



Corporate Supervision Department
Company Law Division

Before Abid Hussain – Executive Director

In the matter of

M/s Grant Thornton Anjum Rehman, Chartered Accountants
Auditors of the Searle Company Limited

Number and date of notice: No. CSD/ARN/372/2016 -2338 dated January 13, 2017

Date of hearing: March 20, 2017 & May 22, 2017

Present: Mr. Khaliq ur Rehman, Managing Partner
Grant Thornton Anjum Rehman, Chartered Accountants

ORDER

**UNDER SECTION 255 READ WITH SECTION 260 AND 476
OF THE COMPANIES ORDINANCE 1984**

This Order shall dispose of the proceedings initiated against Mr. Kahliq ur Rehman FCA, the Partner of M/s Grant Thornton Anjum Rehman, Chartered Accountants (*the "Respondent"*), the auditors of Searle Company Limited (*the "Company"*) through Show Cause Notice (*the "SCN"*) dated January 13, 2017, issued under the provisions of Section 255 read with Section 260 and 476 of the Companies Ordinance 1984 (*the "Ordinance"*).

2. Brief facts of the case are that the annual audited accounts of the Company for year ended June 30, 2015 (*the "Accounts"*) were audited by the auditors and Mr. Khaliq ur Rehman, was the engagement partner for the aforesaid statutory audit. It was observed that the Company made the payments to We Financial Services Limited ("*WFS*"), which were transferred to Ms. Shakila Rashid's account, who is the spouse of the chief executive of the Company. The detail of payments made is as under:

Cheque date	Searle to WFS (Ms. Rashid)	Cheque date	Ms. Rashid to Searle	Cheque date	Searle to Ms. Rashid
15.12.2014	6,000,000	13.11.2014	16,316,516	18.11.2014	1,000,000
16.12.2014	10,329,323	28.01.2015	60,000,000		
16.12.2014	27,675,776	29.01.2015	11,005,000		
16.12.2014	27,000,000	30.10.2014	32,460,984		
		7.11.2014	29,800,000		
	71,005,099		149,582,500		



SECURITIES & EXCHANGE COMMISSION OF PAKISTAN

Corporate Supervision Department
Company Law Division

Continuation Sheet - 1 -

3. The above payments were subsequently repaid by her to the Company on January 28, 2015 and January 29, 2015. It was observed that the above transactions being related party transactions were not disclosed in Note 39 to the accounts of the Company which was inconsistent with the requirement of IAS 24 – Related Party Disclosures. The Commission in this regard, sought clarification from the auditors vide its letter dated September 29, 2016. The auditors vide reply dated October 7, 2016 submitted that WFS did not appear as a related party of the Company and that no amounts were shown undertaken or recorded against Mrs. Shakila Rashid.
4. It was observed that the Auditors during their audit failed to inquire about the multiple financial transactions that were executed and were of an unusual nature and did not pertain to any goods or services purchased by the Company. Beside this, auditors failed to inquire about the repayment of funds from Ms. Shakila against the amounts receivable from WFS.
5. In view of the aforesaid, the auditors failed to highlight the above transactions in context of Section 255 of the Ordinance as these transactions were apparently not for the Company's business or objectives. The auditors failed to modify the Audit Report on the accounts in this regard. The SCN was issued to the auditors to show cause as to why penalty may not be imposed for contravening the aforesaid provisions of the Ordinance.
6. The Auditors submitted the reply to the SCN vide letter dated February 10, 2017, brief of which is as follows:
- The audit was conducted appropriately and strictly in accordance with the requirement of Section 255 of the Ordinance.
 - All relevant information required for conducting the audit was sought from the Company including but not limited to outstanding financial transactions, list of related parties, related party transactions, copies of board resolutions and minutes of meeting.
 - During the audit, at no times was any amount shown or undertaken in the book and records of the Company against Mrs. Shakila Rashid.
 - WFS was not shown as a related party and no transaction with WFS was outstanding or in process on the balance sheet date.
 - We do not have any access to the books and records of WFS and cannot make determination independent of the information provided to us by the Company or any other company within the realm of related parties.



