



Corporate Supervision Department
Company Law Division

Before Abid Hussain – Executive Director

In the matter of

**Arman & Co. Chartered Accountants
Auditor of Famous Poultry Breeders (Pvt.) Limited**

Number and date of notice: CSD/ARN/245/2015-2644 dated January 19, 2016
Date of hearings: February 11, 2016
Present: Mr. Asrar Ul Majeed Khan

ORDER

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

This order shall dispose of the proceedings initiated against Arman & Co. Chartered Accountants (“respondent”) through show cause notice (the “SCN”) dated January 19, 2016 under the provisions of Section 260 read with Section 255 and 476 of the Companies Ordinance 1984 (the “Ordinance”).

2. The facts leading to this case, briefly stated, are that, examination of audited financial statements (the “Accounts”) of Famous Poultry Breeders (Pvt.) Ltd. (the “Company”) for the year ended June 30, 2014, revealed the following:

- Accumulated losses of the Company have reached to Rs. 16.928 million (2013; Rs. 16.602 million) during the year under review due to which the 75.23% of equity of the Company has been eroded. The Company has reported nil sale during the year.
- The director’s report disclosed that the Company ceased its operations few years back.
- The Company has not disclosed its accounting policies in the annexed notes to the Accounts and do not provide any disclosure in relation to the going concern issue being faced by the Company.

3. The auditor’s of the Company M/s Arman & Co. Chartered Accountants have given emphasis of matter paragraph in audit report as follows:

“the enclosed financial statements have been prepared on going concern basis on the grounds that the company will be able to achieve satisfactory level of profitability in future based on plans drawn up by the management for this purpose.

These financial statements consequently do not include any adjustment relating to the realizing of assets and liquidation of liabilities that might be necessary, should the company be unable to continue as a going concern.”



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4. The auditor's modification of his report to members on the Accounts by way of emphasis of matter paragraph was, prima facie, inappropriate. The International Standard on Auditing ("ISA") 570 stipulates that if the company is faced with such circumstances then the auditor should give an adverse opinion. Hence the audit report on the Account was not in accordance with the requirements of section 255 of the Ordinance and ISA as the auditor of the Company, prima facie, 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 of the Ordinance.

5. In reply to the SCN dated January 19, 2016 the respondent made the following submissions:

- It is true that equity of the company has been eroded by 75% in books but the market value of land alone is many times the book value. In the event of liquidation the shareholders will recover many times their investment.
- The company cash and bank balances are 400 times the current liabilities and there is no danger of the shareholder's suffering loss on their investment.
- As an auditor, his duty is limited to verification of figures presented or disclosed to him, any further investigation will be considered interference in the affairs of the company.
- The auditor has fully complied with relevant ISA by qualifying his report that the company is not a going concern.
- The IFRC, the ICAP and the SECP have not designed/prescribed any format for reporting an entity as not a going concern.
- The auditor has neither the capacity, expertise nor the skills to evaluate any business or to question the directors about their company's performance.
- The word material uncertainty is quite vague. The ICAP and IFR have not elaborated, discussed or given examples of material uncertainty. There is no litmus test for determining material uncertainty. Determining an entity as not a going concern is not an exact science.
- Attention is drawn to Para b(iv) of the audit report, which explicitly states that the company is not a going concern what more adverse qualification can be made.



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6. In order to provide opportunity of personal hearing; the case was fixed before the undersigned on February 11, 2016. Mr. Asrar Ul Majeed Khan appeared before the undersigned and reiterated the earlier stance taken in the written reply.

7. 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;

8. Furthermore, the provisions of Section 255(4) of the Ordinance 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.

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

10. I have analyzed the facts of the case; relevant provisions of the Ordinance, ISA, and arguments put forth by the respondent and observed the following:

- As per International Accounting Standard ("IAS") 1 when preparing financial statements, management shall make an assessment of an entity's ability to continue as a going



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concern. An entity shall prepare financial statements on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so. When management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, the entity shall disclose those uncertainties. When an entity does not prepare financial statements on a going concern basis, it shall disclose that fact, together with the basis on which it prepared the financial statements and the reason why the entity is not regarded as a going concern.

- The Company is not in operations since ceasing its trading few years back; the Company has shown no intention of revival of business of the Company. The notes to the Accounts do not provide any disclosure in relation to the going concern issue being faced by the Company.
- Section 305 of the Ordinance stipulates that a company may be wound up by Court if it suspends business for whole year. In the instant case the respondent has expressed only emphasis of matter operations of the Company are suspended for many years. The company is exposed to the risk of being wound up if the Commission or creditors so desires. This risk is exaggerated by the fact that the directors' report does not indicate any plan for resumption of business nor does it disclose any efforts by the management to change the situation of the company. These indications cast significant doubt on the entity's ability to continue as going concern and make it incumbent on the respondents to assess the management's assumption on going concern.
- In order to evaluate auditors responsibility regarding going concern it is important to mention following paras of ISA 570:
 - As per Para 6 the auditor's responsibility is to obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern. This responsibility exists even if the financial reporting framework used in the preparation of the financial statements does not include an explicit requirement for management to make a specific assessment of the entity's ability to continue as a going concern.



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- As per Para 9 the objectives of the auditor are: (a) To obtain sufficient appropriate audit evidence regarding the appropriateness of management's use of the going concern assumption in the preparation of the financial statements; (b) To conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern; and (c) To determine the implications for the auditor's report.
- As per Para 18 If the auditor concludes that the use of the going concern assumption is appropriate in the circumstances but a material uncertainty exists, the auditor shall determine whether the financial statements: (a) adequately describe the principal events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and management's plans to deal with these events or conditions; and (b) Disclose clearly that there is a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and, therefore, that it may be unable to realize its assets and discharge its liabilities in the normal course of business.
- As per Para 19 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 doubt 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 matters set out in paragraph 18.
- As per Para 20 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.
- As per Para 21 if the financial statements have been prepared on a going concern basis but, in the auditor's judgment, management's use of the going concern assumption in the financial statements is inappropriate, the auditor shall express an adverse opinion.



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- As the Company is not a going concern the auditor was required as per ISA 570 to express an adverse opinion.

11. For the foregoing reasons, I am of the firm opinion that the respondent failed to bring out material facts about the affairs of the Company and accordingly audit report have 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. Therefore, in exercise of the powers conferred by the aforesaid provisions of the Ordinance, I hereby impose a fine of Rs.10,000 (Rupees ten thousand only) on the respondent.

The respondent is hereby directed to deposit fine of Rs.10,000 (Rupees 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 24, 2016
Islamabad