



SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

Adjudication Department-I

Adjudication Division

Before

Shahzad Afzal Khan -Director/ Head of Department

In the matter of

Kamran & Co., Chartered Accountants

Number and date of show cause notice: CSD/ARN/350/2016-340 dated November 27, 2023

Date of hearings: January 3, 2024, January 9, 2024 & January 19, 2024

Hearing attended by: Mr. Kamil Fatah

ORDER

Under Section 253 of the Companies Act, 2017

This Order shall dispose of the proceedings initiated against the following Partners (collectively referred to as the "Respondents") of Kaman & Co., Chartered Accountants (the Auditors) through Show Cause Notice (the SCN) dated November 27, 2023 issued under Section 253 of the Companies Act, 2017 (the Act):

S No	Name	Designation
1	Kamran Fatah	Partner
2	Kamil Fatah	Partner (Engagement Partner)

2. The facts leading to this case, briefly stated, are that an Investigation was initiated vide Order dated June 10, 2021 in the affairs of Salman Noman Enterprises Limited (the Company) under Section 256 of the Companies Act, 2017 (the Act). The Inspectors submitted the Investigation Report dated March 15, 2022 which revealed as under:

"The Auditors of the Company in the Auditors' Report have given Disclaimer of Opinion in last two years (2019 and 2020)..... However, in light of the Para 13 of the ISA 705 the auditors did not exercise the option of withdrawing from the audit despite of the material and pervasive nature of undetected misstatements i.e. non-verification of existence of Plant & Machinery and inventories to which they were not given access to during the audit."

3. In view of the aforesaid, the Auditors by not withdrawing from the audits for the years 2019 and 2020 despite the fact that there existed material and pervasive impact of the misstatements related to the verification of Company's plant and machinery, *prima facie*, violated the requirements of Para 13 of ISA 705 read with Section 253 of the Act.



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4. Although no response to the aforementioned SCN was submitted, in order to provide opportunity of personal representation hearing was fixed for January 3, 2024, however, the Respondent vide email dated January 03, 2024 requested for adjournment of hearing date for 7 days. Accordingly, hearing was re-fixed for January 09, 2024, however, no one appeared. Subsequently, a final hearing was fixed for January 19, 2024. On the hearing date, Mr. Kamil Fatah represented himself as the Authorized Representative on behalf of the Respondents, and submitted that the Firm has evolved over the years and has diligently accepted or rejected audit engagements based on risk assessment of its audit clients. He further added that the firm voluntarily resigned from the audit of the Company for the year 2021, due to the persistent or deteriorated circumstances that existed in the affairs of the Company.
5. Subsequently, the Authorized Representative, vide letter dated January 25, 2024 also submitted response which *inter alia* stated as follows:

We would like to appraise that we voluntarily resigned from the audit of the subject company for the year 2021.

Moreover, the audit report for the subject year was issued with disclaimer of opinion, which clearly shows that the auditor is unable to form an opinion on the financial statements, and clearly disclosed all the matters in the basis of disclaimer of opinion section of the auditors report to highlight the matters of significance for the users of the financial statements.

As explained earlier, there is no untrue statement in the auditor's report and the auditor highlighted all the material facts about the scope limitation enabling the users of the financial statements to know the matters of significance.

It should be appreciated that para 13(b) of ISA 705 clearly provides two options where undetected misstatements could be both material and pervasive, to withdraw from the audit or disclaim an opinion, which was duly given by the auditor.

However, Para 13 of ISA 705 comes under the heading of

"Consequence of an Inability to Obtain Sufficient Appropriate Audit Evidence Due to a Management Imposed Limitation after the Auditor Has Accepted the Engagement"

Whereas, the subject company had ceased its operations and the Company had no employees to look after the affairs or to provide information, and hence in our opinion the inability to obtain sufficient appropriate audit evidence was not due to management imposed limitation but due to circumstantial imposed limitation.

The relevant para of ISA 705 in the above circumstances is para 9 which is reproduced below:

"The auditor shall disclaim an opinion when the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, and the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive."



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Moreover, our judgement to issue a disclaimer of opinion on the financial statements was based on the following:

- Inability to obtain audit evidence was primarily due to shortage of staff and not management imposed scope limitation
- Commitment by the management, to take steps to ensure that relevant information shall be provided within two years as they are in process of managing working capital in order to recruit a suitable accountant
- Company being listed company is required by-law to have its financials audited
- Matters giving rise to disclaimer of opinion duly described in basis of disclaimer of opinion, which enable users of the financial statements to atleast know about the areas of significance not verifiable by the auditor
- Discussion with fellow Chartered Accountants, and duly documented in the working papers, agreeing that disclaimer of opinion report with detailed basis of disclaimer of opinion section shall be more beneficial for the users than withdrawing from the audit, in which case the users shall be in total dark

However, after two years, and still the management was unable to fulfil its commitment to provide information and no progress was made in respect of hiring a suitable accountant, we did not continue to act as auditors of the company and rendered our resignation.

It should be appreciated that by issuing a disclaimer of opinion of the financial statements, there is no undue benefit whatsoever that the auditor provided to the company or its management or to the auditor itself, the very basis of wrongful act.

We would like to appraise that our Firm has updated our policy in respect of client acceptance and continuation and are more strict towards required compliance. Moreover, we have tendered resignations from audit of other companies voluntarily in compliance of our policy.

