

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. MOOSA YUSUF LULAT, FCA

Number and date of show cause notice	19 (699) CF /ISS/2001- 586 dated November 27, 2001
Date of hearing	January 15, 2002
Present	Mr. Moosa Yusuf Lulat, FCA

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

Mr. Moosa Yusuf Lulat is a Fellow Member of the Institute of Chartered Accountants of Pakistan (the“ICAP”). His Registration Number with ICAP is 66. He is a practicing Chartered Accountant and is conducting his business under the name and style of ‘*Moosa & Co.*’ at Room No. 321, 3rd Floor, Zahara Square, Boultan Market, Opp. New Memon Masjid, Karachi. Moosa & Co., was appointed as auditor of M/S Fateh Sports Wear 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 18, 2000 to hold office from the conclusion of the said meeting until the conclusion of next Annual General Meeting

2. The Audited Accounts of Company for the year ended June 30, 2001 were examined and the following irregularities were noted in the observance of the International Accounting Standards (IAS) and the requirements of the 4th Schedule to the Companies Ordinance, 1984 (the “Ordinance”):

- The Company has advanced Rupees 39.246 million (2000: Rupees 41.101 million) to its associated undertakings contrary to provisions of the Ordinance.
- The Company has not made any disclosure in respect to IAS 32 (Financial Instruments Disclosure and Presentation).
- The Company has not disclosed that their financial statements comply with International Accounting Standards as required under Para 11 of IAS 1 (Presentation of Financial Statements).
- The Company has not charged deferred tax liability as stated in note 2.3 to the accounts.
- Number of employees has not been disclosed in the financial statements as required under Para 102 (d) of IAS 1 (Presentation of Financial Statements).

3. 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 together with the notes thereon 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 and statement of changes

in equity together with the notes 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 loss, its cash flows and changes in equity for the year then ended.”

UNQUOTE

4. In view of the aforesaid contraventions, the Commission felt concern about the quality of the Audit of Accounts of the Company conducted by the Auditor of the Company and it was decided to investigate this matter further.

5. Consequently, a Show Cause Notice bearing No.19 (699) CF/ISS/2001 dated November 27, 2001 was issued to the Auditor to show cause, in writing, within seven days to explain as to why fine may not be imposed as provided under Sub-section (1) of Section 260 of the Ordinance for the aforesaid violations.

6. In response to the aforesaid Show Cause Notice, the Auditor vide their letter dated December 12, 2001 admitted most of the irregularities and requested for a lenient view of the defaults.

7. In order to provide an opportunity to the Auditors, the case was fixed on January 15, 2002 on which date, Mr. Moosa Yusuf Lulat, FCA and Mr. Yusuf Moosa Lulat appeared before the undersigned and repeated the same arguments as were covered in the reply to the Show Cause Notice. They assured that in future, audit will be conducted in accordance with the provisions of the Companies Ordinance, 1984 and the Chartered Accountants Ordinance, 1961.

8. 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 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.”

9. 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”

10. 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..*

11. 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.

12. 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 to 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.. 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.

13. 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 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. M/S. Moosa & Co., has not followed the prescribed practices and above stated mandatory requirements of law.

14. 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 out material facts, 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. Moosa Yusuf Lulat who was under legal obligation to

perform their 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. He has, therefore, made himself liable for punishment under Sub-section (1) of Section 260 of the Ordinance.

15. In view of the aforesaid discussion I impose a fine of **Rs 2,000** (Rupees two thousand only) on him under Sub-section (1) of Section 260 of the Ordinance read with Section 476 of the Ordinance.

16. Mr. Moosa Yusuf Lulat 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.

Announced
January 24, 2002
ISLAMABAD

RASHID SADIQ
Executive Director (Enforcement & Monitoring)