



Corporate Supervision Department
Company Law Division

Before Abid Hussain– Executive Director

In the matter of

**M/s Ahmed Usman Shabbir & Co. Chartered Accountants
Auditor of United Investment Limited**

Number and date of notice: EMD/242/L/574/13-631 dated November 8, 2013
Date of hearings: March 5, 2014, May 19, 2014, June 19, 2014, April 23, 2015, June 24, 2015, September 10, 2015, October 28, 2015, December 1, 2015, December 16, 2015, December 28, 2015, January 28, 2016
Present: No one appeared

ORDER

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

This order shall dispose of the proceeding initiated against Ahmed Usman Shabbir & Co. Chartered Accountants (“respondent”) through show cause notice (the “SCN”) dated November 8, 2013 under the provisions of Section 255 read with Section 260 and 476 of the Companies Ordinance 1984 (the “Ordinance”).

2. The facts leading to this case, briefly stated, are that, the examination of the annual audited accounts for the year ended June 30, 2012 (the “Accounts”) of United Investment Limited (the “Company”), a small sized entity, filed under Section 242 of the Ordinance, revealed that, the respondent being the statutory auditor of the Company have given a clean audit report (the “Report”) to the members of the Company.

3. The examination also revealed that the Company was not in operations for the years 2011 and 2012. Furthermore, the following discrepancies were observed with the disclosure requirement laid down in Accounting and Financial Reporting Standard (AFRS) for Small Sized Entities (SSEs):

- i. The Company failed to present current and non-current assets and current and non-current liabilities as separate classifications on the face of the balance sheet as required under para 29 of AFRS for SSEs, which states that the entity shall present current and non-current assets and current and non-current liabilities as separate classifications on the face of the balance sheet.



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ii. The Accounts for the period under review does not contain explanatory notes as required under the provisions of para 23 of AFRS for SSEs

4. Para 19 of International Standard on Auditing (ISA) 570 (Going Concern) states that:

"if adequate disclosure is made in the financial statements, the auditor shall express an unmodified opinion and include an Emphasis of Matter paragraph in the auditor's report to:

- a) *Highlight the existence of a material uncertainty relating to the event or condition that may cast significant doubts on the entity's ability to continue as a going concern; and*
- b) *Draw attention to the note in the financial statements that discloses the matter set out in paragraph 18.*

Para 20 of ISA 570 (Going Concern) states that:

If adequate disclosure is not made in the financial statements, the auditor shall express a qualified opinion or adverse opinion, as appropriate, in accordance with ISA 705.6 The auditor shall state in the auditor's report that there is a material uncertainty that may cast significant doubt about the entity's ability to continue as a going concern.

5. The respondent while making out their report to the members neither stated the aforementioned facts nor did he express a qualified opinion/adverse opinion as appropriate with specific reference to the fact of uncertainty with regard to going concern as required by the ISA. The audit report on the aforesaid accounts were, prima facie, not in accordance with the requirements of Section 255 of the Ordinance and ISA and failed to bring out material facts about the affairs of the Company. Therefore, SCN was issued to the respondent for *prima facie*, contravention of Section 255&260 of the Ordinance.

6. The reply to SCN was submitted by the respondent vide letter dated June 18, 2014. The seriatim reply is summarized below.

- The Company is a dormant/non operative Company
- There are no asset and liability of the Company which can be grouped as current. All the assets and liabilities are non-current in nature and are outstanding prior to 2003.
- This Company accounts are not likely to be used by any creditor, banks or public, therefore any such presentation does not attract any risk of public money.
- There is no violation of Ordinance or ISA.



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7. In order to provide opportunity of personal hearing; the case was fixed before the undersigned on March 5, 2014, May 19, 2014, June 19, 2014, April 23, 2015, June 24, 2015, September 10, 2015 and on October 28, 2015, December 1, 2015, December 16, 2015, December 28, 2015 and January 28, 2016. It was also intimated to respondent that if they failed to appear in hearing an ex-parte order will be issued on the basis of material available on record, but no one appeared in aforesaid hearings.

8. Before proceeding with the order, it is appropriate to quote the provisions of Section 255(3) of the Ordinance stipulating duties of auditors. It requires that the auditor shall make a report to the members of the company on the accounts and books of account of the company and on every balance sheet and profit and loss account and on every other document forming part of the balance sheet and profit and loss account, including notes, statements or schedules appended thereto, which are laid before the Company in general meeting during their tenure of office, and the report shall state:

(d) whether or not in their opinion and to the best of their information and according to the explanations given to them, the said accounts give the information required by this Ordinance in the manner so required and give a true and fair view in the case of the balance-sheet, of the state of the company's affairs as at the end of its financial year; in the case of the profit and loss account or the income and expenditure account, of the profit or loss or surplus or deficit, as the case may be, for its financial year; and in the case of the statement of changes in financial position or sources and application of funds of a listed company, of the changes in the financial position or the sources and application of funds for its financial year;

9. Furthermore, the provisions of Section 255(4) requires that where any of the aforesaid matters is answered in the negative or with a qualification, the report shall state the reason for such answer along with the factual position to the best of the auditors' information.

10. In terms of the Commission's notification SRO 1003 (I)/2015 dated October 15, 2015, the powers to adjudicate cases under section 255 & 260 have been delegated to Executive Director (Corporate Supervision).

11. I have analyzed the facts of the case, relevant provisions of the Ordinance, arguments put forth by the respondent in writing and observed that the provisions of Section 255 are very clear and the spirit of the aforesaid provisions is that, the primary responsibility of the auditor is to



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opine on the Accounts of the Company after obtaining all the relevant and necessary information which is essential to form an opinion.

12. Reverting to the argument put forth by the respondent, in view of the aforesaid provisions of the Ordinance and ISA the respondent stance of no violation of the Ordinance or ISA is not tenable. It is binding on statutory auditor to be aware of provisions of AFRS and IAS adopted by the Commission /ICAP and to conduct the audit of the financial statements and make a report thereon after application of the aforesaid standards. The Company has not been in operation for the years including 2011 and 2012 as disclosed in the Accounts. The directors report does not indicate any plan for operation of business neither there are any disclosure of efforts by the management to change the situation. These indications cast significant doubt on the entity's ability to continue as going concern. In addition the Company violated para 23 & 29 of AFRS for SSEs. In these circumstances, an audit report made according to the ISA would have been modified on the said issues. In contrast the report made out by the respondent was unqualified.

13. For the foregoing reasons, I am of the firm opinion that the respondent failed to bring about material facts about the affairs of the Company and accordingly Auditor's Report has not been made in conformity with Section 255 & 260 of the Ordinance and is liable for the penalty as prescribed by Section 260 of the Ordinance. In exercise of the powers conferred by the aforesaid provisions of the Ordinance, I hereby impose a fine of Rs. 10,000 (Rs. ten thousand only) on the respondent.

The respondent is hereby directed to deposit fine of Rs. 10,000 (Rs. ten thousand only) in the designated bank account maintained in the name of Securities and Exchange Commission of Pakistan with MCB Bank Limited within thirty days from the receipt of this Order and furnish receipted vouchers for information and record, failing which proceedings under the Land Revenue Act, 1967 will be initiated.

Abid Hussain
Executive Director

Announced:
February 4, 2016
Islamabad