

Companies Act 2017 Section 246-253

AUDIT

An **AUDIT** is the examination of financial statements of a company by someone INDEPENDENT of that company.

The **FINANCIAL STATEMENTS** includes:

- a statement of financial position,
- a statement of profit or loss,
- a statement of changes in equity,
- a cash flow statement, and
- notes comprising a summary of significant accounting policies and other explanatory notes.

The **PURPOSE** of an audit is to form a view on whether the information presented in financial statements reflects a true and fair view of the financial position and profits or losses of the company.

Once auditors have completed their work, they write an audit report, explaining what they have done and giving an opinion drawn from their work to the members of the company.

TYPE OF COMPANY	QUALIFICATION OF AUDITOR
A stand-alone Private Co. with paid up capital of not more than Rs. 1 million	Not required to have its financial statement audited
A private company with Rs. 3 million or more paid up capital	Chartered Accountant with certificate of practice from Institute of Chartered Accountants of Pakistan (ICAP) or a firm of chartered accountants
A public company & its subsidiaries (even if it's a private co. with paid up capital of less than Rs. 3 million)	
A company other than specified above	Chartered accountant or cost & management accountant having valid certificate of practice from the respective institute or a firm of chartered accountants or cost & management accountants

AUDITORS	APPOINTED AND REMUNERATION BY	TIMELINE	TILL i.e. retire on:	NOT APPOINTED
First Auditors	Board of Directors (BOD)	90 days of Incorporation	First AGM (unless removed via SR)	SECP
Subsequent Auditors	Members, on BOD recommendation; or Members with at-least 10% shares may also recommend	In AGM	Next AGM (unless removed via SR – than BOD will appoint with SECP's approval) α	SECP
Casual Vacancy	Board of Directors (BOD)	30 days of vacancy	Next AGM	SECP ∞

α If auditors are appointed by BOD (in case of removal via Special Resolution), than BOD will finalize the remuneration.

∞ SECP may also appoint auditors if the selected auditors are unwilling to act as auditors.

APPOINTMENT, REMOVAL AND FEE OF AUDITORS (Section-246):

FIRST AUDITORS: The first auditors of a company shall be appointed by the board within 90 days of the date of incorporation of the company

TERM OF FIRST AUDITORS: The first auditors appointed shall retire on the conclusion of the first annual general meeting.

SUBSEQUENT AUDITORS: Subsequent auditors may be appointed on recommendation of Board or by member(s) having not less than 10% shareholding.

1. RECOMMENDATION OF BOARD: The subsequent auditors shall be appointed by the company in the annual general meeting on the recommendation of the board after obtaining consent of the proposed auditors, a notice shall be given to the members with the notice of general meeting.

TERM OF SUBSEQUENT AUDITORS: The subsequent auditors appointed shall retire on the conclusion of the next annual general meeting.

2. RECOMMENDATION OF MEMBER(s): Member(s) having not less than 10% shareholding of the company shall also be entitled to propose any auditors for appointment whose consent has been obtained by him.

After obtaining the consent of the proposed auditors, member(s) recommending the auditors for appointment shall give a notice in this regard to the company at least seven days before the date of the annual general meeting.

The company shall forthwith send a copy of such notice to the retiring auditor and shall also be posted on its website.

RIGHT OF RETIRING AUDITORS: Where an auditor, other than the retiring auditor is proposed to be appointed, the retiring auditor shall have a right to make a representation in writing to the company at least two days before the date of general meeting.

Such representation shall be read out at the meeting before taking up the agenda for appointment of the auditor and it shall be mandatory for the auditor or a person authorized by him in writing to attend the general meeting in person.

REMOVAL OF AUDITORS: The auditor or auditors appointed by the board or the members in an annual general meeting may be removed through a special resolution.

CASUAL VACANCY: Any casual vacancy of an auditor shall be filled by the board within thirty days from occurrence. Any auditor appointed to fill in any casual vacancy shall hold office until the conclusion of the next annual general meeting:

If the auditors are removed during their tenure, the board shall appoint the auditors with prior approval of the Commission.

POWER OF COMMISSION TO APPOINT AUDITORS:

If the company, fails to appoint:

1. the first auditors within a period of 90 days of the date of incorporation of the company;
2. the auditors at an annual general meeting; or
3. (an auditor in the office to fill up a casual vacancy within 30 days after the occurrence of the vacancy; and
4. if the appointed auditors are unwilling to act as auditors of the company;

the Commission may, of its own motion or on an application made to it by the company or any of its members direct to make good the default within such time as may be specified in the order. In case the company fails to report compliance within the specified period, the Commission shall appoint auditors of the company who shall hold office till conclusion of the next annual general meeting.

REMUNERATION OF AUDITORS: The remuneration of the auditors of a company shall be fixed by the appointing authority, who as discussed above can be any of the following:

- the company in the general meeting;
- the board of directors or
- the Commission.

