

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. EJAZ AHMAD, ACA

Number and date of notice	EMD/233/149/2002 April 04, 2002
Date of hearing	June 26, 2002
Present	Mr. Ejaz Ahmad, ACA

Order

This Order will dispose of the show cause proceedings initiated against Mr. Ejaz Ahmad under Section 260 of the Companies Ordinance, 1984 (the "Ordinance") and the Companies (General Provisions and Forms) Rules, 1985 (the "Rules").

2. Mr. Ejaz Ahmad is an Associate Member of the Institute of Chartered Accountants of Pakistan (the "ICAP"). He was registered with ICAP on February 13, 1995 under registration Number 2370. He is a practicing Chartered Accountant and is conducting his business under the name and style of **Ejaz Ahmad & Co.** at Suite No.1, First Floor, 810-C, Block 2, Central Commercial Area, P.E.C.H.S, Karachi.

3. The facts leading to this case, briefly stated, are that M/S Ejaz Ahmad & Co., Chartered Accountant was appointed as Auditor of M/S Kotri Textile Mills Limited (the "Company") in its Annual General Meeting held on March 30, 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 September 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 aforesaid examination of the Company's Accounts revealed that the Audit Report signed by Mr. Ejaz Ahmad on March 02, 2002 was not on the prescribed Form 35-A as notified vide SRO No. 594(1)/2000 dated August 25, 2000.

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 September 30, 2001:

- i. Disclosures of financial instruments as per Para 56, 66 and 77 of IAS 32 (Financial Instruments: Disclosure and Presentation).
- ii. Disclosure of number of employees as per para 102(d) of IAS 1 (Presentation of Financial Statements).
- iii. Disclosure of Earnings per Share as per IAS 33(Earnings Per Share)
- iv. Disclosure of revaluation of fixed assets as per para 64(e) of International Accounting Standard 16 (Property, Plant and Equipment).

7. Mr. Ejaz Ahmad, the Auditor of the Company, however, has not drawn attention of the members towards the aforesaid non-disclosures in his Audit Report signed on March 02, 2002 and instead has given an opinion that the balance sheet, profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984. It was further observed from the perusal of the Accounts that the statement of changes in equity has not been prepared and annexed to the accounts and Auditor has not given any opinion on the same.

8. In view of the above, the Commission felt concerned about the quality of audit of the Company conducted by M/S Ejaz Ahmad & Co., Chartered Accountant. This appeared to be a case where the Auditor has *prima facie* failed to report in conformity with the requirements of Section 255 and the report was otherwise untrue and contained a statement, which was materially incorrect.

9. Consequently a notice dated April 04, 2002 was issued to Mr. Ejaz Ahmad to show cause as to why action under Section 260 of the Ordinance may not be taken against him for the aforesaid contraventions. The reply to the show cause notice was received through letter dated April 13, 2002. In order to provide an opportunity of personal hearing, the case was fixed on June 26, 2002. Mr. Ejaz Ahmad appeared at the time of hearing. He stated that he had also identified the errors after issuance of his report and had, therefore, issued the 'revised' report after clearing deficiencies. He also contended the Company was dormant and had not been involved in

any activity during the year. He admitted the default and requested for a lenient view. He also assured that he would perform its duties with reasonable degree of care in future.

10. Before proceeding to discuss the contentions of Mr. Ejaz Ahmad, I deem it necessary to make some observations on the role of auditors of a company. They 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 and Standards. If they found any irregularity, they are required to issue a modified report, if the said irregularity is material to the accounts. Otherwise they issue a clean report to the shareholders. The shareholders, therefore, are the ultimate entity to whom the auditors are responsible. They must keep this fact in mind while auditing the books of account and reporting thereon. It is the management of companies, which by virtue of their majority power hire and fire the auditors. In these circumstances, the auditors often violate the mandatory provisions to accommodate their clients with a favourable report to ensure a continuity of their appointment. Realizing this situation, the Commission has recently taken several measures to protect the integrity and performance of the auditors in order to safeguard the interest of investors and general public.

11. As regard to the argument that the Company is dormant does not in any way relieve the auditors of their responsibilities from complying with the mandatory requirements of the Ordinance and International Accounting Standards. The revised report was issued later on after the accounts had been circulated and presented to the shareholders. It was incumbent on the Auditor to have drawn attention to the members of the Company towards these non-compliances/contraventions in his Audit Report. As he has accepted the deficiencies, the undersigned is convinced that the default is willful and 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.

12. In view of the foregoing, it is established that Auditors Report on the Accounts is made otherwise than in conformity of the requirements of Section 255 of the Ordinance and also the Audit Report has failed to bring material fact, as stated above, about the affairs of the Company. 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. Ejaz Ahmad 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. Ejaz Ahmad has, therefore, made himself liable for punishment under Sub-section (1) of Section 260 of the Ordinance under Rule 35 of the Rules

13. 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 Mr. Ejaz Ahmad.

14. I impress upon Mr. Ejaz Ahmad 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. Ejaz Ahmad 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
June 28, 2002
ISLAMABAD