

Securities and Exchange Commission of Pakistan  
*Enforcement and Monitoring Division*  
7<sup>th</sup> Floor, NIC Building, Jinnah Avenue, Blue Area, Islamabad

*Before Rashid Sadiq, Executive Director*

*In the matter of*  
**MR. MUHAMMAD ASIF RAZA, ACA**

Number and date of show cause notice	19 (760) CF /ISS/2001 dated November 13, 2001
Date of hearings	November 20, 2001, December 10, 2001
Present	Mr. Amjad Ali

**ORDER UNDER SUB-SECTION (1) OF  
SECTION 260 OF THE COMPANIES ORDINANCE, 1984**

Mr. Muhammad Asif Raza is an Associate Member of the Institute of Chartered Accountants of Pakistan (the "ICAP"). His Registration Number is 3030 and the date of registration with ICAP is November 16, 1999. He is a practising Chartered Accountant and is conducting his business under the name and style of 'Asif & Co.' at Suite No. 68, 3rd Floor, Hajvary Complex, 2-Main Mozang Road, Lahore. Asif & Co., was appointed as auditor of M/S Ghani Textile Limited, a listed company (hereinafter referred to as the "Company") in the Annual General Meeting held on March 31, 2000 to hold office from the conclusion of the said meeting until the conclusion of next Annual General Meeting.

2. The Audited Accounts for the year ended September 30, 2000 (the 'Accounts') of the Company were examined and it was observed that the Audit Report on the Accounts signed by

Mr. Muhamad Asif Raza, sole proprietor of Asif & Co., on March 03, 2001 was not on the prescribed Form 35-A as amended vide SRO No. 594 (1)/2000 dated August 25, 2000.

3. It was also noted from the Accounts that the Company did not follow the requirements of International Accounting Standard 32 (Financial Instruments: Disclosure and Presentation) in regard to the accounts and preparation of Balance Sheet and Profit and Loss Account and the Auditor has not commented on the aforesaid non-disclosure in the Accounts.

4. It was further observed from the Accounts that the accumulated losses of the Company as of September 30, 2000 were to the tune of Rs.20.774 million against total equity of Rs 50 million, the Company has adverse key financial ratios and the production activities remained closed during the whole year, however, no disclosure was made by the management about its plans for future action. The Auditors Report on the Accounts was silent on the possible going concern issue and the Auditor has not modified his report even in the above stated circumstances.

5. In view of the foregoing, the Commission felt concerned about the quality of the Audit of Accounts of the Company conducted by Mr. Muhammad Asif Raza. The circumstances described above necessitated that this matter should be investigated.

6. Consequently, a Show Cause Notice No.19(760)CF/ISS/2001 dated November 13, 2001 was issue to Mr. Muhammad Asif Raza to show cause, in writing, and to appear before the undersigned on Tuesday, November 20, 2001 at the Companies Registration Office, Associated House, Egerton Road, Lahore to explain as to why penalty may not be imposed on him as provided under Rule 35 of the Companies (General Provisions and Forms) Rules, 1985 and Sub-section (1) of Section 260 of the Ordinance for the aforesaid contraventions.

7. At the request of Mr. Muhammad Asif Raza, the hearing fixed on November 20, 2001 was adjourned and re-fixed on December 10, 2001, on which date Mr. Amjad Ali appeared on behalf of Mr. Muhammad Asif Raza and admitted the default. He, however, requested for a lenient view of the said default.

8. Irrespective of the admission of default by the Auditor, I consider it essential to discuss the relevant provisions of law and their violation by the Auditor of the Company. Sub-section (3) of Section 255 of the Ordinance requires that:

*“ the auditor shall make a report to the members of the company on the accounts and books of accounts of the company and on every balance sheet and profit and loss account or income and expenditure account and on every other document forming part of the balance sheet and profit and loss account or income and expenditure account, including notes, statements or schedules appended thereto, which are laid before the company in general meeting during his tenure of office.”*

9. Rule 17-A of the Companies (General Provisions and Forms) Rules, 1985 provides that:

*“the auditor’ report on the accounts and books of accounts and balance sheet and profit and loss accounts of a company required by Section 255 SHALL be in Form 35 A.”*

10. As the Auditor has given Audit Report on the Accounts on the old format, therefore, he has violated the mandatory provisions of Section 255 of the Ordinance and Rule 17-A of the Companies (General Provisions and Forms) Rule, 1985. He has, thus, made himself liable for punishment under Sub-section (1) of Section 260 and Rule 35 of the aforesaid Rules.

