

Framework on External Audit for Financial Institutions

Banking Policy & Regulations Department



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PART-A

Chapter 1: Scope of the Framework

1.1 Applicability:

This framework is applicable to audit firms on panel of auditors, the financial institutions as mentioned below and their external auditors: - It stipulates the legal requirements, regulatory instructions and general guidance for the financial institutions (FIs);

- I. **Scheduled Banks:** scheduled bank has the same meaning as in the State Bank of Pakistan Act, 1956
- II. **Financial Institutions** designated under section 3-A of Banking Companies Ordinance, 1962
- III. **Microfinance Banks (MFBs):** Microfinance banks licensed under Microfinance Institutions Ordinance 2001
- IV. **Exchange Companies (ECs):** Exchange Companies formed under Foreign Exchange Regulations Act (FERA) and audit requirement under SBP F. E. Circular No. 09 dated July 30, 2002 read with other SBP instructions on the subject.
- V. **Payment System Providers (PSPs) / Payment System Operators (PSOs):** PSPs and PSOs authorized under Payment System & Electronic Fund Transfers Act 2007 and audit requirement under PSD Circular No. 03 of 2014

1.2 Scope:

This framework on external audit function is primarily focused on the regulatory requirements relating to enlistment of the audit firms on the Panel of auditors maintained by State Bank of Pakistan u/s 35 of the Banking Companies Ordinance (BCO) 1962; their up-gradation/ down-gradation / removal from the panel. It also provides guidance on supervisory expectations relating to role and responsibilities of the external auditors.

Part-A of this framework provide eligibility criterion for enlistment on panel of auditors maintained u/s 35 of BCO 1962 for the purpose of external audit function of FI's mentioned in para 1.1 above. Part-B of this framework is only for guidance purposes for the FI's and should not be considered as exhaustive list of all the related provisions of applicable statute and regulatory requirements. All FIs should comply with all other requirements of relevant provisions of statutory and regulatory instructions issued and amended from time to time.

1.3 Statutory Perspective: (External Auditors)

The main statutes governing the appointment of external audit of the above mentioned financial institutions (Section 1.1) in Pakistan are:

- The Banking Companies Ordinance, 1962
- The Companies Ordinance 1984
- The Microfinance Institutions Ordinance, 2001
- The Foreign Exchange Regulation Act 1947

1.4 Regulatory Perspective:

1. Code of Ethics adopted by Institute of Chartered Accountants of Pakistan (ICAP) for the practicing chartered accountants and its members
2. State Bank instructions & prudential regulations
3. Code of Corporate Governance (SECP)
4. SBP's Circulars and Guidelines on the preparation and submission of financial statements, internal and external audit, and the external auditors

Chapter 2: State Bank's Panel of Auditors

State Bank of Pakistan maintains panel of auditors for the audit of banking companies under section 35 of Banking Companies Ordinance, 1962. The panel contains three categories of the audit firms for conducting audit of different FIs referred in section 1.1 above keeping in view the scope and size of these these institutions.

According to section 16 (1) of Microfinance Institution Ordinance, 2001, MFBs are also required to appoint the auditors from the panel of approved auditors maintained by the State Bank. Development Financial Institutions (DFIs) / Joint Ventures or institutions notified under section 3A of BCO and Exchange Companies formed under FERA are required to abide by the regulatory instructions pertaining to appointment of external auditors.

2.1 Essential Qualifications for the External Auditor:

- An auditor should be duly qualified, under the Chartered Accountants Ordinance, 1961, or any other law for the time being in force, to be an auditor of companies
- Must have secured a satisfactory Quality Control Review (QCR) issued by the ICAP.
- Must be enlisted in the panel of auditors maintained by State Bank of Pakistan

2.2 Fitness and Propriety of the External Auditor:

Besides the above necessary eligibility conditions, the External Auditor should conform to the following suitability and propriety criteria:

A) Capacity and Competence:

Keeping in view the very nature of banking sector, the external auditor must possess adequate resources, knowledge, expertise, experience and skills to perform their duties with professional competence in conformity with legal and regulatory stipulations in addition to international accounting and auditing standards.

Financial institution shall take due care while appointing auditor with respect to qualification of auditor given in section 254 of the Companies Ordinance 1984.

B) Independence:

The independence criterion is principle-based and should be applied using a substance over form doctrine to the specific facts and circumstances so that the auditor is impartial in protecting the public interest in true spirit. For this purpose, guidance may be taken from relevant provisions of code of ethics issued by ICAP and relevant ISA.

C) Financial Integrity:

The environment of integrity, honesty and financial discipline is crucial for all the financial institutions and for all related stakeholders, which includes statutory auditors as well. With a view to further strengthen and enhance the regime of financial integrity, all audit firms enlisted on panel of auditors maintained by SBP u/s 35 of BCO, shall maintain high standard of financial integrity at all time. All such audit firms are required to fulfill the following requirements for their partners and directors/senior managers:-

- (i). That they have not been adjudged an insolvent
- (ii). No execution of decree or order of any Court remains unsatisfied against them
- (iii). They have not compounded with the creditors
- (iv). They have not been convicted of a financial crime

At the time of enlistment, upgradation and re-evaluation of audit firms, SBP will evaluate the partners; senior managers/directors of the audit firm on the basis of above explained points and may seek any additional information required for the purpose. Any partner/director/senior manager of the audit firm found inconsistent with the above enumerated clauses of financial integrity may be debarred from taking any assignment/engagement of FIs.

2.3 Compliance with IFAC Code of Ethics:

External Auditor of a financial institution must comply with the International Federation of Accountants' Guidelines on Code of Ethics, as adopted by the Institute of Chartered Accountants of Pakistan.

