

**SECP
Guide
SERIES**

**SECURITIES AND EXCHANGE COMMISSION OF
PAKISTAN**

**A Guide for
Appointment of Statutory Auditors
and Ancillary Matters**

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Introduction

An **auditor** is a person who is assigned the job to audit the financial statements of a company in accordance with the provisions of law and auditing standards as applicable in Pakistan. Appointment of an auditor is mandatory by every company, as required under the provisions of Section 252 of the Companies Ordinance (the 'Ordinance').

This guide outlines the procedure for appointment, removal of company auditors, and other ancillary matters related to the auditor of a company as laid down under relevant provisions of the Ordinance. It also explains the rights and duties of a company auditor.

This is a guide only and should be read with the relevant legislation. You will find the relevant provisions of law in Sections 252 to 260 of the Ordinance.

Some of the other relevant legislations may include:

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

CHAPTER 1

Appointment of Auditor

1. What is Audit?

An audit is an unbiased examination and valuation of the financial statements of an organization to form an independent opinion.

The objective of audit of financial statements is to enable the auditor to express an opinion whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework.

An audit under the Ordinance is conducted in accordance with the provisions of auditing standards as applicable in Pakistan and based on the audit, the company auditor expresses an opinion on such financial statements in accordance with requirements of Section 253(3) of the Ordinance.

Further, the company auditor of a holding company is also required to report on consolidated financial statements in accordance with Section 237 of the Ordinance.

2. Who is an Auditor?

An auditor is a person who is assigned the job to audit the financial statements of a company. He is appointed under section 252 of the Ordinance by a company to audit its financial statements. The preparation and presentation of financial statements is the responsibility of management of the company and auditor is only responsible for audit of financial statements and giving an opinion on the fairness of the financial statements.

3. How is an Auditor of a company appointed?

First Auditor

The directors appoint the first auditor of the company within sixty days of the date of incorporation of the company under section 252 (3) of the Ordinance. The first auditor holds office until the conclusion of the first annual general meeting of the company.

If the directors fail to appoint first auditor, the members in general meeting of the company may appoint the first auditor.

In case, the first auditor is not appointed within one hundred and twenty days of the date of incorporation of the company, the Commission may appoint the auditor to fill the vacancy.

Subsequent Auditor

On the conclusion of first annual general meeting, first auditor stands retired. Thereafter, the auditor is appointed by the members at an annual general meeting and such auditor holds the office until the conclusion of the next annual general meeting. The retiring auditor of the company is, however, eligible for re-appointment.

A notice shall be required for a resolution at a company's annual general meeting appointing as auditor a person other than a retiring auditor, in accordance with the provisions of Section 253 of the Ordinance.

A company is required to send intimation thereof to the registrar concerned, on Form-29 under section 205 of the Ordinance, within fourteen days from the date of appointment of an auditor, along with the consent in writing of the auditor concerned as per requirement of section 253 (5) of the Ordinance.

The Form- 29 to be submitted to the Commission shall include particulars of auditor as required in Section 205 of the Ordinance and Rule 14 C of the Companies (General Provisions and Forms) Rules, 1985 (the Rules).

4. Who fixes remuneration of an Auditor?

In case an auditor is appointed by the company directors or the Commission, the directors or the Commission, as the case may be, shall fix the remuneration.

In all other cases, by the company members in general meeting or in such manner as the general meeting may determine.

5. How is an Auditor appointed in case of casual vacancy?

Casual vacancy of the auditor is filled by the directors but the surviving auditor may continue to hold office till vacancy is filled. Auditor appointed to fill up the casual vacancy holds office till the conclusion of the next annual general meeting.

A company is required to send intimation thereof to the registrar concerned, on Form-29 under section 205 of the Ordinance, within fourteen days from the date of appointment of an auditor, along with the consent in writing of the auditor concerned.

In case, a casual vacancy in the office of an auditor is not filled within thirty days after the occurrence of the vacancy, the Commission may appoint the auditor.

6. When does the Commission appoint Auditor?

The Commission has the power to appoint auditor under the following circumstances: -

- (1) If first auditor is not appointed within one hundred and twenty days of the date of incorporation of a company.
- (2) Auditor is not appointed at an annual general meeting and directors also fail in filling the vacancy within thirty days thereafter.
- (3) Auditor appointed is unwilling to act as auditor of the company.
- (4) A casual vacancy in the office of an auditor is not filled within thirty days after the occurrence of the vacancy.
- (5) Auditor is removed by the members through special resolution in a general meeting.

