DRAFT SAMPLE

Independent Assurance Report on Compliance with the Shari’ah Rules and Principles

To the Board of Directors of [____________/ ___________ - Islamic Banking Institution]

1. Introduction
We have undertaken a reasonable assurance engagement that the State Bank of Pakistan has required in terms of its Shari’ah Governance Framework – External Shari’ah Audit of [____________/ ___________] [IBI] (the Islamic Banking Institution) for assessing compliance of the IBI’s financial arrangements, contracts, and transactions having Shari’ah implications with Shari’ah rules and principles for the year ended __________. This engagement was conducted by a multidisciplinary team including assurance practitioners and independent Shari’ah scholar(s).

2. Applicable Criteria
The criteria for the assurance engagement, against which the underlying subject matter (financial arrangements, contracts, and transactions having Shari’ah implications for the year ended __________) is assessed, comprise of the Shari’ah rules and principles that for the purpose of External Shari’ah Audit, mean the following, in the sequence provided below:

   i) Essentials, Regulations, Instructions and Guidelines issued by the State Bank of Pakistan (SBP) including the Shari’ah Standards issued by Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), as adopted by SBP with modifications, if any;
   ii) The rulings of SBP’s Shari’ah Board as notified by SBP;
   iii) Requirements of the applicable Islamic Financial Accounting Standards as notified by the Securities and Exchange Commission of Pakistan (SECP) and as circulated by SBP;
   iv) Approvals and rulings given by the SB of the IBI in line with the SBP directives, regulations, instructions and guidelines issued in accordance with the rulings of SBP’s Shari’ah Board.

The above criteria were evaluated for their implications on the financial statements of IBI for the year ended __________, which are annexed.

3. Management’s Responsibility for Shari’ah Compliance
IBI’s management is responsible to ensure that the financial arrangements, contracts and transactions having Shari’ah implications, entered into by the IBI with its customers, other financial institutions and stakeholders and related policies and procedures are, in substance and in their legal form, in compliance with the requirements of Shari’ah rules and principles. The management is also responsible for design, implementation and maintenance of appropriate internal control procedures with respect to such compliance and maintenance of relevant accounting records.

4. 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.

5. Our responsibility and summary of the work performed
Our responsibility in connection with this engagement is to express an opinion on compliance of the IBI’s financial arrangements, contracts, and transactions having Shari’ah implications with Shari’ah rules and principles, in all material respects, for the year ended __________ based on the evidence we have obtained. We conducted our reasonable assurance engagement in accordance with International Standard on Assurance Engagements 3000, ‘Assurance Engagements other than audits or reviews of historical financial statements’, issued by the International Auditing and Assurance Standards Board. That standard requires that we plan and perform this engagement to obtain reasonable assurance about whether the compliance of
the IBI’s financial arrangements, contracts, and transactions having Shari’ah implications with Shari’ah rules and principles is free from material misstatement.

The procedures selected by us for the engagement depended on our judgement, including the assessment of the risks of material non-compliance with the Shari’ah rules and principles. In making those risk assessments, we considered and tested the internal control relevant to the IBI’s compliance with the Shari’ah rules and principles in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the IBI’s internal control. In this connection, we have also reviewed the work carried out by the Internal Shari’ah Audit Department and the Shari’ah reviews carried out by the Shari’ah Compliance Department. We have designed and performed necessary verification procedures on various financial arrangements, contracts, classes of transactions and related policies and procedures based on judgmental and systematic samples with regard to the compliance with Shari’ah rules and principles. In performing our audit procedures necessary guidance on Shari’ah matters was provided by independent Shari’ah scholar(s) referred above.

We believe that the evidences we have obtained through performing our procedures were sufficient and appropriate to provide a basis for our opinion [or modified opinion].

6. Description of the matter(s) giving rise to the modified conclusion (if any)

   a) _____________________________;
   b) _____________________________; [insert material modifications to report, if any]

7. Conclusion

   Based on our reasonable assurance engagement, we report that in our opinion, [except for the effect of the matters reported in paragraph(s) a) to x) above], the IBI’s financial arrangements, contracts and transactions for the year ended __________ are in compliance with the Shari’ah rules and principles, in all material respects.

A long form report highlighting key matters noted during the course of engagement is issued separately to the Board of Director of IBI of date.

Date: __________

[Place / City]

Name of firm
Chartered Accountants

Name of Engagement Partner
**Long Form Report**
The long form auditors’ report under the SBP Shari’ah Governance Framework will include the following aspects, as a minimum:

- **Objective and scope of the engagement**
  
The report will include key findings including those related to the following:
  
  a) the overall Shari’ah compliance environment,
  b) the risks associated with Shari’ah non-compliance,
  c) the capacity and quality of the risk management system to measure, manage and mitigate these risks,
  d) the level of awareness and sensitization of the EM and the BOD in addressing the said risks
  e) pool management practices and IT based system specifically computation and distribution of profit & loss to the depositors, tagging and movement of assets and allocation of income & expenses, etc and
  f) any other issues deemed significant by the external auditors.

- **Management’s and auditors’ responsibilities and other important terms of engagement**

- **Description of the procedures performed**

- **Limitations with respect to the engagement involving performance of the procedures**

- **Detailed description of the factual findings resulting from the auditors’ work identifying the gap/issue identified and the recommendation to address the same**

- **Statement that the procedures performed do not constitute either an audit or a review under the applicable standards and, as such, no assurance is expressed**

- **To give the name of the Shari’ah Consultant appointed by the firm for the said engagement.**