



Securities and Exchange Commission of Pakistan  
*Enforcement and Monitoring Division*

[Islamabad]

*Before Rashid Sadiq, Executive Director*

Order

In the matter of  
M/S Saleem Ahsan & Co. Chartered Accountants

[UNDER SUB-SECTION (1) OF SECTION 260 READ WITH SECTION 255 AND SECTION 476 OF THE COMPANIES  
ORDINANCE, 1984]

Number and date of notice	EMD/C.O.233/EA/511/2002-3181 November 13, 2002
Date of hearing	December 03, 2002
Present	Mr. Muhammad Saleem Ahsan, FCA
Date of Order	June 26, 2003

---

This Order shall dispose of the show cause proceedings initiated against M/S Saleem Ahsan & Co. Chartered Accountants under Section 260 of the Companies Ordinance, 1984 (the “Ordinance”).

2. Mr. Muhammad Saleem Ahsan and Mr. Haroon Nasim are members of the Institute of Chartered Accountants of Pakistan (the “ICAP”) and their registration numbers are 1739 and 2076 respectively. They are partners of the firm M/S Saleem Ahsan & Co. and the firm has offices in Lahore and Islamabad.



Securities and Exchange Commission of Pakistan  
*Enforcement and Monitoring Division*

3. The facts leading to this case, briefly stated, are that M/S Saleem Ahsan & Co., Chartered Accountants (the “Auditors”) were appointed as auditors of M/S Shaffi Chemical Industries Limited (the “Company”) in its Annual General Meeting held on December 27, 2001 to hold office from the conclusion of the said meeting until the conclusion of next Annual General Meeting. The Enforcement and Monitoring Division has conducted an examination of the financial statements of the Company for the year ended June 30, 2002 (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.

4. The aforesaid examination of the Company’s Accounts revealed that, the Company had shown an amount of Rs. 159.405 million as receivable from First Capital ABN AMRO Equities (notes 11 and 11.1 to the accounts). This disputed amount was appearing in the accounts since 2000 and was not brought down to its fair value as per requirement of Para 109 of International Accounting Standard 39 (Financial Instruments; Recognition and Measurement).

5. It was also noticed from the perusal of the Accounts that the Company has not observed the requirements of the following International Accounting Standards (IAS) and Fourth Schedule to the Ordinance with regard to the accounts and preparation of the Balance Sheet and Profit and Loss Account for the year ended June 30, 2002:

- Statement of Changes in Equity has been shown as part of the Notes to accounts instead of a separate basic component of financial statements in violation of Para 7 of IAS 1 (Presentation of Financial Statements).



## Securities and Exchange Commission of Pakistan *Enforcement and Monitoring Division*

- Disclosure of financial instruments as per Para 56, 66 and 77 of IAS 32 (Financial instruments: Disclosure and Presentation).
- Disclosure of Staff retirement benefits according to Para 120 of IAS 19 (Employee Benefits).
- Disclosure of shares held by associated undertakings in the share capital of the Company as required by Para 74 of IAS 1 (Presentation of Financial Statements).
- Disclosure of number of employees as per Para 102 (d) of IAS-1 (Presentation of Financial Statements);
- Disclosure of Earnings per Share as per Para 47 and 49 of IAS 33 (Earnings Per Share);
- Disclosure of land distinguishing into leasehold or freehold as required by Para 2 of Part II of 4<sup>th</sup> Schedule of Companies Ordinance, 1984;
- Accounting policy relating to provisions as required by Para 97 of IAS 1 (Presentation of Financial Statements);

6. In view of the above deficiencies, the audit report on the Accounts was perused and it was observed that M/S Saleem Ahsan & Co., the auditor of the Company, has not drawn attention of the members towards the aforesaid deficiencies in their audit report signed on October 07, 2002 and instead have given an opinion that the balance sheet, profit and loss account together with the notes thereon have been drawn up in conformity with the Ordinance.

7. In view of the above circumstances, the Enforcement Division felt concerned about the quality of audit conducted by M/S Saleem Ahsan & Co., Chartered Accountants and report made on the Accounts. It was decided to investigate the matter further to bring to light as to whether or not the representations and statements made by the auditors to shareholders, investors and general public were misleading and false.