2.4 Panel of Auditors

The panel of auditors is maintained by SBP as required u/s 35 (1) of BCO 1962, on the basis of eligibility criteria defined for the enlistment of the audit firms. Each selected audit firm will be classified into its related category. Audit firm on the panel shall be eligible to conduct external audit of financial institutions as per conditions mentioned below:

- Category-A firm is eligible to conduct audit of all Banks and DFIs
- Category-B firm is eligible to conduct audit of banks and DFIs having assets up to Rupees 100 billion or branches up to 160.
- Category-C firm is eligible to conduct audit of banks and DFIs having assets up to Rupees 15 billion or branches up to 30.

Banks and DFIs shall appoint auditors from the Panel of Auditors maintained u/s 35 (1) of BCO 1962. All MFBs and Exchange companies shall appoint external auditors from the SBP panel of

auditors as mentioned in the Microfinance Ordinance 2001 and SBP F. E. Circular No. 09 dated July 30, 2002 respectively. The panel will be reviewed continuously to enlist new applicant firms for enlistment and upgradation of the existing firms on the panel.

2.5 Enlistment of Audit Firm:

The audit firms desirous of being listed shall apply for enlistment as per application form attached at **Annexure-A**. The audit firm's credentials will be evaluated on the basis of information given in the application form and its enclosures. The case for enlistment of an applicant audit firm will be processed and completed depending on the completeness of provided information. The application of enlistment once declined, shall not be entertained again before the expiry of six (6) months period from the date of last rejection.

2.6 Upgradation of Listed Audit Firm:

The existing audit firms desirous of being upgraded on the panel shall apply for up-gradation as per application form given at **Annexure-A**. The audit firm's credentials will be re-evaluated on account of the information given in the application form and its enclosures. The case for enlistment of an applicant audit firm will be processed and completed depending on the completeness of provided information. The application of upgradation once declined, will not be entertained again before the expiry of six (6) months period from date of last rejection.

2.7 Change of Nomenclature, Address, Credentials:

The audit firms enlisted on the panel shall inform SBP in case of any change in the credentials of the firm mentioned in **Annexure-A** {section 1, 3, 4(i) & (ii) -upto the level of Directors) and 6} within two weeks time of any such occurrence. Non-compliance with the aforesaid instructions may result in disciplinary actions like down-gradation or delisting of the audit firm.

2.8 Quality Control Review (QCR) Submission:

The enlisted audit firms will invariably submit a copy of their QCR to the State Bank within two weeks of its receipt from ICAP and shall be secured satisfactory rating in last two consecutive assessments.

2.9 Reporting requirement and review of the audit firms on the Panel of Auditors:

a) All the audit firms on the panel shall invariably submit in soft form, their detailed information to the State Bank on annual basis as per **Annexure A** within three months by close

of each calendar year for re-evaluation of their respective standing in the panel of auditors' u/s 35 of BCO 1962.

b) The above information will be reviewed in order to ascertain their standing in different categories of the panel. After reassessment of each audit firm, SBP will classify the firm(s) according to the latest credentials commensurating with their reviewed standing on the panel. The audit firms not meeting the minimum criteria will be provided grace period of 180 days for the improvement in the profile, failing to which shall result in the downgradation or delisting from the panel of auditors.

2.10 International Affiliation:

In the evaluation and placement of the audit firms in the SBP panel of auditors, the international affiliation of the audit firm(s) is given the due weightage and value. The international affiliation is valued in terms of many factors in order to determine the robustness of affiliation. Following are the key determinants of valuation of the international affiliation.

- Nature of affiliation
- Level of exchange of resources
- Support and consultancy arrangements
- Technical and human resource sharing
- Periodic quality reviews.
- International standing and experience of international firm

2.11 Appointment of Auditors:

- a. All the financial institutions shall appoint the external auditors in line with related regulatory and statutory requirements. After the appointment, same shall be communicated to SBP within a two weeks time.
- b. It is responsibility of the board of directors of FIs to ensure that audit fees commensurate with the scope of audit and responsibility assumed by auditors along with required skills, knowledge, time and resources for the audit assignment of the bank or financial institution. Due care should be given to the fact that such audit fee should not impair auditor's professionalism, opinion and independence.

- c. FI's at the time of appointment of auditors shall carry out their process of due diligence interalia in respect of "financial integrity" relating to their respective engagement partners, directors / senior managers involved in the audit engagement as stipulated under SBP circular No.13 dated December 11, 2014.

2.12 Down gradation and Delisting:

The State Bank may also downgrade the category of any firm or remove it from the panel in the following cases: -

1. On failing to secure latest satisfactory QCR from ICAP, the audit firm enlisted on the panel of auditors shall be **delisted** immediately after giving the opportunity of being heard.
2. If material misstatement of facts and figures is observed in the financial statements or reports submitted to the State Bank duly reported by the auditing firm, which will materially alter the assessment of financial position FIs.
3. If the information, facts and figures submitted to SBP in the application form for the purpose of enlistment or up-gradation on SBP Panel of Auditors, are found incorrect or not in harmony with the information supplied to the Institute of Chartered Accountants of Pakistan.
4. The audit firm may be downgraded or delisted, if **any change** in the nomenclature of the firm or in its partners /directors/ international affiliation, is not communicated to SBP within two week of the occurrence of change.
5. If any information sought by SBP, whatsoever, about the firm is not supplied to SBP within the stipulated time.
6. During the course of SBP inspection, if certain material facts in contradiction to external auditor findings observed and found convincing; the category of audit firm may be downgraded or delisted from the panel after giving the due opportunity of being heard.
7. Any material divergence by the audit firm from the International Standard on Auditing (ISA) and locally applicable auditing standards during the audit engagement of any bank, DFI, Exchange Company, or Microfinance bank may result in downgradation or delisting of the audit firm from the panel of SBP.

In case of points 2, 6 and 7 explained above, the firms will be downgraded or delisted and SBP may seek input from ICAP. In this regard, ICAP /audit firm shall provide the response within the 60 days from the date of such reference.

