Consultation Paper

on

**Introduction of Panel of Auditors for SECP Regulated Entities**

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1. **Existing Practices**

The Commission, under the Securities and Exchange Commission of Pakistan Act, 1997 read with its administered regulations is empowered to maintain and issue a panel of auditors from which SECP regulated entities may appoint auditors.

Currently, for insurance and modaraba sector, panel of auditors/ list of auditors has been specified by the Commission through Circulars/Letter. In this regard, Circular no. 21 of 2021 provides the approved list of auditors eligible to conduct audit of insurance/ re-insurance/takaful entities. Further, various circulars and updates resting with Circular No. 21 of 2005 dated November 18, 2005 and Circular No. 28 of 2009 dated September 4, 2009 were issued for approved list of auditors for modaraba companies. Furthermore, under the Securities Brokers (Licensing and Operations) Regulations, 2016, various categories of securities broker shall appoint statutory auditor from specific categories on the SBP panel of auditors as prescribed therein.

1. **Proposal**

The aforementioned practice of issuing/specifying separate panels or lists for various SECP regulated sectors may be streamlined by prescribing a single Panel of Auditors for SECP regulated entities, which will follow a risk based approach. Accordingly, entities with higher degree of risk shall be required to appoint their auditors from suitable category. Entities with low risk may appoint any auditor which has a QCR rating from ICAP.

Below is a comparison of current practice of selecting audit firm under applicable regulatory framework along with proposed categories of audit firms under a new SECP panel. Further, the proposed panel shall be applicable on below-mentioned SECP regulated entities for appointing audit firm:

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Category of SECP Regulated Entity** | **Eligible Audit Firms for conducting audit as per current practice** | **Proposed audit firms/panel** |
|  | Securities Broker- Trading and Clearing  | State Bank of Pakistan (SBP) Category A auditors | Category A auditor of SECP Panel |
|  | Securities Broker- Trading and Self Clearing  | SBP Category A or B auditors | Category A or B auditor of SECP Panel |
|  | Securities Broker- Trading Only  | Any satisfactory QCR rated auditor by Institute of Chartered Accountants of Pakistan (ICAP) | Any Satisfactory QCR rated auditor by ICAP |
|  | Futures Brokers | Any satisfactory QCR rated auditor by ICAP | Any Satisfactory QCR rated auditor by ICAP |
|  | Securities Exchange, Clearing House, Depository Companies or Commodity Exchange | Not specified under existing regulatory framework. Auditors are approved by SECP | Category A auditor of SECP Panel |
|  | NBFCs with AuM of more than Rs. 50 billion and lending NBFCs (deposit taking) | Not specified under existing regulatory framework. | Category A auditors of SECP Panel |
|  | NBFCs with AuM of less than Rs. 50 billion | Not specified under existing regulatory framework. | Category A and B auditors of SECP Panel |
|  | Securities and Futures Advisers and lending NBFCs (deposit taking) | Not specified under existing regulatory framework. | Any satisfactory QCR rated auditor by ICAP. |
|  | Insurance, reinsurance or takaful operators having total assets of more than Rs 10 billion | Category A auditor of Panel approved by the Insurance Division of the SECP for all entities having Gross Written Premium and Total Assets more than Rs. 1 billion. | Category A auditor of SECP Panel |
|  | Insurance, reinsurance or takaful operators having total assets of Rs 10 billion or less | Category A auditor of Panel approved by the Insurance Division of the SECP for all entities having Gross Written Premium and Total Assets more than Rs. 1 billion.Category A and B auditor of Panel approved by the Insurance Division of the SECP for all entities having Gross Written Premium and Total Assets less than Rs. 1 billion. | Category A and B auditor of SECP Panel |
|  | Insurance brokers, reinsurance brokers and third party administrators | Not specified under existing regulatory framework. | Any satisfactory QCR rated auditor by ICAP |
|  | Modarabas having asset size of more than Rs. 1 billion | Panel of auditors maintained for Modarabas by the SECP  | Category A auditor of SECP Panel |
|  | Modarabas having asset size of less than Rs. 1 billion | Panel of auditors maintained for Modarabas by the SECP  | Category A and B auditor of SECP Panel |
|  | Modarabas having asset size of less than Rs. 200 million | Panel of auditors maintained for Modarabas by the SECP  | Any satisfactory QCR rated auditor by ICAP |

1. **Categorization of Audit Firms**

The Commission had initiated the process of constituting a panel of audit firms to conduct statutory audits of certain entities registered or licensed with SECP. In this regard, audit firms, having satisfactory rating from the Institute of Chartered Accountants of Pakistan (ICAP), under its Quality Control Review (QCR) program were invited to apply for placement on the panel through prescribed application forms. A press release was also issued by the Commission for inviting applications by interested firms.

Based on analysis of information submitted to SECP, audit firms will be categorized into aforementioned categories and the subject panel will be notified along with necessary changes in the regulatory framework as explained in ensuing section.

1. **Issuance of New Circular and Regulatory Changes:**

For finalizing implementation of SECP panel of auditors, consequential changes are necessary in the Securities Brokers (Licensing and Operations) Regulations, 2016 and the licensing regulations for the securities exchange, futures exchange, clearing house and central depository. The SECP panel shall be issued after aforementioned necessary consequential amendments have been finalized. Further, earlier circulars mentioned below issued by respective internal departments of the SECP such as insurance and modaraba will also be superseded by new circular notifying unified panel of auditor:

* 1. Circular no. 04 of 2014 dated January 31, 2014 and Circular no. 21 of 2021 dated July 6, 2021 of the Insurance Division for providing criteria for enlistment of approved auditors for insurance companies and dissemination of approved list of auditors pursuant to section 48(1) of the Insurance Ordinance, 2000.
	2. various circulars and updates resting with Circular No. 21 of 2005 dated November 18, 2005 and Circular No. 28 of 2009 dated September 4, 2009 and Letter dated July 02, 2021 issued by Policy, Regulation and Development Department (Modaraba Wing) of Specialized Companies Division.

The previous circulars issued by the Commission on the subject shall be superseded by a new Circular, which shall provide the approved panel of auditors for SECP regulated entities under the SECP Act, 1997 read with applicable provisions of regulatory framework governing various sectors. The SECP regulated entities specified within the circular shall appoint their auditors, to conduct statutory audit with effect from the specified date of implementation.

The notifications for draft amendments in relevant licensing regulations have been placed on SECP website under the following tabs: Laws --> Drafts for Discussion --> Draft Rules, Regulations and Concepts

1. **Feedback**

The feedback/comments on the proposed changes may be shared with the Commission as per below format.

|  |  |
| --- | --- |
| Name of the Commenter |  |
| Name of the related Entity |  |
| Sr. No.  | Regulation/ Section No.  | Proposed Changes  | Rationale  |
|  |  |  |  |
| **Confidentiality** |
| I wish to keep the following confidential: | *(Please indicate any parts of your submission you would like to be kept confidential, or if you would like your identity to be kept confidential. Your contact information will not be published.)* |

1. **Timelines**

The process for introduction of regulatory amendments shall be concluded as per the following timelines.

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| **Stage** | **Date/Timeline** | **Detail** |
| 1 | December 02, 2022 | SECP releases Consultation Paper |
| 2 | (Within 14 days of issuance of CP) | Deadline for submission of comments on Consultation Paper  |

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