8. Consequently, a notice dated November 13, 2002 was issued to both partners of the firm namely Mr. Muhammad Saleem Ahsan and Mr. Haroon Nasim pointing out clearly their responsibility under the Ordinance, International



Securities and Exchange Commission of Pakistan  
*Enforcement and Monitoring Division*

Accounting and Auditing Standards and the *prima facie* false and misleading statements made by them in their report on the accounts of the Company. They were called upon to show cause as to why action may not be taken against them for the contraventions of the mandatory provisions of law. The Auditors did not respond to the aforesaid show cause notice. In order to provide an opportunity of personal hearing, the case was fixed on December 03, 2002 on which date, Mr. Muhammad Saleem Ahsan appeared and argued the case. He also submitted a written reply to the show cause notice.

9. Mr. Muhammad Saleem Ahsan during the course of hearing admitted that disclosures as pointed out in show cause notice were lacking in presentation of final accounts of the Company for the year ended June 30, 2002. He also stated that he was the engagement partner for the audit of the Company for the year ended June 30, 2002 and had signed audit report on the Accounts. It was further submitted that on the issue of recovery of Rs. 159.405 million from First Capital ABN AMRO Equities, he has given a qualified opinion. However, the Company by mistake or error on its part has printed an unqualified report. The audit report filed by the Company with the Commission was, however, a clean report. In order to confirm the auditor's assertion that he had issued a qualified opinion regarding doubtful receivable of Rs. 159.025 million on the accounts of the Company for the year ended June 30, 2002, the Company was asked to furnish a signed copy of annual report for the year ended June 30, 2002. The Company submitted a copy of signed accounts, which contained the following qualification:

“The Company has not provided any provision on account of disputed receivable amount to Rs. 159 million from First Capital ABN Amro Equities (Pak) Limited (See Notes to the account # 12.1). Further against the same dispute, First Capital ABN Amro Equities (Pak) Limited has also filed a claim against the company amounting to Rs. 9.6 million (mentioned in Notes to the Account # 6 (iv), which has also not been accounted for in the financial statements”



Securities and Exchange Commission of Pakistan  
*Enforcement and Monitoring Division*

Subsequently, the Company vide its letter dated December 20, 2002 informed that due to printing mistake certain omissions appeared in the auditor's report and that Company has also sent corrected auditors' report to the shareholders and stock exchanges.

10. I have looked at this issue at length and have noted with concern that neither the Company nor the auditors have taken timely action to inform the users of the financial statements about this major irregularity. In this regard, I have noticed that the Annual General Meeting of the Company was held on October 30, 2002 for which the Company issued a notice of meeting on October 08, 2002. The auditors have pointed out the irregularity to the Company vide their letter dated November 10, 2002. The Company has informed the Commission and Karachi Stock Exchange on December 20, 2002 and December 21, 2002 respectively. It is not known as to whether the Company has also sent this communication to its shareholders or not. This late action by the Company and its auditors is of no use because the shareholders have already considered and approved the accounts and auditors' report. At this stage, I would like to refer the provisions of Sub-section (6) of Section 255 of the Ordinance, which provides that in the case of a listed company, the auditors or a person authorized by him in writing SHALL be present in the general meeting in which the balance sheet and profit and loss account and the auditors' report are to be discussed. Moreover, the provisions of Section 256 of the Ordinance, requires that the auditors' report shall be read before the company in general meeting and shall be open to inspection by any member of the company. The auditors' report is also required to be sent to the shareholders 21 days before AGM date and a copy of the report is also required to be kept at the registered office of the company for inspection of the members of the company during a period of at least 21 days before the meeting as per requirement of Section 233 of the Ordinance. I have perused the minutes of the AGM held on



Securities and Exchange Commission of Pakistan  
*Enforcement and Monitoring Division*