Chapter 3: Supervisory Expectations and Relationship

The scope and terms of reference for the audit engagements shall be in conformity with the ISA, Companies ordinance 1984, applicable accounting standards and regulatory instructions. In this respect, other related aspects of scope are elaborated in the following sections (3.1) and (3.2)

3.1 Scope and Terms of Reference

- The main and foremost responsibility of auditors is to express an opinion on whether the information presented in the financial statement is giving true and fair view. In doing so, the auditor shall express opinion in accordance with auditing and accounting standards as applicable in Pakistan.
- The auditor shall obtain reasonable assurance whether the financial statements are free of any material misstatement. Auditors shall review the Statement of Compliance with the Best Practices of the Code of Corporate Governance prepared by the Board of Directors of the Bank/DFI to comply with the Regulation G-1 of the prudential regulations issued by State Bank of Pakistan.

3.2 Functional areas requiring special attention of the Auditors of Banks:

The external auditor shall perform its duties in conformity with the applicable ISA, code of ethics issued by ICAP, scope/purpose of engagement and other related instructions.

In addition, pursuant to banking sector's dynamics and sensitivities, auditor must also consider its distinction from the other commercial organization while performing the audit. Here are some distinctive characteristics of banking sector which help in providing the guidance and are aimed to supplement work of the auditors while performing their duties of audit of the banks.

- a) Banks possess large volume of money items including cash, collaterals in the form of gold, shares and prize bonds, and other money market instruments. These all require concrete steps in order to safeguard its physical security in storage and transfer system. All these money items are very liquid in nature and thus exposed to greater risk of misappropriation and fraud.
- b) Banks engage mostly in business transactions whose jurisdiction travels along with the parties involved, location of counterparties. Thus it bears the risk of legal, compliance, exchange, country and counterparty risk.
- c) Banks are highly leveraged due to low capital contribution. So the banks are exposed to probabilities of adverse economic events and systemic risk.
- d) Banks derive large sum of funding from their short term liabilities i.e. current and saving accounts (CASA). Any confidence shake on bank by depositors can cause panic

resulting into contagion risk and huge amount of withdrawals causing liquidity and solvency crisis for the bank.

- e) Banks build their assets from the funds which is public money. Public money demands careful handling so as to retain sense of trust. There should be standardized operating procedures coupled with robust internal controls in order to safeguard interest of the deposit holders.
- f) Banks ordinarily operate through a network of branches and business offices that are geographically dispersed. This necessarily involves a greater decentralization of authority and dispersal of accounting and control functions with consequential difficulties in maintaining uniform operating practices and accounting systems, particularly when the branch network transcends national boundaries.
- g) Banks deal with securities on account of investment activities. For this purpose there should be adequate valuation and risk management procedure. Auditors are required to check the effectiveness of the control systems.
- h) Auditors must put due care in verification of the classification of loans and advances on the time based and subjective criteria as it has been noted as the neglected area in the audit of financial institutions.
- i) Auditors must ensure that related party transactions are properly disclosed in the annual audited accounts.
- j) Factors such as use of judgment, the use of testing, the inherent limitations of internal control and limited time & resources can contribute to trace all misstatements. Therefore, the auditor should plan and perform an audit with an attitude of professional skepticism, recognizing the circumstances may exist that causes the financial statements to be materially misstated.
- k) The auditors need to base the audit on the assessment of the inherent risk of material misstatement, control risk and internal controls to prevent/detect/correct material misstatements. Moreover, auditors should base their audit on substantive procedures performed on test basis. Such procedures may include inspection, observation, inquiry and confirmation, computation and analytical procedures. In particular, the external auditor is concerned about the recoverability and carrying value of loans, investments and other assets shown in the financial statements. They are also required to check the adequate disclosure requirements relating to all items of financial statements.
- l) The external auditor need to adhere to the principle and convention of 'Audit Materiality' while deciding the matter of Materiality" in relation to misstatements of financial statements in aggregate or in relation to individual account balances, classes of transaction and disclosures. For this purpose auditors shall refer to the relevant accounting and auditing standards and conventions.
- m) External auditor has the responsibility for the performance of the audit and audit report. While doing so, external auditors are also expected to assess the robustness and scope of internal audit function which will help in determining the nature, timing and

extent of audit procedure. External auditors need to take into account the technical competence and professionalism of members of internal audit function.

- n) When the auditor discovers a misstatement material to the financial statements, including the use of an inappropriate accounting policy or asset valuation or a failure to disclose essential information, the auditor should ask management to adjust the financial statements to correct the misstatement. If management refuses to make the correction the auditor to issue a qualified or an adverse opinion on the financial statements. Such a report could have a serious effect on the credibility and even stability of the bank, and management therefore usually takes the steps necessary to avoid it. Likewise, an auditor issues a qualified opinion or a disclaimer of opinion if management has not provided the auditor with all the information or explanations the auditor requires.
- o) The external auditors are not part of a banking organization and, therefore, are not part of its internal control system, yet they have an important impact on the quality of internal controls through their audit activities, including discussions with management and recommendations for improvement to internal controls. The external auditors need to provide important independent feedback on the effectiveness of the internal control system wherever they observe any sluggishness.
- p) Since banks have increased their reliance on technology based solutions and infrastructure to provide banking services and to reach their potential customers through Alternate Delivery Channels, and to record, store, retrieve and present their financial information, the external auditors must carry out an overall assessment of these systems and incorporate their findings as part of their control assessments.

3.3 Supervisory Relationship:

According to statutory provision of section 35 (4) of the Banking Companies Ordinance, 1962, the auditors shall report all the matters of material significance to State Bank and reporting of such material and information shall not constitute breach of confidentiality under any law for the time being in force. Further, the auditors shall also take cognizance of the following aspects as well:-

- The auditors should be aware of the fact that their work may be used as input to the SBP's supervisory plans under the risk-based approach to supervision, and its ongoing assessment of the safety and soundness of the banking institution. To support such reliance, the auditors are expected to perform all necessary procedures to comply with the applicable Auditing Standards, and will be held accountable for any departure from such standards.

