



Securities and Exchange Commission of Pakistan
(Enforcement & Monitoring Division)

[Islamabad]

Before Rashid Sadiq, Executive Director

Order

In the Matter of

Mr. Muhamamd Maqsood, FCA and Mr. Nasir Gulzar, FCA
partners of M/S Zahid Jamil & Company; Chartered Accountants

Number and date of notices

EMD/Co./233/286/2002

Dated October 31, 2002 & November 19, 2002

Date of hearing

May 07, 2003

Present

Mr. Nasir Gulzar, FCA

Date of Order

June 30, 2003

Through this Order, I propose to dispose of the proceedings initiated under Section 260 of the Companies Ordinance, 1984 (the "Ordinance") against Mr. Muhamamd Maqsood, FCA and Mr. Nasir Gulzar, FCA, the partners of M/ S Zahid Jamil & Company, Chartered Accountants for making reports to the members of M/S Taj Textile Mills Limited (hereinafter referred to as the "Company") on the accounts and books of account and balance sheets and profit and loss accounts of the Company otherwise than in conformity with the requirements of Section 255 of the Ordinance. This is a case where the auditors have failed to report, among other matters, on the



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short-term borrowings of Rs. 246.85 million transferred to the Company from its associated Company namely M/s Elahi Enterprises (Pvt) Limited. The case of one of the partners namely Mr. Muhamamd Suleman Zahid, FCA who had signed the reports on the financial statements of the Company for the year ended September 30, 2000 and 2001 was decided vide Order dated April 29, 2003. The other partners of the firm namely Mr. Nasim Gulzar, FCA and Mr. Muhammad Maqsood, FCA, who were unable to obtain information and working papers which, as reported by them, were in the custody of Mr. Muhamamd Suleman Zahid, FCA were given another opportunity to appear before the undersigned on May 07, 2003 to defend these proceedings.

2. On the date of hearing, Mr. Nasir Gulzar, FCA appeared before me. He also represented Mr. Muahmamd Maqsood, FCA. In the written submissions vide letter dated May 05, 2003 and arguments put forward at the time of the hearing by and on behalf of Mr. Muhammad Maqsood it was admitted that the accounts of the Company for the years ended September 30, 1998 and 1999 were signed by him, however, all the audit working paper files of the Company were in the possession of Mr. Mohammad Suleman Zahid, FCA and despite best efforts he has been unable to acquire them. It



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was reiterated that the accounts of the said years were based on the books of accounts, supporting details, trial balance and related information made available by the management during the course of the audit. The sample selection for the purposes of the audit was based on trial balance provided by the management and it may not have covered the area where the adjustments had been carried out by the management. Furthermore, he was not in knowledge of the transaction with the associated undertaking, as the same was not appearing in the trial balance provided to him. To a question regarding the financial charges incurred on behalf of M/s Elahi Enterprises (Pvt) Limited, appearing in the accounts of the Company it was submitted that the element of such financial charges in the year of the audit (1998 and 1999) was immaterial and was not considered at the time of sample selection for the audit purposes. It was also stated that Mr. Mohammad Maqsood was not aware of the agreement between the Company and M/s Elahi Enterprises, its associated undertaking, at the time of the audit of the accounts and books of accounts for the year ended September 30, 1998 and 1999.

3. I have carefully considered the arguments advanced by Mr. Muhammad Maqsood, most of them being identical to those put forward by



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Mr. Muhammad Suleman Zahid, FCA and have already been discussed in detail in Order dated April 29, 2003, therefore, I need not discuss each issue raised in the show cause notice and instead would refer to the said Order, which would form an integral part of this Order. However, the submission with regard to audit sampling and the sample selection process needs to be discussed in light of the relevant provisions of the Auditing Standard 19 – Audit Sampling and Other Selective Testing Procedures. Para 2 of AS 19 states that when designing audit procedures, the auditor should determine appropriate means for selecting items for testing so as to gather evidence to meet the objectives of the audit tests. The said AS further warns the auditors in paras 7 and 8 of sampling and non-sampling risks. It states that sampling risk arises from the possibility that the auditors' conclusion based on a sample may be different from the conclusion reached if the entire population was subjected to the same audit procedure, whereas, non-sampling risk arises from factors that cause the auditor to reach an erroneous conclusion for any reason not related to the size of the sample. It has been pointed that out most audit evidence is persuasive rather than conclusive, the auditor might use inappropriate procedures, or the auditor might misinterpret the evidence and fail to recognize the error. Furthermore, in para 17 elaborating on substantive procedures it is stated that:



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Substantive procedures are concerned with amounts and are of two types: analytical procedures and tests of details of transactions and balances. The purpose of substantive procedures is to obtain audit evidence to detect material misstatements in the financial statements. When performing substantive test of details, audit sampling and other means of selecting items for testing and gathering audit evidence may be used to verify one or more assertions about the a financial statement amount (for example, the existence of accounts receivable), or to make an independent estimate of the amount (for example, the value of obsolete inventory)

In this regard, para 11 of Auditing Standard – Objective and General Principles Governing an audit of the Financial Statements is also relevant. It states that other limitations may effect the persuasiveness of evidence available to draw conclusions on a particular financial statement assertions (for example, transactions between related parties) and in such cases auditing standards identify specific procedures which provide sufficient and appropriate audit evidence in the absence of unusual circumstances and material misstatement. In the context of the case in hand, the procedures specified in Auditing Standard –17 Related Parties have already been elaborated at length in the Order dated April 29, 2003 passed against Mr. Mohammad Suleman Zahid, FCA. Mr. Muhammad Maqsood, FCA failed to give a satisfactory reply the question as to whether or not, in consideration of these provisions of the auditing standards, the requisite auditing procedure were followed. In view of this fact of the matter, I am of the view that he has not conducted audit in accordance with the applicable auditing standards and



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his statements and representations in the audit reports for the years ended September 30, 1998 and 1999 were false and misleading.

4. In view of the above discussion and for the reasons recorded in the Order dated April 29, 2003 (which would form part of this Order) I am of the opinion that Mr. Muhamamd Maqsood, FCA has made reports on the accounts of the Company for the years ended September 30, 1998 and 1999 otherwise than in conformity with the requirements of Section 255 of the Ordinance. An action, therefore, is necessary under Sub-section (1) of Section 260 of the Ordinance. I, therefore, impose a fine of Rs 4,000 (Rupees four thousand only) on Mr. Muhamamd Maqsood, FCA for making default under Sub-section (1) of Section 260 of the Ordinance with regard to his reports for the years ended September 30, 1998 and 1999. No fine, however is imposed on Mr. Nasir Gulzar, FCA since he has neither audited nor reviewed the accounts of the Company.

5. Mr. Muhamamd Maqsood, FCA is directed to deposit the fine of Rs. 4,000/- (Rupees four thousand only) in the Bank Account of Securities and Exchange Commission of Pakistan maintained with Habib Bank Limited



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within 30 days of the date of this Order and furnish a receipted challan to the Securities and Exchange Commission of Pakistan.

6. 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.

Announced
June 30, 2003
Islamabad

Rashid Sadiq
Executive Director (Enforcement & Monitoring)