October 30, 2002 and the list of persons who attended the said AGM. It has regrettably been noticed that Mr. Muhammad Saleem Ahsan has neither attended the said meeting nor has raised voice against the said irregularity. It was his responsibility to have taken up this matter with the Company before AGM to ensure the circulation of the correct report to the shareholders and presentation of the same before the shareholders at the time of the meeting. If Company did not take immediate action at that time he should have informed this irregularity to the Commission. This, however, was not done. In my view, both the Company and its auditors both are responsible for this serious irregularity. Failing to take the required action in this case, the auditor has gone against the basic principal of Code of Ethics i.e. *Due Care and Timeliness*, which an auditor has to follow to achieve the objectives of chartered accountancy profession. In respect of the other defaults regarding presentation and disclosures in financial statements, the auditor submitted that they were omitted by mistake. Moreover, the submission as regards disclosure retirement benefits, disclosure of financial instruments as per IAS 32 and accounting policy of borrowing costs his reply was unsatisfactory. As he has accepted the deficiencies, therefore, it not necessary to deliberate on these issues. In view of the above discussion, I am of the opinion that the audit report made by Mr. Muhamamd Saleem Ahsan on the Accounts of the Company for the year ended June 30, 2002 was not in conformity with the requirements of Section 255 of the Ordinance.

11. Before deciding this case, I deem it necessary to make some observations on the role of auditors of a company. The auditors being the ultimate watchdog of the shareholders interest are required to give a report on the accounts and books of account after conducting the audit in accordance with the prescribed procedures and requirements of the Ordinance, International Accounting and Auditing Standards. If they find any irregularity, which is material with regard to those



Securities and Exchange Commission of Pakistan  
*Enforcement and Monitoring Division*

accounts, they are required to issue a modified report. The shareholders are the ultimate entity to whom the auditors are responsible and they must keep this fact in mind while auditing the books of accounts and reporting thereon. They must realize their true role and restrain themselves from performing their duties indulgently.

12. The duties and responsibilities of an auditor appointed by the shareholders under Section 252 of the ordinance 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. In the case of a listed company, the general public also contributes towards the equity of the company. Such persons do not have any direct control over the company except that they elect directors for a period of three years and entrust the affairs of the company to them in the hope that they will manage the company to their benefits. The shareholders are, therefore, the stakeholders and the ultimate beneficiaries. Practically, however, the shareholders have no control over the way their company is managed by the directors appointed by them. It was, therefore, necessary that there must be some arrangement in place whereby the shareholders who are the real beneficiaries must get some independent view as to how the directors have managed the affairs of the company. The law, therefore, recognizing this situation has provided that the shareholders should appoint an auditor who shall be responsible to audit the accounts and books of account and make out a report to them at the end of each year. This is the only safeguard provided by law to the shareholders to ensure that the business is carried on by the directors in accordance with sound business principles and prudent commercial practices and no money of the company is wasted or misappropriated. The law, therefore, make the auditors responsible in case he fails to make out a report in accordance with the legal requirements. It is,



Securities and Exchange Commission of Pakistan  
*Enforcement and Monitoring Division*

therefore, important for the auditors to be vigilant and perform their duties and obligation with extreme care while auditing the accounts and books of accounts.

13. In view of the forgoing, the lapses, irregularities and non-compliances on the part of the auditors to conceal and suppress the information from the shareholders of the Company cannot be taken lightly. After careful consideration of the conduct of the auditors of the Company and the particular circumstances of this case, I am of the view that no justice would be done to issue warning only as pleaded by Mr. Muhammad Saleem Ahsan during the course of hearing of this case. As the Auditor has admitted the defaults and has not been able to give any justifiable excuse for the same, therefore, I consider it a deliberate act which is certainly more than mere omission and default on the part of Mr. Muhammad Saleem Ahsan 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. Mr. Muhammad Saleem Ahsan, FCA has, therefore, made himself liable for punishment under Sub-section (1) of Section 260 of the Ordinance.

14. For the foregoing, I, impose a fine of Rs.2,000 (Rupees two thousand) under Sub-section (1) of Section 260 read with Section 476 of the Ordinance on Mr. Muhammad Saleem Ahsan only. As Mr. Muhammad Saleem Ahsan has assumed the responsibility of signing the report, therefore, no fine is imposed on Mr Haroon Nasim FCA, the other partner.

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



Securities and Exchange Commission of Pakistan  
*Enforcement and Monitoring Division*

16. A copy of this Order may also be sent to President, ICAP for his information and necessary action in accordance with the provisions of the Chartered Accountants Ordinance, 1961.

*RASHID SADIQ*  
*Executive Director (Enforcement & Monitoring)*

***Announced***  
**June 26, 2003**  
ISLAMABAD