- In order to promote coordination and sharing of information between external auditors of banks and SBP, SBP's inspection team will hold meetings with the external auditors during the course of inspection to acquaint themselves with the audit findings of the external auditors. Similarly, the SBP inspection team may share their findings related to external audit function, after conclusion of the inspection. The auditors shall not share such information with the third party in any circumstances.
- The State Bank may also convene meetings of the banks' auditors or with ICAP for discussing the matters relating to regulatory concerns i.e. weaknesses of the banks' internal control systems, adequacy of provisions, and compliance with statutory and prudential requirements. This may also include auditing and accounting topics as a result of issues from the audit engagements or national and international developments. In addition, State Bank may consult with individual auditors as well as ICAP on the matters pertaining to international accounting and auditing standards; audit engagements; presentation and contents of the financial statements.
- The areas of supervisory concern may be taken up with professional body of auditors, i.e. ICAP. Discussion with ICAP on mutual interest will help in improving standards of auditing to make the external audit mechanism effective. Mutual coordination on the concerned matters may also include the accounting problems on new financial innovations.
- SBP endeavor for the implementation of uniform accounting policies across the banking sector and it is in a better position to exercise the regulatory powers in order to implement such policies. Resultantly, the continuous dialogue among SBP and ICAP/auditors can significantly contribute towards the harmonization of accounting standards for banks at the national level.

Acronyms

- ACA** – Associate Chartered Accountant
- ACCA** – Associate of Chartered Certified Accountants
- ACMA** – Associate Chartered Management Accountant
- BCO, 1962** – Banking Companies Ordinance, 1962
- CASA** – Current and Saving Account
- CoCG** – Code of Corporate Governance
- DFI** – Development Financial Institution
- EC** – Exchange Company
- FCA** – Fellow Chartered Accountant
- FCMA**- Fellow Chartered Management Accountant
- FI** – Financial Institution
- IAS** – International Accounting Standards
- IFAC**- International Federations of Accountants
- ICAP** – Institute of Chartered Accountants of Pakistan
- ICFR**– Internal Controls over Financial Reporting
- IFRS** – International Financial Reporting Standards
- MFB** – Microfinance Bank
- NBFC** – Non-banking Financial Companies
- QCR** – Quality Control Review
- SBP** – State Bank of Pakistan
- SECP** – Securities and Exchange Commission of Pakistan

Definitions

(For the purpose of the this 'Framework on External Audit Function')

"Bank" means a banking company as defined in the Banking Companies Ordinance, 1962

"DFI" means Development Financial Institution and includes financial institutions notified under Section 3-A of the Banking Companies Ordinance, 1962.

"State Bank" means the State Bank of Pakistan as defined in the State Bank of Pakistan Act, 1956;

"Panel of Auditors" means panel of auditors maintained by State Bank of Pakistan under section 35 (1) of Banking Companies Ordinance, 1962

"Financial Institution" means banks, financial institutions designed under section 3-A of BCO, 1962, exchange companies, and microfinance banks for the purpose of these guidelines.

"Banking Companies Ordinance" means the Banking Companies Ordinance, 1962

"Microfinance bank" means an institution licensed by State Bank under Microfinance Institutions Ordinance 2001 to establish and operate as microfinance bank.

"Code of Corporate Governance" issued by Securities and Exchange Commission of Pakistan and adopted by State Bank of Pakistan for banks and DFIs

"Auditor" means 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.

Annexure-A

Application Form (For enlistment, upgradation and Annual return)

Application for Placement/Up-gradation on the Panel of Auditors maintained by the State Bank of Pakistan under Section 35 of BCO, 1962

1. **Name of the Firm:**
2. **Date of Establishment & Date of Registration with ICAP.**
3. **Addresses:** (along with email, telephone and fax numbers):
 - i) Registered Office
 - ii) Other Offices in Pakistan

4. Size of Firm:

(Partner or member will be eligible for points in one audit firm only, of his choice)

i) Details of Partners:

Sr No.	Name of partner	Membership No.	FCA/ACA	Whether working in other firm (Yes or No)	If answer to Column 5 is yes	
					Name of other firm	Firm opted by the partner for points
1	2	3	4	5	6	7

ii) Details of Staff:

a) **Members of ICAP:**

Sr No.	Name	Qualification(s) and Membership No.	Designation	Experience with firm as ICAP member	Whether working with other firm Yes/No
1	2	3	4	5	6

Note: ACMA qualified staff and ACCA qualified staff may also be mentioned as per above format.

b) **Partly qualified staff or trainees working in the firm having **minimum** experience of two years after registration with ICAP:**

Sr No.	Name	Registration No.	Date of Registration with ICAP	Experience after registration with ICAP (In years-months)
1	2	3	4	5

In relation to point 4 (ii) above, kindly furnish the following documents i.e. (1) copies of salary slips; (2) employment contracts; and (3) income tax numbers/returns in order to verify employment of all the staff members of your firm including partly qualified staff or trainees as mentioned above.

c) Details of Staff involved in IT System Audit:

Sr No.	Name	Qualification	Year of Exam Passed	IT Audit Experience after Qualification (In years-months)	Whether working with other firm Yes/No
1	2	3	4	5	6

In relation to above point, provide the copies of academic certificate/certificates substantiating the IT qualification and experience.

5. QUALITY CONTROL REVIEW (QCR):

(Please attach one copy each of the two latest QCR Certificates)

Year	Opinion/Rating by ICAP

6. AFFILIATION WITH INTERNATIONAL FIRM OF CHARTERED ACCOUNTANTS: (Yes/No)

If yes, please provide information on the following points:

- Please specify name of such firm, their address, date of affiliation, details regarding number of offices in different countries (excluding Pakistan), number of FCAs & ACAs associated with the firm (excluding those in Pakistan), etc
- Is such International **firm** a form of **network, association, alliance** or individual firm?
- Is your firm a member firm, correspondent firm or other form of affiliate with such International firm, network, association or alliance?
- Types of services/ assistance such as consultancy, expert opinion, co-operation and exchange of resources provided by such firm.
- Are there any technical support arrangements with such International firm? Explain whether this arrangement is in term of employee exchange, partner exchange, quality improvement services or experience sharing.
- Does such international firm, network, association or alliance require its member firms or correspondent firm to get periodic globally coordinated assurance reviews?
- If yes, what is the frequency of reviews?

