



SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

Adjudication Department- I

Adjudication Division

Before

Shahzad Afzal Khan - Director/Head of Department

In the Matter of

Data Agro Limited

Number and Date of SCN: CSD/ARN/350/2016-379 dated December 12, 2023

Dates of Hearing: January 22, 2024

Present: Mr. Mohsin Nadeem

ORDER

UNDER REGULATION 32 AND 36 OF THE LISTED COMPANIES (CODE OF CORPORATE GOVERNANCE) REGULATION, 2019 READ WITH REGULATION 37 THEREOF AND REGULATION 33 AND 34 OF THE LISTED COMPANIES (CODE OF CORPORATE GOVERNANCE) REGULATION, 2017 READ WITH REGULATION 41 THEREOF

This Order shall dispose of the proceedings initiated against Data Agro Limited (the Company) and its Board of Directors (collectively referred to as the Respondents) through Show Cause Notice CSD/ARN/350/2016-379 dated December 22, 2023 (the SCN) issued under Regulation 32 and 36 of the Listed Companies (Code of Corporate Governance) Regulation 2019 (the CCG Regulations 2019) read with Regulation 37 thereof and Regulation 33 and 34 of the Listed Companies (Code of Corporate Governance) Regulation 2017 (the CCG Regulations 2017) read with Regulation 41 thereof.

2. Brief facts of the case are that the Securities and Exchange Commission of Pakistan (the Commission) received a matter referred by the Audit Oversight Board (the AOB) vide letter dated August 17, 2023, whereby, it has been informed by AOB that Data Agro Limited (the Company), a public interest company (PIC) during the years ended June 30, 2021 and June 30, 2022 have appointed the audit firm i.e. M/s Razaqat Mansha Mohsin Dossani Masoom & Co. Chartered Accountants as their external auditors which is not registered with the AOB. They also informed that the audit firm was not qualified to be an auditor to carry out the audit of a PIC under Section 36W of Securities and Exchange Commission of Pakistan Act, 1997 read with Regulation 4 of AOB (Operations) Regulations, 2018 and other applicable legal requirements for appointment of auditors.

3. On review of the information, it was revealed that:

- The AOB vide Circular No. 03 of 2018 dated July 11, 2018 removed the audit firm from the register for the reason that the audit firm did not renew its registration with the AOB.



SECURITIES & EXCHANGE COMMISSION OF PAKISTAN

Adjudication Department - I
Adjudication Division

Continuation Sheet - 1 -

- The audit firm was appointed as external auditor of the Company for the year ended June 30, 2018 and the audit report was issued on October 05, 2018 as well as the review report on CCG Regulations, 2017.
 - The audit firm, as external auditor of the Company, had issued auditors' report as well as the review report on CCG Regulations, 2019 for the years ended June 30, 2021 and June 30, 2022.
 - The audit firm was also appointed as the external auditors for the year ended June 30, 2023 and had issued a review report on the half yearly accounts of the Company for the period ended December 31, 2022. Moreover, M/s Razaqat Mansha Mohsin Dossani Masoom & Co. Chartered Accountants, was also not included in the Institute of Chartered Accountants of Pakistan's (ICAP) list of firms having satisfactory Quality Control Review Program (QCR) rating as on August 30, 2023.
4. This matter was taken up with the Company, vide letter dated September 18, 2023. The Company through its letter dated September 26, 2023 submitted as follows:
- "We respectfully wanted to state that name of our auditor M/S Razaqat Mansha Mohsin Dossani Masoom & Co. Chartered Accountants was present on the list of QCR rated firms by ICAP during all periods 2018, 2021 & 2022 but no audit report is issued for the year 2023 till the date as when appointed as auditors for 2023 name of auditor was present of the list of QCR rate firm by ICAP."*
5. The Company was required to appoint the external auditor fulfilling both requirements i.e. the auditor having satisfactory QCR rating and be registered with the AOB, whereas, the appointed audit firm was not registered with the AOB.
6. It was also observed that the Company in its para 16 of the Statement of Compliance (SOC) with CCG Regulations 2017 for the year ended June 30, 2018 and para 16 of SOC with the CCG Regulations 2019 for the years ended June 30, 2021 and June 30, 2022 disclosed that the statutory auditors have confirmed that they have been given satisfactory rating under QCR of ICAP and registered with AOB, whereas, the name of above mentioned audit firm was not included in the register of AOB. The Company was required to explain the above non-compliances highlighted, in para 18 of SOC with CCG Regulations 2017 and para 18 of SOC with CCG Regulations 2019 in the above referred years, which the Company failed to report.