SECURITIES & EXCHANGE COMMISSION OF PAKISTAN

Corporate Supervision Department
Company Law Division

Continuation Sheet - 2 -

- Management confirmed the completeness of the information regarding the related parties, transactions, related party receivables and payables, including sales, purchase and transfer, which was properly recorded and disclosed in the financial statements.
- As auditor we, inspected the following documents for identification of related parties and related party transactions
 - Bank and legal confirmation obtained as part of our audit procedures
 - Minutes of the meeting of shareholders, BOD, Human Resource Committee and
 - Minutes of Audit Committees, as Code of corporate governance required the details of related party transactions placed before the Audit Committee for review and approval and the transaction in questions were not appearing in the minutes of audit committee.
- The non-disclosure was not willful on our part in the conduct of audit and requirement including disclosure requirement as prescribed for carrying out an audit were strictly adhered to by us.
- The audit report was made after making all due inquiries and relying on all information which was disclosed to us in response to our inquiries.

7. Hearing in the matter was fixed on March 20, 2017 and Mr. Khaliq ur Rehman appeared in the hearing proceedings. During the hearing, Mr. Khaliq reiterated the viewpoint as submitted in the written reply. He further added that this issue was not highlighted by anyone but the Commission. No record related to WFS and Ms. Shakila Rashid was found in the book of accounts. The Company has a turnover in billions of rupees so it was difficult to identify such type of transactions.

8. Later on, the Respondent, vide letter dated May 15, 2017 submitted the additional information, brief of which is as follows:

- a. CFO and CEO of the Company had given representation that they confirm the completeness of the information provided to us regarding the identification of related parties, related party relationships, transactions related amounts receivable or payable, including sales, purchases, and transfers. These were properly recorded or disclosed in unconsolidated financial statements in accordance with the requirements of applicable laws and regulations.
- b. Minutes of the Board Meeting in which financial statements were approved, where it was resolved that related party transactions as disclosed in Notes 39 and 42 of the separate and consolidated financial statements were approved by the board.
- c. Board letter, where we communicated the board that it has been asserted by management that there are no related party transaction except as disclosed in



SECURITIES & EXCHANGE COMMISSION OF PAKISTAN

Corporate Supervision Department
Company Law Division

Continuation Sheet - 3 -

- the note 39 of unconsolidated financial statements.
- d. List of related parties provided to us by the management of the Company for the year ended June 30, 2015, which clearly exclude the related parties in question.
- e. We have, as part of our audit procedures and as per the requirement of International Standard on Auditing (ISA) 550 – "Related Parties";
- i. inspected the following for indications of the existence of related party relationships or transactions that management has not previously identified or disclosed to us:
 - Bank and legal confirmations obtained as part of our audit procedures;
 - Minutes of meetings of shareholders, BOD, Human Resource committee and Audit Committee;
 - ii. obtained list of related party relationship and transaction from management, disseminate the list to the members of engagement team and ensure that all the transaction and account balances on which audit procedures were performed as part of our audit (on sample basis) if pertains to related parties are properly disclosed.
 - iii. obtained written representation from management regarding the completeness of related party list and related party transactions provided to us and completeness of related party disclosure in financial statements.
 - iv. communicated the board of directors (BOD), the transaction and balances with related parties as disclosed in financial statements.
- f. The reason as to why related party and its consequential disclosure did not trigger our attention during the course of the audit under consideration was due to the fact that according to the list of related parties provided to us by the company, WFS did not appear as a related party therein. As stated in your letter, the payment was made to WFS; therefore, any payment to this company would not require such a disclosure. You will appreciate that we as auditors of the Company had no access to the books or the financial statements of WFS.
- g. In the books of the Company, no amounts were shown undertaken or recorded against Mrs. Shakila Rashid nor was outstanding at the year-end.
- h. In the context of related parties, the potential effects of inherent limitations on the auditor's ability to detect material misstatements are greater for such reasons as the following:
- Management may be unaware of the existence of all related party relationships and transactions, particularly if the applicable financial reporting framework does not establish related party requirements.