- What other tools such international firm, network, association or alliance use to keep a check on its member firms or correspondent with reference standards set for accounting, auditing and other related procedures?
- What is the ranking of such international firm, network, association or alliance in International ranking of Networks/Association/Alliances?
- Mention about the experience of audit of top 500 companies of the world, if any?
- Provide the affiliation agreement with such international firm, network, association or alliance

7. AUDIT EXPERIENCE:

i. Firm's IS (Information System) Audit Experience of FIs during Last Five Years:

Sr No.	Name of FI audited by the firm	Audit for the year ended	Total Assets (net off contra items) of the FI	No. of Branches of FI
1	2	3	4	5

ii. Firm's Shariah Audit Experience of FIs during Last Five Years:

Sr No.	Name of FI audited by the firm	Audit for the year ended	Total Assets (net off contra items) of the FI	No. of Branches of FI
1	2	3	4	5

iii. Firm's Audit experience of FIs during the Last Five Years:

Sr No.	Name of FI audited by the firm	Audit for the year ended	Total Assets (net off contra items) of the FI	No. of Branches of FI
1	2	3	4	5

- IV. The firm may also mention the *audit/ IS audit/ shariah audit* experience in previous firm of (newly added) partner(s) during last five years.

In relation to point 7 (i) (ii), (iii) & (IV) kindly furnish the following documents:

- Provide copy of audit contract/ engagement letter with the FI substantiating evidence of audit /IS audit & Shariah audit of those.
- Provide copy of audit certificate reports or auditor opinion of such audit, declaring or showing experience of audit.
- Produce any other documentary evidence showing audit of FIs.

8 .Explanation:

- a) **(For the purpose of application form- point 7) Financial Institution (FI) means** scheduled banks in Pakistan; financial institutions designated under section 3-A of BCO, 1962; NBFCs as mentioned in Section 282A of Companies Ordinance, 1984; Insurance and Takaful companies under Companies Ordinance, 1984 and Insurance Ordinance, 2000 and Cooperative banks registered with the Registrar under the Cooperative Societies Act, 1925, Leasing companies under (Establishment and Regulation) Rules, 2000, Modarba Companies under Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980, Exchange Companies, Microfinance banks, or any other institution carrying financial services business.
- b) If the audit firm has conducted audit of one institution for more than one year, they should provide the above details for each year in a separate row.
- c) If the audit firm has no prior financial institution audit experience, but whose partners have financial institution's audit experience as audit partner with another firm should provide above details indicating name of such firm along with date of their retirement in an additional column in the above

9. DECLARATION:

I/We solemnly declare

1. That the above information, in my/our application form for the purpose of enlistment/up-gradation on the SBP Panel of Auditors, is true to the best of my knowledge and record.
2. That I/we undertake to notify to the SBP, within one week, any change in the nomenclature of the firm or in its partners or a reduction of more than 25% in its staff declared above.
4. That I/we also undertake to submit, a copy of the Quality Control Review (QCR) report of my/our firm by the ICAP to the SBP within two weeks of its receipt from the ICAP.
5. That I/we also accept the right of State Bank of Pakistan to seek information from me/us, any time, regarding my/our operation, structure and nomenclature. It goes without saying that SBP shall have every right to tally information supplied by me/us with the record maintained in ICAP. Further, I/we undertake to submit that our partners/senior managers/directors fulfill the financial integrity requirements as explained in section 2.2 (c) of the subject framework. Court cases, if any of partner/senior managers/directors will be communicated invariably to SBP alongwith above information of application form.
6. That I/we have clearly understood that in case of any violation/failure to meet the requirements of the above clauses, State Bank of Pakistan will have the right to remove/downgrade the name of my/our firm from/on its Panel of Auditors, immediately, without any further reference to me/us.

(Signatures and Seal)

Checklist –Auditors’ Independence-Conflict of Interest

This annexure shall help the FI, internal audit and SBP inspectors to evaluate the level of independence of the auditor.

Sr. No.	Audit Firm performing External Audit	Yes or No	Comments, if any
1	Did Engagement partner of the audit firm serve as the director of the bank/DFI being audited, in the preceding three years?		
2	Did Engagement partner of the audit firm serve as the employee or other officer of the bank/DFI being audited, in the preceding three years?		
3	Did Engagement partner of the audit firm serve as the employee of the director or any other officer of the bank/DFI being audited?		
4	Is engagement partner the spouse of the director of the bank/DFI being audited?		
5	Is engagement partner or audit firm indebted to the bank/DFI being audited?		
6	Is Audit firm a corporate body?		
7	Does engagement partner or his /her spouse, children or minor children hold share of the bank/DFI being audited?		
8	Does audit firm hold share of the bank/DFI being audited?		
9	Does the auditor or audit firm also provide consultancy services for ICFR to the bank / DFI being audited?		
10	During the period of audit, did audit firm or its partners acquire any direct or material indirect financial interest in the bank/DFI being audited?		
11	During the audit, did partner act as trustee of any trust or executor or administrator of any estate that has or committed to acquire any direct or material indirect financial interest in the bank/DFI?		

