



Corporate Supervision Department
Company Law Division

Before Abid Hussain – Executive Director

In the matter of

M/s Hameed Chaudhri & Company, Chartered Accountants

Auditors of Premier Ceramics Limited

Number and date of notice: No. CSD/ARN/362/2016-858-59, dated September 6, 2016

Date of hearing: October 21, 2016

Present: Mr. Osman Hameed Chaudhri
Partner, Hameed Chaudhri & Company
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 the Engagement Partner of M/s Hameed Chaudhri & Company, Chartered Accountants, the auditors of Premier Ceramics Limited (*the "Company"*) through Show Cause Notice (*the "SCN"*) dated September 6, 2016, issued under the provisions of Section 260 read with Section 255 and 476 of the Companies Ordinance, 1984 (*the "Ordinance"*).

2. Brief facts of the case are that of examination of audited financial statements of the Company for the years ended June 30, 2012 through to June 30, 2015 (*the "Accounts"*) revealed that the Company remained inoperative and it was disclosed under Note 1 to the Accounts that the Company had ceased its manufacturing operations with effect from July 20, 2001. The Directors' Report attached to the respective Accounts states as under:

2012 to 2014: "The local market is flooded with the smuggled tableware; because of heavy taxation on us we could not compete with them.....(continued, as under)"

2015: "The domestic Tableware Industries throughout the country have closed down because the heavy taxation on this sector renders it's uncompetitive with the smuggled tableware. Due to this, manufacturing operations have ceased since July 20, 2001. Accounts have been prepared



SECURITIES & EXCHANGE COMMISSION OF PAKISTAN

Corporate Supervision Department
Company Law Division

Continuation Sheet - 1 -

on the historical cost basis in accordance with the corporate practice, consistency in the significant accounting policies have been maintained to reflect a true and fair picture of the accounts."

3. The Auditors of the Company issued the Audit Report on the respective Accounts as under:

"These financial statements have been prepared on the 'going concern' basis, which is no more valid as the Company ceased its manufacturing operations with effect from July 20, 2001 and full and final settlement dues of all the workers and employees were paid off. Since then no manufacturing operations have been carried-out."

4. The Directors of the Company in their Report attached to the respective Accounts responded to the auditor's qualifications / observations as under:

The Company has ceased its manufacturing operations with effect from July 20, 2001 and full and final dues of the workers and employees have been paid off. Since then no manufacturing operations have been carried out.

5. Despite the material uncertainty regarding Company's ability to continue as a going concern, accounts were prepared on going concern basis instead of net realizable value. Considering the disclosures given in the accounts regarding going concern issues and the Auditor's disagreement on the use of going concern assumption in preparation of the accounts, the Auditor was required to express an adverse opinion, in accordance with International Standard on Auditing ("ISA") 705, as required by para 21 of ISA 570. It was observed that instead of expressing an adverse opinion with regard to inappropriate use of going concern assumption by the management in preparation of the accounts, the Auditor in his respective Reports on the Accounts 2012 to 2015, issued only qualified opinions.

6. The Auditor in the first paragraph of his reports to members on the respective Accounts, inter alia, stated as under:

We state that, except that year-end balance confirmation certificates from creditors were not made available for our verification (2012: note 8.1; other Accounts: note 9.1), we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit. (Emphasis ours)

7. Furthermore, it was revealed that the impact of the unconfirmed balances of creditors was material and could have potentially caused material misstatements in the respective Accounts, as substantiated below:



SECURITIES & EXCHANGE COMMISSION OF PAKISTAN

Corporate Supervision Department
Company Law Division

Continuation Sheet - 2 -

Accounts	Unconfirmed Creditors' Balance	Total Balance Sheet Size	% of Total Assets
2011	11,934,233	203,907,640	5.85%
2012	9,371,685	201,313,158	4.66%
2013	6,642,844	198,264,807	3.35%
2014	3,942,844	194,891,109	2.02%
2015	1,585,844	191,978,806	0.83%

8. In this regard, it was observed that the Auditor failed to appropriately modify his opinions in respective reports on the Accounts 2012 through 2015 as per requirements of ISA 705. The Auditor even failed to appropriately add an emphasis of matter or other matter paragraph in his respective reports.

