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## **SEC Chairman Presides Over Seminar Titled "The Enron Case - Revising the Auditor's Independence"**

The Chairman Securities and Exchange Commission of Pakistan (SEC), Mr. Khalid A. Mirza, told a gathering of professional accountants and auditors that all regulatory efforts to improve the corporate sector will prove futile unless there was an adequate and timely disclosure of material information and a high level of transparency. "The entire system critically depends on it and sound reporting of corporate financials is a key element of disclosure and transparency", he added.

Mr. Khalid A. Mirza was speaking as a chief guest at a seminar on "The Enron Case – Revisiting the Auditor's Independence", arranged by the Institute of Chartered Accountants of Pakistan (ICAP), in Islamabad last evening. Mr. Shahid Ahmed Khan, a reputed chartered accountant of Islamabad made a detailed presentation on the collapse of US energy giant Enron, and explained with the help of charts and slides, the reasons which led to the biggest bankruptcy in US history, involving about 200 billion dollars. He said this financial scam, caused with active connivance of its auditors, Arthur Anderson and Company, one of the largest international firms of chartered accountants and auditors, has brought pressure on the accountancy profession the world over.

Earlier, Syed Tariq Jameel, Chairman Committee for Professional Education (CPE) of the ICAP welcomed Mr. Khalid A. Mirza and thanked him for presiding over the seminar.

Commenting on the Enron affairs, the Chairman SEC said that it was a particularly egregious case of bad management, misleading accounts and shady auditing. "Although Enron is the worst, this is not the only accounting scam that has emerged in recent years. There have been several other similar incidents all over the world and the dire need to address the obvious issues that have been highlighted by these accounting failures is necessary and immediate."

Commenting on the over all performance of the accounting profession in Pakistan, Mr. Mirza said, "We have within the profession, a large number of very competent accountants and auditors – perhaps world class. But the profession also has significant weaknesses. There are a few that may well have succumbed to the growing apathy and erosion in moral values that we have been afflicted with in recent years. In particular, a minimalist approach has been taken in complying with international accounting standards, consistency is something non-existent, disclosure levels are weak and the attempt is to avoid liability rather than inform, and there is a noticeable reluctance to submit to quality control reviews."

The Chairman SEC advised the ICAP members that it was high time the profession geared up and took decisive steps to visibly enhance its quality as well as image. "To achieve this we have to not only strengthen the accounting profession but also ensure that it performs at an optimal level of effectiveness. It must be noted that without implementation of international accounting standards and reliably conducted audits, it is not possible to have investor confidence."

Continuing, the Chairman SEC said, "There are, of course, other elements that contribute to investor confidence, such as, market integrity (i.e. proper price discovery and effective settlement of transactions); stock broker integrity; and good stock exchange governance. All these aspects have been dealt with fairly effectively. SEC is now concentrating on reliable audits and corporate governance."

The SEC Chairman said that it was increasingly being felt that 'self-regulation' was not enough to maintain the high auditing standards and that the profession must now be monitored by a "tough, statutorily independent body" under the direct aegis of the SEC (or a part of it). He said that such a watchdog agency should be empowered to fire or impose prohibitive ban on erring auditors. SEC has already taken some measures in this regard, he added.

Chairman SEC was of the view that, “Everything else in Pakistan appears to be coming together and the circumstances for the country are most propitious. The stars appear to be in alignment for Pakistan! All macro-economic factors are improving, geo-politically we are in a most advantageous position, we are internationally acceptable and receiving a lot of economic assistance, the regulatory framework of the capital market is of international standard, we have an independent, no-nonsense regulator, and the capital market is offering phenomenal values. We should, if we play our cards right, attract substantial capital. One thing, however, still remains outstanding – we need to put our accountancy house in order! And if you don’t do it, then I will!” He said, “It is time to play our cards well so as to attract substantial capital”.

Earlier, the Chairman answered the questions and clarified the points raised by the participants comprising of leading professional accountants. In response to a question, Chairman SEC said that at present there was no proposal to introduce rotation system in appointment of auditors, but the Commission may take it up at some later stage. When asked if the SEC will be able to force companies to separate audit from non-audit work, the Chairman emphatically said, “Yes, we are determined to ensure it”. In reply to another question as to why the formation of a committee was proposed for the appointment of the companies auditors when, under the law, it was for the shareholders to make such appointments, the Chairman said that the proposed committee could assist the Annual General Meeting (AGM) of shareholders in making such appointment by recommending the most suitable applicant after careful evaluation.

The SEC Chairman thanked ICAP for arranging “such an informative seminar” from which he had learnt a lot. He also thanked the participants for their cooperation and patience.