12	<p>Does the partner or audit firm perform other services for the bank/DFI that entail:</p> <p>Examples include bookkeeping, payroll, benefit plan administration, investment advice / management, corporate finance consulting/ advice, appraisal, valuation, actuarial, executive or employee search, business risk consulting, and information system design, installation or integration</p>		
12. (a)	Authorizing, executing or consummating a transaction, or otherwise exercising authority on behalf of a client or having the authority to do so?		
12. (b)	Preparing source documents or originating data, in electronic or other form, evidencing the occurrence of a transaction (for example, purchase orders, payroll time records, and customer orders)?		
12. (c)	Having custody of client assets?		
12. (d)	Supervising client employees in the performance of their normal recurring activities?		
12 (e)	Determining which recommendations of the member should be implemented		
12 (f)	Reporting to the board of directors on behalf of management?		
13	<p>During the period of engagement, did the audit firm have any material cooperative arrangements with the bank such as:</p>		
13 (a)	Prime/subcontractor arrangements to provide services or products to a third party?		
13 (b)	Joint ventures to develop or market products or services?		
13(c)	Arrangements under which the firm acts as distributor or marketer of the bank's products or services, or the bank acts as distributor or marketer of the firm's products or services?		
13 (d)	Arrangements to combine one or more firm services or products with one or more bank services or products and market the package with references to both parties?		
14	Does the audit firm also perform any or all internal audit services for the bank?		

15	During the audit and engagement period, did the firm or any covered person in the firm have any direct or material indirect business relationship with the bank or its officers, directors, or substantial shareholders?		
15.(a)	During the audit and engagement period, did the firm provide any of the following non-audit services to the bank:		
15.(b)	Bookkeeping or other services related to the accounting records or financial statements of the bank?		
15.(c)	Financial information system design and implementation?		
15.(d)	Appraisal or valuation services, fairness opinions, or contribution-in-kind reports?		
15.(e)	Actuarial services?		
15.(f)	Internal audit outsourcing services?		
15.(g)	Management functions, either temporary or permanent?		
15.(h)	Human resources?		
15.(i)	Broker-dealer, investment advisor, or investment banking services?		
15.(j)	Legal services?		
15.(k)	Expert services unrelated to the audit?		
16	During the audit and period of engagement, did the audit firm provide any service or product to the bank for a contingent fee or commission, or receive a contingent fee or commission from the bank?		
17	Did any partner, principal or shareholder participating on the audit engagement team earn or receive compensation based on the performance of, or procuring of, engagement with the bank to provide any products or services other than audit, review or attest services?		
18	Are there any other factors that indicate the audit does not comply with provisions of the independence standards?		
19	Is the fee paid to audit firm commensurate with the size and complexity of the audit engagement		
20	Does audit firm provide the corporate finance services, advice or assistance to an audit client?		

21	Does any partner has a close relationship with an audit client, its directors, officers or employees, so that audit firm or a member of the audit team becomes too sympathetic to the client's interest		
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This annexure has laid down some significant areas of conflict of interest for auditors, but it may not be treated as an exhaustive list. For further guidance, ICAP code of ethics and other related instructions be consulted and followed invariably.

PART-B

Related Legal and Regulatory Instructions:

Relevant Sections of Banking Companies Ordinance, 1962

Section 34 – Accounts and balance-sheet — (1) At the expiration of each calendar year every banking company incorporated in Pakistan, in respect of all business transacted by it, and every banking company incorporated outside Pakistan, in respect of all business transacted through its branches in Pakistan, shall prepare with reference to that year a balance-sheet and profit and loss account as on the last working day of the year in the forms set out in the Second Schedule or as near thereto as circumstances admit.

(2) The balance sheet and profit and loss account shall be signed.—

(a) in the case of a banking company incorporated in Pakistan, by the manager or the principal officer of the company and where there are more than three directors of the company, by at least three of those directors, or where there are not more than three directors, by all the directors, and

(b) In the case of a banking company incorporated outside Pakistan by the manager or agent of the principal office of the company in Pakistan and by another officer next in seniority to the manager or agent.

(3) Notwithstanding that the balance sheet of a banking company is under sub-section (1) required to be prepared in a form other than the form marked 'F' in the Third Schedule to the Companies Ordinance, 1984 (XLVII of 1984), the requirements of that Act relating to the balance sheet and profit and loss account of a company shall, in so far as they are not inconsistent with this Ordinance, apply to the balance-sheet or profit and loss account, as the case may be, of a banking company.

(4) The State Bank may, after giving not less than fifteen days notice of its intention so to do, from time to time by a notification in the official Gazette, amend the forms set out in the Second Schedule.

Section 35 – Audit — (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. The State Bank shall classify the panel of auditors, so maintained, in different categories for different banking companies keeping in view the scope and size of such banking companies

(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.

(3) If the State Bank is not satisfied with the performance of the auditor of a banking company or the auditor has not fulfilled any of the requirements laid down in this section the State Bank after giving the auditor an opportunity of being heard may,-

(a) revoke the appointment of external auditors of the banking company;

- (b) downgrade the category of the auditor in the panel of the auditors; and
 - (c) remove the auditor from the panel of the auditors for a maximum period of five years.
- (4) The auditors shall report all the matters of material significance to State Bank and reporting of such information and material shall not constitute breach of confidentiality under any law for the time being in force.
- (5) 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.
- (6) Subject to the provisions of sub-section (3), 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 Ordinance, 1984 (XLVII of 1984).
- (7) 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.

36 – Submission of returns. — The accounts and balance-sheet referred to in section 34 together with the auditor's report as passed in the

Annual General Meeting shall be published in the prescribed manner, and three copies thereof shall be furnished as returns to the State Bank within three months of the close of the period to which they relate: Provided that the State Bank may in special circumstances extend the said period of three months for the furnishing of such returns by a further period not exceeding three months.

37 – Copies of Balance Sheet and Accounts to be sent to Registrar — Where a banking company in any year furnishes its balance sheet and accounts in accordance with the provisions of section 36 it may, or when it is a private company, shall, at the same time send to the registrar three copies of such balance sheet and accounts and of the auditor's report and where such copies are so sent, it shall not be necessary for the company, to file copies of the balance sheet and accounts with the registrar as required by sub-section (1) of section 134 of the Companies Ordinance, 1984 (XLVII of 1984), and such copies so sent shall be chargeable with the same fees and shall be dealt with in all respects as if they were filed in accordance with that section.

