



Corporate Supervision Department
Company Law Division

Before Abid Hussain – Executive Director (CSD)

In the matter of

**Mr. Mahmood Akhtar, Audit Engagement Partner of M. Akhtar & Co., Chartered Accountants -
Auditor of Dadabhoy Sack Limited**

Number and date of notice: CSD/ARN/119/2015-3521, dated March 7, 2016
Date of hearings: May 18, 2016
Present: Mr. Mahmood Akhtar, the Respondent

ORDER

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

This order shall dispose of the proceedings initiated against Mr. Mahmood Akhtar, (the "respondent"), audit engagement partner of M. Akhtar & Co., Chartered Accountants (the "Auditor") who audited the annual financial statements (the "Accounts") of Dadabhoy Sack Limited (the "Company") for the years ended June 30, 2013 to June 30, 2015. The proceedings were initiated through show cause notice ("SCN") dated March 7, 2016 under the provisions of section 260 read with sections 255 and 476 of the Companies Ordinance 1984 (the "Ordinance").

2. The brief facts of the case are that examination of Accounts of the Company for the years ended June 30, 2013 to 2015, filed with the Commission under section 233 of the Ordinance revealed the following observations:

- i. Operations of the Company are closed since August 2008 and the company has been reporting nil sales. Show cause proceedings under section 309 have been initiated by the Commission against the Company for filing winding up petition in the court and the same are under process. No concrete plan or progress regarding revival given. The Company has not given adequate disclosures to mitigate the uncertainty about the Company's ability to continue as a going concern.
- ii. The Company had not charged depreciation on the assets for the year 2009 through to 2013 against the requirements of International Accounting Standard ("IAS") 16 and only started charging the depreciation from the year 2014 after a penal order dated November 11, 2013 under section 260 was issued to the auditor for his failure to highlight the non-



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compliance with IAS 16. However, the Company has not made any adjustment for the prior period misstatements/error to correct the effect of not charging depreciation for the year 2009 to 2013, in accordance with IAS 8. This has resulted in understatement of accumulated depreciation by Rs.7.88 million and overstatement by same amount of the net equity, as of June 30, 2015:

(Amounts in Rs)

	Before Adjustment	After Adjustment
Paid Up Capital	40,000,000	40,000,000
Accumulated Loss	(14,738,186)	(14,738,186)
Prior Period Error Adjustment	--	(7,885,406)
Net Equity	25,261,814	17,376,408

- iii. Last revaluation of assets was carried out in 2005 and since then assets have neither been revalued nor has any impairment been charged since then, against the requirements of IAS 16.
- iv. The Company has not given disclosure of the number of employees as at the year and average number of employees during the years 2014 and 2015 as per requirement of clause-2(H) of Part-III of the Fourth Schedule to the Ordinance.
- v. The net equity of the Company has reduced from Rs.27.43 million in 2009 to Rs.25.261 million in the year 2015. Had the Company correctly charged the depreciation/adjustment for prior period errors, the net equity would have further decreased to Rs.17.37 million.
- vi. The Company while giving disclosure regarding carrying amount of revalued class of PPE under cost model, as required by para 71 e of IAS 16, has incorrectly disclosed the same amounts, which should have reported at original cost less depreciation:

(Amounts in Rs)

	2013	2014	2015
Building on freehold land	2,227,625	2,227,625	2,227,625
Plant & Machinery	8,081,098	8,081,098	8,081,098

- vii. The Company has disclosed interest free loan of Rs.3.16 million from directors at cost as at June 30, 2015, against the requirements of IAS 39 which requires the same to be recorded at fair value or amortized cost, as appropriate, with an impact on income through profit and loss account. The previous balances of the loan are:

(Rs in millions)

