated that the department shall not enforce the recovery of tax demanded.

Chairman of FBR through its letter dated February 25, 2021 under section 7 of the FBR Act, 2007 state that based on the opinion received from different professional bodies, the income already paid on units redeemed are to be considered as distribution of income. However, he has advised to examine/evaluate the exemption claims of mutual funds in views of the legal position.

Management informed us that it's tax advisor has also communicated the same opinion that income already paid on units redeemed are to be considered as distribution of income. However, Company's tax consultant opinion was not shared with us in this regard.

Management is confident that the ultimate outcome of appeal will be in favor of the Fund and therefore, no provisioning in this regard is made in the financial statements

**4.2 Treatment of recognition of provision in respect of Sindh Workers' Welfare Fund (SWWF)**

There has been no development during the current year in respect of the status of applicability of Sindh Workers' Welfare Fund as disclosed in respective notes to the financial statements.

The Funds have recognised provision for SWWF for the year ended June 30, 2021 in the financial statements and its impact on net asset value (NAV) per unit of the Funds due to such provision is presented in Annexure 'A' to this letter.

**4.3 Federal Excise Duty on remuneration of Management Company**

There has been no development during the current year in respect of the status of applicability of Federal Excise Duty on the Funds as disclosed in the respective notes to the financial statements.

In view of above, the Management Company, being prudent, is carrying provision for FED for the period from January 13, 2013 to June 30, 2015. However, the Management Company of the Funds has not made any further provision for FED after the year ended June 30, 2015. The aggregate balance of FED provision in the books of accounts of the Funds as on June 30, 2021 and its impact on net asset value (NAV) per unit of the Funds due to such provision is presented in Annexure B to this letter.

**5. General**

We have been advised by the Management Company that as of the date of the financial statements:

- there are no contingencies and commitments other than those disclosed in the enclosed draft financial statements;
- all events subsequent to the date of the financial statements and for which accounting and reporting standards as applicable in Pakistan require adjustment or disclosure have been adjusted or disclosed; and
- there are no other transactions with related parties / connected persons in addition to those that are disclosed in the enclosed draft financial statements.

We wish to place on record our appreciation for the courtesy and co-operation extended to us by management and staff of the Management Company during the course of our audit.

Yours truly,

Yousuf Adil

**Chartered Accountants**

**Annexure A**

**Fund-wise amounts of additional provision recognised for SWWF on June 30, 2021 in their books, as explained in paragraph 3.1 to our letter no. 13-48 / 1796 dated July 29, 2021.**

| Fund Name | Opening provision of SWWF as at June 30, 2020 | Provision for SWWF recorded | Closing provision of SWWF as at June 30, 2021 | Per unit decrease in net assets value |
|---|---|---|---|---|
| | ------------------ (Rupees in 000) | | ------------- | In Rupees |
| Alhamra Islamic Income Fund | 16,168 | 8,619 | 24,787 | 0.45 |
| MCB Pakistan Asset Allocation Fund | 9,073 | 6,627 | 15,700 | 1.49 |
| Pakistan Income Fund | 10,961 | 7,611 | 18,571 | 0.11 |
| MCB Pakistan Sovereign Fund | 12,070 | 1,349 | 13,419 | 0.97 |

**Annexure B**

**Fund-wise amounts of provision for FED on June 30, 2021 in their books, as explained in paragraph 3.2 to our letter no. 13-48 / 1796 dated July 29, 2021.**

| Fund Name | FED provision as at June 30, 2021 | Per unit decrease in net assets value |
|---|---|---|
| | Rupees in "000" | Rupees |
| Alhamra Islamic Income Fund | 8,639 | 0.16 |
| MCB Pakistan Asset Allocation Fund | 19,027 | 1.81 |
| Pakistan Income Fund | 9,210 | 0.05 |
| MCB Pakistan Sovereign Fund | 29,028 | 2.1 |

Annexure - C

**List of items requiring specific approval of The Board of Directors as referred to in paragraph 1(c) of our letter no. 13-48 / 1796 dated July 29, 2021.**

| | AHIIF | PAAF | PIF | PSF |
|---|---|---|---|---|
| **At fair value through Profit or Loss:** | | | | |
| Purchase of Government securities - Treasury Bills | - | 59,443,915 | 37,905,410 | 35,808,493 |
| Sale of Government securities - Treasury Bills | - | 59,593,915 | 42,614,534 | 35,229,181 |
| Purchase of Government securities – Pakistan Investment Bond | - | 7,939,719 | 2,671,749 | 3,465,960 |
| Sale of Government securities – Pakistan Investment Bond | - | 8,232,082 | 1,885,089 | 3,469,269 |
| Purchase of Government securities – Pakistan Investment Bond – FRB | - | 353,769 | 3,916,508 | 5,226,043 |
| Sale of Government securities – Pakistan Investment Bond – FRB | - | 455,326 | 2,409,532 | 5,529,417 |
| Purchase of Government of Pakistan – Ijarah Sukuk | 3,179,062 | 62,500 | 62,500 | - |
| Sale of Government of Pakistan – Ijarah Sukuk | 5,073,882 | 62,500 | 62,316 | - |
| Purchase of listed debt securities - Term Finance Certificates / Sukuk Certificates | | - | 514,154 | - |
| Sale of listed debt securities – Term Finance Certificates / Sukuk Certificates | | - | 620,605 | - |
| Purchase of unlisted debt securities - Term Finance Certificates / Sukuk Certificates | 1,566,125 | - | 80,806 | - |
| -Sale of unlisted debt securities - Term Finance Certificates / Sukuk Certificates | 407,459 | 36,819 | 277,451 | - |
| Purchase of listed equity securities | - | 2,426,968 | 20,648,964 | - |
| Sale of listed equity securities | - | 2,903,295 | 20,781,702 | - |
| Investment in Commercial Papers | 471,429 | - | - | - |
| Investment in Musharka Certificates | - | - | - | - |