38 – Display of audited balance sheet by banking companies incorporated outside Pakistan —

Every banking company incorporated outside Pakistan shall, not later than the first Monday in August of any year in which it carries on business, display in a conspicuous place in its principal office and in every branch office in Pakistan, a copy of its last audited balance sheet and profit and loss account prepared under section 34 and shall keep it so displayed until replaced by a copy of the subsequent balance sheet and profit and loss account so prepared and every such banking company shall in addition display in like manner copies of its complete audited balance sheet and profit and loss account relating to its banking business as soon as they are available and shall keep the copies so displayed until copies of such subsequent accounts are available.

Relevant Sections of Companies Ordinance, 1984

233. Annual accounts and balance-sheet

(1) The directors of every company shall at some date not later than eighteen months after the incorporation of the company and subsequently once at least in every calendar year lay before the company in annual general meeting a balance-sheet and profit and loss account or in the case of a company not trading for profit an income and expenditure account for the period, in the case of the first account for the period since the incorporation of the company and in any other case since the preceding account, made up to a date not earlier than the date of the meeting by more than [four] months:

Provided that, in the case of a listed company the Commission, and in any other case the registrar, may, for any special reason, extend the period for a term not exceeding **[one] months.

(2) The period to which the accounts aforesaid relate shall not exceed twelve months except where special permission has been granted in that behalf by the registrar.

(3) The balance-sheet and the profit and loss account or income and expenditure account shall be audited by the auditor of the company, in the manner hereinafter provided, and the auditor's report shall be attached thereto.

(4) Every company shall *[in the form and manner specified by the Commission] send a copy of such balance-sheet and profit and loss account or income and expenditure account so audited together with a copy of the auditor's report and the director's report to every member of the company at least twenty-one days before the meeting at which it is to be laid before the members of the company, and shall keep a copy at the registered office of the company for the inspection of the members of the company during a period of at least twenty-one days before that meeting.

(5) A listed company shall, simultaneously with the despatch of the balance sheet and profit and loss account together with the reports referred to in sub-section (4), send five copies each of such balance-sheet and profit and loss account and other documents to the Commission, the stock exchange and the registrar.

(6) The provisions of sub-section (7) of section 230 shall apply to any person who is a party to the default in complying with any of the provisions of this section.

234. Contents of balance-sheet

(1) Every balance-sheet of a company shall give a true and fair view of the state of affairs of the company as at the end of its financial year, and every profit and loss account or income and expenditure account of a company shall give a true and fair view of the profit and loss of the company for the financial year so, however, that every item of expenditure fairly chargeable against the year's income shall be brought into account and, in case where any item of expenditure which may in fairness be distributed over several years has been incurred in any one financial year, the whole amount of such item shall be stated, with the addition of the reasons why only a portion of such expenditure is charged against the income of the financial year.

(2) The balance-sheet and profit and loss account or the income and expenditure account shall, —

- (i) in the case of a listed company [and a private and non-listed public company which is subsidiary of a listed company], comply with the requirements of the Fourth Schedule so far as applicable thereto; and
- (ii) in the case of any other company, comply with the requirements of the Fifth Schedule so far as applicable thereto:

Provided that, except to the extent otherwise notified in the official Gazette by the Commission, this sub-section shall not apply to an insurance or **banking company** or to any other class of companies for which the requirements of balance-sheet and profit and loss account are specified in the law regulating such class of companies.

(3) Subject to the provisions of this Ordinance —

- (i) such International Accounting Standards and other standards shall be followed in regard to the accounts and preparation of the balance-sheet and profit and loss account as are notified for the purpose in the official Gazette by the Commission; and
- (ii) in the case of a listed company,—
 - (a) a statement of changes in equity and cash flow statement shall form part of the balance-sheet and profit and loss account; and
 - (b) accounting policies shall be stated and, where there is any change in such policies, the auditor shall report whether he agrees with the change.

Explanation:- “International Accounting Standards” shall be understood in the terms in which it is understood in the accounting circles.

(4) The Federal Government may, of its own motion or upon application by a company, modify, in relation to that company, the requirements of the Fourth Schedule or the Fifth Schedule for the purpose of adapting them to the circumstances of the company.

(5) The Federal Government shall have power from time to time to grant exemption to any company or any class of companies if it is in the public interest so to do, from compliance with all or any of the requirements of the Fourth Schedule or the Fifth Schedule.

(6) The provisions of sub-section (7) of section 230 shall apply to any person who is a party to the default in complying with any of the provisions of this section.

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:

Provided that an auditor or auditors appointed in a general meeting may be removed before conclusion of the next annual general meeting through a special resolution.

(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 sub-section, the company in general meeting may appoint the first auditor or auditors:

Provided further that the auditors appointed in an annual general meeting shall not be removed during their tenure except through special resolution

(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, ¹ or auditors are removed by the company, the Commission] may appoint a person to fill the vacancy.

(7) The company shall, within one week of the Commission's power under sub-section (6) becoming exercisable, give notice of that fact to the Commission.

(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 Commission, 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. Provisions 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.

254. Qualification and disqualification of auditors. -

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

- (i) in the case of a public company or a 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 whereof all the partners practising in Pakistan are Chartered Accountants may be appointed by its firm name as auditors of a company referred to in sub-section (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;
 - (e) a body corporate;
 - (f) 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

255. Powers and duties of auditors. - (1) Every auditor of a company shall have a right of access at all times to the books, papers, accounts and vouchers of the company, whether kept at the registered office of the company or elsewhere, and shall be 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 auditors.

(2) 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.

