



SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

Strategy, Development and External Relations Department

Press Release

SECP takes action against directors and auditors of companies

ISLAMABAD, February 21: As a part of its mandate to monitor the listed and unlisted companies to safeguard the investors' interest, the Enforcement Department of the SECP has penalized a number of companies, their directors and statutory auditors for non-compliance with the corporate laws and applicable accounting standards in January.

Through its routine monitoring of financial statements has identified transactions in a listed company, where funds of the listed company were being diverted into the personal business of the directors. The directors were thus using the money for their personal gains whereas no gains/profit was being paid to the listed company. The private company of the directors defaulted in repayments and these funds, subsequently, were invested into the equity of the same defaulter private company. This fact was not disclosed to the shareholders and the SECP. The directors were penalized for their wrongdoings under the provisions of the Companies Ordinance, 1984, who preferred an appeal before the higher forum, however, the same has been set aside and the order was upheld.

In another case, the Department has initiated proceedings against directors of a listed Company owing to the fact that huge amounts from the Company were apparently transferred to private company of the directors of listed company. No approval from the board of directors and shareholders was obtained for making these payments. In response to initial queries of the Department provided false information and documents to the Department. The Department deepened its probe and the trail of transfer of funds through State Bank of Pakistan which has strengthened the suspicion of transfer of funds to associated company under the camouflage of fake purchase orders.

Furthermore, penalties have been imposed on directors of two companies for making unauthorized investment to associated companies without following the legal requirements. In another case directors of a listed company were fined for making misstatement in annual audited financial statements. In yet another case directors of listed company directors were given a stern warning for not making complete disclosures in the notice of general meeting to the shareholders.

The proceedings against directors of seven non-listed companies for not filing their annual audited financial statements with the registrar of companies were also concluded.

The SECP has finalized the penal actions against the statutory auditors of two companies for their failure to act in conformity with the statutory requirements. The audit reports issued by them did not bring out material facts about the affairs of companies. Besides imposing fines, the auditors were advised to discharge their responsibilities with due care and professionalism to give an independent and objective opinion on financial statements in future.

Companies Ordinance, 1984 in its Section 254 sets out the eligibility criteria for appointment as statutory auditors of companies. The SECP has observed that a number of non-listed companies have appointed unqualified persons as their statutory auditors. These cases were referred for initiating necessary penal proceedings besides their replacement appointment by qualified persons.

The SECP has also initiated proceedings against auditor of two listed companies who was not qualified for appointment in terms of the requirements of the Code of Corporate Governance (CCG). The CCG requires that listed companies should appoint only those auditors, who have been given a satisfactory rating under the Quality Control Review Programme of Institute of Chartered Accountants of Pakistan. In the instant case the Quality Assurance Board of the ICAP has removed the name of the CA firm from the list of QCR rated auditors prior to its appointment as statutory

auditor of the listed companies.

In addition, the SECP initiated 34 show cause proceedings against directors and auditors of listed and non-listed companies. These proceedings pertain to un-authorized inter-corporate financing, late/non-submission of quarterly accounts, preparation and submission of consolidated financial statements, misstatements of financial statements and other reports, non-appointment of independent share registrar, mis-utilization of powers by directors and improper issue, circulation or publication of balance sheet or profit-and-loss account. Moreover, four warning letters were issued to the directors of companies for non-compliance with the ordinance.

Two listed companies were allowed to extend loan to their directors under Section 195 of the ordinance. One company was facilitated by providing approval with regards to exempting the requirements from attaching consolidated financial statements with their standalone financial statements. Moreover, two listed companies were directed under Section 170 of the Ordinance to hold their overdue AGMs by February 29, 2012.

The SECP has also resolved 18 investors' complaints during the month. These complaints were mainly related to non-receipt of dividend warrants, disposal of fractional shares, delay/non-transfer of shares, and issue of duplicate shares etc.

It is pertinent to mention here that certain Orders of the Enforcement Department were challenged before the SECP appellate bench. Eighteen of such cases were heard by the bench during the last one year out of which 14 orders were upheld including 2 orders were set aside to the extent of penalty only.

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