	2013	2014	2015
Due to Director	2.70	2.96	3.16



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- viii. The Company has outstanding lease liability of Rs.2.70 million from Askari Bank Limited. According to Note-10.2, the lease liability was matured on January 4, 2012, however, the Company has not been recognizing any interest/markup on the outstanding amount and is still categorized as long term liability against the requirement of para 69 of IAS 1 which requires a liability to be classified as current if the entity does not have unconditional right to defer settlement for at least twelve months.
- ix. The Company has outstanding statutory payments since the year 2010. The Company has not charged any markup etc. which may be demanded by the authorities and has failed to pay its statutory obligations:

Account	Amount Rs	Nature
Income Tax	4,451,004	Note 12: the amount represents the income tax deducted form staff salaries but not deposited with FBR. The Company has applied for payment in installments.
Sales Tax	590,225	Outstanding since 2009
CED	37,500	Outstanding since 2009
WPPF	465,100	Outstanding since 2010
WWF	38,621	Outstanding since 2008
Total	5,582,450	10% of total assets

- x. The Company has receivable (trade debts considered good) amounting Rs.20.84 million (39% of total assets) from its associated listed company, Dadabhoj Cement Industries Limited ("DCIL"), which has ceased operations since August 2008. Despite that, the Company has not created any provision against the long outstanding amount and has not complied with the provision clause-5 (B) (iii), Part-II of the Fourth Schedule as it has not disclosed the age analysis of the trade debts receivable from related parties.

3. In view of the aforesaid observations and non-compliances in preparation of Accounts, the Accounts 2013 through to 2015 have been, prima facie, misstated and the impact of misstatement also appears to be material. The Auditor having audited the Accounts 2013 through to 2015, gave unmodified opinions in the reports to members on respective Accounts without even adding any emphasis of matter paragraph to highlight any of the aforesaid non-compliances and their quantified impact. Due to auditor's, prima facie, failure to modify his opinion in the reports on Accounts 2013, 2014 and 2015 for the alleged misstatements arising out of non-compliance with IAS and non-disclosures of material uncertainties about the Company's ability to continue as a going concern, the audit reports on the respective Accounts were not in accordance with the requirements of section 255 of the Ordinance and International Standards on Auditing ("ISAs") making him liable for action under section 260 of the Ordinance. Consequently, the SCN was



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issued to the respondent calling upon him to explain as to why penal action may not be taken against him under section 260 of the Ordinance.

4. In response to the SCN, the respondent after seeking an extension through letter dated March 18, 2016, submitted reply dated March 31, 2016. A brief of contents of the reply relevant to the contents of the SCN is given below:

- i. Operations of the Company have been closed since August 2008 and sale/production was shown according to the actual results derived. As regards positive steps taken by the Company's management for its revival, the Company's fixed assets are mortgaged with bankers and if disposed of by them it would have adverse effect. Otherwise there is no doubt about positive steps taken by the management. Revival of the Company is basically linked with revival of DCIL.
- ii. Depreciation on Plant & Machinery and Fork Lifter was not charged during 2009 - 2013 on the presumption of no production. On pointing it out by SECP, the Company started charging depreciation from 2014 and onwards. The prior period adjustment of Rs.7,885,406 as stated in the above - mentioned letter was evaluated but not considered for any charge owing to no adverse effect to the equity as offsetting with "Adjustment for incremental depreciation" - surplus on revaluation of Plant & machinery - working enclosed.
- iii. There is no time frame of revaluation of fixed assets, which is to be determined by the Management. Though it was carried out in 2005 as laid down in para 31 of IAS 16.
- iv. There are no employees, except one or two watchmen as is apparent from salaries and wages shown in the administrative expenses. Amount of remuneration to chief executive, directors and executives have been shown as nil and status of their strength is also given.
- v. Effect of depreciation not charged is offset by incremental depreciation not shown during these years - refer serial (ii) above.



