

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. SALMAN MASUD, FCA

Number and date of show cause notice	19 (986) CF /ISS/2001 dated January 03, 2001
Date of hearing	January 15, 2002
Present	Mr. Salman Masud, FCA

**ORDER UNDER RULE 35 OF THE COMPANIES (GENERAL PROVISIONS
AND FORMS) RULE, 1985 AND SUB-SECTION (1) OF SECTION 260 READ
WITH SECTION 476 OF THE COMPANIES ORDINANCE, 1984**

Mr. Salman Masud is a Fellow Member of the Institute of Chartered Accountants of Pakistan (the "ICAP"). His Registration Number with ICAP is 992. He is a practicing Chartered Accountant and is conducting his business under the name and style of '*Salman & Co.*' at Office No. 8, Hamilton Court Complex, Main Clifton Road, Karachi-6. Salman & Co., was appointed as auditor of M/S Gauhar Engineering Limited, a listed company (hereinafter referred to as the "Company") for the year ended June 30, 2001 in its Annual General Meeting held on December 31, 2001 to hold office from the conclusion of the said meeting until the conclusion of next Annual General Meeting.

2. The Audited Accounts of the Company for the year ended June 30, 2001 (the 'Accounts') were examined and it was noticed that the Audit Report on the Accounts signed by Mr. Salman

Masud, sole proprietor of Salman & Co., was not on the prescribed Form 35-A as amended vide SRO No. 594 (1)/2000 dated August 25, 2000.

3. The following irregularities in the observance of the requirements of the 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, 2001 were also noticed:

- Non-disclosure of the basis on which the financial statements were prepared and reasons why the enterprise was considered to be a going concern as per Para 23 of IAS 1 (Presentation of Financial Statements).
- Non-recognition of the borrowing cost on bank borrowings as an expense as required by Para 7 of IAS 23 (Borrowing Costs).
- Non-disclosure of interest rate risk in the accounts contrary to requirements of Para 56, 66 and 77 of IAS 32 (Financial instruments: Disclosure and Presentation).
- Non-disclosure of accounting policies in the accounts as per Para 20 of IAS 1 (Presentation of Financial Statements).
- Statement of changes in equity and Cash Flow Statement have not been prepared and annexed to the accounts contrary to the requirements of Para 7 of IAS 1 (Presentation of Financial Statements).
- Non-disclosure of the number of employees contrary to requirements of Para 102(d) of IAS 1 (Presentation of Financial Statements).
- Non-disclosure of Earnings per Share in the accounts as per IAS 33 (Earnings Per Share).
- Non-disclosure of the domicile and legal form of the enterprise, its country of incorporation and description of nature of the enterprise's operation as required under Sub Para (a) and (b) of Para 102 of IAS 1 (Presentation of Financial Statements).

4. The following irregularities in the compliance of the requirements of Fourth Schedule to the Companies Ordinance, 1984 (the 'Ordinance') were also noted:

- The company failed to comply with the provisions of Clause (ii) of Para 2 of Part I of Fourth Schedule to the Ordinance regarding disclosure of non-following of fundamental accounting assumption, namely going concern and accrual in preparation of the financial statements.
- Plant capacity has not been disclosed in the accounts as per Clause (vii) of Para 2 of Part I of Fourth Schedule to the Ordinance.
- The Company has not disclosed the current portion of long-term loans as required by Clause (B) of Para 12 of Part II of Fourth Schedule to the Ordinance.
- Account Receivable has been included in the Advances, deposits and prepayments instead of disclosing it separately on the face of balance sheet as per Sub-Clause (iv) of Clause (A) of Para 6 of Part II of Fourth Schedule.
- Disclosure of bank borrowings is not in accordance with Clause (B) of Para 12 of Part II of Fourth Schedule to the Ordinance.

5. Mr. Salman Masud, the Auditor of the Company, however, has not drawn attention of the members in his Audit Report towards the aforesaid contraventions/non-disclosures in the Accounts and instead has given a clean report to the members of the Company as is evident from the following paragraphs of his Audit Report:

QUOTE

“the balance sheet and profit and loss account have been drawn up in conformity with the Companies Ordinance, 1984.”

“in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, cash flow statement, forming part thereof conform with the approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984 in the manner so required and respectively give a true and fair view of the state of the company’s affairs as at June 30, 2001 and of the profit/(loss) , for the year then ended.”

