

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

Before Rashid Sadiq, Executive Director

In the matter of
MR. MUHAMMAD SULEMAN CHAUDHRY, FCA

Number and date of show cause notice	19 (493) CF /ISS/2001 dated November 12, 2001
Date of hearing	November 20, 2001
Present	Mr. Muhammad Suleman Chaudhry, FCA

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

Mr. Muhammad Suleman Chaudhry is a Fellow Member of the Institute of Chartered Accountants of Pakistan (the "ICAP"). His Registration Number is 425 and the date of registration with ICAP is October 19, 1966. He is a practicing Chartered Accountant and is conducting his business under the name and style of '**Suleman Chaudhry & Co.**' at Room No. 112, Eden Centre, 43-Jail Road, and Lahore. Suleman Chaudhry & Co. was appointed as auditor of M/S Punjab Oil Mills Limited, a listed company (hereinafter referred to as the "Company") in its Annual General Meeting held on December 18, 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 June 30, 2000 (the 'Accounts') of the Company were examined and it was observed that the Audit Report on the Accounts signed by Mr. Muhammad Suleman Chaudhry, sole proprietor of Suleman Chaudhry & Co., on November 29, 2000 was not on the prescribed Form 35-A as required vide SRO No. 594 (1)/2000 dated August 25, 2000.

3. It was further noticed from the aforesaid accounts of the Company that the Company has not followed the requirements of International Accounting Standard 32 (Financial Instruments: Disclosure and presentation) in regard to the preparation of the accounts and the Auditor has not drawn attention of the members in his Audit Report toward the aforesaid non-disclosure in the Accounts. The Auditors report has also failed to bring to the notice of the members the violation of Section 208 of the Ordinance.

4. The Commission, through its letter dated August 13, 2001, brought the aforesaid contraventions/non-compliances of the law to the notice of the Auditor in response to which, Mr. Muhammad Suleman Chaudhry stated that the audit of the Company was almost complete when the new format of Audit Report was introduced and because of this reason, the Audit Report was given in the old format inadvertently. He, however, admitted that draft report was issued after the receipt of directive of ICAP regarding new format of audit report. As far as non-compliance with IAS 32 and other violations are concerned, he admitted that these issues were also missed inadvertently.

5. The above quoted comments show a clear admission and acknowledgement of the failure of the Auditor to report contraventions and non-compliances to the members of the Company. It also indicates that 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. It appeared that the Auditor has not performed his duties with reasonable degree of care and skill. The

Commission felt concerned about the quality of the Audit of Accounts of the Company conducted by Suleman Chaudhry & Co., Chartered Accountant and, therefore, it was decided to examine this matter further.

6. Consequently, a Show Cause Notice No.19 (493) CF/ISS/2001 dated November 12, 2001 was issued to Mr. Muhammad Suleman Chaudhry 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, 1984 and Sub-section (1) of Section 260 of the Ordinance for the aforesaid contraventions.

7. On the date of hearing, Mr. Muhammad Suleman Chaudhry appeared and submitted his explanations. He also filed a reply to the Show Cause Notice stating that Audit Report on old format and non-compliance with IAS were inadvertent. As regard to other issues, he stated that when full facts have been stated in the notes to the Accounts, there is no need to repeat the said notes in the Audit Report. He, however, admitted the defaults and requested for a lenient view stating that the defaults were not willful. He assured to comply with the requirements of law in future.

8. Before proceeding further, it would be beneficial 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 B of the Companies (General Provisions and Forms) Rules, 1985 provides that:

“the auditors 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 B.”

10. In my view, the Auditor has failed to follow the aforesaid mandatory requirements of Rule and has given Audit Report on the Accounts on the old format. He has, thus, violated the provisions of Section 255 of the Ordinance and Rule 17 B of the Companies (General Provisions and Forms) Rule, 1985 and made himself liable for punishment.

11. The provisions of Clause (i) of Sub-section (3) of Section 234 of the Ordinance requires 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. Sub-section (3) of Section 255 requires that the Auditor SHALL make a report to the members of the company stating, among others, as to whether the Balance Sheet and Profit and Loss Account together with notes thereon have been drawn up *in conformity with the Companies Ordinance, 1984* and as to whether the Balance Sheet, Profit and Loss Account, Cash Flow Statement, Statement of Changes in Equity together with notes forming part thereof *conform with the approved accounting standards as applicable in Pakistan* and, *give information under the Companies Ordinance, 1984 in the manner so required.*

13. The above stated provisions of the Ordinance are mandatory and it is the responsibility of the Auditor to ensure that the Audit is conducted in the manner provided in the Ordinance and to report non-compliances/contraventions of the mandatory requirements of the Ordinance to the members of the company. The arguments that the matters were ignored inadvertently are not justifiable reasons and are not acceptable. I do not agree with the argument that when full facts have been disclosed in Accounts there was no need to repeat the same in the Audit Report for the reasons that preparation of financial statements is the responsibility of the management of the company whereas, the auditors responsibility is to express an opinion on these statements.

14. The Company had violated the aforesaid provisions of the Ordinance and Rules framed there under as is apparent from the above discussion. It was, therefore, incumbent on the Auditor to have drawn attention of the members of the Company towards these major non-compliances/contraventions in his Audit Report. The Audit Report, therefore, is made than otherwise in conformity with the provisions of Section 255 of the Ordinance. Thus, the Auditor has made himself liable for punishment under Sub-section (1) of Section 260 of the Ordinance.

15. 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 are required to 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 his responsibilities in accordance with the Generally Accepted Auditing Standards. Mr. Muhammad Suleman Chaudhry has not followed the prescribed practices and above stated mandatory requirements of law. ICAP has the responsibility as frontline regulator to look into such serious issues and ensure that its members strictly follow the mandatory statutory requirements.

16. 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. Muhammad Suleman Chaudhry 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. Suleman Chaudhry has, therefore, made himself liable for punishment under Sub-section (1) of Section 260 of the Ordinance.

17. For the reasons stated above, I impose a fine of **Rs 2,000** (Rupees two thousand only) on Mr. Muhammad Suleman Chaudhry under Sub-section (1) of Section 260 of the Ordinance read with Section 476 of the Ordinance. The manner in which Audit Report has been made involves a serious breach of trust by Mr. Muhammad Suleman Chaudhry, FCA for which the penalty imposed on him is both justified and necessary.

18. In addition, I also consider it necessary to issue a WARNING to Mr. Muhammad Suleman Chaudhry to be more careful and cautious in future and perform his duties with a reasonable degree of

care and skill. His performance has brought disgrace to the noble profession of Accountancy. Such kind of professional negligence in the performance of duties is undesirable and not acceptable for practicing Chartered Accountant. The quality of the services to the users of the financial statement can be improved only when the practicing members of ICAP implement quality control policies and procedures which ensure that all audit are conducted in accordance with the Auditing Standards, International Accounting Standards and the provisions of the Ordinance.

19. Mr. Muhammad Suleman Chaudhry 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 NO. 10464-6
Habib Bank Limited
Habib Bank Plaza, Shahrah-e-Quaid-e-Azam
LAHORE.

RASHID SADIQ
Executive Director (Enforcement & Monitoring)

Announced
December 28, 2001
ISLAMABAD