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- vi. It is mistakenly shown /repeated. Re-worked correct figures have no effect on financial results are given as follows:

	2013	2014	2015
Freehold land	82,115	82,115	82,115
Building on freehold land	1,326,694	1,194,025	1,074,622
Plant and machinery	4,711,807	4,294,626	3,865,163

- vii. Directors have financed the petty expenses which have been routed through profit and loss account and shown as Loan from directors. These liabilities are at actual amount and not subject to any amortization as presumed.
- viii. Lease liability against vehicle leased from Askari Bank Limited is outstanding and remained unpaid owing to closure of Company's production / operational activities. Directors have submitted promissory notes and security deposit against it. As bank has not given clearance, hence it is shown as unadjusted. In order to reclassify / adjust, detailed correspondence is to be vetted and it will be paid / cleared during current year.
- ix. There is no such letter from any authority to our knowledge, claiming any additional amount as mark up or penalty on outstanding balance.
- x. Amount mentioned as receivable from DCIL against supply of paper bags for cement. As DCIL has ceased its production of cement, it remained outstanding and will be adjusted against 'Other Liabilities-Directors' as the management deem appropriate.
- xi. The management and their family members having more than 90% shareholding is taking care of its revival, hence, considered as going concern. In order to utilize its fixed assets / resources the management has an agreement on 29 January, 2016 with Taj Mohammad Construction Company Nooriabad for hiring the Company's production facility at Rs.3.0 million per annum (copy enclosed).

Based on the above submissions the respondent requested for a lenient view. The case was fixed for hearing on May 18, 2016 and Mr. Mahmood Akhtar appeared before the undersigned on due



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date. He mainly reiterated his earlier stance as per the written submissions and requested for a lenient view while deciding the case.

5. Before proceeding further, it is necessary to advert to the following relevant provisions of the Ordinance, the Rules, IFRS and ISAs regarding auditor's responsibilities:

IAS 1 – Presentation of Financial Statements

69. An entity shall classify a liability as current when:

- (a) it expects to settle the liability in its normal operating cycle;
- (b) it holds the liability primarily for the purpose of trading;
- (c) the liability is due to be settled within twelve months after the reporting period; or
- (d) the entity does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. (Emphasis added)

IAS 16 – Property Plant and Equipment

Revaluation model

31. After recognition as an asset, an item of property, plant and equipment whose fair value can be measured reliably shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

63. To determine whether an item of property, plant and equipment is impaired, an entity applies IAS 36 - Impairment of Assets. That Standard explains how an entity reviews the carrying amount of its assets, how it determines the recoverable amount of an asset, and when it recognizes, or reverses the recognition of, an impairment loss.

IAS 36 – Impairment of Assets

9. An entity shall assess at the end of each reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable amount of the asset.



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ISA 570 – Going Concern

6. *The auditor's responsibility is to obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern. This responsibility exists even if the financial reporting framework used in the preparation of the financial statements does not include an explicit requirement for management to make a specific assessment of the entity's ability to continue as a going concern.*

10. *When performing risk assessment procedures as required by ISA 315 the auditor shall consider whether there are events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.*

11. *The auditor shall remain alert throughout the audit for audit evidence of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. (Ref: Para. A6)*

12. *The auditor shall evaluate management's assessment of the entity's ability to continue as a going concern. (Ref: Para. A7–A9, A11–A12)*

16. *If events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern, the auditor shall obtain sufficient appropriate audit evidence to determine whether or not a material uncertainty exists through performing additional audit procedures, including consideration of mitigating factors.*

17. *The auditor shall conclude whether, in the auditor's judgment, a material uncertainty exists related to events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern.*

18. *If the auditor concludes that the use of the going concern assumption is appropriate in the circumstances but a material uncertainty exists, the auditor shall determine whether the financial statements:*



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(a) Adequately describe the principal events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and management's plans to deal with these events or conditions; and

(b) Disclose clearly that there is a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and, therefore, that it may be unable to realize its assets and discharge its liabilities in the normal course of business. (Ref: Para. A20)

19. If adequate disclosure is made in the financial statements, the auditor shall express an unmodified opinion and include an Emphasis of Matter paragraph in the auditor's report to:

(a) Highlight the existence of a material uncertainty relating to the event or condition that may cast significant doubt on the entity's ability to continue as a going concern; and