(3) The auditor shall make a report to the members of the company on the accounts and books of accounts of the company and on every balance-sheet and profit and loss account or income and expenditure account and on every other document forming part of the balance-sheet and profit and

loss account or income and expenditure account, including notes, statements or schedules appended thereto, which are laid before the company in general meeting during his tenure of office, and the report shall state—

- (a) Whether or not they have obtained all the information and explanations which to the best of their knowledge and belief were necessary for the purposes of the audit;
 - (b) Whether or not in their opinion proper books of accounts as required by this Ordinance have been kept by the company;
 - (c) Whether or not in their opinion the balance-sheet and profit and loss account or in the income and expenditure account have been drawn up in conformity with this Ordinance and are in agreement with the books of accounts;
 - (d) Whether or not in their opinion and to the best of their information and according to the explanations given to them, the said accounts give the and fair view—
 - (i) in the case of the balance-sheet, of the state of the company's affairs as at the end of its financial year;
 - (ii) in the case of the profit and loss account or the income and expenditure account, of the profit or loss or surplus or deficit, as the case may be, for its financial year; and
 - (iii) in the case of the 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) whether or not in their opinion-
 - (i) the expenditure incurred during the year was for the purpose of the company's business; and
 - (ii) the business conducted, investments made and expenditure incurred during the year were in accordance with the objects of the company ; and
 - (f) Whether or not in their opinion Zakat deductible at source under the Zakat and Usher Ordinance, 1980 (XVIII of 1980), was deducted by the company and deposited in the Central Zakat Fund established under section 7 of that Ordinance.
- (4) Where any of the matters referred to in sub-section (3) is answered in the negative or with a qualification, the report shall state the reason for such answer alongwith the factual position to the best of the auditor's information.
- (5) The Federal Government may, by general or special order, direct that, in the case of all companies generally or such class or description of companies as may be specified in the order, the auditor's report shall also include a statement of such additional matters as may be so specified.

(6) The auditor of a company shall be entitled to attend any general meeting of the company, and to receive all notices of, and any communications relating to, any general meeting which any member of the company is entitled to receive, and to be heard at any general meeting which he attends on any part of the business which concerns him as auditor:

Provided that, in the case of a listed company, the auditor or a person authorised by him in writing shall 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.

(7) If any officer of a company refuses or fails, without lawful justification, the onus whereof shall lie on him, to allow any auditor access to any books and papers in his custody or power, or to give any such information possessed by him as and when required, or otherwise hinders, obstructs or delays an auditor in the performance of his duties or the exercise of his powers or fails to give notice of any general meeting to the auditor, he shall be liable to fine which may extend to five thousand rupees and in the case of a continuing offence to a further fine which may extend to one hundred rupees for every day after the first during which the default, refusal or contravention continues.

(8) The provisions of this section shall apply mutatis mutandis to the auditor appointed for audit of the books of account of a liquidator.

256. Reading and inspection of auditor's report. - The auditor's report shall be read before the company in general meeting and shall be open to inspection by any member of the company.

257. Signature on audit report, etc. - (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 practising in Pakistan, shall sign the auditor's 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

Relevant SECP's Code of Corporate Governance

Frequency of financial reporting

- (xviii) The quarterly unaudited financial statements of listed companies shall be published and circulated along with directors' review on the affairs of the listed company.
- (xix) All listed companies shall ensure that second quarterly financial statements are subjected to a limited scope review by the statutory auditors in such manner and according to such terms and conditions as may be determined by the Institute of Chartered Accountants of Pakistan (ICAP) and approved by the SECP.

External auditors

- (xxxiii) 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 program of the Institute of Chartered Accountants of Pakistan.
- (xxxiv) No listed company shall appoint as external auditors a firm of auditors which or a partner of which 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.
- (xxxv) The Board of Directors of a listed company shall recommend appointment of external auditors for a year, as suggested by the Audit Committee. The recommendations of the Audit Committee for appointment of an auditor or otherwise shall be included in the Directors' Report. In case of a recommendation for appointment of an auditor other than the retiring auditor the reasons for the same shall be included in the Directors' Report
- (xxxvi) No listed company shall appoint its auditors to provide services in addition to audit except in accordance with the regulations and shall require the auditors to observe applicable IFAC guidelines in this regard and shall ensure that the auditors do not perform management functions or make management decisions, responsibility for which remains with the Board of Directors and management of the listed company.
- (xxxvii) (a) All listed companies in the financial sector shall change their external auditors every five years. Financial sector, for this purpose, means banks, non-banking financial companies (NBFC's), modarabas and insurance/takaful companies; provided that all inter related companies/ institutions, engaged in business of providing financial services shall appoint the same firm of auditors to conduct the audit of their accounts and

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

(xxxviii) No listed company shall appoint a person as an external auditor or a person involved in the audit of a listed company who is a close relative, i.e., spouse, parents, dependents and non-dependent children, of the CEO, the CFO, an internal auditor or a director of the listed company.

(xxxix) Every listed company shall require external auditors to furnish a Management Letter to its board of directors within 45 days of the date of audit report:

Provided that any matter deemed significant by the external auditor shall be communicated in writing to the board prior to the approval of the audited accounts by the board

Compliance with the Code of Corporate Governance

(xl) All listed companies shall publish and circulate a statement (in the form as specified in Appendix "B") along with their annual reports to set out the status of their compliance with the requirements set out above. The statement shall be specific and deemed to be supported by the necessary evidence held by the company making the said statement.

(xli) All listed companies shall ensure that the statement of compliance with the best practices of corporate governance is reviewed and certified by statutory auditors, where such compliance can be objectively verified, before its publication. Statutory auditors of listed company shall ensure that any non-compliance with the CoCG requirements is highlighted in their review report.

State Bank of Pakistan's relevant references on External Auditor

Banks and Development Financial Institutions:

- Rotation of external auditors BSD Circular Letter No. 08 dated November 12, 2009
- Rotation of external audit –BSD Circular Letter 04 dated March 15 2005.
- Management letter- BSD Circular letter 10 dated August 08, 2003

Exchange Companies

- Formation of Exchange companies –F.E Circular 09 dated July 30, 2002
- *All other relevant regulatory instructions on the subject issued from time to time.*

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