9. In view of the above said, it was observed that the Auditor in his respective Reports to members on the Accounts 2012 to 2015, failed to bring out the material facts about the affairs of the Company. The Auditors' Reports on the respective Accounts were not in accordance with the requirements of Section 255 of the Ordinance and ISAs and the Auditor's failed to bring out material facts about the affairs of the Company makes him liable for action under Section 260 of the Ordinance. Therefore, a SCN under Section 260 read with Section 255 read with Section 476 of the Ordinance was issued to the audit engagement partner(s) and hereby called upon to show cause in writing within fourteen days from the date of this show cause notice as to why penalty may not be imposed on you for contravening the afore-referred provisions of the Ordinance.

10. The SCN was responded by the Auditors vide letter dated September 09, 2016, brief of which is as follows:

a. Note 2.2 of the Company's financial statements for the year ended June 30, 2015 reads as follows

Basis of measurement

These financial statements have been prepared under the historical cost convention except as disclosed in the accounting policy notes. The auditor tabulated the components of balance sheets along with respective basis used by the management for the year 2013 to 2015, and commented that that no further adjustment regarding net realizable value was required for the period. The auditors stated that these details sufficiently elaborate that the financial statements of the Company for the years 2012 to 2015, in fact, have been prepared on net realizable value basis.

b. Basis of opinion

The International Auditing Standards suggest that an adverse opinion should be expressed when the financial statements are not fairly presented in conformity with the generally accepted accounting principles and the auditor has sufficient evidence to conclude that the financial statements taken as a whole are misleading. Definitely,



SECURITIES & EXCHANGE COMMISSION OF PAKISTAN

Corporate Supervision Department
Company Law Division

Continuation Sheet - 3 -

the Company's financial statements for all the years were not disclosing misleading view. We were of the view that audit of the Company's books of account for the years ended June 30, 2012 to June 30, 2015 required us to express qualified opinions rather than adverse opinions, which were not warranted under the circumstances as the management was contemplating to change the object clause of the Memorandum of the Company and was also exploring different avenues to re-commence the Company's operations. This fact may be confirmed from the copy of notice of EOGM issued by the Company in this regard on August 18, 2016.

Further, adverse opinion is issued only when the auditor concludes that misstatements, individually or in aggregate are both material and pervasive. Our audit reports to members of the Company elaborately disclosed the going concern issue as well as other material facts; therefore, there was no contravention of Section 255 of the Companies Ordinance, 1984. The auditing standards suggest that an adverse opinion should be expressed when the financial statements are not fairly presented in conformity with the generally accepted accounting principles and the auditor has sufficient evidence to conclude that the financial statements taken as a whole are misleading. We believe that audit of the Company's books of account for the years ended June 30, 2012 to June 30, 2015 required us to express qualified opinions.

We have not violated Section 255 or any other provision of the Companies Ordinance, 1984; therefore, it would not be just or fair to impose any penalty on us under Section 260 thereof.

It is the prerogative of an auditor to express his opinion on the financial statements of a company in accordance with the prevalent circumstances; to achieve this object, comprehensive and elaborative qualifications were included in our reports to the members.

We sincerely appreciate the magnitude of minute review of financial statements and audit reports undertaken by you and assure that all the matters raised by you will be duly considered while finalizing our report to the members on the financial statements of the Company for the year ended June 30, 2016.

11. Considering the reply of the Auditors, hearing in the matter was fixed on October 21, 2016. Mr. Osman Hameed Chaudhri, FCA, and Engagement Partner attended said hearing. During the hearing proceedings, Mr. Osman reiterated the viewpoint as already submitted in reply to the SCN. He further added that the Company is in process to change its name along with change in business. The Company has initiated the process in this regard and required document will be submitted with the Commission for necessary approval.



