



Corporate Supervision Department
Company Law Division

Before Ali Azeem Ikram – Executive Director (Corporate Supervision Department)

In the matter of

Hafiz Idrees Hajj and Umra Service (Private) Limited

Number and date of notice: FMD/242/Q/36/13-1423, dated June 13, 2014
Date of hearings: October 22, 2015
Present: Mr. Asif, Advocate

ORDER

UNDER SECTION 492 READ WITH SECTION 476 OF THE COMPANIES ORDINANCE, 1984

This order shall dispose of the proceedings initiated against **Hafiz Idrees Hajj and Umra Service (Private) Limited** (the "Company") and its following directors including the chief executive (the "respondents"):

1.	Mr. Abdul Raziq, ex-Chief Executive
2.	Mr. Taryali, ex-Director

These proceedings against the respondents were initiated through show cause notice (the "SCN") dated June 13, 2014 issued under section 492 read with section 476 of the Companies Ordinance, 1984 (the "Ordinance").

2. The brief facts of the case are that examination of the annual financial statements for the year ended December 31, 2012 ("the Accounts") of the Company filed under section 242 of the Ordinance revealed that the auditors' report (the "Report") to the members purportedly issued by Mahboob Sheikh & Co., Chartered Accountants (the "Audit Firm") was annexed to the Accounts. In response to the Commission's queries in this regard, the Audit Firm through letters dated February 8, 2014, December 21, 2013 and June 4, 2014 categorically denied to have issued the Report. The Audit Firm also refuted the contents of Form-A and Form-29 filed by the Company regarding appointment of the firm as statutory auditors of the Company.

3. Review of the Accounts further revealed the following discrepancies:

- The Profit and Loss Account was not prepared and annexed to the Accounts of the Company, in violation of para 23 of the Accounting and Financial Reporting Standards ("AFRS") for Small-Sized Entities ("SSEs") applicable to the Company;
- No explanatory notes were included in the Accounts of the Company, in violation of para 23 of AFRS for SSEs;



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- Comparative figures were not included in the Accounts of the Company, in violation Para 1.11 of section 1 ('Presentation of Financial Statements') of AFRS for Medium-Sized Entities ("MSEs") which was applicable to the Company in terms of para 22 of the AFRS for SSEs which requires making reference to the AFRS for MSEs for the events not covered by the AFRS for SSEs.
4. It appeared that the respondents, prima facie, contravened the provisions of section 492 of the Ordinance by (i) circulating the Accounts along with fake auditors' report; (ii) by failing to prepare and include the Profit and Loss Account, notes to the Accounts and comparative figures for previous year in the Accounts; and (iii) circulating the Accounts having material false information due to the aforementioned discrepancies. Since the impact of the aforementioned discrepancies and omissions appeared to be material, therefore, the SCN was issued to the respondents advising them to explain their position as to why penal action may not be taken against them for the alleged contravention of provisions of section 492 of the Ordinance. Despite reminders issued on July 15, 2014 and September 19, 2014, no reply to the SCN was received from the respondents. In order to provide opportunity of hearing to the respondents to represent their case in person or through authorized representative, hearings were fixed on December 2, 2014, December 23, 2014 but no one appeared on the appointed date and time. Subsequently, the final hearing was fixed on June 30, 2015 which after adjournments was finally held on October 22, 2015 before the undersigned. The respondents were represented by Mr. Asif, Advocate who stated that the management of the Company has been changed and the respondents are no more directors of the Company. He further stated that the issue regarding disowning of the audit report by the Audit Firm has arisen due to their dispute with the respondents, who are no more directors. He further stated the new management of the Company subsequently changed the auditors and appointed Waqas & Company, Chartered Accountants to carry out the statutory audit. Based on his submissions, he requested for a lenient view in the matter.
5. Before proceeding further, it is necessary to advert to the following provisions of the Ordinance and AFR for SSEs, applicable to the Company:

Section 492 of the Ordinance, states as under:

"Whoever in any return, report, certificate, balance sheet, profit and loss account, income and expenditure account, prospectus, offer of shares, books of accounts, application,



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information or explanation required by or for the purposes of any of the provisions of this Ordinance or pursuant to an order or direction given under this Ordinance makes a statement which is false or incorrect in any material particular, or omits any material fact knowing it to be material, shall be punishable with fine not exceeding five hundred thousand rupees."