(b) Draw attention to the note in the financial statements that discloses the matters set out in paragraph 18. (Ref: Para. A21–A22)

20. If adequate disclosure is not made in the financial statements, the auditor shall express a qualified opinion or adverse opinion, as appropriate, in accordance with ISA 705. The auditor shall state in the auditor's report that there is a material uncertainty that may cast significant doubt about the entity's ability to continue as a going concern. (Ref: Para. A23–A24)

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

A2. ISA 700 requires the auditor, in order to form an opinion on the financial statements, to conclude as to whether reasonable assurance has been obtained about whether the financial statements as a whole are free from material misstatement. This conclusion takes into account the auditor's evaluation of uncorrected misstatements, if any, on the financial statements in accordance with ISA 450.5

A4. In relation to the appropriateness of the accounting policies management has selected, material misstatements of the financial statements may arise when:

(a) The selected accounting policies are not consistent with the applicable financial reporting framework; or

(b) The financial statements, including the related notes, do not represent the underlying transactions and events in a manner that achieves fair presentation



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A6. *In relation to the application of the selected accounting policies, material misstatements of the financial statements may arise:*

- (a) *When management has not applied the selected accounting policies consistently with the financial reporting framework, including when management has not applied the selected accounting policies consistently between periods or to similar transactions and events (consistency in application); or*
- (b) *Due to the method of application of the selected accounting policies (such as an unintentional error in application)*

A7. *In relation to the appropriateness or adequacy of disclosures in the financial statements, material misstatements of the financial statements may arise when:*

- (a) *The financial statements do not include all of the disclosures required by the applicable financial reporting framework;*
- (b) *The disclosures in the financial statements are not presented in accordance with the applicable financial reporting framework; or*
- (c) *The financial statements do not provide the disclosures necessary to achieve fair presentation. (emphasis added)*

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)"*

Para 7, 8, 9 and 10 of the ISA 705 prescribe the criteria for determining the type of modification to the auditor's opinion.

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*".



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Section 255 of the Ordinance prescribes powers and duties of the auditors and sub-section (3) of section 255 prescribes requirements, manner and content of auditors' report on the Accounts.

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 wilful, be punishable with fine which may extend to one hundred thousand rupees.

(2) If the auditor's report to which sub-section (1) applies is made with the intent to profit such 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 penalty provided by that sub-section, be punishable with imprisonment for a term which may extend to one year and with fine which may extend to one hundred thousand rupees."

In terms of the Commission's notification SRO 1003 (I)/2015 dated October 15, 2015, the powers to adjudicate cases under section 260 of the Ordinance have been delegated to the Executive Director (Corporate Supervision Department).

6. I have analyzed the facts of the case, relevant provisions of the Ordinance and the arguments put forth by the respondents and my observations are as under:

- i. The facts that the Company's operations have been closed since 2008 with no sale, substantial continuing operating losses and accumulated losses amounting to Rs.14.738 million as of June 30, 2015 and negative operating cash flows, raise serious doubts about the Company's ability to continue as a going concern. The management neither gave appropriate disclosure regarding going concern uncertainties nor did it make adequate disclosures to mitigate the uncertainty about the Company's ability to continue as a going concern in the Accounts since 2009. In view of existence of material uncertainty about the Company's ability to continue as a going concern the Auditor was required to obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in preparation of the financial statements and to conclude



