



Corporate Supervision Department  
Company Law Division

Before Abid Hussain – Executive Director

*In the matter of*

**Mr. Mohammad Iqbal, Partner, Haroon Zakaria & Company, Chartered Accountants  
Auditors of the Al-Abbas Sugar Mills Limited**

Number and date of notice: No. CSD/ARN/507/2017 -577 dated September 26, 2017

Date of hearing: January 17, 2018

Present: Mr. Farhan Ahmed, Partner, Haroon Zakaria & Co., Chartered Accountants  
Mr. Hassan Ismail, Assistant Manager, Haroon Zakaria & Co., Chartered Accountants  
(Authorized Representatives)

**ORDER**

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

This Order shall dispose of the proceedings initiated against Mr. Mohammad Iqbal, Partner, Haroon Zakaria & Company, Chartered Accountants (*the "Auditors"*), the Auditors of Al-Abbas Sugar Mills Limited (*the "Company"*) through Show Cause Notice (*the "SCN"*) dated January 13, 2017, 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 the review of half yearly accounts of the Company for the period ended March 31, 2017 (*the "Accounts"*) revealed that the Company has reclassified its short term investments (*the "investments"*) from 'fair value through profit or loss' category to 'available for sale' and classified them as long term. The aforesaid reclassification from 'fair value through profit or loss' category to 'Available for Sale'(AFS) category by the Company in the Accounts was *prima facie* contrary to the requirements of IAS 39, 'Financial Instruments: Recognition and Measurement'.



# SECURITIES & EXCHANGE COMMISSION OF PAKISTAN

Corporate Supervision Department  
Company Law Division

Continuation Sheet - 1 -

3. The Auditors in its reply dated June 16, 2017 to the Commission's letter dated June 12, 2017 stated that the guidance from IFRS-9 has been followed in the Accounts due to deletion of relevant paras from the IAS-39. The Commission through letter dated June 20, 2017 drew attention of the Auditors to SRO 633(I)/2014 wherein IAS-39 published in 2009 edition of IFRS is to be followed. The Auditors in its letter dated June 30, 2017 referred to para 50(c) and paras 50-B and 50-C of the IAS-39 and stated that the reclassification has been made in the Accounts by the Company by complying with the requirements of para 50-C of the IAS-39 and disclosure requirements of IFRS-7. The auditors' arguments were not found to be cogent because as per para 50-B of the IAS-39, reclassification out of the 'fair value through profit or loss' category is possible only in rare circumstances and the change in intention of management of the Company do not represent a rare circumstance in terms of the requirements of the IAS-39.

4. Subsequently, the SCN was issued to the auditors wherein the respondent was called upon to show cause in writing as to why penal action may not be taken against them. The Respondent submitted his reply to the SCN dated October 25, 2017 which is reproduced hereunder;

*"Issue under consideration is the reclassification of short-term investments held at fair value through profit and loss category to available for sale category not being in accordance with the requirements of IAS 39.*

*In relation to our conclusion given in the limited scope review report, we would like to mention here that we conducted our review in accordance with International Standard on Review Engagements (ISRE) 2410, "Review of Interim Financial Information Performed by the Independent Auditors of the Entity". A review of condensed interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit.*

*Accordingly, we do not express an audit opinion.*



# SECURITIES & EXCHANGE COMMISSION OF PAKISTAN

Corporate Supervision Department  
Company Law Division

Continuation Sheet - 2 -

Further, paragraph 7-9 of the above referred ISRE determines our objective to conduct the review and states:

“7. The objective of an engagement to review interim financial information is to enable the Auditors to express a conclusion whether, on the basis of the review, anything has come to the Auditor’s attention that causes the Auditors to believe that the interim financial information is not prepared, in all material respects, in accordance with an applicable financial reporting framework. The Auditors makes inquiries, and performs analytical and other review procedures in order to reduce to a moderate level the risk of expressing an inappropriate conclusion when the interim financial is materially misstated.

8. The objective of a review of interim financial information differs significantly from that of an audit conducted in accordance with International Standards on Auditing (ISAs). A review of interim financial information does not provide a basis for expressing an opinion whether the financial information gives a true and fair view, or is presented fairly, in all material respects, in accordance with an applicable financial reporting framework.