SECURITIES & EXCHANGE COMMISSION OF PAKISTAN

Corporate Supervision Department
Company Law Division

Continuation Sheet - 4 -

12. Before proceeding further, it is necessary to advert to the following relevant requirements of International Standards on Auditing and provisions of Ordinance:

ISA 570 – Going Concern

21. *If the financial statements have been prepared on a going concern basis but, in the auditor's judgment, management's use of the going concern assumption in the financial statements is inappropriate, the auditor shall express an adverse opinion. (Ref: Para. A25–A26)*

ISA 705 -Modifications to the Opinion in the Independent Auditor's Report

6. *The auditor shall modify the opinion in the auditor's report when:*

- (a) *The auditor concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement; or (Ref: Para. A2–A7)*
- (b) *The auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement. (Ref: Para. A8–A12)"*

Rule 17 (A) of the Companies (General Provisions and Forms) Rules, 1985 (the "Rules") states that the auditors' report on the accounts and books of accounts and balance-sheet and profit and loss account of a company required by section 255 of the Ordinance shall be on a prescribed format contained in FORM 35-A, and the prescribed format, inter alia, contains the statement by the auditor that "*we conducted our audit in accordance with the auditing standards as applicable in Pakistan*"

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



SECURITIES & EXCHANGE COMMISSION OF PAKISTAN

Corporate Supervision Department
Company Law Division

Continuation Sheet - 5 -

firm, shall, if the default is willful, be punishable with fine which may extend to one hundred thousand rupees.

13. In terms of notification S.R.O 751(I)/2017 dated August 02, 2017, the power to adjudicated cases under Section 260 of the Ordinance has been delegated to Executive Director (Corporate Supervision Department).

14. I have analyzed the facts of the case, relevant provisions of the Ordinance, arguments put forth by the Respondent during the hearing. It is pertinent to mention here that the Company passed a special resolution in its Extra Ordinary General Meeting held on September 09, 2016 for the change in name of the Company i.e. from Premier Ceramics Limited to Premier Construction and Holding Limited along with the change in business of the Company wherein the Company will carry out business of development of land and construction of building. The Company in this regard has also made necessary filings with the Commission. Furthermore, I have also reviewed the annual audited accounts of the Company for the year ended June 30, 2016 wherein Note 1.1 to the Accounts 2016 states that:

"Subsequent to the current financial year, the Board of Directors in their meeting held on August 18, 2016 have unanimously passed a resolution to change the name of the Company from "Premier Ceramics Limited" to "Premier Construction and Housing Limited" and also change the Object Clause of the Memorandum and Articles of Association. The shareholders in the Extra Ordinary General Meeting (EOGM) held on September 09, 2016 have also passed special resolution to approve the above-mentioned proposal. Resultantly, the Company will start business with new name and new object clause, subsequent to the balance sheet date. Due to which these financial statements have been prepared under going concern assumption.

The management anticipates that above steps will not only revive the operations of the Company but also contribute significantly towards the profitability of the Company in the foreseeable future. Therefore, these financial statements do not include any adjustment that might result, should the Company not be able to continue as a going concern."

15. I appreciate the steps taken by the management of the Company for change of name and the business of the Company. These steps lead to the efforts of the management to revive the operations of the company. Nevertheless, I would like to point out here that the provisions of ISA 570 are very clear and explicit wherein the Auditor is required to issue the adverse opinion if Auditor judges that the going concern assumption is inappropriate at relevant time. Furthermore, auditor is required to modify the opinion when the auditor is unable to obtain sufficient audit evidence to conclude that the financial statement as whole are free from material misstatement. In the instant matter, the Auditor in Audit Report disagreed with the going concern assumption of the management. The Accounts 2012 to 2015 of the Company did not show the intent for change of name and change of business of the Company. The Directors of the Company in their Report to



SECURITIES & EXCHANGE COMMISSION OF PAKISTAN

Corporate Supervision Department
Company Law Division

Continuation Sheet - 6 -

the members, while responding the Auditors' qualification only stated that the manufacturing operations of the Company were ceased since July 20, 2001. The Directors also did not highlight any future plan for revival of the Company. Therefore, this disagreement required Auditor to issue adverse opinion on the Accounts 2012 to 2015. Furthermore, the Auditor failed to modify his opinion regarding the unconfirmed balances of creditors, which is inconsistent to the requirement of ISA 705. This shows that the Auditor has not complied with the provisions of Section 255 and respective ISA.

16. In view of the foregoing, I am of the view that the Auditor Report on the respective Accounts were not in accordance with the requirement of Section 255 of the Ordinance and respective ISAs and the Auditors failed to bring out the material fact about the affairs of the Company. Therefore, I hereby warn the Auditor to be careful in future and comply with the provisions of the Ordinance and ISAs while issuing the audit reports in letter and spirit.

Abid Hussain

Executive Director

Corporate Supervision Department

Announced:

May 31, 2018

Islamabad

