

Securities and Exchange Commission of Pakistan  
*Enforcement & Monitoring Division*  
7<sup>th</sup> Floor, NIC Building, Jinnah Avenue, Blue Area, Islamabad

*Before Rashid Sadiq, Executive Director*

*In the matter of*

Mr. Salman Azim

|                           |   |
|---------------------------|---|
| Number and date of notice | EMD/233/170/2002<br>dated June 14, 2002 |
| Date of hearing           | June 20, 2002                           |
| Present                   | Mr. Salman Azim                         |

*Order*

The facts of the case, briefly stated, are that the balance sheet and profit & Loss account together with the auditor and director reports of M/s Punjab Cotton Mills Limited (hereinafter called the "Company") received in the Commission under Sub-section (5) of Section 233 of the Companies Ordinance, 1984 (the "Ordinance") were examined and it was noticed that the balance sheet and profit & loss account for the year ended September 30, 2001 of the Company were audited by M/s Azim & Co. Chartered Accountants. The audit report was signed on March 09, 2002 by Mr. Salman Azim, sole proprietor, M/s Azim & Co. Further examination revealed that Mr. Salman Azim, was not even a member of the Institute of Chartered Accountants of Pakistan (the "ICAP") at the time of his appointment as auditor of the Company. The Commission inquired from Institute of Chartered Accountants of Pakistan (the "ICAP") about the particulars of Mr. Salman Azim. ICAP vide its letter dated June 07, 2002 replied that Mr. Salman Azim was removed from the Register of the Members with effect from July 01, 1999.

2. In view of the above, the Commission felt concerned about the audit of the Company by a person who was not qualified in terms of Clause (i) of Sub-section (1) of Section 254 of the Ordinance. It was, therefore, decided to take up this matter with Mr. Salman Azim, who *prima facie* was not competent for appointment as an auditor of a public company.

3. Consequently, notice dated June 14, 2002 was issued to Mr. Salman Azim calling upon him to show cause in writing as to why fine may not be imposed on him for the contravention of Sub-section (1) of Section 254 of the Ordinance. In order to provide an

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opportunity of personal hearing, the case was fixed on June 18, 2002, which at the request of Mr. Salman Azim was adjourned and re-fixed on June 20, 2002.

4. On the date of hearing, Mr. Salman Azim appeared before me and submitted that due to financial constraints he could not pay fee to ICAP in time. He further produced bank receipts indicating partial payments made by him to ICAP. He, however, could not satisfy me as to why he took up the audit of the Company and represented himself as chartered accountant in practice when it was in his knowledge that he could not do so as his name had already been removed from the Register of the Members by ICAP. He only narrated his financial difficulties due to which he could not pay ICAP dues. It is to be noted that ICAP vide its letter dated July 11, 2000 had categorically informed him that his name has been removed from the Register of the Members and that he was not entitled to use the letters ACA or FCA or the designation of Chartered Accountant in pursuance of Section 5 & 21 of the Chartered Accountant Ordinance, 1961 and thus was not entitled to practice as an auditor of a public company.

5. Before proceeding further, I deem it necessary to advert to the relevant provisions of the Ordinance, which have been violated

**Section 254 :** *Qualifications and disqualification of auditors: (1) A person shall not be qualified for appointment as an auditor, --*

*(i) in case of a public company or private company which is subsidiary of public company unless he is a Chartered Accountant within the meaning of the Chartered Accountant Ordinance, 1961 (X of 1961);*

*(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 qualification to act as such, acts as auditors 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 disqualification to act as such, shall be void, and where, such an appointment is made by a company, the Commission may appoint a qualified person in place of the auditor appointed by the company.*

6. It is also important to look into the relevant provisions of the Chartered Accountant Ordinance, 1961

**Section 2 - Definitions –**

**Clause (b) Subsection (1) -** *“chartered accountant” means a person who is a member of the Institute.*

**Section 6 - Certificate of Practice –** *No member of the Institute shall be entitled to practice as an auditor of a public company as defined in the Companies Act, 1913 (VII of 1913), unless he has obtained from the Council a certificate of practice.*

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**Section 21** – *Penalty for falsely claiming to be a member etc. – Any person who*

*i) not being member of the Institute, -*

*(a) represents that he is a member of the Institute; or*

*(b) uses the designation Chartered Accountant;*

*(ii) being a member of the institute, but not having a certificate of practice, represents that he is in practice or practices as a chartered accountant, shall be punishable on first conviction with fine which may extend to one thousand rupees, and on any subsequent conviction with imprisonment which may extend to six months or with fine which may extend to five thousand rupees, or with both.*

**Section 24** – *Unqualified person not to sign documents –*

*(1) No person other than a member of the Institute shall sign any document on behalf of a chartered accountant in practice or a firm of such chartered accountants in his or its professional capacity.*

*(2) Any person contravening the provision of sub-section (1) shall, without prejudice to any other proceedings which may be taken against him, be punishable with fine which may extend on first conviction to one thousand rupees, and on any subsequent conviction with imprisonment which may extend to six months, or with fine which may extend to five thousand rupees or both.*

7. The aforesaid provisions of law are clear and unambiguous. They require that only a chartered accountant in practice can be appointed as an auditor of a public company. A person who is not a member of ICAP or a person whose name has been removed from the Register of the Members, for whatever reasons, cannot become auditor of a public company. The aforesaid provisions also provide severe punishment for unqualified persons who act as auditors of a public company.

8. The name of Mr. Salman Azim was removed from the Register of the Members with effect from July 01, 1999 under Clause (c) Sub-section (1) of Section (19) of the Chartered Accountants Ordinance, 1961 on account of non-payment of annual membership fee. As such he could not even be termed as a chartered accountant. He, however, has not only represented himself as a chartered accountant but has also practiced as a chartered accountant. He audited the books of accounts of the Company for the years 2000 & 2001, and was also appointed as auditor for the year 2002 in the Annual General Meeting of the Company held on March 31, 2001.

9. I have given careful consideration to the arguments of Mr. Salman Azim, however, the same are found to be without any force. It is abundantly clear from the above discussion that he was not qualified for appointment as auditor of a company. His membership has not yet been restored by ICAP. As he knew that he was not qualified to act as auditor of a public company, therefore, the violation is considered to be deliberate and intentional.

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10. For the foregoing Mr. Salman Azim has made himself liable for penal action. I, therefore, impose a fine of Rs. 10,000 (Rupees Ten Thousand Only) on Mr. Salman Azim under Sub-section (6) of Section 254 of the Ordinance.

11. As the Company has appointed Mr. Salman Azim as auditor for the year 2002, such appointment is void in terms of Sub-section (7) of Section 254 of the Ordinance. The office is directed to take up this matter with the Company for appointment of qualified person as an auditor of the Company.

***Rashid Sadiq***

Executive Director (Enforcement and Monitoring)

***Announced***  
***June 20, 2002***  
**ISLAMABAD**