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whether there is a material uncertainty about the entity's ability to continue as a going concern. The Auditor failed to do so and in disregard of the aforesaid circumstances, has been giving unmodified opinions on the going concern issue in the reports to members on Accounts 2013 through to 2015. The Auditor has not even added any emphasis of matter paragraph to highlight the going concern issue. The respective Accounts do not contain any disclosure regarding the material uncertainty about the Company's ability to continue as a going concern. The Auditor was required to render, at least, a qualified opinion in line with requirements of para 20 of the ISA 570 which requires that if adequate disclosure is not made in the financial statements regarding the going concern uncertainties, the auditor shall express a qualified opinion or adverse opinion, as appropriate, in accordance with ISA 705. Moreover, the auditor is required to state in the report that there is a material uncertainty that may cast significant doubt about the entity's ability to continue as a going concern. The respondent did not fulfill any of these requirements in his report on the respective Accounts since the year 2013 through to 2015. Preparation of financial statements is responsibility of the management and it is auditor's responsibility to express an independent opinion on the financial statements to bring out material facts about its affairs. The respondent has provided a copy of an agreement dated 29 January, 2016 whereby the Company has agreed to rent out its production facility for Rs.3 million per annum, however, the agreement does not contain other details including terms and conditions of the agreement and is subject to termination with one month notice by either parties. However, the respondent has failed to clarify his position with regard to his clean reports on Accounts 2013 to 2015 despite the non-disclosure of going concern issues in these Accounts.

- ii. With regard to no prior period adjustment for depreciation amounting to Rs. 7,885,406 the respondent has stated that it was not considered necessary because when adjusted for the effect of incremental depreciation from 'surplus on revaluation of plant & machinery' to be credit to the equity, there was no adverse effect on the equity. As per the IAS 16 the revaluation surplus in respect of an item of property, plant and equipment may be transferred directly to retained earnings when the asset is derecognized. IAS 16 also allows periodically transferring amount of incremental depreciation from the revaluation surplus directly to retained earnings and specifically prohibits such transfers through



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profit or loss. Therefore, if the Company was not periodically transferring the amount of incremental depreciation net of deferred tax from revaluation surplus, it could not have set off the un-transferred amounts of incremental depreciation of previous years against the depreciation charge for the previous years, which was to be routed through profit and loss account. Due to incorrect treatment adopted by the Company, the figures of accumulated depreciation is understated and the written down / carrying value of 'plant and equipment' and 'fork lifter' have not been correctly stated in the Accounts.

- iii. Since the year 2005 no revaluation of the fixed assets has been carried out and no impairment has been charged. In terms of para 31 and 63 of IAS 16 read with para 9 of IAS 36, the fixed assets were required to be carried at the fair value less subsequent accumulated impairment losses. IAS 16 specifically requires that revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period and it also mentions an indicative period of three to five years for revaluation. Moreover IAS 16 requires applying IAS 36 to determine impairment of these assets. IAS 36 requires an entity to assess at the end of each reporting period whether there is any indication that an asset may be impaired and also requires estimating the recoverable amount of the asset. Para 12 of IAS 36 contains a list of non-exhaustive list of external and internal sources of information for indication of impairment. It specifically mentions the asset becoming idle as one of such indications. Despite the fact that the plant and machinery has been idle for past many years, the management did not get it revalued or assessed it for impairment even though it was probable that these assets could be significantly impaired over this long period of time. The Auditor in his report to members on respective Accounts failed to highlight this non-compliance with IFRS and its impact on the fair presentation of the Accounts.
- iv. Mandatory disclosure of the number of employees as at the year end and average number of employees during the years 2014 and 2015 in terms of clause-2(H) of Part-III of the Fourth Schedule to the Ordinance were missing from the Accounts, and the Auditors did not highlight this non-compliance. These are specifically required disclosures and the



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respondent's referral to other general disclosures in the Accounts does not justify this non-compliance.

