



**SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN**  
Company Law Division  
Enforcement Department

***Before Ashfaq Ahmed Khan***

***IN THE MATTER OF***

***Mansha Mohsin Dossani Khan & Company, Chartered Accountants***

***-SECTION (1) OF SECTION 260 READ WITH SECTION 255 AND  
SECTION 476 OF THE COMPANIES ORDINANCE, 1984***

No. and Date of Notice	No. EMD/233/214/2002 September 03, 2004
Date of Hearing:	February 16, 2005
Present:	Mr. Khan Muhammad, FCA

## Order

This order shall dispose of the proceedings initiated against M/s Mansha Mohsin Dossani Khan & Company, Chartered Accountants through show cause notice under Sub-section (1) of Section 260 read with Section 255 and Section 476 of the Companies Ordinance, 1984 (the "Ordinance") dated September 03, 2004 for making report to the members of Ashfaq Textile Mills Limited (the "Company") on the accounts, balance sheet and profit and loss account for the period ended June 30, 2003 otherwise than in conformity with the requirements of Section 255 of the Companies Ordinance, 1984.

2. The facts of the case, in brief, are that M/s Mansha Mohsin Dossani Khan & Company, Chartered Accountants (hereinafter called "the auditors") were appointed as auditors of the Company in its Annual General Meeting held on November 30, 2002 to hold office from conclusion of the said meeting until the conclusion of next Annual General Meeting. The auditors made their report on the accounts of the company for the year ended June 30, 2003 and signed the report on September 27, 2003.

3. The Enforcement Department while examining the audited accounts of the Company for the year ended June 30, 2003 and auditors report thereon observed that the Company has



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not complied with the provisions of Section 235 of the Ordinance read with S.R.O. 45(I)/2003 dated January 13, 2003, read further with Section 234, by failing to transfer an amount of incremental depreciation from the surplus on revaluation of fixed assets account to unappropriated profit / accumulated loss account through statement of changes in equity. Further, the accounting policies for deferred taxation, treatment of surplus on revaluation of fixed asset and stores and spares were not in accordance with International Accounting Standards (“IAS”) 12 (Income Taxes), IAS 16 (Property, plant and equipment) and IAS 2 (Inventories) respectively. Moreover, the Company had not followed the following disclosure requirements of various IAS and Fourth Schedule of the Ordinance which were required to be complied with the provisions of Sub-sections (1), (2) and (3) of Section 234 of the Ordinance:

- The Company has not made disclosures of Staff retirement benefits according to Para 120 of IAS 19 (Employee Benefits).
- Liabilities against assets subject to finance lease are not disclosed as per Para 23 of IAS 17 (Leases).
- Major components of tax expense are not disclosed as per requirements of Para 79 of IAS 12 (Income Taxes).
- Relationship between tax expense and accounting profit is not disclosed as per Para 81 of IAS 12.
- Company has departed from the provisions of IAS 16 and 19 but reason for departure is not given as per requirement of Para 13 of IAS 1(Presentation of Financial Statements);
- The Company has not made disclosure regarding exchange differences arising on foreign currency transactions as per Clause (a) of Para 42 of IAS-21 (The Effects of Changes in Foreign Exchange Rates).
- Accounting policy relating to provisions is not given as required by Para 97 of IAS 1 (Presentation of Financial Statements)
- As per Note 33 of the accounts, it has been stated that the corresponding figures have been rearranged and regrouped, wherever necessary for the purpose of comparison. But Para 40 of IAS-1 (Presentation of Financial Statements) does not allow such a general statement.
- The fixed assets of the Company have been revalued but disclosures required by Para 2 (c) of Part II of Fourth Schedule and Para 64 of IAS 16 (Property, plant and equipment) have not been given.
- Land shown in fixed assets has not been distinguished into leasehold or freehold as required by Para 2 of Part II of Fourth Schedule of the Ordinance.
- Plant capacity has not been disclosed in the accounts as per Clause (vii) of Para 2 of Part I of Fourth Schedule to the Ordinance.



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4. Despite the above deficiencies, the auditors stated in their report to the members that balance sheet, profit and loss account, cash flow statement and statement of changes in equity together with notes forming part thereof conform with approved accounting standards as applicable in Pakistan and give the information required by the Companies Ordinance, 1984 in the manner so required and give true and fair view of state of the company's affairs as at June 30, 2003 and of the loss, its cash flows and changes in equity for the year then ended. In view of the above circumstances, the Enforcement Department felt concerned about the quality of the audit conducted by the auditors and audit report made by them on the account of the company for the year ended June 30, 2003. This necessitated further examination to bring to light as to whether or not the representations and statements made by the auditors to the shareholders were misleading and false.

