

Semester “Spring 2010”

“Fundamentals of Auditing (ACC311)”

Assignment No. 01

Marks: 15

“Appointment of auditor”

Following are some independent situations with reference to appointment & qualification of an auditor:

- (1) Mr. Sajid, practicing as chartered accountant has been offered for appointment in Kisan limited as external auditor. He was an employee of the said company before starting his practice as chartered accountant.
- (2) Fine Associates (Pvt) Limited, a consultancy firm, the majority of whose directors are chartered accountants, have been offered appointment as external auditor in Timber (Pvt) Limited whose share capital is less than 1.5 million.
- (3) Miss Neelam who was practicing as a chartered accountant has been offered appointment in Fatima Enterprises as external auditor. Before this offer she was an employee of the company’s directors two months ago.
- (4) Mr. Wajid is a partner of Wajid & company. The firm has been consists of chartered accountants and were offered for appointment in Hilal Limited as an external auditor. Son of Mr. Wajid holds the shares of the Hilal Limited.
- (5) Mr. Asif is the Chief Executive of Ghani Enterprises which is a listed company. He is not pleased with the performance of the current auditors. He is planning to propose the name of M/s Wasif & Co. as the new auditors in the coming AGM after approval of board. Mr. Wasif a partner of M/s Wasif & Co. is the Brother of Mr. Asif. Is the agreement legally permissible?

Requirement: (3 marks for each situation)

Analyze all situations one by one independently in the light of Companies Ordinance 1984 [Section 254(3)] and give your opinion, whether the appointments in all cases were legally permissible or not.

Your answer must be confined in three to four lines in each case. Avoid including extra material for answering. Just provide to the point answer for requirements.

Solution

- (1) According to Companies Ordinance 1984 [Section 254(3)] a person who at any time during the preceding three years was an employee of the company shall not be appointed as auditor of that company. Therefore Mr. Sajid can not be appointed as external auditor of the company.
- (2) According to Companies Ordinance 1984 [Section 254(3)] a body corporate shall not be appointed as auditor of a company. Therefore Fine Associates (Pvt) Limited is not eligible for appointment as auditor of Timber (Pvt) Limited.
- (3) According to Companies Ordinance 1984 [Section 254(3)] a person who is an employee of a director of the company shall not be appointed as auditor of the company. As Miss Neelam has left that employment, therefore she is eligible to become auditor of Fatima Enterprises.
- (4) According to Law a person, his spouse or minor children who hold any shares of an audit client or its associates companies shall not be appointed as auditor. Therefore, Mr. Wajid's minor son cannot be appointed. However, if he has attained majority, then the firm can be appointed him as an auditor.
- (5) Yes the agreement is legally permissible according to Companies Ordinance 1984 [Section 254(3)] because this case cant not included in disqualified peoples list issued by law, so MR Wasif can be appointed as external auditor although he is a brother of MR. Asif (Company's CEO).