SECURITIES & EXCHANGE COMMISSION OF PAKISTAN

Corporate Supervision Department
Company Law Division

Continuation Sheet - 4 -

- Related party relationships may present a greater opportunity for collusion, concealment or manipulation by management.
 - i. Owing to the inherent limitations of an audit, which is performed on a test basis rather on 100% basis, there is an unavoidable risk that some material misstatements of the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs. Therefore, the transaction under consideration was undetected despite that the audit was properly plan and performed in accordance with ISA.
 - j. From the aforementioned reason, you will appreciate that non-disclosure was not willful or intentional or deliberate. In the normal course of audit such a camouflaged transaction cannot be detected.
9. Subsequent to the hearing, Respondent was provided another hearing opportunity on May 22, 2017. Mr. Khaliq ur Rehman appeared in the hearing proceedings and stated that the response to the SCN has been communicated in the written submissions made earlier.
10. Before proceeding further, it is necessary to advert to the following relevant provisions of Ordinance:

Section 255 (3) of the Ordinance prescribes requirements and the manner of auditor's report on the Accounts:

"(3) The auditors shall make a report to the members of the company on the accounts and books of accounts of the company and on every balance-sheet and profit and loss account or income and expenditure account and on every other document forming part of the balance-sheet and profit and loss account or income and expenditure account, including notes, statements or schedules appended thereto, which are laid before"

Section 260 of the Ordinance states as under:

"(1) If any auditor's report is made, or any document of the company is signed or authenticated otherwise than in conformity with the requirements of section 157, section 255 or section 257 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, if the default is willful, be punishable with fine which may extend to one hundred thousand rupees.



SECURITIES & EXCHANGE COMMISSION OF PAKISTAN

Corporate Supervision Department
Company Law Division

Continuation Sheet - 5 -

11. Furthermore, I would like to draw attention to some of the provisions of International Auditing Standards ("ISA"):

ISA 200: Overall Objectives of the Independent Auditor and the Conduct of an audit

7. The ISAs contain objectives, requirements and application and other explanatory material that are designed to support the auditor in obtaining reasonable assurance. The ISAs require that the auditor exercise professional judgment and maintain professional skepticism throughout the planning and performance of the audit and, among other things:

- Identify and assess risks of material misstatement, whether due to fraud or error, based on an understanding of the entity and its environment, including the entity's internal control.
- Obtain sufficient appropriate audit evidence about whether material misstatements exist, through designing and implementing appropriate responses to the assessed risks.
- Form an opinion on the financial statements based on conclusions drawn from the audit evidence obtained.

15. The auditor shall plan and perform an audit with professional skepticism recognizing that circumstances may exist that cause the financial statements to be materially misstated.

16. The auditor shall exercise professional judgment in planning and performing an audit of financial statements.

ISA 240: The auditor's responsibilities relating to fraud in an audit of financial statements

8. When obtaining reasonable assurance, the auditor is responsible for maintaining professional skepticism throughout the audit, considering the potential for management override of controls and recognizing the fact that audit procedures that are effective for detecting error may not be effective in detecting fraud.

12. In accordance with ISA 200, the auditor shall maintain professional skepticism throughout the audit, recognizing the possibility that a material misstatement due to fraud could exist, notwithstanding the auditor's past experience of the honesty and integrity of the entity's management and those charged with governance.

24. The auditor shall evaluate whether the information obtained from the other risk assessment procedures and related activities performed indicates that one or more fraud risk factors are present. While fraud risk factors may not necessarily indicate the existence of fraud, they have often been present in circumstances where frauds have occurred and therefore may indicate risks of material misstatement due to fraud.

ISA 530, Audit Sampling

4. The objective of the auditor, when using audit sampling, is to provide a reasonable basis for the auditor to draw conclusions about the population from which the sample is selected.



SECURITIES & EXCHANGE COMMISSION OF PAKISTAN

Corporate Supervision Department
Company Law Division

Continuation Sheet - 6 -

7. *The auditor shall determine a sample size sufficient to reduce sampling risk to an acceptably low level.*

8. *The auditor shall select items for the sample in such a way that each sampling unit in the population has a chance of selection.*

12. In terms of the Commission's notification S.R.O 751(I)/2017 dated August 2, 2017, the powers to adjudicate cases under section 260 have been delegated to the Executive Director (Corporate Supervision Department).