9. A review, in contrast to an audit, is not designed to obtain reasonable assurance that the interim financial information is free from material misstatement. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review may bring significant matters affecting the interim financial information to the Auditor’s attention, but it does not provide all of the evidence that would be required in an audit.”

We conducted our review in the light of above referred objective determined in the ISAE.

While concluding the validity of reclassification of investment in the half yearly financial statements, we ensured that the reclassification was made after taking due approvals from the investment committee, audit committee and the BOD in accordance with the requirements of IAS 39 including disclosure requirements, and specifically the allow ability given in Paragraph 50-B of IAS 39 (of 2009 edition) which states:



# SECURITIES & EXCHANGE COMMISSION OF PAKISTAN

Corporate Supervision Department  
Company Law Division

Continuation Sheet - 3 -

*"A financial asset to which Paragraph 50(c) applies (except a financial asset of the type described in paragraph 50-D) may be reclassified out of the fair value through profit and loss category only in rare circumstances."*

*In the case of AASML, "rare circumstances" mainly involved the volatility of the scrips' prices held as a short-term investment representing 759,000 shares of IGI Insurance Company Limited, 253,000 shares of Mehran Sugar Mills Limited and 1,000,000 shares of Fauji Cement Company Limited which can be depicted from the fact that the investment in these scrips as on September 30, 2016 amounted to Rs. 234.899 million which increased to Rs. 326.582 as on December 31, 2016 which then increased to Rs. 366.869 million as on March 31, 2017 which then decreased to Rs. 326.629 as on June 30, 2017. While as on September 30, 2017, investment in these scrips amounted to Rs. 286.701 million.*

*In your show cause notice, you referred the interpretation given by the IASB for the "rare circumstances" as one faced by the Companies in 2008 due to deterioration of financial markets.*

*This is just one of the possible scenarios of "rare circumstances", as referred to in IAS-39, but in our opinion, it would vary from company to company, depending on its internal situation and external environment. Further, the application of a law including IFRS cannot be restricted to any specific scenario or interpretation if it has not been limited by that law or standard itself.*

*Therefore, in our opinion, reclassification of investment was duly justified due to "rare circumstance" being the volatility of those three scrips which were discussed above which would affect the operational results of the Company. Further, it is merely a reclassification and all facts and reasons together with the prescribed disclosures under IAS-39 were disclosed by the Company and duly reviewed by us during on half yearly review.*

*In our view, the case under consideration is of interpretation of the validity of an accounting treatment rather than a misstatement in the accounts. Therefore, matter of Section 260 of the Ordinance about Auditor's failure to bring out material facts about the affairs of the Company do not apply. It may be a judgmental difference as we consider the reclassification justifiable to be rare circumstance in the case of AASML."*

5. The reply of the Auditors was not found cogent as they failed to justify that rare circumstances existed in case of the Company's reclassification of the investments. Hearing in the matter was fixed on June 17, 2018. Mr. Farhan Ahmed, Partner and Mr. Hassan Ismail, Assistant Manager, Haroon Zakaria & Co., Chartered Accountants (the "Authorized Representatives") appeared on behalf of the Respondent. During the hearing, the Authorized Representatives

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

PABX: + 92-51-9207091-4, Fax: +92-51-9100454, 9100471, Email: [webmaster@secp.gov.pk](mailto:webmaster@secp.gov.pk), Website: [www.secp.gov.pk](http://www.secp.gov.pk)



# SECURITIES & EXCHANGE COMMISSION OF PAKISTAN

Corporate Supervision Department  
Company Law Division

Continuation Sheet - 4 -

reiterated the viewpoint on rare circumstances as submitted in the written reply. They further added that one year has passed since the review by the Respondent and there is no change in the investments, thus the reclassification is justified.