- (6) Where a company appoints an unqualified person as auditor or a person who is subject to any disqualifications to act as an auditor.

7. What is the company required to do when the Commission's power becomes exercisable for the appointment of auditor?

The company is required to give notice of the fact to the Commission, within one week from the date on which the Commission's power to appoint auditors becomes exercisable.

As soon as the auditor is appointed by the Commission, the company is required to send intimation thereof to the registrar concerned on Form 29 within fourteen days from the date of the appointment of auditor alongwith copy of order by the Commission.

Which documents are required to be submitted to the SECP for appointment of auditors?

Following documents are required to be submitted by a company to the Commission for appointment of auditor:

- ✓ Notice to the Commission under Section 252(6) of the Ordinance,
- ✓ Reasons as to how the Commission's power to appoint auditors becomes exercisable,
- ✓ Period of audit for which auditor is to be appointed; and
- ✓ Consent letter from the proposed auditor.

In case of removal of an auditor, the following additional documents are required to be submitted:

- ✓ Justification for removal of existing auditor,
- ✓ Copy of the notice of the general meeting sent to the members and outgoing auditors, mentioning the agenda to remove the auditor,
- ✓ Minutes of the general meeting in which resolution to remove the existing auditor is passed,
- ✓ Copy of special resolution on Form-26, certified by the registrar concerned; and
- ✓ Copy of the Form 29 notifying the removal of auditor, duly certified by the registrar concerned.

CHAPTER 2

Qualification and Disqualification of Auditor

1. Who is qualified for appointment as auditor?

A chartered accountant is qualified to become the auditor of a public company or a private company which is a subsidiary of a public company or a private company having paid up capital three million rupees or more.

An association not for profit under section 42 of the Ordinance and companies limited by guarantee under section 43 of the Ordinance, are also required to appoint an auditor, qualified as chartered accountant.

2. Who is disqualified for appointment as auditor?

Following persons are ineligible for appointment as auditor of a company:-

- (1) Present or past director, officer or employee of the company during the preceding three years.
- (2) A partner or person in the employment of a director, officer or employee of the company.
- (3) Spouse of a director of the company.
- (4) A person who is indebted to the company. A person who owes a sum of money not exceeding five hundred thousand rupees to a credit card issuer or a sum to a utility company in form of unpaid dues for a period not exceeding ninety days, shall not be deemed to be indebted to the company.
- (5) A body corporate.
- (6) A person or his spouse or minor children, or in case of a firm, all partners of such firm who holds any shares of an audit client or any of its associated companies provided that if such a person holds shares prior to his appointment as auditor, whether as an individual or a partner in a firm, the fact shall be disclosed on his appointment as auditor and such person shall disinvest such shares within ninety days of such appointment. Such listed

company shall take measures to ensure that the auditor disclose the interest in listed company within fourteen days of appointment.

- (7) A person who is disqualified for appointment as auditor of the company's subsidiary or holding company or a subsidiary of that holding company.
- (8) Cost auditor, if appointed by the company.

Requirements of Listing Regulations

- (9) No listed company shall appoint or continue to retain any person as an auditor, who has been found guilty of professional misconduct, by the Commission or by Court of Law for a period of three years unless a lesser period is determined by the Commission.

Requirements of Code of Corporate Governance

- (10) No listed company shall appoint as external auditors a firm of auditors which has not been given a satisfactory rating under the Quality Control Review programme of the Institute of Chartered Accountants of Pakistan.
- (11) No listed company shall appoint as external auditors a firm of auditors which firm or a partner of which firm is non-compliant with the International Federation of Accountants' (IFAC) Guidelines on Code of Ethics, as adopted by the Institute of Chartered Accountants of Pakistan.
- (12) All listed companies in the financial sector shall change their external auditors every five years.

All listed companies other than those in financial sector shall, at a minimum, rotate the engagement partner after every five years.

The appointment as auditor of a company of an unqualified person, or of a person who is subject to any disqualifications to act as such, shall be void. An auditor shall deem to have vacated his office as an auditor with effect from the date on which he becomes so disqualified.