5. Consequently, a notice under Sub-section (1) of Section 260 read with Section 255 and Section 476 of the Ordinance dated September 03, 2004 was issued to all the partners of the auditor pointing out clearly their responsibility under the Ordinance and Auditing Standards and prima facie towards inaccurate and misleading statements made by them in their report on the accounts of the Company. They were called upon to show cause as to why action may not be taken against them for contraventions of the mandatory provisions of law pointed out in preceding paragraphs. The auditors instead of clarifying their position to the Commission preferred to file an appeal in the Lahore High Court, Rawalpindi Bench, against the said show cause notice. The High Court, however, dismissed the appeal due to non-prosecution on January 31, 2005. The auditors, therefore, vide Enforcement department, letter dated February 1, 2005 were asked to submit their written explanation within 7 days of the date of the letter and also appear before the undersigned on February 16, 2005. In response to the aforesaid letter Mr. Khan Muhammad, FCA, submitted reply vide his letter dated February 11, 2005.

6. On the date of hearing Mr. Khan Muhammad, FCA appeared before the undersigned and assumed full responsibility for the audit of the Company and admitted that he had signed the audit report on the accounts of the Company for the year ended June 30, 2003.



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7. In the written submissions as well as at the time of hearing Mr. Khan Muhammad, FCA, admitted most of the defaults. He while admitting the defaults stated that deficient disclosures in the financial statements were neither material nor affected the stakeholder's interest. He further stated that these non-disclosures were unintentional and requested for condonation of the same. He admitted carelessness on his part while making report in terms of Section 255 of the Ordinance. He pointed out that the defaults appeared in the annual accounts for the year ended June 30, 2003 had not been repeated in the next financial statements of the Company for the year ended on June 30, 2004 in which deficient disclosures have been rectified.

8. I have heard Mr. Khan Muhammad and have also gone through the submissions and the relevant provisions of law, annual accounts of the Company for the year ended on June 30, 2004 and relevant auditing standards. Mr. Khan Muhammad admitted the defaults in the annual accounts for the year 2003 but stated that the same have been rectified subsequently in the year 2004.

9. Before deciding this case, I deem it necessary to make some observations on the role of auditors of a company. The auditors being the ultimate watchdog of the shareholders interest are required to give a report on the accounts and books of account after conducting the audit in accordance with the prescribed procedures and requirements of the Ordinance, International Accounting and Auditing Standards. The shareholders are the ultimate entity to whom the auditors are responsible and they must keep this fact in mind while auditing the books of accounts and reporting thereon. It has, however, been noticed in several cases that auditors are not performing their statutory duties with due care and in accordance with the legal requirements.

10. The duties and responsibilities of an auditor appointed by the shareholders under Section 252 of the ordinance can best be understood if we look at the place of an auditor in the scheme of the company law. The capital required for the business of a company is contributed by its shareholders who may not necessarily be the persons managing the company. In the case of a listed company, the general public also contributes towards the equity of the



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company. Such persons do not have any direct control over the company except that they elect directors for a period of three years and entrust the affairs of the company to them in the hope that they will manage the company to their benefits. The shareholders are, therefore, the stakeholders and the ultimate beneficiaries. Practically the shareholders have no control over the way their company is managed by the directors appointed by them. It is, therefore, necessary that there must be some arrangement in place whereby the shareholders who are the real beneficiaries must get some independent view as to how the directors have managed the affairs of the company. The law, therefore, recognizing this situation, has provided that the shareholders should appoint an auditor who shall be responsible to audit the accounts and books of account and make out a report to them at the end of each year. This is the only safeguard provided by law to the shareholders to ensure that the business is carried on by the directors in accordance with sound business principles and prudent commercial practices and no money of the company is wasted or misappropriated. The law, therefore, make the auditors responsible in case the fail to make out a report in accordance with the legal requirements. It is, therefore, extremely important for the auditors to be vigilant and perform their duties and obligation with due care while auditing the accounts and books of accounts.

11. In view of the forgoing, the lapses and non-compliances on the part of the auditors cannot be taken lightly. After careful consideration of the conduct of the auditors of the Company and the particular circumstances of this case, I am of the view that Mr. Khan Muhammad, FCA has signed the audit report otherwise than in conformity with the requirements of Section 255 of the Ordinance and has made himself liable for punishment under Sub-section (1) of Section 260 of the Ordinance. As the disclosure requirements have been rectified in the subsequent year's accounts, I instead of imposing maximum fine of Rs.100,000/- impose a fine of Rs. 20,000/- (Rupees twenty thousand only) under Sub-section (1) of Section 260 of the Ordinance on Mr. Khan Muhammad, FCA. As Mr. Khan Muhammad, FCA was the engagement partner and has assumed the sole responsibility of the audit of the Company therefore no fine is imposed on other partners of M/s Mansha Mohsin Dossani Khan & Company, Chartered Accountants.



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12. Mr. Khan Muhammad, FCA is directed to deposit the fine of Rs. 20,000/- (Rupees twenty thousand only) in the Bank Account of Securities and Exchange Commission of Pakistan maintained with Habib Bank Limited within 30 days of the date of this Order and furnish a receipted challan to the Securities and Exchange Commission of Pakistan.

**Ashfaq Ahmed Khan**  
Director (Enforcement)

**Announced**  
**February 18, 2005**  
**ISLAMABAD**