

Chapter 6

Auditor



6.1 Auditor

CO 1984

Section 252, 253

252. Appointment and remuneration of auditors:

- (1) Every company shall at each annual general meeting appoint an auditor or auditors to hold office from the conclusion of that meeting until the conclusion of the next annual general meeting.
- (2) Appointment of a partnership by the firm name to be the auditors of a company shall be deemed to be the appointment of all the persons who are partners in the firm at the time of appointment.
- (3) The first auditor or auditors of a company shall be appointed by the directors within sixty days of the date of incorporation of the company; and the auditor or auditors so appointed shall hold office until the conclusion of the first annual general meeting: provided that
 - (a) the company in a general meeting may remove any such auditor or auditors and appoint in his or their place any other person or persons who have been nominated for appointment by any member of the company and of whose nomination notice has been given to the members of the company not less than fourteen days before the date of the meeting; and
 - (b) if the directors fail to exercise their powers under this subsection, the company in general meeting may appoint the first auditor or auditors.
- (4) The directors may fill any casual vacancy in the office of an auditor; but, while any such vacancy continues, the surviving or continuing, auditor or auditors, if any, may act.
- (5) Any auditor appointed to fill in any casual vacancy shall hold office until the conclusion of the next annual general meeting.
- (6) Where the first auditors are not appointed under clause (b) of the proviso to sub-section (3) within one hundred and twenty days of the date of incorporation of the company, or where at an annual general meeting no auditors are appointed, or where auditors appointed are unwilling to act as auditors of the company, or where a casual vacancy in the office of an auditor is not filled within thirty days after the occurrence of the vacancy, the Authority may appoint a person to fill the vacancy.



- (7) The company shall, within one week of the Authority's power under sub-section (6) becoming exercisable, give notice of that fact to the Authority.
- (8) The remuneration of the auditors of a company shall be fixed,
- (a) in the case of an auditor appointed by the directors or by the Authority, as the case may be; and
 - (b) in all other cases, by the company in general meeting or in such manner as the general meeting may determine.

253. Provision as to resolutions relating to appointment and removal of auditors:

- (1) 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.
- (2) The notice referred to in sub-section (1) shall be given by a member of the company to the company not less than fourteen days before the annual general meeting, and the company shall forthwith send a copy of such notice to the retiring auditor and shall also give notice thereof to its members not less than seven days before the date fixed for the annual general meeting and, if the company is a listed company, shall also publish it at least in one issue each of a daily newspaper in English language and a daily newspaper in Urdu language having circulation in the Province in which the stock exchange on which the company is listed is situate.
- (3) Where notice is given of such a resolution and the retiring auditor makes with respect thereto a representation in writing to the company not exceeding a reasonable length and requests its communication to the members of the company, the company shall, unless the representation is received by it too late for it to do so,
- (a) in any notice of the resolution given to members of the company, state the fact of the representation having been made; and
 - (b) send a copy of the representation to every member of the company to whom notice of the meeting is sent whether before or after receipt of the representation by the company; and if a copy of the representation is not sent as aforesaid because it was received too late or because of the company's default, the auditor may, without prejudice to his right to be heard in person, require that the representation shall be read out at the meeting:



Provided that it shall not be necessary to send out or to read out the representation at the meeting if, on the application either of the company or of any other person who claims to be aggrieved, the registrar is satisfied that the rights conferred by this section are being abused to secure needless publicity for defamatory matter; and the registrar may order the company's costs on an application under this section to be paid in whole or in part by the auditor, notwithstanding that he is not a party to the application.

(4) Sub-section (3) of this section shall apply to a resolution to remove the first auditors by virtue of sub-section (3) of section 252 as it applies in relation to a resolution that a retiring auditor shall not be reappointed.

(5) Every company shall, within fourteen days from the date of any appointment of an auditor, send to the registrar intimation thereof; together with the consent in writing of the auditor concerned.

(6) Every company shall, within fourteen days from the date of retirement, removal or otherwise ceasing to hold office of an auditor, send intimation thereof to the registrar.