Para 23 of AFRS for SSEs states that *the minimum set of primary financial statements includes the following components: (a) a Balance Sheet; (b) an Income Statement; and (c) Explanatory Notes.*

Para 22 of AFRS for SSEs requires that *reference shall be made to MSEs Standard for material transactions or events not covered by this Standard.*

Para 1.11 of section 1 ('Presentation of Financial Statements') of AFRS for Medium-Sized Entities requires that *comparative information with respect to the previous period shall be disclosed for all numerical information in the financial statements.*

6. I have analyzed the facts of the case, relevant provisions of the Ordinance, the applicable AFRS and the arguments put forth by the respondents. It is clear that the Accounts of the Company for the year ended December 31, 2012 contained material discrepancies and were materially misstated on the following counts:

- a) The auditors' report to members was not authentic, as the Audit Firm that was purportedly stated to have audited the Accounts categorically denied having carried out the audit of the Accounts and also denied having been appointed as statutory auditor of the Company. The respondents have failed to produce any evidence to the contrary. Hence, the Accounts were materially misstated; given the fact that auditor's report is of vital importance for the users to see if the Accounts present a true and fair view of the state of affairs of a company. In the absence of authentic auditor's report, credibility of financial statement becomes doubtful owing to lack of independent and credible check.
- b) The Account were not prepared and presented in line with the requirements of AFRS for SSEs applicable to the Company at the relevant time. The Accounts only comprised a balance sheet and a cash flow statement and did not include a profit & loss account, the explanatory notes and comparative figures, which are integral part of financial statements as per the AFRS. Profit & loss account, explanatory notes and comparative figures are vital



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for the users to understand the performance of the company and its financial position. Hence, material facts and statements were omitted from the Accounts.

7. I deem it necessary to make some observations on the importance of adequacy, accuracy and completeness of disclosures in the financial statements and audit of financial statement. The financial statements are the most important source of reliable information for the users that include customers, financiers, regulator etc. The financial statements not only show the financial position and performance of the company but also show the results of management's stewardship of resources entrusted to it. Therefore, adequate and correct disclosures in the financial statements in line with applicable financial reporting framework are of utmost importance. It is the duty of the company and its directors to see that the disclosures made in the financial statements are adequate, correct and complete and there is no omission of material facts. The audit of financial statements is of utmost importance. The law, recognizing this situation, has provided for the appointment of auditors who shall be responsible to audit the books of account, documents and financial statements required by the law and make out a report on them. This being the only independent safeguard and check provided by law to ensure accountability of the management, provides a degree of credibility to the financial statements. For these reasons, it is of utmost importance that the statutory auditor is appointed to carry out the audit and provide his report on the financial statements.

8. For the foregoing reasons, I am of the view that the provisions of section 492 of the Ordinance have been violated by the respondents. However, I also take into account the fact that the Company is a small private limited company whose management has changed recently and respondents are no more directors of the Company. Considering these fact, in exercise of the powers conferred by section 492 of the Ordinance, I hereby impose an aggregate fine of Rs15,000/- (Rupees fifteen thousand only) on the respondents. The respondents are directed to deposit the fines in the following manner:

Name of Respondents	Amounts in Rupees
Mr. Abdul Raziq, ex-Chief Executive	5,000
Mr. Taryali, ex-Director	5,000
Hafiz Idrees Hajj & Umra Services (Pvt.) Limited (through its Chief Executive)	5,000
Total	15,000

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The aforesaid fines must be deposited in the designated bank account maintained with MCB Bank Limited in the name of the "Securities and Exchange Commission of Pakistan" within thirty days from the receipt of this order and furnish receipted bank vouchers to the Commission. In case of non-deposit of the penalties, proceedings for recovery of the fines as arrears of land revenue will be initiated. It may also be noted that the aforesaid penalties are imposed on the respondents in their personal capacity; therefore, they are required to pay the said amount from personal resources.

Before parting with the order, I hereby invoke provisions of section 473 of the Ordinance and direct the present management of the Company, as under:

- To file with the registrar the duly audited annual accounts for the year ended June 30, 2012 and subsequent periods along with auditor's reports, within thirty days from the date of this order; and
- To file the relevant forms, including Form-29 & Form-A containing, inter alia, correct information about the statutory auditors of the Company, within thirty days from the date of this order.

ALI AZEEM IKRAM
Executive Director (CSD)

Announced:
November 18, 2015
Islamabad