UNQUOTE

6. In view of the aforesaid grave violations, the Commission felt concerned about the quality of the Audit of Accounts of the Company conducted by Mr. Salman Masud and it was decided to investigate this matter further.

7. Consequently, a Show Cause Notice bearing No.19 (986) CF/ISS/2001 dated January 03, 2002 was issued to Mr. Salman Masud to show cause, in writing, within ten days to explain as to why fine 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 violations. In order to provide an opportunity, a hearing in this case was fixed on January 15, 2002 at Karachi.

8. On the date of hearing, Mr.Salman Masud appeared before the undersigned and admitted the default. He also submitted a written reply, the contents of which are reproduced as under:

QUOTE:

“We have failed to comply with certain International Accounting Standards and certain requirements of the Fourth Schedule to the Ordinance. We have also failed to comply with the new audit report format as per Form 35-A.
Our reason for the above stated lapses was time. Our client was rushed to comply with SECP deadlines for submission of audited accounts with the result that all these lapses took place. Even our normal audit report, which has always carried a “going concern” qualification was over looked in the rush to finish the job.
The excuse given by us does not in any way diminish our responsibilities as an auditor and we feel, we have been careless in fully discharging our responsibilities.
For the above stated reasons we request that SECP take a lenient view and we on our part assure the SECP that no such lapses will take place in the future.”

UNQUOTE

9. The reply shows 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 all 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.

10. Before proceeding further, I consider it essential to discuss the relevant provisions of law and their violation by the Auditor of the Company. The provisions of 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.”

11. 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.”

12. As the Auditor has not given Audit Report on the Accounts on the prescribed 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.

13. The provisions of Clause (i) of Sub-section (2) of Section 234 of the Companies Ordinance, 1984 requires that Balance Sheet and Profit and Loss Account or Income and Expenditure Account SHALL:

“ in the case of a listed company comply with the requirements of Fourth Schedule so far as applicable thereto.”

14. 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”

15. 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 required by the Companies Ordinance, 1984 in the manner so required..*

16. 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. I am bewildered at the reply of Mr. Salman Masud, which I would like to summarize as under:

- We failed to comply with certain IAS and certain requirements of 4th Schedule
- We failed to comply with the new audit report format
- Going Concern Qualification, which was carried in the previous audit reports was overlooked in the rush to finish the job.
- The excuse given does not in any way diminish our responsibility as an auditor
- We have been careless in fully discharging our responsibilities.
- The above stated lapses took place due to short time.

In view of the above statement of Mr. Salman Masud, I do not consider it necessary to discuss the reply any further. I impress upon Mr. Salman Masud to establish standards and quality control policies and procedures as required under the Auditing Standards. ICAP should also look into this matter and devise a mechanism whereby the performance of the practicing Chartered Accountants could be monitored on a regular basis.

17. The Accounts of the Company do not comply with the provisions of the Ordinance 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 the major non-compliances/contraventions in his Audit Report. The statement in the Audit Report that the accounts give the information required by the Ordinance in the manner so required and further the Accounts conform with the approved accounting Standards is false and misleading. The Audit Report, therefore, is made than otherwise in conformity with the provisions of Section 255 of the Ordinance.

18. 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. 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 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 auditor carry out his responsibilities in accordance with the Generally Accepted Auditing Standards. Mr. Salman Masud has not followed the prescribed practices and above stated mandatory requirements of law.

19. 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 his negligence in the performance of his duties, therefore, I consider it a willful act on the part of Mr.Salman Masud 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.Salman Masud has, therefore, made himself liable for punishment under Sub-section (1) of Section 260 of the Ordinance.

20. In view of the aforesaid discussion, and after considering all the relevant facts and circumstances of this case, it is clearly established that Mr. Salman Masud 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 out material

facts and non-compliances, as stated above. I, therefore, impose a fine of **Rs 4,000** (Rupees four thousand only) on Mr. Salman Masud, Rs. 2,000 under Sub-section (1) of Section 260 of the Ordinance and Rs. 2,000 under Rule 35 of the Companies (General Provisions and Forms) Rules, 1985 read with Section 476 of the Ordinance.

21. In addition, I also consider it necessary to issue a WARNING to Mr.Salman Masud to be more conscious and careful in future in the performance of his duties.

22. Mr.Salman Masud 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

Karachi.

RASHID SADIQ

Executive Director (Enforcement & Monitoring)

Announced
January 24, 2002
ISLAMABAD