6. 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 Auditors' report on the Accounts:

*"(3) The Auditor 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.*

7. Furthermore, I would like to draw attention to the para 7 of the ISRE 2410 as already reproduced above in the Respondent's reply to the SCN. It is clear that the Auditors have to express a conclusion whether, on the basis of the review, anything has come to the Auditors' attention that causes the Auditors to believe that the interim financial information is not prepared, in all material respects, in accordance with an applicable financial reporting framework. The matter of reclassification of the investment was a conspicuous matter and thus the Auditors should have highlighted this material fact by modifying their review report. The reclassification and its impact on the profit and loss statement is material due to the departure from IAS 39 thus the accounts were not in all material respects, in accordance with the applicable financial reporting standards as applicable in Pakistan.



# SECURITIES & EXCHANGE COMMISSION OF PAKISTAN

Corporate Supervision Department  
Company Law Division

Continuation Sheet - 5 -

8. 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).

9. 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 failed to highlight the departure from IAS 39 (2009 edition) as applicable in Pakistan. The Auditors have agreed with management's decision to classify the investments from 'fair value through profit or loss' category to 'available for sale' category, which as per IAS 39 is only allowed in rare circumstances. The example of a rare circumstance as given by IASB in its press release of October 13, 2008 is that of deterioration of financial markets of the world such as during the 3<sup>rd</sup> quarter of the year 2008. The relevant part of the press release is stated hereunder:

*"The deterioration of world's financial markets that has occurred during the third quarter of this year is a possible example of rare circumstances..."*

10. I am of the opinion that the rare circumstances as envisaged by the IASB did not exist in the case of the Company. The volatility in the prices of the scrips as quoted by the auditors in their reply do not constitute a rare circumstance as the same is not comparable to a market crash as envisaged in the press release by IASB. The price variations in the share prices as quoted by the auditors are merely due to the market trends at the relevant time and same could not be construed as an unusual scenario where the cushion given in IAS 39 could be justified. Thus in the instant case, it was a matter of change in intention of management and IAS-39 does not allow reclassification from 'fair value through profit or loss' category to 'available for sale' category due to change in intention of the management. The argument put forth by the auditors that the matter is, of interpretation of the validity of an accounting treatment rather than a misstatement in the accounts, is not cogent as the reclassification of the investments had a direct impact on the profit and loss statement of the Company. The reclassification by the Company has resulted in understatement of results in its accounts for the half year ended March 31, 2017 and its effect on the profit can be seen as under:

Amount in (000)

Particulars		Profit before taxation (PBT)
Reported	(a)	284,614
Should have been reported	(b)	416,583
Difference	c = a - b	(131,969)
Materiality	d = c / b	(31.68%)



# SECURITIES & EXCHANGE COMMISSION OF PAKISTAN

Corporate Supervision Department  
Company Law Division

Continuation Sheet - 6 -

11. The Auditors in their conclusion expressed that, *"nothing has come to our attention that causes us to believe that the accompanying condensed interim financial information as of and for the half year ended March 31, 2017, is not prepared fairly, in all material respects, in accordance with the approved accounting standards as applicable in Pakistan for interim financial reporting."* The conclusion of the review report has failed to highlight the reclassification of the investments departing from the requirements of IAS-39. The auditors have not applied the level of diligence as was expected of them in assessing major accounting decision by the management affecting the reported profits and earning per share of the Company which is an information of primary importance to the shareholders of the Company and for other stakeholders.

12. 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 and is liable to penalty under section 260 of the Ordinance. I, hereby impose a token penalty of Rs. 10,000 (Rupees Ten Thousand only) on Mr. Mohammad Iqbal, Partner, Haroon Zakaria & Company, Chartered Accountants, in exercise of power conferred under the Ordinance.

The aforesaid fines must be deposited in the designated bank account maintained with MCB Bank Limited in the name of the "Securities and Exchange Commission of Pakistan" within thirty days from the receipt of this order and furnish receipted bank vouchers to the Commission. In case of non-deposit of the penalties, proceedings for recovery of the fines as arrears of land revenue will be initiated. It may also be noted that the said fines are imposed on respondent in his personal capacity; therefore, he is required to pay the said amount from personal resources.

**ABID HUSSAIN**  
Executive Director  
Corporate Supervision Department

**Announced:**  
May 22, 2018  
Islamabad