11. Now coming to the next issue, the provisions of Clause (i) of Sub-section (3) of Section 234 of the Ordinance are relevant, which provides that in the case of a listed company:

*“such International Accounting Standards and other Standards SHALL be followed in regard to the accounts and preparation of the balance sheet and profit and loss account as are notified for the purpose”*

12. The Company has not followed the aforesaid provisions of the Ordinance as it has not provided any disclosure as required by International Accounting Standard 32. The Auditors Report states that the Accounts give the information required by the Ordinance in the manner so required. As is evident from the afore said discussion that it is one of the requirements of the Ordinance that all notified International Accounting Standards SHALL be followed by the listed

companies in regard to the preparation of their accounts. International Accounting Standard 32 requires several disclosures, which has not been made in the Accounts by the Company. To that extent, the Accounts do not give the information in the manner required by the Ordinance. The Auditor, therefore, has failed to report the non-compliance with the International Accounting Standard to the members of the Company. Thus, he has made himself liable for punishment under Sub-section (1) of Section 260 of the Ordinance.

13. Now the issue of going concern assumes importance. The Auditors are required to conduct Audit in accordance with the Auditing Standards as applicable in Pakistan. Erosion of equity, net current liability position, adverse key financial ratios, substantial operating losses, discontinuance of dividends, closure of production activities for over a year, raises doubt about the validity of the going concern assumption. The Accounts do not provide any plan of the management for the revival of productions activities. In the circumstances, it was incumbent on the Auditor of the Company to consider the appropriateness of going concern assumption underlying the preparation of the financial statements as required under Auditing Standards 23 (Going Concern). This having not been done, the Auditors Report has failed to bring the material fact about affairs of the Company to the attention of the members. Thus, the Auditor has made himself liable for punishment under Sub-section (1) of Section 260 of the Ordinance.

14. The Ordinance lays down provisions pertaining to several matters which are required to be followed by the companies in regard to the preparation of their accounts. International Accounting Standards have been adopted by ICAP and notified by the Commission to improve the quality of the financial statements and to enhance their comparability. It is the responsibility of the Directors to ensure that relevant provisions of law are followed. At the same time, it is the duty of the Auditors to bring to the notice of the members the major breaches observed in the financial statements. The Auditors are required to ensure compliance with the International Accounting Standards and Auditing Standards to ensure that financial statements conform to the Generally Accepted Accounting Principles and that the audit is conducted in accordance with the Generally Accepted Auditing Standards.

15. In view of the aforesaid discussion, and after considering all the relevant facts and circumstances of this case, it is clearly established that Mr. Muhamamd Asif Raza has

deliberately contravened the provisions of Section 255 of the Ordinance and Rule 17-A of the Companies (General Provisions and Forms) Rules, 1985. The Audit Report has failed to bring material facts and non-compliance, as stated above, about the affairs of the Company. However, taking a lenient view of the default, I impose a fine of **Rs 2,000** (Rupees two thousand only) on Mr. Muhammad Asif Raza under Sub-section (1) of Section 260 of the Ordinance and Rule 35 of the Companies (General Provisions and Forms) Rules, 1985 read with Section 476 of the Ordinance.

16. In addition, I also consider it necessary to issue a WARNING to Mr. Muhammad Asif Raza to be more observant, careful, vigilant and cautious in future and perform his duties with a reasonable degree of care and skill.

17. Mr. Muhammad Asif Raza is directed to deposit the above stated fine in the following Bank Account of Securities and Exchange Commission of Pakistan within 30 days of the date of this Order and furnish a receipted challan to the Securities and Exchange Commission of Pakistan.

**Account N0. 10464-6**  
**Habib Bank Limited**  
**Habib Bank Plaza, Shahrah-e-Quaid-e-Azam**  
**LAHORE.**

**RASHID SADIQ**

*Executive Director (Enforcement & Monitoring)*

**Announced**

*December 12, 2001*

**ISLAMABAD**