

The Securities and Exchange Commission of Pakistan (SEC) has directed all listed companies not to appoint or continue to retain any person as an auditor, who has been engaged by the company as a consultant, advisor or to provide any other services. Similarly, no listed company shall appoint or continue to retain any person as an auditor, who has been found guilty of professional misconduct by the SEC or a court of law, for a period of three (3) years, unless lesser period is determined by the SEC.

This is in pursuance of the SEC's endeavours to improve the quality of audits in order to bring more transparency through proper disclosure by the corporate sector. According to a directive issued by the Securities Market Division, the SEC has directed the three (3) stock exchanges in the country to insert the following clauses, latest by February 15, 2002, regarding Quality Control Review (QCR) carried out by the Institute of Chartered Accountants of Pakistan (ICAP) and regarding appointment of auditors by listed companies.

- i. All listed companies shall facilitate the Quality Control Review (QCR) of the audit working papers of practicing chartered accountants, carried out by the Institute of Chartered Accountants of Pakistan (ICAP) and, therefore, shall authorize their auditors to make available all the relevant information including the audit working papers to the QCR Committee of ICAP.
- ii. No listed company shall appoint or continue to retain any person as an auditor who has been engaged by the company as a consultant or advisor or to provide any service, including services related to the designing of accounting systems or compilation of accounts.
- iii. 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 a Court of Law, for a period of three years unless a lesser period is determined by the Commission. In case of a Firm which has been appointed as an auditor, and any of its partners has been held guilty of professional misconduct, the Firm shall only be eligible for appointment as an auditor provided a written confirmation is given by the Firm to all the stock exchanges of the country, the Commission with a copy to the Institute of Chartered Accountants of Pakistan (ICAP) to the effect that such a partner shall not be engaged in the audit of any listed company for the specified period.

A person appointed as an auditor shall be guilty of "professional misconduct" if he: -

- fails to report a material misstatement or fact known to him, non-disclosure of which may render the financial statements misleading or disclosure of which is necessary in his professional capacity;
- fails to obtain sufficient information to warrant the expression of an opinion or his exceptions are sufficiently material to negate the expression of an opinion;
- makes a statement which is misleading, or deceptive;
- incites any one to commit a criminal offence, or helps or encourages anyone in planning or execution of a criminal offence which is committed;
- agrees with anyone to prevent or obstruct the course of justice by concealing, destroying or fabricating evidence by a misleading statement which he knows to be untrue;
- deceives any person, either by making a statement, which he knows to be false, or by suppressing matters relevant to a proper appreciation of its significance;
- expresses his opinion on financial statements of any business or enterprise in which he, his firm or a partner in his firm has a substantial interest, unless he discloses his interest in his report;
- is penalized under any of the provisions of the Companies Ordinance, 1984.
- is guilty of any other act which is determined as professional misconduct by the Commission.