13. I have analyzed the facts of the case, relevant provisions of the Ordinance, arguments put forth by the Respondent during the hearing and observed that the Respondent could have demonstrated more cautious approach towards reporting the instant issue in the audit report by issuing a modified report on the accounts of the Company. The Auditor is responsible for obtaining reasonable assurance that business conducted, investment made and expenditure incurred by the company during the year were in accordance with the objective of the Company. He has to ensure that transactions entered into by the Company are executed with the goals and objective of the Company and are free from any deception and material misstatement, whether caused by fraud or error. In order to achieve this, auditors must maintain an approach of professional skepticism. This means that the auditor must recognize the possibility that there might be chance of any business conducted by the Company, which is beyond the object clause of the Company regardless of the auditor's prior experience of the client's integrity and honesty. The Auditor should exploit every possible mean to obtain all sorts of necessary information for the purpose of risk assessment. For this purpose, the Auditor should adopt the prudent/cautious approach and use the analytical skill to ensure that the transaction carried out are purely for achieving the objects of the Company. Chartered Accountants, who act as auditors of listed and other companies enjoy a position of great respect, honor and prestige. Accounts audited by them carry a weight and are relied upon by various authorities and stakeholders. They are often called upon by different authorities including stakeholders and international organizations, to certify various financial statements of the corporate entities, as a means to provide due comfort to these authorities, stakeholders and organizations. For these reasons, it is of utmost importance for the auditors to exercise due diligence in performing their duties and discharging their responsibilities and maintain a high level of trust and integrity at their end.

14. In the instant matter, the Company made material payments to WFS, which were not primarily for the purpose of objective of the Company. Amount of Rs.65 million had been paid on a single day i.e. December 16, 2014, which must have been scrutinized by the auditors and this reflects apparent weaknesses in the auditors sampling program. These payments were a form of

7th Floor, NIC Building, 63-Jinnah Avenue
Islamabad, Pakistan

PABX: + 92-51-9207091-4, Fax: +92-51-9100454, 9100471, Email: webmaster@secp.gov.pk, Website: www.secp.gov.pk



SECURITIES & EXCHANGE COMMISSION OF PAKISTAN

Corporate Supervision Department
Company Law Division

Continuation Sheet - 7 -

financing arrangement for Mrs. Shakila Rashid, the wife of CEO of the Company routed through WFS as the amounts were repaid back to the Company by Mrs. Shakila Rashid instead of being returned by WFS. Moreover, being wife of the CEO of the Company said transactions fall within the ambit of related party transactions and were required to be disclosed as related party transaction in the accounts of the Company. The Auditor of the Company being the watchdog on behalf of shareholders must not let such transactions unattended and un-scrutinized and was required to seek clarification about these payments from the management. Further, in case the auditors' stance, that the payments made to WFS remained undetected despite that the audit was planned and performed, is considered correct, it is observed that both outward payments as well as the receipts/ repayments of large sums of money amounts remained unnoticed which points out to the fact that necessary checks were not put in to place by the auditors while undertaking the audit procedures resulting in material overlook by the auditors.

15. In view of the foregoing, I am of the opinion that the engagement partner failed to perform his duties as stipulated under the provisions of Section 255 of the Ordinance. I have observed that the list of related parties provided to the auditors did not include the name of the WFS as related party and the respondent has relied upon the argument that in view of the inherent limitations of an audit, which is performed on a test basis rather on 100% basis, there is an unavoidable risk that some material misstatements of the financial statements may not be detected. I believe that the test checks and sampling procedures adopted by the respondent were not appropriate in the matter and major transactions went unnoticed in the audit despite of the fact that the list of related parties provided to the respondent did not include WFS. The auditor must consider the guidance given in ISA 240 while preparing its audit plan. In the instant matter, I, hereby strictly warn the auditor to be careful in future. I hope that the Auditor will react positively to the lenient view and will perform his duties with greater level of care and diligence in future.

ABID HUSSAIN
Executive Director
Corporate Supervision Department

Announced:
May 8, 2018
Islamabad