

Guide Series



SECP
SECURITIES AND EXCHANGE
COMMISSION OF PAKISTAN

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.

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 Companies Act, 2017 (the Act). It also explains the rights, duties, qualification and disqualification of a company's auditor.

This is a guide only and should be read with the relevant legislation. You will find the relevant provisions of law in Sections 223 and 246 to 253 of the Act. Some of the other relevant legislations may include:

- The Companies Regulations 2024.

CHAPTER-1

Appointment / change / removal of Auditor

1. What is Audit?

An audit of the financial statements is an objective examination and evaluation of the financial statements of a company to ensure that the financial records are a fair and accurate representation of the transactions they claim to represent.

The objective of audit 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 Act is conducted in compliance with the requirements of International Standards on Auditing, as adopted by the Institute of Chartered Accountants of Pakistan (ICAP). The company's auditor expresses an opinion on such financial statements and on every other document forming part of such statements including notes, statements or schedule appended thereto, and makes out a report to the members of the company, as per the requirements of Section 249 of the Act.

The Commission is also empowered to require auditor's report to include a statement of additional matters in case of all companies generally or a class of companies as may be specified in its order.

Further, the auditor of a holding company is also required to report on consolidated financial statements in accordance with Section 228 of the Act.

2. Who is an Auditor?

An auditor is assigned the job to audit the financial statements of a company and is appointed under section 246 of the Act. 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. Which companies are required to get their financial statements audited?

In terms of proviso of section 223(5) of the Act, the audit is required for the financial statements of every company, other than the private companies having paid-up capital not more than Rs. 1 million.

4. How is an auditor of a company appointed / changed / removed?

First Auditor

The board of directors are required to appoint the first auditor of the company within 90 days of the date of incorporation of the company under section 246 of the Act. The first auditor holds office until the conclusion of the first Annual General Meeting (AGM) of the company.

Subsequent Auditor

On the conclusion of first AGM, first auditor stands retired. Thereafter, the auditor is appointed by the members at an AGM 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.

Auditor appointed in case of casual vacancy

Casual vacancy of the auditor is required to be filled by the board of directors within 30 days. An auditor appointed to fill up the casual vacancy holds office till the conclusion of the next AGM.

Removal of auditor

An auditor appointed by the board of directors or the members in an AGM may be removed through a special resolution. If the auditor is removed during its tenure, the board of directors shall appoint the auditor with prior approval of the Commission.

Members' right to propose an Auditor (other than a retiring Auditor)

Member(s) having not less than 10% shares in the company are also entitled to propose any auditor for appointment after obtaining its consent and a notice in this regard has been given to the company not less than seven days before the date of the annual general meeting. The company shall forthwith send a copy of such notice to the retiring auditor and shall also be posted on its website.

5. Appointment of auditor by (or on direction of) the Commission:

The Commission may, of its own motion or on an application made to it by the company or any of its members direct to make good the default by the company to appoint (i) first auditor (ii) auditor in AGM (iii) auditor to fill casual vacancy (iv) appointed auditor is unwilling.

In case the company fails to comply with the direction within the specified period, the Commission shall appoint auditor of the company who shall hold office till conclusion of the next AGM.

6. How the SECP / registrar is intimated?

A company is required to send intimation of appointment of first, subsequent auditor or change in auditor by filing Form-9 under section 197 of the Act, read with the Companies Regulations, 2024 (the Regulations), within 14 days, along with the consent in writing of the auditor concerned as per requirement of section 246 of the Act.

Format of Form-9 is given on the link:https:

[//www.secp.gov.pk/company-formation/formsapplications-schedule-of-filling-of-returns /statutory-forms/](https://www.secp.gov.pk/company-formation/formsapplications-schedule-of-filling-of-returns/statutory-forms/)

7. 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.

CHAPTER-2

Qualification and Disqualification of Auditor

1. Who is qualified for appointment as auditor?

A Chartered Accountant, having a valid certificate of practice from the ICAP or a firm of Chartered Accountants 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.

Licensing of associations with charitable and not for profit objects under section 42 of the Act are also required to appoint an auditor, qualified as chartered accountant.

For companies other than above, auditor can be a Chartered Accountant or Cost and Management Accountant having valid certificate of practice from the respective institute or a firm of Chartered Accountants of Pakistan or Cost and Management Accountants of Pakistan.

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, other than in the ordinary course of business. A person who owes a sum of money not exceeding 1 million 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 person who has given a guarantee or provided any security in connection with the indebtedness of any third person to the company other than in the ordinary course of business.
- (6) A person who has been convicted by a court of an offence involving fraud and a period of ten years has not elapsed from the date of such conviction.

- (7) A body corporate.
- (8) A person who is not eligible to act as auditor under the code of ethics as adopted by the ICAP and the Institute of Cost and Management Accountants of Pakistan.
- (9) 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.
- (10) A person who is disqualified for appointment as auditor of the company's subsidiary or holding company or a subsidiary of that holding company.

Additional requirements of Listing Regulations

- (11) 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 five years unless a lesser period is determined by the Commission.

Additional requirements of Listed Companies (Code of Corporate Governance) Regulations, 2019

- (12) 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 ICAP.
- (13) 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 ICAP.
- (14) 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

Rights 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 the Act or not.
- (c) Confirmation as to whether that financial statements are in conformity with the Act and in agreement with the books of accounts;

- (d) Opinion whether the financial statements give a true and fair view of the state of affairs of the company;
- (e) Opinion regarding the following:
 - o investments made, expenditure incurred and guarantees extended, during the year, were for the purpose of company's business and
 - o zakat deductible at source under the Zakat and Usher Ordinance, 1980, was deducted by the company and deposited in the Central Zakat Fund.

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 prescribed formats of the different auditor's report (including review reports) have been given under Annexure-I to Annexure-VI of the Auditors (Reporting Obligations) Regulations, 2018.

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

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

6. How is the auditor's report signed?

Where the auditor is an individual, the report must be signed by him. Where the auditor is a firm, the report must be signed by the partnership firm with the name of the engagement partner.

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

CHAPTER-4

Penalty for non-compliance with the audit related provisions

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

As per section 252 of the Act, any contravention or default by the company in complying with requirements of sections 246, 247, 248 and 250 shall be an offence liable to a penalty of level 3 on the standard scale as given in section 479 of the Act.

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

As per section 253 of the Act, if any auditor's report or review report is made, or any document of the company is signed or authenticated otherwise than in conformity with the requirements of section 131, sections 249 and 251 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 be liable to a penalty of level 2 on the standard scale.

If the auditor's report 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 above penalty, be punishable with imprisonment for a term which may extend to two years and with penalty which may extend to one million rupees.

CHAPTER-5

Checklist on appointment of statutory auditors and ancillary matters

S No.	Description	Yes	No	N/A
1	Is the company required to appoint the auditor? (Not mandatory for private companies having paid-up capital of more than Rs.1 million).			
2	Has the newly incorporated companies appointed its first auditor within 90 days from the date of incorporation?			
3	Has the company appointed a new auditor or reappointed the retiring auditor in the AGM?			
4	Has the casual vacancy of the auditor been filled in within 30 days by the directors?			
5	Is the auditor removed by following due procedure of law i.e. by passing of special resolution and obtaining Commission's approval?			
6	Has the company reported appointment, retirement, resignation, removal or change of auditor by filing Form-9, along with copy of consent letter of incoming auditor, within 14 days?			
7	Does the auditor meet the qualification criteria as given in the Companies Act, 2017, listing regulations and Code of Corporate Governance, where applicable?			