NOTICE TO REGISTRAR: Every company shall send to the registrar intimation, within fourteen days from the date of any appointment of an auditor, together with the consent in writing of the auditor concerned.

QUALIFICATION AND DISQUALIFICATION OF AUDITORS (Section-247):

QUALIFICATION OF AUDITORS:

Following shall be the qualification of auditors based on the type of company being audited:

TYPE OF COMPANY	QUALIFICATION
Public Company	A chartered accountant having valid certificate of practice from the Institute of Chartered Accountants of Pakistan or a firm of chartered accountants
Private Company being a subsidiary of Public Company	
Private Company with paid up capital of Rs. 3 million or more	
A company other than specified above	Chartered accountant or cost & management accountant having valid certificate of practice from the respective institute or a firm of chartered accountants or cost & management accountants

A firm whose majority of practicing partners are qualified for appointment shall be appointed by its firm name to be auditors of the company and if a partnership firm is appointed as auditor of a company, only the partners who meet the qualification requirements above as shall be authorized to act and sign on behalf of the firm.

DISQUALIFICATION FROM BEING AUDITORS:

The following persons shall be disqualified from being appointed as auditor of a company:

1. a person who is, or at any time during the preceding three years was, a director, other officer or employee of the company;
2. a person who is a partner of , or in the employment of, a director, officer or employee of the company;
3. the spouse of a director of the company;

4. a person who is indebted to the company other than in the ordinary course of business of such entities;

However, the following persons shall not be deemed to be indebted to the company:

- a person who owes a sum of money not exceeding one million rupees to a credit card issuer
 - a person who owes a sum to a utility company in the form of unpaid dues for a period not exceeding ninety days
5. a person who has given a guarantee or provided any security in connection with the indebtedness of any third person to the company other than in the ordinary course of business of such entities;
 6. a person or a firm who, whether directly or indirectly, has business relationship with the company other than in the ordinary course of business of such entities;
 7. a person who has been convicted by a court of an offence involving fraud and a period of ten years has not elapsed from the date of such conviction;
 8. a body corporate;
 9. a person who is not eligible to act as auditor under the code of ethics as adopted by the Institute of Chartered Accountants of Pakistan and the Institute of Cost and Management Accountants of Pakistan; and
 10. a person or his spouse or minor children, or in case of a firm, all partners of such firm who hold any shares of an audit client or any of its associated companies:
 - However if such a person holds shares prior to his appointment as auditor, whether as an individual or a partner in a firm the fact shall be disclosed on his appointment as auditor and such person shall disinvest such shares within ninety days of such appointment.

DISQUALIFIED FROM BEING AUDITOR OF SUBSIDIARY OR HOLDING COMPANY: A person shall also not be qualified for appointment as auditor of a company if he is, by virtue of above provision, disqualified for appointment as auditor of any other company which is that company's subsidiary or holding company or a subsidiary of that holding company.

SUBSEQUENT INELIGIBILITY: If, after his appointment, an auditor becomes subject to any of the above disqualifications, he shall be deemed to have vacated his office as auditor with effect from the date on which he becomes so disqualified.

PENALTY: A person who, not being qualified to be an auditor of a company, or being or having become subject to any disqualification to act as such, acts as auditor of a company shall be liable to a penalty of level 2 on the standard scale.

POWER OF COMMISSION IN CASE OF VOID APPOINTMENT: The appointment as auditor of a company of an unqualified person, or of a person who is subject to any disqualifications 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.

RIGHTS AND DUTIES OF AUDITORS

AUDITORS' RIGHT TO INFORMATION (Section-248):

An auditor of a company has a right:

1. of access at all times to the company's books, accounts and vouchers (in whatever form they are held); and
2. of access to such copies of, an extracts from, the books and accounts of the branch as have been transmitted to the principal office of the company;
3. to require any of the following persons to provide him with such information or explanations as he thinks necessary for the performance of his duties as auditor:
 - any director, officer or employee of the company;
 - any person holding or accountable for any of the company's books, accounts or vouchers;
 - any subsidiary undertaking of the company; and
 - any officer, employee or auditor of any such subsidiary undertaking of the company or any person holding or accountable for any books, accounts or vouchers of any such subsidiary undertaking of the company. (*PENALTY-LEVEL 3*)

DUTIES OF AUDITOR (Section-249):

A company's auditor shall conduct the audit and prepare his report in compliance with the requirements of International Standards on Auditing as adopted by the Institute of Chartered Accountants of Pakistan.

A company's auditor must carry out such examination to enable him to form an opinion as to:

- a) whether adequate accounting records have been kept by the company and returns adequate for their audit have been received from branches not visited by him; and
- b) whether the company's financial statements are in agreement with the accounting records and returns.

