



Corporate Supervision Department
Company Law Division

SECP Before Abid Hussain – Executive Director (Corporate Supervision Department)

In the matter of

Abida Kamran & Co., Chartered Accountants- Auditors of Ashraf Soap Industries Limited

Number of SCN: CSD/ARN/244/2015-1283
Date of issuance of SCN: January 5, 2016

ORDER

UNDER SECTION 260 READ WITH SECTIONS 255 AND 476 OF THE COMPANIES ORDINANCE, 1984

This order shall dispose of the proceedings initiated against proprietor (the “respondent”) of Abida Kamran & Co., Chartered Accountants (the “Auditor”), in respect of audit of annual financial statements (the “Accounts”) of Ashraf Soap Industries Limited (the “Company”) for the year ended June 30, 2014. The proceedings against the respondent were initiated through show cause notice (“SCN”) issued on January 5, 2016 under the provisions of section 260 read with sections 255 and 476 of the Companies Ordinance 1984 (the “Ordinance”).

2. The brief facts of the case are that examination of Accounts for the year ended June 30, 2014 of the Company, a medium sized entity, filed under section 242 of the Ordinance and the Auditor’s report annexed thereto, revealed that the respondent only gave opinion on the balance sheet, profit and loss account and together with the notes forming part thereof, while the report did not include opinion on the ‘cash flow statement’ and ‘statement of changes in equity’ for the year ended June 30, 2014, in the opinion paragraph (c). Moreover, the Auditor’s report was also not dated as required by section 257 of the Ordinance. In response to the Commission’s queries in this regard, the respondent through letter dated November 24, 2015, inter alia, stated that there was a typographical mistake in the Auditors’ report, which was corrected later and correct and dated report was also sent to the client. The respondent being auditor of the Company, prima facie, contravened the provisions of sections 257 and 255 of the Ordinance as the audit report on the Accounts filed with the Registrar was neither dated nor was it in conformity with the prescribed format. Consequently, the SCN was issued to the respondent on January 5, 2016.



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3. In response to the SCN, the respondent submitted reply vide letter dated January 16, 2016 and made following submissions with reference to contents of the SCN:

- a) The company is a non-quoted public company owned by few shareholders, and no public interest is involved.
- b) The mistake made in the audit report was inadvertent and unintentional. It is evident from the fact that the financial statements issued do contain Cash Flow Statement and Statement of Changes in Equity.
- c) There was no intention to profit such auditors or any other person or to put another person to a disadvantage or loss or for a material consideration.
- d) No loss to any party occurred, neither interest of any person impaired by the said mistake.
- e) The mistakes were corrected immediately after came into knowledge of the auditors.

Based on the above submissions the respondent requested to waive the penal provisions.

4. Before proceeding further, it is necessary to advert to the following relevant provisions of Ordinance, International Standards on Auditing ("ISAs") and applicable Accounting and Financial Reporting Standards ("AFRS") for MSEs:

AFRS for MSEs:

Para 1.1. A complete set of financial statements includes the following components:

- (a) a balance sheet;
- (b) an income statement;
- (c) a statement showing either:
 - (i) all changes in equity; or
 - (ii) changes in equity other than those arising from capital transactions with owners and distributions to owners;
- (d) a cash flow statement; and
- (e) accounting policies and explanatory notes.

ISAs:

ISA 700- Forming an Opinion and Reporting on Financial Statements, states as under:

6. The objectives of the auditor are:

- (a) To form an opinion on the financial statements based on an evaluation of the conclusions drawn from the audit evidence obtained; and



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(b) To express clearly that opinion through a written report that also describes the basis for that opinion.

8. Reference to "financial statements" in this ISA means "a complete set of general purpose financial statements, including the related notes." The related notes ordinarily comprise a summary of significant accounting policies and other explanatory information. The requirements of the applicable financial reporting framework determine the form and content of the financial statements, and what constitutes a complete set of financial statements.

43. If the auditor is required by law or regulation of a specific jurisdiction to use a specific layout or wording of the auditor's report, the auditor's report shall refer to International Standards on Auditing only if the auditor's report includes, at a minimum, each of the following elements:

- (g) The auditor's signature;
- (h) The date of the auditor's report; and
- (i) The auditor's address.

The provision of sub-section (3) of section 255 of the Ordinance prescribes requirements, format and the manner of auditors' report on the Accounts, inter alia, provides 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 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.*

Rule 17A of the Companies (General Provisions and Forms) Rules, 1985 (the "Rules") states that *the auditors' report on the accounts and books of accounts and balance sheet and profit and loss account of a company required by section 255 shall be in FORM 35-A, in terms of which the auditor is, inter alia, required to express an opinion on the complete set of financial statements including 'cash flow statement' and 'statement of changes in equity'.*

Sub-section (2) of section 257 of the Ordinance provides that *the report of auditors shall be dated and indicate the place at which it is signed.*

Section 260 of the Ordinance states as under:

"(1) If any auditor's report is made, or any document of the company is signed or authenticated otherwise than in conformity with the requirements of section 157, section 255 or section 257 or is otherwise untrue or fails to bring out material facts about the affairs of the company or matters to which it purports to relate, the auditor concerned and the person, if any, other than the auditor who signs the report or signs or authenticates the document, and in the case of a firm all partners of the firm, shall, if the default is willful, be punishable with fine which may extend to one hundred thousand rupees.



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(2) *If the auditor's report to which sub-section (1) applies is made with the intent to profit such auditor or any other person or to put another person to a disadvantage or loss or for a material consideration, the auditor shall, in addition to the penalty provided by that sub-section, be punishable with imprisonment for a term which may extend to one year and with fine which may extend to one hundred thousand rupees."*

5. I have analyzed the facts of the case, the relevant provisions of the Ordinance, requirements of AFRS and ISAs and the arguments put forth by the respondent. I have observed that as per requirements of the Ordinance, AFRS and ISAs quoted in the preceding paragraphs, the respondent being auditor of the Company was required to give opinion on complete set of financial statements that, inter alia, includes the Cash Flow Statement and Statement of Changes in Equity. Moreover, the audit report was also required to be dated. However, the respondent in the audit report on the Accounts filed with the registrar failed to give an opinion on the Cash Flow Statement and Statement of Changes in Equity and the report was undated.

6. For the foregoing reasons, I am of the view that the provisions of section 260 of the Ordinance have been violated by the respondent. However, keeping in view the respondent's submissions and assurance to avoid such lapses in future, instead of imposing fine, I hereby conclude the proceedings with a warning to the respondent to be careful in future and ensure meticulous compliance with applicable provisions of the Ordinance and ISAs.

Abid Hussain

Executive Director (Corporate Supervisions Department)

Announced:

February 15, 2016

Islamabad