CHAPTER 3

Powers and Duties of Auditor

1. What are the rights of an auditor?

An auditor has right of access to the books, papers, accounts and vouchers of the company, whether kept at registered office of the company or elsewhere. He is entitled to require from the company and the directors and other officers of the company such information and explanation as he thinks necessary for the performance of the duties of the auditor.

In the case of a company having a branch office outside Pakistan, it shall be sufficient if the auditor is allowed access to such copies of, and extracts from, the books and papers of the branch as have been transmitted to the principal office of the company in Pakistan.

The auditor of a company is entitled to attend any general meeting of the company and to receive all notices and any communications relating to any general meeting which any member of the company is entitled to receive. He is entitled to be heard at any general meeting which he attends, on any part of the business concerning him as auditor.

2. What are the major duties of an auditor?

The auditor is required to make a report to the members of the company on the financial statements and books of account of the company and on every balance-sheet and profit and loss account or income and expenditure account. His report covers all other documents forming part of the balance-sheet and profit and loss account or income and expenditure account, including notes, statements or schedules annexed with the financial statements and which are laid before the members of company in general meeting during his tenure of office.

The auditor's report to the members covers the following matters:-

- (a) Confirmation as to whether all information and explanations necessary for the purposes of the audit have been obtained or not
- (b) Confirmation as to whether proper books of account are being maintained by the company as required by Ordinance or not.
- (c) Confirmation as to whether that preparation of the balance sheet and the profit and loss account or the income and expenditure account are in

conformity with the Ordinance and in agreement with the books of accounts;

(d) Opinion regarding true and fair view of the following:

- The balance sheet as at the end of its financial year
- the profit and loss account or the income and expenditure account and of the profit or loss or surplus or deficit for its financial year and
- statement of changes in financial position or sources and application of funds of a listed company, of the changes in the financial position or the sources and application of funds for its financial year.

(e) Opinion regarding the following:

- incurring of expenditure during the year for the purposes of the company's business and
- conducting the business, making investments and incurring of expenditure during the year in accordance with the objects of the company.

(f) Opinion regarding:

- deduction of Zakat deductible at source under the Zakat and Usher Ordinance, 1980; and
- deposit thereof in the Central Zakat Fund, if applicable.

3. What is qualified auditor's report and how is it dealt with?

If the auditor answers any of the matters given above in the negative or with a qualification, the reasons for such an answer shall be provided in the auditor's report. An auditor is also required to state the factual position to the best of his information.

4. What is the prescribed format of an auditor's report?

The auditor's report on the financial statements of a company (other than a banking company) is required to be given on Form 35 A, as prescribed under the Rule 17 A of the Companies (General Provisions and Forms) Rules, 1985 (the Rules). For a banking company, the prescribed form is Form 35 B, as prescribed under 17 B of the Rules. An auditor of the holding company is also required to

report on consolidated financial statements, on Form 35 C and review report on the subsidiary accounts on Form 35 D, as prescribed under 17 C of the Rules.

The forms are downloadable at the link available at SECPs web-site, http://www.secp.gov.pk./divisions/Portal_RD/Forms.htm

5. Is it mandatory for the auditors to attend the AGM?

In the case of a listed company, the auditor (partner of the firm) or his authorized representative (authorized by him in writing) is required to be present in the general meeting in which the balance-sheet and profit and loss account and the auditor's report are to be considered. They have to reply to the questions of members. In case of other companies, the auditors are given the notices and they may attend the AGM, but their presence is not mandatory.

6. What are the requirements regarding reading and inspection of the auditor's report?

The auditors' report is read before the company in the general meeting. This report will remain open for inspection by any member of the company.

7. How is the auditor's report signed?

The person, appointed as auditor, or in case where a firm is appointed, a partner practicing in Pakistan, shall sign the auditor's report or authenticate any other document, required to be authenticated by the auditor(s).

The report shall be dated and shall indicate the place at which it is signed by the auditor.

CHAPTER 4

Removal of auditor

1. How can an auditor be removed?

Members may remove an auditor from office during their tenure through passing special resolution in a general meeting. There should be a proper justification for removing the auditor in compliance with Section 253(3) of the Ordinance.

A company is also required to send intimation thereof to the registrar concerned, on Form-29, under section 205 of the Ordinance within fourteen days from the date of removal.