- v. The net equity of the Company has reduced since the year 2009. Even if the net impact of non-charging of depreciation expense for previous years and transfers of amount of incremental depreciation (net of deferred tax) from revaluation surplus to equity was set off, it was mandatory for the Company to assess the assets for impairment. Given the fact that the assets have been idle since 2008, an impairment charge would have substantially reduced the value of assets and the equity of the Company further. However, the auditor did not highlight these facts in his report.
- vi. The respondent has admitted that while giving disclosure regarding carrying amount of revalued class of PPE under cost model, as required by para 71 e of IAS 16 the Company incorrectly disclosed the same amounts. Correct figures have been provided and it has been stated that the incorrect disclosure did not have any impact on the result of the Company. While, the aforesaid incorrect disclosure may not affect the bottom line, it is a disclosure that is considered necessary for understanding of the users and there is no justification for disclosing incorrect figures.
- vii. With regard to disclosure of interest free loan from directors of Rs.3.16 million at historical cost instead of amortized cost as per IAS 39, it has been stated by the respondent that the loan was for disbursement of expenses and does not attract impairment/amortization clause of IAS 39. The respondent's plea is not tenable in view of requirements of para 46 of IAS 39 which requires that loans and receivables shall be measured at amortized cost using the effective interest method. It is the responsibility of the management of the Company to ensure that loans obtained from directors are based on agreements in writing that include the terms and condition of such loans so that the liabilities of the Company could be appropriately determined and accounting for in line with applicable IFRS. The Auditor failed to highlight the incorrect accounting treatment and disclosure of the directors' loan in contravention with the IFRS.
- viii. In respect of non-charging of mark up and categorization as long term liability of the outstanding lease liability of Rs.2.70 million, which matured on January 4, 2012 it has been



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stated by the respondent that the Company has deposited the amount and it will be adjusted after legal vetting. However, proper justification has not been given with reference to the requirements of IAS 1 which requires that unless a company has unconditional right to defer payment of a liability beyond a period of twelve months after the reporting date, it has to classify such liability as a current. Moreover, no justification has been provided for not charging mark up/interest despite the outstanding liability.

- ix. The Company has outstanding statutory payments of Rs.5.582 million constituting around 10% of total assets, since the year 2010 and the Company has not charged any mark up/interest on such amounts. The respondent has stated that he has no knowledge of any letter from authority claiming any additional amount as mark up or penalty. The respondent must be cognizant of the fact, that tax and revenue authorities levy surcharge, delay charges, interest etc. on delayed payments and it must be acknowledged by companies. Moreover, the auditors altogether failed to highlight the long outstanding statutory payments in his respective reports.
- x. With respect to no provisions for doubtful debts recognized by the Company in respect of receivables of Rs.20.84 million (constituting 39% of total assets) from its associated listed company DCIL, which has ceased operations since August 2008, it has been stated that these are against supply of paper bags for cement and it will be adjusted against 'other liabilities- directors' as the management deem appropriate. However, as per the Accounts the liabilities accrued by the Company to directors amount to Rs. 3.158 million only. Moreover, the respondent has failed to justify his position with regard to not highlighting these facts in his report to members.
- xi. The ultimate responsibility of preparing the financial statements in accordance with the Ordinance and IFRS including the IASs rests with directors. It is the duty of the statutory auditor of a company to express an independent opinion including, inter alia, the opinion as to whether or not the financial statements confirm with the approved accounting standards that comprise the IFRS, IAS. The Ordinance and IFRS require that financial statements should present fairly for each financial year the Company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and



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recognition criteria for assets, liabilities, income and expenses. This necessitates adequate disclosure and full compliance with all applicable IFRSs. A statutory auditor is bound to follow the requirements prescribed by the Ordinance, the Rules and the ISAs and has to express an opinion remaining within the confines set by them. 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. In terms of the ISAs it is auditor's duty to identify and assess risks of material misstatements, obtain sufficient appropriate evidence and form an opinion based on conclusions drawn from the audit evidence. Para 8 of ISA 200 clearly states that the form of opinion expressed by the auditor will depend upon the applicable financial reporting framework and any applicable law or regulation. (Ref: Para. A12-A13).

- xii. The overall impact of non-compliances taken together with the inappropriate use of going concern assumption, not charging impairment on assets, non-amortization of loans and other non-compliances with IFRS was material and potentially pervasive. Moreover, in view of inappropriate use of going concern assumption and lack of disclosure regarding material uncertainty about going concern, an adverse opinion was imperative. Under the circumstances, the statement of compliance wherein the Company has stated that the Accounts have been prepared in accordance with approved accounting standards, as applicable in Pakistan is also incorrect. Taken together, the non-compliances of IFRS by the Company in preparation of its Accounts, as highlighted in the preceding paragraphs, resulted in material misstatements in the respective Accounts. It was responsibility of the respondent to appropriately modify his opinion in reports to members on respective Accounts, to discharge his duties under the Ordinance, the Rules and ISAs. However, the respondent failed to appropriately modify his reports to bring out the aforesaid instances of non-compliances. It must be kept in mind that the financial statements are used by a variety of users including the shareholders, bankers, financiers, investors, potential investors and general public etc. The audited financial statements along with auditor's report are the most important source of financial information for the users who rely on the information disclosed therein. Any misstatements or omission of material facts in the



