



Securities and Exchange Commission of Pakistan
Enforcement and Monitoring Division

[Islamabad]

Before Rashid Sadiq, Executive Director

In the matter of
MR. ASRAR UL MAJEED KHAN, FCA

Number and date of notice	EMD/C.O.228/75/2002-738 July 30, 2002
Date of hearing	September 09, 2002
Present	Mr.Asrar-ul-Majeed Khan, FCA

Order

This Order will dispose of the show cause proceedings initiated against Mr. Asrar-ul-Majeed Khan under Section 260 of the Companies Ordinance, 1984 (the “Ordinance”) and the Companies (General Provisions and Forms) Rules, 1985 (the “Rules”).

02. Mr. Asrar-ul-Majeed Khan is a Fellow Member of the Institute of Chartered Accountants of Pakistan (the “ICAP”) and was registered with ICAP on February 10, 1968 under Registration Number 447. He is a practicing Chartered Accountant and is conducting his business under the name and style of “Arman & Company, Chartered Accountants” at 164/6 Shadman-1, Lahore.

03. The facts leading to this case, briefly stated, are that M/S Arman & Co., Chartered Accountant was appointed as Auditor of M/S Wali Oil Mills Limited



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(the “Company”) in its Annual General Meeting held on December 31, 2000 to hold office from the conclusion of the said meeting until the conclusion of next Annual General Meeting.

04. 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 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.

05. The aforesaid examination of the Company’s Accounts revealed that the Audit Report signed by Mr. Asrar-ul-Majeed Khan on November 29, 2001 was not on the prescribed Form 35-A as notified vide SRO No. 594(1)/2000 dated August 25, 2000.

06. It was also observed that, profit before taxation has been shown as Rs. 11.501 million in cash flow statement for the year ended June 30, 2001 whereas the same was reported at Rs. 13.159 million in the profit and loss account for the said year.

07. It was further 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 in regard to the accounts and preparation of the Balance Sheet and Profit and Loss Account for the year ended June 30, 2001:



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- Disclosures of financial instruments as per requirements of Para 56, 66 and 77 of IAS 32 (Financial Instruments: Disclosure and Presentation).
- Disclosure of liabilities against assets subject to finance lease as per the requirement of Para 23 of IAS 17 (Leases).
- Disclosure of number of employees as per Para 102(d) of IAS 1 (Presentation of Financial Statements).
- Disclosure of Earnings per Share as per IAS 33 (Earnings Per Share).
- Non-compliance of Para 11 of IAS 1 (Presentation Of Financial Statements).
- Reasons for low output as per the requirements of 4th Schedule to the Ordinance.
- Non-compliance of Para 40 of IAS 1 (Presentation Of Financial Statements).

08. Mr. Asrar-ul-Majeed Khan, the Auditor of the Company, however, has not drawn attention of the members towards the aforesaid non-disclosures in his Audit Report signed on November 29, 2001 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 Ordinance. He has not given any opinion as to whether the balance sheet, profit and loss account and cash flow statement and notes forming part thereof conformed to the approved accounting standards as applicable in Pakistan. It was further observed from the perusal of the Accounts



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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.

09. In view of the above, the Commission felt concerned about the quality of audit of the Company conducted by M/S Arman & 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.

10. Consequently a notice dated July 30, 2002 was issued to Mr. Asrar-ul-Majeed Khan to show cause as to why action may not be taken against him for the contraventions of the mandatory provisions of law. The reply to the show cause notice was received through letter dated August 20, 2002. In order to provide an opportunity of personal hearing, the case was fixed on September 09, 2002. Mr. Asrar-ul-Majeed Khan appeared at the time of hearing and 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, 2001. He also submitted that some of the deficiencies occurred due to printing errors. He also stated that if more disclosures are made, the tax authorities exploit the information in the published accounts to harass the assessee. He further contended that the shares of the company are not traded on the stock exchange and there were no minority shareholders. He, however, admitted the default and requested for lenient view. He also assured that he would perform his duties with reasonable degree of care in future.

11. 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



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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. Practically, 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 favorable report to ensure continuity of their appointment. The auditors must realize their true role and restrain themselves from performing their duties indulgently.

12. Having heard Mr. Asrar-ul-Majeed Khan and after examination of the relevant provisions of law, I am of the opinion that the arguments advanced by him are totally unsatisfactory and deficient. The argument that the deficiencies in the accounts were due to printing errors is not well founded because of the simple reason that the same were also found in the accounts, which were filed with the Commission duly signed by Mr. Asrar-ul-Majeed Khan. His argument that tax authorities take action if published accounts contain more information is also not sustainable, as all the listed companies are required to give disclosures as required under the law. Moreover, the fact that a company has no minority shareholders does not absolve the auditors from his responsibility of exercising due care while auditing the books of a company and reporting thereon. The auditors are required to conduct audit in accordance with the auditing standards and they should not take into consideration such issues while reporting on the annual accounts of companies. It is clear from the above discussion that the auditor has failed to perform his statutory obligations by not giving fullest information to the members. It was incumbent on the Auditor to have drawn attention to the members of the Company towards the non-compliances/ contraventions in his Audit Report. In the



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circumstances, it is clear that the Auditor has failed to perform his duties with reasonable degree of care and skill.

13. In view of the foregoing, the undersigned is convinced that an action against the Auditor is necessary. 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. Asrar-ul-Majeed Khan 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. Asrar-ul-Majeed Khan has, therefore, made himself liable for punishment under Sub-section (1) of Section 260 of the Ordinance and Rule 35 of the Rules.

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 Mr. Asrar-ul-Majeed Khan.

15. I impress upon Mr. Asrar-ul-Majeed Khan 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.

16. Mr. Asrar-ul-Majeed Khan 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.



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17. 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
November 05, 2002
ISLAMABAD