CHAPTER 5

Penalty for non-compliance with the audit related provisions

1. What is the penalty for non-compliance with the provisions by companies?

Section 259 of the Ordinance deals with the penal provisions, i.e., if default is made by a company in complying with any of the provisions of Sections 252 to 254 or 256 to 258, the company and every officer of the company who is knowingly and willfully a party to the default shall be punishable with a fine which may extend to fifty thousand rupees and in case of continuing default to a further fine which may extend to two thousand rupees for every day after the first during which the default continues.

2. What is the penalty for non-compliance with the provisions by auditors?

Section 260 of the Ordinance deals with the penal provisions, i.e., if any auditor's report is made, or any document of the company is signed or authenticated otherwise than in conformity with the requirements of section 157, Section 255 or Section 257 or is otherwise untrue or fails to bring out material facts about the affairs of the company or matters to which it purports to relate, the auditor concerned and the person, if any, other than the auditor who signs the report or signs or authenticates the document, and in the case of a firm all partners of the firm, shall, if the default is willful, be punishable with fine which may extend to one hundred thousand rupees.

If the auditor's report to which sub-section 260 (1) applies is made with the intent to profit such auditor or any other person or to put another person to a disadvantage or loss or for a material consideration, the auditor shall, in addition to the penalty provided by that sub-section, be punishable with imprisonment for a term which may extend to one year and with fine which may extend to one hundred thousand rupees.

A person who, not being qualified to be an auditor of a company, or being or having become subject to any disqualification to act as such, acts as auditor of a company shall be liable to fine which may extend to twenty five thousand rupees.

CHAPTER 6

Further information

1. Where does a company get forms and guidance booklets?

This is one of a series of the Commission's guidance booklets, which provide a simple guide to the Ordinance, and the rules and regulations made thereunder.

Statutory forms and guidance booklets are available, free of charge from the SECP Headquarters and the Companies Registration Offices (CROs). The quickest way to get them is through our website, <http://www.secp.gov.pk>.

2. How does a company send information to the Registrar?

You may file documents to the concerned Registrar electronically by following the link <https://eservices.secp.gov.pk/eServices>, or in manual form by hand (personally or by post or through courier).

1. Company Registration Office,
State Life Building, 7-Blue Area, Islamabad
Phone: 051-9208740, Fax 051-9208740
Email: croislamabad@secp.gov.pk
2. Company Registration Office,
4th Floor, SLIC Building No.2, Karachi.
Phone: 021-99213272, Fax 021-9213278
Email: crokarachi@secp.gov.pk
3. Company Registration Office,
3rd & 4th Floors, Associated House,
7-Egerton Road, Lahore.
Phone: 042- 9200274, Fax 042-9202044
Email: crolahore@secp.gov.pk
4. Company Registration Office,
63-A, Nawa-i-Waqt Building, Abdali Road, Multan.
Phone: 061-9200530 Fax 061-9200530
Email: cromultan@secp.gov.pk
5. Company Registration Office,
356-A, Al-Jamil Plaza,
1st Floor, Peoples Colony, Small D Ground, Faisalabad.
Phone: 041-9220284 Fax: 9220284

Email: crofsb@secp.gov.pk

6. Company Registration Office,
1st Floor, State Life Building,
The Mall, Peshawar Cantt.
Phone: 091-9213178, Fax 091-9213178
Email: crofeshawar@secp.gov.pk
7. Company Registration Office,
382/3, (IDBP House), Shahrah-e-Hali, Quetta Cantt.
Ph: 081-2844136
Email: croqta@qta.paknet.com.pk
8. Company Registration Office,
House # 28, Hamdard Housing Society,
Airport Road, Sukkur.
Ph: 071-5630517
croskr@hotmail.com

PUBLIC CONSULTATION

If you have any suggestions for the development in the legal framework or otherwise, please let us know about your opinion/comments on the following address:

Registrar of Companies,
Securities and Exchange Commission of Pakistan,
NIC Building, Jinnah Avenue, Blue Area,
Islamabad, Pakistan.

Comments can also be sent via electronic mail at the following address:

headquarters@secp.gov.pk

DISCLAIMER

The booklet has been published with the intention to create an awareness of the concept of the relevant matters. However, the booklet does not tell everything and the opinions or legal interpretations, contained in the booklet are circumstantial and may vary under different situations. If the reader is in doubt or dealing with any specific condition, it is recommended to refer to the Companies Ordinance, 1984 and allied laws and consult an adviser for seeking professional advice.

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