BCO 1962

Section 35 (1, 4 & 5)

(1) The balance sheet and profit and loss account prepared in accordance with section 34 shall be audited by a person who is duly qualified, under the Chartered Accountants Ordinance, 1961 (X of 1961), or any other law for the time being in force, to be an auditor of companies and is borne on the panel of auditors maintained by the State Bank for the purposes of audit of banking companies.

Reference to above section; SBP maintains panel of auditors. All banking companies are required to appoint only that auditor who is enlisted on SBP's panel. To get enlisted on SBP's panel auditors have to meet certain requirements according to a set criteria. Major items of that criterion include:

- i) Audit experience during last five years*
- ii) Quality control review (QCR) by ICAP*
- iii) Affiliation with international firm of chartered accountants*
- iv) IT audit experience*
- v) Size of the firm (number of fellows, associates, full qualified, partly qualified members)*

For reference see BSD Circular No 3 of 24/02/2003.

(4) Subject to the provisions of sub-section (3) [reproduced in heading 5.2 of this manual], the auditor shall have the powers of, exercise the functions vested



in, and discharge the duties and be subject to the liabilities and penalties imposed on, auditors of companies by section 145 of the Companies Act, 1913 (VII of 1913).

(5) In addition to the matters which, under the aforesaid Act and the guidelines laid down by the State Bank under sub-section (3), the auditor is required to state in his report, he shall also state—

- (a) whether or not the information and explanations required by him have been found to be satisfactory;
- (b) whether or not the transactions of the banking company which have come to his notice have been within the powers of the banking company;
- (c) whether or not the returns received from branch offices of the banking company have been found adequate for the purposes of his audit;
- (d) whether the profit and loss account shows a true balance of profit and loss for the period covered by such account; and
- (e) any other matter which he considers should be brought to the notice of the shareholders of the banking company.

6.2 Guidelines for the Auditor

BCO 1962

Section 35 (3)

The State Bank may, from time to time, lay down guidelines for the audit of banking companies and the auditors shall be bound to follow those guidelines.

SBP Directives

BSD Circular 1 of January 11, 2003

MASTER CIRCULAR – AUDIT OF ANNUAL ACCOUNTS

Your attention is invited to BID Circular No.5 dated 19th December 1972 as amended from time to time, in terms of which the external auditors of the banks, while conducting the statutory audit of a bank are required to submit a Special Report, based on the specific guidelines given in the aforesaid circular, to the State Bank and endorse a copy thereof to the bank concerned.



2. As you are aware, these guidelines have been amended/updated from time to time through subsequent circulars/circular letters. In order to facilitate banks, as well as their auditors, to ensure compliance of these guidelines, the State Bank is pleased to issue consolidated instructions on the subject through this Master Circular.

3. Accordingly, while conducting the statutory audit of banks in terms of Section 35 of the Banking Companies Ordinance, 1962 the auditors shall, interalia, verify the followings:

- (i) Deposits maintained with and received from other banks.
- (ii) Inter branch deposits, provision for taxation and other similar items included under "Deposits and Other Accounts".
- (iii) Balances of staff provident fund, gratuity funds etc. included in the "Deposits and Other Accounts".
- (iv) Amount of profit accrued on deposits (but not paid) and included in "Deposits and Other Accounts", instead of showing it under "Other Liabilities".
- (v) Nature and amount of all balances held outside Pakistan.
- (vi) Investment in shares of companies in which the directors of the bank and their dependents have substantial interest.
- (vii) All sales, purchases and swaps of shares and securities of Rs.5,000,000/- and above during the financial year.
- (viii) Loans and advances (excluding staff loans) granted to directors or officers of the bank or any of them, either severally or jointly with any other persons.
- (ix) Loans and advances granted to companies or firms in which the directors of the bank are interested as directors, partners or managing agents.
- (x) Adequacy of provisions against classified assets as per requirements of Prudential Regulation No.VIII.
- (xi) Expenses incurred on the opening of branches, advertisements and publicity – whether charged off to profit and loss account, capitalized or accounted for otherwise.



- (xii) Reconciliation of inter-branch and other accounts (including head-office account, inter-bank accounts, accounts of and with foreign correspondents) and settlement of suspense account. xiii) Any Window Dressing in the annual accounts, particularly in respect of deposits, income, expenses, provisions, etc.
- (xiv) Contributions and donations for charitable, social, educational and public welfare purposes made by the bank – whether in accordance with PR-XX or not.
- (xv) Level of efficiency of the Internal Audit Department of the bank – whether the Auditors are satisfied with it.

