Before Ali Azeem Ikram, Executive Director/HOD (Adjudication-I)

In the matter of Mr. Rashid Sarwar of M/s Sarwar & Company, Chartered Accountants, The Auditors of Mian Textile *Industries Limited*

Dates of Hearing	July 17, 2020, September 21, 2020, October 8, 2020

Order-Redacted Version

Order dated January 13, 2021 was passed by Executive Director/Head of Department (Adjudication-I) in the matter of Mian Textile Industries Limited. Relevant details are given as hereunder:

Nature	Details
1. Date of Action	Show cause notice dated November 14, 2019
2. Name of Company	Mian Textile Industries Limited
3. Name of Individual*	The proceedings were initiated against the auditors i.e. Sarwar & Company, Chartered Accountants.
4. Nature of Offence	Violations of section 260 read with section 255 and section 476 of the Companies Ordinance, 1984.
5. Action Taken	Key findings were reported in the following manner: I have analyzed the facts of the case, relevant provisions of the Ordinance and of the applicable standards, arguments put forth by the Respondent and replies submitted in writing. The brief of the case is summarized in the following manner: (ii) As per available information disclosed in Accounts 2016, “other liability” of Rs. 7.156 million was disclosed, whereas information shared with the inspection team revealed following relevant information:

Year	Revenue earned	Expenditure incurred	Excess Revenue over Expenditure
2010 – 11	6,236,209	5,421,978	814,231
2011 – 12	7,211,299	6,727,921	483,378
2012 – 13	8,578,669	7,373,958	1,204,711
2013 – 14	9,948,113	9,120,935	827,178
2014 – 15	11,542,521	10,016,063	1,526,458
2015 – 16	12,850,812	11,578,707	1,272,105
Total	56,367,623	50,239,562	6,128,061

The Respondent, however, during the proceedings, did not furnish any justification to the facts that the amounts of revenues of Rs.

		56,367,623 and expenditures of Rs. 50,239,562 related to DPHS were not provided in the relevant Accounts of 2016 or in prior periods and the amounts disclosed on net basis of Rs. 7.156 million was not in reconciliation with the net amount payable of Rs. 6.128 million related to DPHS. The aforesaid amounts were beyond the materiality threshold informed by the Respondent. The Respondent has furnished a copy of annexure of management letter for the year 2016, in terms of which following observation was provided: *"The company is acting as a custodian of School, resultantly accounting for normal transactions relating to school on its behalf. The company neither has control in directing the activities of the school nor retain the powers to make any management decisions, as the administrative powers fall in the domain of Waqf. At the year end, balance payable amounting to Rs. 7.15 million is outstanding in favour of Waqaf / School."* The Respondent has also furnished relevant management's response there against which is given as: *"We have noted your observations with a great concern and are of the opinion that the matter should not be highlighted in the audit report as the amounts involved are immaterial and having insignificant effect on the financial statements with no malafide intentions on the part of the present and past directors and we ensure future compliance. The amount of Rs. 7.1 million compared to the total current liabilities of Rs. 262 excluding long-term liabilities of Rs. 309 million (Rs. 571 million) equals to 1.24% this being very immaterial and insignificant."* Perusal of above information substantiates that the Respondent by not discharging his obligations in terms of the applicable provisions of the Ordinance and the auditing framework, did not modify the report for the year 2016 and rather relied on the stance of the Company despite the facts that: (i) the amounts of revenues and expenditures were material in nature (ii) the amount of Rs. 7.156 million was net amount of revenue and expenses which are beyond the materiality threshold of the auditor (iii) the actual numbers of revenues and expenditures and net amount payable in case of DPHS were variably different as were provided to the inspection team by the Company. The aforesaid are significant events that were required to be investigated by the Respondent, being auditor of the Company, in order to discharge his obligations envisaged in the Ordinance. The Respondent instead relied on past practice and issued the auditor's report for the year 2016.
	(i)	The Respondent is of the view that the mills area comprises of 165-Kanals while the purchase price of 165-Kanals land was Rs. 10,165,625/- based on this, the total cost of the land under mosque

	and school of 8-kanals land is worked out at Rs. 492,872/- which is much below the materiality level in 30-06-2014 or 30-06-2016. I, am of the view that basis of materiality taken in the aforesaid matter is not tenable. The Respondent has not taken into consideration the nature and amount of transactions of revenues, expenditures and other payable amount, as referred, which are material and significant transactions. (ii) The Respondent is of the view that opening balance of other payable as of 01-07-2015 was Rs. 5.8 million and closing balance as of 30-06-2016 was of Rs. 7.156 million and the net transaction relating to the audit period was of Rs. 1.2 million only, which was 0.2% of the total liabilities of Rs. 572.89 million. I, am of the view that the Company had maintained record of revenues of Rs. 12,850,812/- and expenditure of Rs. 11,578,707/- which were relevant for the year 2016 only. The amount argued by the Respondent is the net amount and the Respondent, however, did not take into consideration the related revenues and expenditures, which were material and significant. (iii) The Respondent in his written reply, has, *inter alia*, stated that: "*It is brought to your knowledge that from the financial year 2011 to 2017 the sales revenue of the manufacturing unit of the company was Rs. 969.876 million averaging to Rs. 138.554 million per year and the average expenditure of the same period were Rs. 49.753 millions. Compared to this the school, mosque and Waqaf expenses for the period to 2010 to 2017 were Rs. 62.753 million averaging to Rs. 7.839 million assuming a mis-statement the amount of Rs. 7.839 million is far below the materiality level*". However, as per inspection report, traces of revenues and expenditures of the DPHS were not found in the financial statements of the Company. The Respondent through his written reply has not denied the allegations levelled through the SCN. Keeping in view the above, in terms of section 260 of the Ordinance, for the aforesaid violations, a penalty of Rs. 31,000/- only (Rupees thirty one thousand) was imposed on the Respondent. 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 or violation of the Act.
6. Penalty Imposed	Penalty of Rs. 31,000/- was imposed on the respondent.
7. Current Status of Order	Penalty was deposited. No Appeal has been filed by the respondents.

Redacted version issued on June 08, 2021 for placement of website of the Commission.