CONTENT OF AUDITORS REPORT: The auditor shall make out a report to the members of the company on the accounts and books of accounts of the company and on every financial statements and on every other document forming part of such statements including notes, statements or schedules, which are to be laid before the company in general meeting and the report shall state:

- a) whether or not they have obtained **all the information and explanations** which to the best of their knowledge and belief were necessary for the purposes of the audit and if not, the details thereof and the effect of such information on the financial statements;
- b) whether or not in their opinion **proper books of accounts** as required by this Act have been kept by the company;
- c) whether or not in their opinion the **statement of financial position** and **profit and loss account** and **other comprehensive income** or the **income and expenditure account** and the **cash flows** have been drawn up in conformity with the requirements of accounting and reporting standards as notified under this Act and are in agreement with the books of accounts and returns;
- d) whether or not in their opinion and to the best of their information and according to the explanations given to them, the **accounts give the information** required by this Act in the manner so required and give **a true and fair view**:
 - i. in the case of the statement of **financial position**, of the state of affairs of the company as at the end of the financial year;
 - ii. in the case of the **profit and loss account** and other comprehensive income or the income and expenditure account, of the profit or loss and other comprehensive income or surplus or deficit, as the case may be, for its financial year; and

- iii. in the case of **statement of cash flows**, of the generation and utilisation of the cash and cash equivalents of the company for its financial year;
- e) whether or not in their opinion:
- i. investments made, expenditure incurred and guarantees extended, during the year, were for the **purpose of company's business**; and
 - ii. **zakat deductible** at source under the Zakat and Usher Ordinance, 1980 (XVIII of 1980), was deducted by the company and deposited in the Central Zakat Fund established under section 7 of that Act.

REFERENCE TO OTHER REPORTS: Where the auditor's report contains a reference to any other report, statement or remarks which they have made on the financial statements examined by them, such statement or remarks shall be annexed to the auditor's report and shall be deemed to be a part of the auditor's report.

QUALIFIED REPORT: Where any of the matters is answered in the negative or with a qualification, the report shall state the reason for such answer along with the factual position to the best of the auditor's information.

COMPLIANCE WITH STANDARDS: The auditor shall express unmodified or modified opinion in his report in compliance with the requirements of International Standards on Auditing as adopted by the Institute of Chartered Accountants of Pakistan.

REVIEW OF STATEMENT OF COMPLIANCE: The Commission may by order direct that the statement of compliance with COCG shall be reviewed by the auditor who shall issue a review report to the members.

RIGHT TO ATTEND MEETING: The auditor of a company shall be entitled to attend any general meeting of the company, and to receive all notices of, and any communications relating to, any general meeting which any member of the company is entitled to receive, and to be heard at any general meeting which he attends on any part of the business which concerns him as auditor:

In the case of a listed company, the auditor or a person authorised by him in writing shall be present in the general meeting in which the financial statements and the auditor's report are to be considered.

AUDIT OF COST ACCOUNTS (Section-250): Where any company or class of companies is required to include in its books of account the particulars relating to utilisation of material or labour or the other inputs or items of cost, the Commission may direct that an audit of cost accounts of the company shall be conducted in such manner and with such stipulations as may be specified in the order by an auditor who is a chartered accountant within the meaning of the Chartered Accountants Ordinance, 1961 (X of 1961), or a cost and management accountant within the meaning of the Cost and Management Accountants Act, 1966 (XIV of 1966); and such auditor shall have the same powers, duties and liabilities as an auditor of a company and such other powers, duties and liabilities as may be specified in order.

The audit of cost accounts of the company shall be directed by the Commission subject to the recommendation of the regulatory authority supervising the business of relevant sector or any entity of the sector.

SIGNATURE OF AUDITOR'S REPORT (Section-251):

The auditor's report must:

- state the name of the auditor,
- if case of a firm, name of engagement partner,
- be signed,
- be dated and
- indicate the place at which it is signed.

Where the auditor is an **individual**, the report must be signed by him.

Where the auditor is a **firm**, the report must be signed by the partnership firm with the name of the engagement partner.

PENALTY FOR NON-COMPLIANCE WITH PROVISIONS BY COMPANIES (Section-252):

Any contravention or default in complying with requirements of sections 246, 247, 248 and 250 shall be an offence liable to a penalty of level 3 on the standard scale.

PENALTY FOR NON-COMPLIANCE WITH PROVISIONS BY AUDITORS (Section-253): If any auditor's report or review report is made, or is signed or authenticated otherwise than in conformity with the requirements of law or is otherwise untrue or fails to bring out material facts about the affairs of the company or matters to which it purports to relate, the auditor concerned and the person, if any, other than the auditor who signs the report or signs or authenticates the document, and in the case of a firm all partners of the firm, shall be liable to a penalty of level 2 on the standard scale.

If the auditor's report is made with the intent to profit auditor or any other person or to put another person to a disadvantage or loss or for a material consideration, the auditor shall, in addition to the above penalty, be punishable with imprisonment for a term which may extend to two years and with penalty which may extend to one million rupees.