



Corporate Supervision Department
Company Law Division

Before Amina Aziz – Director

In the matter of

Mundia Textile Mills (Private) Limited

Number and date of notice: No. CSD/ARN/437/2016-845-48 dated September 5, 2016
Date of hearing: November 7, 2016
Present: Mr. Tariq Shakoor – Authorized Representative

ORDER

UNDER SECTION 254 READ WITH SECTION 259 AND 476 OF THE COMPANIES ORDINANCE, 1984

This order shall dispose of the proceedings initiated against Mr. Tariq Shakoor, M/s Horizon Consultants appointed by Mundia Textile Mills (Private) Limited (*the "Company"*) as its statutory auditor, through show cause notice ("SCN") dated September 5, 2016 under the provisions of Section 254 read with Section 259 and 476 of the Companies Ordinance 1984 (*the "Ordinance"*).

2. Brief facts of the case are that review of the audited financial statements of the Company for the period ended June 30, 2013 (*the "Accounts 2013"*); the auditor report on accounts dated October 7, 2013; Form-A filed dated October 31, 2013 and 2014, and consent letters of auditor reveal that the Company appointed M/s Horizon Consultants, as statutory auditors (*the "auditors"*) for the period ended June 30, 2013 and 2014, respectively.

Section 254 (1) of the Ordinance require that in the case of a private company having paid up capital of three million rupees or more, a person shall not be qualified for appointment as an auditor unless he is a Chartered Accountant within the meaning of the Chartered Accountants Ordinance, 1961 (X of 1961). The Company is a private limited company having a paid up capital of Rs. 8.5355 million, and was required to appoint a Chartered Accountant as its statutory auditor. However Mr. Tariq Shakoor, Horizon Consultant submitted his consent to act as statutory auditor and subsequently issued his audit report on the Accounts 2013, while neither Mr. Tariq Shakoor, was a Chartered Accountant nor his firm is registered with Institute of Chartered Accountants of Pakistan (ICAP).

3. Consequently, an SCN was issued to the directors of the Company for contravention of mandatory provision of Section 254 (1) of the Ordinance, and a hearing opportunity was extended on November 7, 2016. Mr. Tariq Shakoor, the authorized representative of the respondents appeared and submitted;



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- a. The Company's has no operations and is a closely held company;
 - b. The directors were not fully cognizant of this legal requirement, who appointed a non-chartered accountant in view of the limited operations of the Company; and
 - c. The authorized representative admitted the default and requested for a lenient view.
4. Before proceeding further, it is necessary to advert to the following relevant provisions of Ordinance:

Section 254 (1) of the Ordinance requires that;

"(1) A person shall not be qualified for appointment as an auditor, -
(i) in the case of a public company or private company which is subsidiary of a public company; and
(ii) in the case of a private company having paid up capital of three million rupees or more unless he is a Chartered Accountant within the meaning of the Chartered Accountants Ordinance, 1961 (X of 1961)".

Section 259 of the Ordinance provides:

"If default is made by a company in complying with any of the provisions of sections 252 to 254 or 256 to 258, the company and every officer of the company who is knowingly and willfully a party to the default shall be punishable with fine which may extend to fifty thousand rupees and in the case of continuing default to a further fine which may extend to two thousand rupees for every day after the first during which the default continues".

In terms of the Commission's notification SRO 1003 (I)/2015 dated October 15, 2015, the powers to adjudicate cases under section 259 have been delegated to the Director (Corporate Supervision Department).

5. I have analyzed the facts of the case, relevant provisions of the Ordinance, arguments put forth by the representative during the hearing and observed that the directors of the Company have completely ignored the mandatory requirements of law with regard to the eligibility criteria during the process of appointment of statutory auditor. The law envisages that beyond certain threshold of paid up capital the audit of account of a company must be undertaken by the qualified and trained chartered accountants. The directors were required to ensure that auditor is appointed having necessary qualification as prescribed in section 254 (1) (ii) of the Ordinance. For



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the foregoing reasons, I am of the firm opinion that provisions of Section 254 (1) of the Ordinance have been violated and the respondents are liable for the fine as prescribed by this Section. However, keeping in view the fact that the Company has no operations and that the director have admitted their default, I in exercise of the powers conferred by the aforesaid provision of the Ordinance, impose a fine of Rs. 20,000/- (Rupees Twenty thousand only) in aggregate on the following respondents, for contravening the provision of Section 254 of the Ordinance. The respondents are directed to deposit the fine in the following manner:

	Name of Respondents	Amount in Rupees
1.	Haji Abdul Sattar	5,000
2.	Muhammad Idrees	5,000
3.	Mohammad Akhtar	5,000
4.	Muhammad Yousuf	5,000
5.	Mr. Ali Ghazi Mirza	5,000
	Total	20,000

The respondents are further directed under section 473 of the Ordinance, to immediately appoint the new auditors meeting the qualification criteria prescribed.

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 fine, proceedings for recovery of the fines as arrears of land revenue will be initiated under Section 42B of Securities and Exchange Commission of Pakistan Act, 1997. It may also be noted that the said fines are imposed on the respondents in their personal capacity; therefore, they are required to pay the said amount from personal resources.

Amina Aziz
Director (Corporate Supervision Department)

Announced:
November 10, 2016
Islamabad