

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

M/S Javaid Jalal Amjad & Company, Chartered Accountants

Number and date of show cause notice	EMD/233/541/2002 April 05, 2002
Date of hearing	May 20, 2002
Present	Mr. M. Javaid Iqbal Khan, FCA

**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 M/S Javaid Jalal Amjad & Company, Chartered Accountants under Section 260 of the Companies Ordinance 1984 (the “Ordinance”) and the Companies (General Provisions and Forms) Rules, 1985 (the “Rules”).

2. Mr. M. Javaid Iqbal Khan, Raja Amjad Ali, Mr. Jalaluddin, Mr. Mohammad Ali and Mr. Iftikhar Hussain Alvi are all members of the Institute of Chartered Accountants of Pakistan (the “ICAP”). Their Registration Numbers are 1275, 2886, 2681, 1160 & 1234 respectively. They

are partners of the firm namely 'M/S Javaid Jalal Amjad & Company'. The firm is having offices at Karachi, Lahore, Faisalabad and Peshawar.

3. The facts relevant to this case, briefly stated, are that M/S Javaid Jalal Amjad & Company, Chartered Accountants were appointed as Auditors of M/S Morafaco Industries Limited (the "Company") in its Annual General Meeting held on January 15, 2001 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 Auditors' 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 aforesaid examination of the Company's Accounts revealed that the Audit Report signed by M/S Javaid Jalal Amjad & Co., on December 05, 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 Auditors have not audited the cash flow statement and statement of changes in equity and have not given any opinion on the truth and fairness of the said statements as well as observance of the approved accounting standards as applicable in Pakistan.

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); and*
- iii) *IAS 33 (Earnings Per Shares).*

7. The Auditors of the Company, however, have not drawn attention of the members in their Audit Report signed on December 05, 2001 towards the aforesaid non-disclosures in the Accounts. The Auditors have also failed to draw attention of the members towards possible going concern problem. The operations of the Company were closed since May 16, 1997 and the accumulated losses as on June 30, 2001 amounted to Rs. 828.973 million. The current liabilities of the Company as on the said date were 67 times higher than its current assets. This issue also assumed importance because the previous auditors of the Company have drawn attention of the members towards going concern problem while issuing their report on the accounts for the year ended June 30, 2000. There has been no change in the status of the Company; however, the Auditors have preferred to keep their lips sealed with regard to going concern matter.

8. In view of the above, a Show Cause Notice dated April 05, 2002 was issued to all the partners of M/S Javaid Jalal Amjad & Company, Chartered Accountants to show cause, in writing, within seven days to explain as to why action under Section 260 of the Ordinance and Rule 35 of the Rules may not be taken against them for the contraventions of the mandatory provisions of the Ordinance and Rules. In order to provide an opportunity of personal hearing, the case was fixed on May 20, 2002. Mr. M. Javaid Iqbal Khan, represented all the partners in these proceedings. He also filed written submissions in response to the show cause notice.

9. In the written submission as well as at the time of hearing, Mr. M. Javed Iqbal Khan has raised the following issues:

- i) *The words 'cash flows and statement of changes in equity' were omitted inadvertently from the report.*
- ii) *The issue of Going Concern assumption was inadvertently omitted from typing in the text of original report. However, the same was reported in notes to the accounts.*
- iii) *The Company is owned by Ghee Corporation of Pakistan and the general public have no material stake in the Company. Moreover, the Company will be liquidated by June 30, 2002.*
- iv) *Disclosure shortfalls are of immaterial nature.*

10. During the course of hearing Mr. M. Javaid Iqbal Khan requested for a lenient view of the defaults. He also assured that the firm would perform its duties with reasonable degree of care in future. I have given careful consideration to the arguments advanced by Mr. M. Javaid Iqbal Khan. However, the same were found to be unsatisfactory. The omission of expression of opinion on the cash flow statements, statement of changes in equity and going concern assumption cannot be considered as 'typing error' by any stretch of imagination. The other arguments that the Company is not operational, etc. also do not in any way relieve the auditors of their responsibilities from complying with the mandatory requirements of the Ordinance and International Accounting Standards. It is ironical that the auditors have inadvertently omitted to modify / qualify their report on the going concern issue. In this regard, I would like to refer to para 16 of Auditing Standard 23 (Going Concern) which requires that *if adequate disclosure is made in the financial statements, the auditor should ordinarily express an unqualified opinion and modify the auditor's report by adding an emphasis of the matter paragraph that highlights the going concern problem by drawing attention to the note in the financial statements that discloses the matters set out in paragraph 15.* I am bewildered at the reply of the auditors that they have inadvertently omitted to type cash flow statement, statement of changes in equity and to modify their report on going concern issue. As the carelessness of the auditors is obvious, therefore, I do not consider it necessary to discuss other arguments in detail. In the circumstances, it is abundantly clear that the Auditors have failed to perform their duties with reasonable degree of care and skill. There could be no other opinion except that the auditors have been grossly negligent in the performance of their duties. The Audit report, therefore, has been made otherwise than in conformity with the requirements of Section 255 of the Ordinance.

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. M/S Javaid Jalal Amjad & Company has not followed the prescribed practices and above stated mandatory requirements of law.

12. The shareholders are the ultimate entity to whom the auditors are responsible. They are supposed to keep this in mind while auditing the accounts of a company and reporting thereon. Keeping in view the shareholding structure of most of the listed companies, the sponsoring directors manage to appoint auditors of their own choice in the annual general meetings. It would cause a devastating affect, if the auditors sign a clean report on the misleading accounts or otherwise breach the mandatory requirements while auditing accounts and reporting thereon.

13. In view of the foregoing, the undersigned is convinced that an action against the Auditors is necessary. As the Auditor have admitted the default and have not been able to give any justifiable excuse for the same, therefore, I consider it a deliberate act on the part of M/S Javaid Jalal Amjad & Company who were under legal obligation to perform its 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.

14. For the reasons stated above, I impose a fine of **Rs 4,000** (Rupees two thousand under Sub-section (1) of Section 260 of the Ordinance and Rupees two thousand under Rule 35 of the Rules) on each of the following partners of M/S Javaid Jalal Amjad & Company:

1. Mr. M. Javaid Iqbal Khan,
2. Raja Amjad Ali,
3. Mr. Jalaluddin,
4. Mr. Mohammad Ali
5. Mr. Iftikhar Hussain Alvi

15. The aforesaid partners of the firm, M/S Javaid, Jalal Amjad & Company, Chartered Accountants are directed to deposit the above stated fine (aggregating Rs. 20,000) 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
May 30, 2002
ISLAMABAD