

Securities and Exchange Commission of Pakistan  
*Enforcement and Monitoring Division*  
NIC Building, Jinnah Avenue, Blue Area, Islamabad

*Before Rashid Sadiq, Executive Director*

*In the matter of*  
MR. MUHAMMAD ZAKARIA LOYA, FCA

Number and date of show cause notice	19 (607) CF / ISS/2001 January 31, 2002
Date of hearing	February 06, 2002
Present	Mr. Muhammad Ali, ACA

ORDER UNDER SUB-SECTION (1) OF SECTION 260 OF THE COMPANIES  
ORDINANCE, 1984 AND RULE 35 OF THE COMPANIES  
(GENERAL PROVISIONS AND FORMS) RULES, 1985

This Order will dispose of the show cause proceedings initiated against Mr. Muhammad Zakaria Loya, FCA under Section 260 of the Companies Ordinance 1984 (the “Ordinance”).

2. Mr. Muhammad Zakaria Loya is a Fellow Member of the Institute of Chartered Accountants of Pakistan (the “ICAP”). He was registered with ICAP on August 26, 1968 under registration number 475. He is a practicing Chartered Accountant and is conducting his business under the name and style of ‘**Zakaria Loya & Co.**’ at 3/17, Abid Chambers, Shahrah-e-Liaqat, Karachi.

3. The facts relevant to this case, briefly stated, are that M/s Zakaria Loya & Co., Chartered Accountant was appointed as Auditor of M/s Pak German Prefabs Limited (the “Company”) in its Annual General Meeting held on November 24, 2000 to hold office from the conclusion of the said meeting until the conclusion of next Annual General Meeting.

4. The Commission has conducted an examination of the financial statements of the Company for the year ended June 30, 2001 (the "Accounts") to determine, among other things, as to whether the Auditor's Report pertaining to the aforesaid financial year has been made in conformity with the requirements of Section 255, is otherwise true, contained no statement, which is materially false and that there is no omission of material facts about the affairs of the Company.

5. The examination of the Company's Accounts revealed that the Audit Report signed by Mr. Muhammad Zakaria Loya, sole proprietor of Zakaria Loya & Co., on November 15, 2001 was not on the prescribed Form 35-A as notified vide SRO No. 594(1)/2000 dated August 25, 2000. This is because of the fact that the Auditor has not audited the statement of changes in equity and has not given any opinion on the truth and fairness of the said statement as well as observance of the approved accounting standards.

6. It was also noticed from the Accounts that the Company has not observed the requirements of the following International Accounting Standards (IAS) in regard to the accounts and preparation of the Balance Sheet and Profit and Loss Account for the year ended June 30, 2001:

- i) IAS-1 (Presentation of Financial Statements)
- ii) IAS-32 (Financial Instruments: Disclosure and Presentation)
- iii) IAS-33 (Earnings Per Share)

7. It was further observed from the perusal of the Accounts that the Company has failed to make proper disclosure as required under the Ordinance regarding amounts due from one of its associated undertakings namely, Dadabhoy Energy Supply Company Limited. Besides, several other non-compliances of Fourth Schedule to the Ordinance were also noted.

8. Mr. Muhammad Zakaria Loya, the Auditor of the Company, however, has not drawn attention of the members in his Audit Report signed on November 15, 2001 towards the aforesaid contraventions/non-disclosures in the Accounts.

9. In view of the above, the Commission felt concerned about the quality of audit of the Company conducted by M/s Muhammad Zakaria Loya & Co. Chartered Accountant. A Show Cause Notice bearing No.19 (607) CF/ISS/2001 dated January 31, 2002, therefore, was issued to

Mr. Muhammad Zakaria Loya to show cause, in writing, within ten days to explain as to why action under Section 260 of the Ordinance and Rule 35 of the Rules may not be taken against him for the aforesaid contraventions.

10. In response to the said Show cause notice, Mr. Muhammad Ali, ACA appeared before the undersigned on February 06, 2002 to represent Mr. Muhammad Zakaria Loya in the show cause proceedings. He has not controverted the position as set out above. He, however, requested for a lenient view of the non-compliance with the relevant provisions of the Ordinance by the Auditor. Thus, it stands admitted and confirmed that the Accounts of the Company do not conform to the approved accounting standards and also do not give all the information required by the Ordinance in the manner so required. The Audit report, therefore, has been made otherwise than in conformity with the requirements of Section 255 of the Ordinance. In the circumstances, it is clear that the Auditor has failed to perform his duties with reasonable degree of care and skill.

11. The Ordinance laid down provisions regarding several matters to be followed by the company in regard to the preparation of the accounts. The International Accounting Standards have been adopted to improve the quality of the financial statements and to improve increased degree of comparability. It is the responsibility of Directors to ensure that these provisions of law are followed in letter and spirit. At the same time, it is the duty of the Auditor to bring to the notice of the members the major breaches observed in the financial statements. The International Accounting Standards and Auditing Standards establish standards, which must be followed by the Auditors to ensure that financial statements are prepared in accordance with the Generally Accepted Accounting Principles and that the auditors carry out their responsibilities in accordance with the Generally Accepted Auditing Standards. Mr. Muhammad Zakaria Loya has not followed the prescribed practices and above stated mandatory requirements of law.

12. In view of the foregoing, the undersigned is convinced that an action against the Auditor is necessary. As the Auditor has admitted the default and has not been able to give any justifiable excuse for the same, therefore, I consider it a deliberate act on the part of Mr. Muhammad Zakaria Loya who was under legal obligation to perform his duties, in the course of audit of Accounts of the Company and reporting thereon, in accordance with the provisions of the Ordinance, International Accounting Standards and Auditing Standards.

13. For the reasons stated above, I impose a fine of **Rs 4,000** (Rupees four thousand) on Mr. Muhammad Zakaria Loya under Sub-section (1) of Section 260 of the Ordinance and Rule 35 of the Rules read with Section 476 of the Ordinance.

14. I impress upon Mr. Muhammad Zakaria Loya to perform his duties with a reasonable degree of care and skill in future. It is his responsibility to put in place the requisite quality control policies and procedures to ensure that audit is conducted in accordance with the applicable financial reporting framework.

15. Mr. Muhammad Zakaria Loya is directed to deposit the above stated fine in the Bank Account of Securities and Exchange Commission of Pakistan maintained with Habib Bank Limited within 30 days of the date of this Order and furnish a receipted challan to the Securities and Exchange Commission of Pakistan.

**RASHID SADIQ**

*Executive Director (Enforcement & Monitoring)*

**Announced**

*February 19, 2002*

ISLAMABAD