SECURITIES & EXCHANGE COMMISSION OF PAKISTAN

Adjudication Department - I
Adjudication Division

Continuation Sheet - 2 -

7. In view of above, the Company had, *prima facie*, contravened the following provisions:

- Regulation 32(1) of the CCG Regulations 2019 as the Company failed to appoint the external auditors that were registered with AOB. This has resulted in the Company not being complied with mandatory regulation 32(1) of the CCG Regulations 2019.
- Regulation 36(1) of the CCG Regulations 2019 as the Company failed to explain in para 16 of SOC the non-compliance with respect to the auditor not being registered with AOB.
- Regulation 33(1) of the CCG Regulations 2017 as the Company failed to appoint the external auditors that were registered with AOB. This has resulted in the Company not being complied with mandatory regulation 33(1) of the CCG Regulations 2017.
- Regulation 40(1) of the CCG Regulations 2017 as the Company failed to explain in para 16 of SOC the non-compliance with respect to the auditor not being registered with AOB.

8. Regulation 32 of the CCG Regulations 2019 and regulation 33 of the CCG Regulations 2017, requires a Company to appoint external auditors which have been given satisfactory rating under the QCR of the ICAP and registered with AOB. Regulation 36 of the CCG Regulations 2019 and regulation 40 of the CCG Regulations 2017 requires a Company to publish and circulate a statement and to set out the status of their compliance with the requirements of these Regulations.

9. The Company, *prima facie*, failed to comply with the requirements of regulation 32 and 36 of CCG Regulations 2019 and regulation 33 and 40 of CCG Regulation 2017 that attracts the applicability of regulation 37 of the CCG Regulation 2019 and regulation 41 of the CCG Regulation 2017, respectively. Hence, proceedings were initiated against the Respondents and was called upon to show cause in writing, within 14 days of the date of the SCN, as to why penalty may not be imposed on the Company for the aforesaid non-compliances.

10. In this regard, Company vide letter dated January 1, 2024 *inter alia* submitted that:

1. We respectfully state that name of our auditor M/S Razaqat Mansha Mohsin Dossani Masoom & Co. Chartered Accountants was present in the list of QCR rated firm by ICAP till January 2023 and they have applied for renewal of registration with AOB letter # RMDM/AOB/01/2019. In this respect Form "A" was sent to ICAP for



SECURITIES & EXCHANGE COMMISSION OF PAKISTAN

Adjudication Department - I
Adjudication Division

Continuation Sheet - 3 -

attestation on 19-07-2018 which was followed by reminders dated 29-08-2019 but QAB delayed the attestation & recommendation.

2. *On several reminders, letter of recommendation dated July 6, 2022 from QAB was sent to AOB for registration of the firm.*
3. *We have been assured by the auditor that their name is appearing in ICAP QCR list, and registration process with AOB is underway and shall be completed soon.*

11. In order to provide opportunity of personal representation, hearing in the matter was fixed for January 22, 2024, wherein Mr. Mohsin Nadeem, appeared before the undersigned on behalf of the Respondents as the Authorized Representative (the Representative) and submitted that:

- *The Auditor had QCR rating, AOB registration was pending.*
- *The AOB and the ICAP delayed the registration process.*
- *Requested to condone the proceedings in the light of the afore narrated facts giving a binding assurance to future adherence to all the applicable laws.*

12. Relevant provisions of the law are reproduced hereinunder:

CCG Regulations 2019:

"32. Terms of appointment of external auditor.- (1) It is mandatory that no company shall appoint an external auditors, a firm of auditors, which has not been given a satisfactory rating under the Quality Control Review program of the Institute of Chartered Accountants of Pakistan and registered with Audit Oversight Board of Pakistan under section 36I of the Securities and Exchange Commission of Pakistan Act, 1997 (XLII of 1997)."

"36. Compliance Statement and Auditor Review.- (1) It is mandatory that the company shall publish and circulate a statement, as given under Annexure A to these Regulations, along with their annual reports to set out the status of their compliance with the requirements of these Regulations and the said statement shall be specific and supported by necessary explanations."

"37. Penalty.- Whoever fails or refused to comply with, or contravenes regulation 3, 6, 7, 8, 27, 32, 33 and 36 of these Regulations, shall be punishable with penalty as provided under sub-section (2) of section 512 of the Act."

CCG Regulations 2017:

"33. Terms of Appointment.- (1) No company shall appoint as external auditors, a firm of auditors, which has not been given a satisfactory rating under the Quality Control Review program of the Institute of Chartered Accountants of Pakistan and registered with Audit



SECURITIES & EXCHANGE COMMISSION OF PAKISTAN

Adjudication Department - I
Adjudication Division

Continuation Sheet - 4 -

Oversight Board of Pakistan."