4. Apart from the observations noted during verification of the above items, the Auditors would also report any matter of substantial nature with which they may become aware of during the process of statutory audit, which in the auditors' opinion may have the potential to prejudice materially the interest of depositors of the bank. If nothing of this nature has come to the attention of the auditors, a confirmation to that effect should be given in the report.

5. The Auditors will submit a Special Report based on the parameters given in para 3 & 4 above to the Director, Banking Supervision Department, State Bank of Pakistan, Karachi, under a sealed cover, endorsing a copy to the bank concerned, within 15 days of the signing of the auditors' report to the bank. It may be noted that this Special Report will be meant for the exclusive use and consumption of the State Bank of Pakistan.

6. The banks are requested to deliver a copy of this circular to their Auditors for necessary compliance and request them to acknowledge its receipt directly to this Department. Further, the banks should furnish to us the names and addresses of their Auditors for the year 2002 and onwards and confirm that a copy of the circular has been duly delivered to them.

6.3 Qualification & Disqualification of Auditor

CO 1984

Section 254

- (1) A person shall not be qualified for appointment as an auditor, -



- (i) in the case of a public company or private company which is subsidiary of a public company unless he is a Chartered Accountant within the meaning of the Chartered Accountants Ordinance, 1961 (X of 1961); and
- (ii) in the case of a private company having paid up capital of three million rupees or more unless he is a Chartered accountant within the meaning of the Chartered Accountants Ordinance, 1961 (X of 1961).

(2) A firm where if all the partners practicing in Pakistan are Chartered Accountants may be appointed by its firm name as auditors of a company referred to in subsection (1) and may act in its firm name.

(3) None of the following persons shall be appointed as auditor of a company, namely: -

- (a) a person who is, or at any time during the preceding three years was, a director, other officer or employee of the company;
- (b) a person who is a partner of or in the employment of, a director, officer or employee of the company;
- (c) the spouse of a director of the company;
- (d) a person who is indebted to the company; and
- (e) a body corporate.

Explanation. - Reference in this section to an "officer" or "employee" shall be construed as not including reference to an auditor.

(4) A person shall also not be qualified for appointment as auditor of a company if he is, by virtue of the provisions of sub-section (3), disqualified for appointment as auditor of any other company which is that company's subsidiary or holding company or a subsidiary of that holding company.

(5) If, after his appointment, an auditor becomes subject to any of the disqualifications specified in this section, he shall be deemed to have vacated his office as auditor with effect from the date on which he becomes so disqualified.

(6) 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.

(7) 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, and,



where such an appointment is made by a company, the Authority may appoint a qualified person in place of the auditor appointed by the company.

6.4 Tenure of Auditor

BCO 1962

Section 35 (2)

An auditor shall hold office for a period of three years and shall not be removed from office before the expiry of that period except with the prior approval of the State Bank.

6.5 Reading & Inspection of Auditor's Report

CO 1984

Section 256

The auditors' report shall be read before the company in general meeting and shall be open to inspection by any member of the company.

6.6 Signature on Audit Report

CO 1984

Section 257

(1) Only the person appointed as auditor of the company, or where a firm is so appointed in pursuance of sub-section (2) of section 254, only a partner in the firm practicing in Pakistan, shall sign the auditors' report or sign or authenticate any other documents of the company required by law to be signed or authenticated by the auditor.

(2) The report of auditors shall be dated and indicate the place at which it is signed.

6.7 Auditors not to hold shares

SECP's Code

Para xxvii

All listed companies shall ensure that the firm of external auditors or any partner in the firm of external auditors and his spouse and minor children do not at any time hold, purchase, sell or take any position in shares of the listed company or any of its associated companies or undertakings.



Provided that where a firm or a partner or his spouse or minor child owns shares in a listed company, being the audit client, prior to the appointment as auditors, such listed company shall take measures to ensure that the auditors disclose the interest to the listed company within 14 days of appointment and divest themselves of such interest not later than 90 days thereof.