6. Relevant provisions of the law and standard states that:

Section 253 of the Act:

253. Penalty for non-compliance with provisions by auditors. –

(1) If any auditor's report or review report is made, or any document of the company is signed or authenticated otherwise than in conformity with the requirements of section 131, sections 249 and 251 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 be liable to a penalty of level 2 on the standard scale.

(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-



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section, be punishable with imprisonment for a term which may extend to two years and with penalty which may extend to one million rupees.

Para 13 of ISA 705 states as follows:

13. If the auditor is unable to obtain sufficient appropriate audit evidence, the auditor shall determine the implications as follows:

(a) If the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive, the auditor shall qualify the opinion; or

(b) If the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive so that a qualification of the opinion would be inadequate to communicate the gravity of the situation, the auditor shall:

(i) Withdraw from the audit, where practicable and possible under applicable law or regulation; or (Ref: Para. A13)

(ii) If withdrawal from the audit before issuing the auditor's report is not practicable or possible, disclaim an opinion on the financial statements. (Ref: Para. A14)

7. I have gone through the facts of the case and considered both the written and verbal submission of the Representative in light of the relevant provisions of law and state that following elements were crucial in drawing a conclusion of the audit:

Scope Limitations on Audit Procedures:

Lack of access to key assets such as plant & machinery and inventories significantly restricts the auditor's ability to perform substantive audit procedures to verify the existence, ownership, and valuation of these assets. The inability to conduct necessary audit procedures compromises the overall audit scope and effectiveness.

Materiality and Pervasiveness:

If plant & machinery and Inventories constitute material components of the financial statements and the auditor is unable to obtain sufficient and appropriate audit evidence regarding their existence, the potential misstatements may be material. If these misstatements are widespread (pervasive), they could have a substantial impact on the overall fairness of the financial statements.

Failure to Confirm Ownership and Valuation:

The inability to physically verify the existence of Plant & Machinery and Inventories hinders the auditor's ability to confirm ownership and assess the accuracy of valuation. This lack of confirmation lead to uncertainties about the reliability of the company's reported financial position and results of operations.



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Risk of Fraud or Misappropriation:

Non-verification of Plant & Machinery and Inventories raises concerns about the risk of fraud or misappropriation. Without access to physical assets, the auditor was unable to detect potential instances of asset misappropriation, theft, or fraudulent reporting.

Impaired Independence and Objectivity:

If management deliberately restricts access to key assets, it may signal a lack of cooperation or an attempt to conceal information. In such cases, the auditor's independence and objectivity may be compromised, and withdrawing from the audit becomes necessary to maintain the integrity of the audit process.

Regulatory and Professional Standards:

Auditors are obligated to perform audits in accordance with professional standards, which include the ability to verify material account balances and transactions. Non-compliance with auditing standards and regulatory requirements that mandate the auditor's ability to obtain sufficient and appropriate audit evidence may necessitate withdrawal from the audit.

Disclaimer of Opinion in comparison to the Withdrawal from the Audit

As highlighted in the investigation report as well, the auditors were unable to verify plant & machinery and inventories being material and pervasive to the financial statements. Being auditors for the consecutive term that being the year 2020, following the conclusion of the audit for the 2019, the auditors were aware of the limitations that existed in 2019, as evident from the auditor's opinion on the financial statements of 2019. The main reason to withdraw from an audit rather than give a disclaimer of opinion is typically when the auditor encounters circumstances that prevent them from performing the audit engagement altogether as also highlighted in the audit opinion regarding the management not providing access or information to the auditors to form an opinion. If management imposes restrictions or limitations that are so significant that the auditor cannot perform the necessary procedures to form an opinion on the financial statements, withdrawal may be necessary. Furthermore, in order to ensure transparency and professional integrity the auditor was required to withdraw from the audit in compliance with ISA 705.

Potential Legal Consequences:

If the company's management refuses access to critical assets, the auditor may face legal and regulatory risks associated with the inability to fulfill their responsibilities. Withdrawal may serve as a proactive measure to mitigate potential legal consequences.

The Representative admitted the afore-narrated facts and accordingly brought relevant changes to Firm's policy on client- acceptance and continuation. The Representative further



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stated that the non-compliance was not willful and assured that the same will not be repeated in future, therefore, requested to condone the inadvertent omission.

8. Keeping in view the above, it is stated that the contravention of the provisions of Section 253 of the Act and para 13 of ISA 705, at the relevant point of time, has been established and the same has been admitted by the Representative as well. However, keeping in view the assurance of compliance in future by the Representative, I hereby conclude the proceeding initiated through the SCN by imposing a penalty of Rs. 100,000/- (Rupee One Hundred Thousand Only) on Mr. Kamil Fatah, being the Engagement Partner and Warn the other Partner, Mr. Kamran Fatah to remain careful in future.

9. The Respondents are hereby, directed to deposit the aforesaid amount of penalty in the designated bank account maintained in the name of the Securities and Exchange Commission of Pakistan with MCB Bank Limited or United Bank Limited within thirty (30) days from the date of this Order and to furnish a receipted bank challan to the Commission for information and record. In case of failure to deposit the penalty, the proceedings under Section 485 of the Act will be initiated for recovery of the fines as arrears of land revenue.

10. Nothing in this Order may be deemed to prejudice the operation of any provision of the Act providing for imposition of penalties in respect of any default, omission, violation of the Act.

(Shahzad Afzal Khan)
Director/Head of Department
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Announced: February 2, 2024
Islamabad