"40. Compliance Statement and Auditor Review.- (1) All companies shall publish and circulate a statement, as given under annexure A, along with their annual reports to set out the status of their compliance with the requirements of Regulations. The statement shall be specific and deemed to be supported by the necessary evidence held by the company making the said statement."

"41. Penalty for contravention of Regulations: Whoever fails or refused to comply with, or contravenes any requirements of the Regulations, knowingly or willfully authorizes or permits such failure, refusal or contravention, in addition to any other liability under the Act, be punishable with penalty and in case of continuing failure, to a further penalty as provided under sub-section (2) of section 512 of the Act."

Section 512 of the Companies Act, 2017:

"512. Power to make regulations. —

(1)

(2) Any regulation made under sub-section (1) may provide that a contravention thereof shall be punishable with a penalty which may extend to five million rupees and, where the contravention is a continuing one, with a further penalty which may extend to one hundred thousand rupees for every day after the first during which such contravention continues."

13. I have considered the facts of the case in light of the relevant provisions of CCG and the Act, and the information available on record and state that:

(i) **Regulatory Compliance:**

Companies are required to comply with regulatory requirements, and one such requirement is appointing auditors who are registered with the AOB. This ensures that the company operates within the legal framework set forth by the regulatory authorities.

(ii) **Quality Assurance:**

AOB registration typically involves meeting certain standards related to audit quality, independence, and professional competence. Engaging a registered audit firm provides assurance that the audit process will be conducted according to established standards, enhancing the reliability and credibility of the financial statements.

(iii) **Enhanced Oversight:**

The AOB oversees the activities of audit firms to ensure compliance with regulatory requirements and professional standards. By appointing an audit firm registered with the AOB, companies benefit from the additional



SECURITIES & EXCHANGE COMMISSION OF PAKISTAN

Adjudication Department - I
Adjudication Division

Continuation Sheet - 5 -

oversight provided by the regulatory body, reducing the risk of non-compliance or unethical practices.

- (iv) *Investor Confidence:*
Stakeholders, including investors, lenders, and regulatory authorities, rely on audited financial statements to make informed decisions. Appointment of a registered audit firm can enhance investor confidence in the accuracy and reliability of the financial information disclosed by the company.
- (v) *Legal Standing:*
In the event of any legal disputes or regulatory inquiries, having engaged a registered audit firm can provide the company with a stronger legal standing. It demonstrates that the company has fulfilled its obligation to appoint auditors in accordance with regulatory requirements.
- (vi) *Professionalism and Ethical Conduct:*
Registered audit firms are bound by professional codes of conduct and ethical standards enforced by the AOB. Engaging a registered firm ensures that the audit will be conducted with integrity, objectivity, and independence, in line with ethical principles.
- (vii) *Market Reputation:*
Companies that appoint reputable audit firms registered with the AOB can enhance their own reputation in the market. It signals to stakeholders that the company values transparency, accountability, and adherence to regulatory standards.

Overall, adhering to the appointment of an audit firm registered with the AOB of Pakistan with satisfactory QCR rating as well as reporting compliance of the same is essential for ensuring regulatory compliance, maintaining audit quality, enhancing stakeholder confidence and upholding the essence of best practices under the regime set by the code of the corporate governance.

14. In view of the preceding facts, I am of the considered view that by failing to appoint the external auditors not registered with the AOB, *vis-à-vis*, not being qualified to be an auditor to carry out the audit of a PIC under Section 36W of Securities and Exchange Commission of Pakistan Act, 1997 read with Regulation 4 of AOB (Operations) Regulations, 2018 and other applicable legal requirements for appointment of auditors and reporting thereon, is in contravention with the regulations 32 & 36 of CCG Regulations 2019 and regulations 33 & 40 of CCG 2017, punishable under regulation 37 of CCG 2019 and regulation 41 of CCG Regulations 2017, read with Section 512 (2) of the Act. Therefore, in exercise of the powers conferred under sub-section (2) of Section 512 of the Act, I hereby impose a penalty of **Rs.500,000 (Rupees Five Hundred Thousand Only)** on the Company, and Warn the remaining Respondents.



SECURITIES & EXCHANGE COMMISSION OF PAKISTAN

Adjudication Department - I
Adjudication Division

Continuation Sheet - 6 -

15. The Company is, hereby, directed to deposit the aforesaid amount of penalty in the designated bank account maintained in the name of the Commission 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 forthwith. 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.

16. Nothing in this Order may be deemed to prejudice the operation of any provisions of the Act providing for imposition of penalties on the Respondent in respect of any default, omission or violation thereof.

A handwritten signature in blue ink, consisting of a stylized 'S' and 'A' followed by a horizontal line.

Shahzad Afzal Khan
Director/ HOD
Adjudication Department-I

Announced:
March 05, 2024, Islamabad.