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financial statements can adversely due to non-compliance with applicable IFRS affect the decisions of the users.

- xiii. Section 255 of the Ordinance prescribes powers and duties of the auditors and also sets the format of auditors' report. In terms of section 260 of the Ordinance, it is duty of the auditor to bring out all material facts about affairs of the Company in his report to members. In the instant case, the respondent in his capacity as engagement partner of the Auditor has not discharged his duties as per requirements of the Ordinance, Rules and the ISAs, as explained above. Moreover, it has also been highlighted during the proceedings that the Auditor does not have a satisfactory rating from the Quality Control Review ("QCR") committee of the Institute of Chartered Accountants of Pakistan ("ICAP") and, hence, in terms of the Code of Corporate Governance, was not eligible to be appointed as auditors of a listed company. Although, it is not a subject matter of the instant proceedings, it reflects the casual approach of the respondent towards code of ethics and professional requirements.

7. Before proceeding to decide the matter, I deem it necessary to make some observations on the role of auditor of a company. The duties and responsibilities of an auditor appointed by the shareholders under the law can best be understood if we look at the place of an auditor in the scheme of the company law. The capital required for the business of a company is contributed by its shareholders who may not necessarily be the persons managing the company. They elect directors and entrust the affairs of the company to them in the hope that they will manage the company to shareholders' benefits. There is no such arrangement in place whereby the shareholders can have an independent view as to how the directors have managed the affairs of the company. The financial statements are the most important source of reliable information for the shareholders who make their investment decision based on such information. The financial statements not only show the financial position and performance of the company but also show the results of management's stewardship of resources entrusted to it. Therefore, correct reporting in the financial statements in line with applicable financial reporting framework is of utmost importance. The law, therefore, recognizing this situation, has provided for the appointment of auditors who shall be responsible to audit the books of account, documents and financial statements required by the law and make out a report on them at the end of each year. This being



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the only safeguard provided by law to the shareholders to ensure accountability of the management, put the auditors to a high level of accountability in case they fail to make out a report in accordance with the legal requirements. For these reasons, it is of utmost importance for the auditors to exercise due care and diligence in performing their duties and discharging their responsibilities and maintain a high level of trust and integrity at their end.

8. For the foregoing reasons, I am of the view that the Auditor in his report to members on Company's Accounts for the years ended June 30, 2013 to June 30, 2015 did not appropriately modify the opinions to highlight the contravention with IFRS and the incorrect accounting treatment adopted by the Company, as highlighted in the preceding paragraphs. Hence, the respondent being the audit engagement partner has not discharged his duties under the law and is liable to penalty under section 260 of the Ordinance. Therefore, in exercise of the powers conferred by section 260 of the Ordinance, I hereby impose a fine of Rs.50,000/- (Rupees fifty thousand only) on the respondent.

The respondent is directed to deposit the aforesaid fine in the designated bank account maintained in the name of Securities and Exchange Commission of Pakistan with MCB Bank Limited within thirty days from the receipt of this Order. The respondent must furnish receipted vouchers for information and record, failing which proceedings under the Land Revenue Act, 1967 will be initiated that may result in the attachment and sale of movable and immovable property.

Moreover, the department is advised to review the matter of appointment of the respondent's firm as auditor of a listed company despite not having a satisfactory QCR rating from the ICAP for appropriate action and/or referring the matter to appropriate forum.

Abid Hussain
Executive Director

Announced:
June 28, 2016
Islamabad