

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. Kanwer Furqan Ali, FCA

Number and date of notice	9(680)CF/ISS/2001 January 18, 2002
Date of hearing	June 26, 2002
Present	Mr. Kanwer Furqan Ali, FCA

Order

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

2. Mr. Kanwer Furqan Ali is a Fellow member of the Institute of Chartered Accountants of Pakistan (the "ICAP"). He was registered with ICAP on April 28, 1980 under registration number 1241. He is a practicing Chartered Accountant and is conducting his business under the name and style of "M/S Kanwer Furqan Ali & Co" at room No. 20, 4th Floor, Al-Yousaf Chambers, Shahrah-e-Liaquat, New Challi, Karachi.

3. The facts relevant to this case, briefly stated, are that M/S Kanwer Furqan Ali & Company, Chartered Accountant was appointed as Auditor of M/S Kashmir Polytex Limited (the "Company") in its Annual General Meeting held on December 31, 1999 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, 2000 (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 Mr. Kanwer Furqan Ali on December 06, 2000 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 aforesaid 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, 2000:

- i) *IAS-1 (Presentation of Financial Statements);*
- ii) *IAS-7 (Cash Flow Statements);*
- iii) *IAS-16 (Property, Plant and Equipment);*
- iv) *IAS-32 (Financial Instruments: Disclosure and Presentation); and*
- v) *IAS 33 (Earnings Per Share).*

7. The Auditor of the Company, however, has not drawn attention of the members in his Audit Report towards the aforesaid non-disclosures in the Accounts. The Auditor has also failed to draw attention of the members towards possible going concern problem. The accumulated losses of the Company as at June 30, 2000 were to the tune of Rs. 196.921 million against the paid up capital of Rs. 71 million and the current liabilities exceeded its current assets by Rs.95.55 million. This issue also assumed importance because of the fact that the Company has closed its Mirpur plant since May 1999 and was being operated at 21% of its installed capacity during the calendar year 2000.

8. Consequently, a notice dated January 18, 2002 was issued to Mr. Kanwer Furqan Ali to show cause as to why action under Section 260 of the Ordinance and Rule 35 of the Rules may not be taken against his for the contraventions of the mandatory provisions of the Ordinance and Rules. Mr. Kanwer Furqan Ali submitted his reply vide letter dated February 20, 2002 stating:

QUOTE

“ it is hereby submitted that although the shortcomings in the audit report are correct but these were occurred due to severe mistake by my audit manager unfortunately due to my bad health. I relied on the work of my audit manager, which as a matter of principle, I should not. However, I assure you that in future, I will take care of all statutory disclosure requirements and as far as authenticity of the figures reported there is no allegation”

UNQUOTE

9. In orders to provide an opportunity of personal hearing, the case was fixed on February 21, 2002. Mr. Kanwer Furqan Ali, however, communicated his inability to attend the hearing. I quote from his letter:

QUOTE

“due to some unfortunate incident, I lost my finance and I am not in a position to afford the expenses required to visit to Islamabad or appoint a representative to represent me before you.”

UNQUOTE

10. In order to give another opportunity of personal hearing, the case was fixed in Karachi on June 26, 2002 to make it convenient for him to attend the hearing. On the date of hearing, Mr. Kanwar Furqan Ali appeared before me and admitted the defaults and requested for a lenient view. He also assured that the he would perform his duties with reasonable degree of care in future. After having gone through the arguments given at the time of hearing and in written submissions, I am of the considered view that Mr. Kanwer Furqan Ali has violated the statutory provisions as mentioned above. I am bewildered at the reply of the auditors that the violations were caused by severe mistake by his Audit Manager. The carelessness of the auditor is obvious, and it is abundantly clear that the auditor has failed to perform his 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 as well as Rules.

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. Kanwer Furqan Ali 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 have a devastating affect, if the auditors sign clean reports 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 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. Kanwer Furqan Ali who was under legal obligation to perform his duties in the course of audit of Accounts of the Company and to report thereon, in accordance with the provisions of the Ordinance, International Accounting Standards and Auditing Standards.

14. For the foregoing reasons, 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. Kanwer Furqan Ali who is sole proprietor of M/S Kanwar Furqan Ali & Co., Chartered Accountant.

15. Mr. Kanwer Furqan Ali is directed to deposit the above stated fine in the designated 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