

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

In the matter of Show Cause Notice issued to Tahir Siddiqi and Co., Chartered
Accountants
Auditor of Al-Khair Gadoon Limited

Date of Hearing

December 07, 2020

Order-Redacted Version

Order dated December 31, 2020 was passed by Executive Director/Head of Department (Adjudication-I) in the matter of Tahir Siddiqi and Co., Chartered Accountants Auditor of Al-Khair Gadoon Limited. Relevant details are given as hereunder:

Nature	Details
1. Date of Action	Show cause notice dated May 05, 2020
2. Name of Company	Tahir Siddiqi and Co., Chartered Accountants Auditor of Al-Khair Gadoon Limited
3. Name of Individual*	Not relevant. The proceedings were initiated against the Company i.e. Tahir Siddiqi and Co., Chartered Accountants Auditor of Al-Khair Gadoon Limited
4. Nature of Offence	In view of alleged violations under Section 253 read with Section 249 and Section 479 of the Companies Act, 2017
5. Action Taken	Key findings of default were reported in the following manner: I have analyzed the facts of the case, requirements of the Act, IAS and ISAs and have observed the following: (i) Non-disclosure of freehold land separately (a) The Company in its financial statements for year 2018 disclosed cost of free hold building as Rs.57.969 million. It has been acknowledged by Respondents that this amount includes cost of freehold land amounting to Rs.3 Million and cost of freehold building amounting to Rs.54.968 Million. Therefore, it is also acknowledged



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that the Company failed to disclose the freehold land separately and thereby misstating the financial statements by incorrectly clubbed the freehold land under freehold building.

- (b) The cost of freehold land has been stated as being Rs. 3 million. It is however noted that the Company, under note 5.2 to the Accounts 2019, had disclosed land owned by Company. The Respondent did not draw attention in its report to members that the stated freehold land was not accounted for/disclosed under the schedule separately under note 5.1 of financial statements 2018 rather incorrectly clubbed under freehold building. Hence the assertion by Respondents on reliance solely on materiality level above Rs. 3 million and on opening balances is not appropriate and reflects lack of vigilance in conducting audit.
- (c) It is also important to draw attention to relevant requirements of ISA w.r.t importance of audit sample and audit evidence:

ISA 500: Audit Evidence provides:

"6. The auditor shall design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence.

7. When designing and performing audit procedures, the auditor shall consider the relevance and reliability of the information to be used as audit evidence."

ISA 530: Audit Sampling provides:

"4. The objective of the auditor, when using audit sampling, is to provide a reasonable basis for the auditor to draw conclusions about the population from which the sample is selected.

7. The auditor shall determine a sample size sufficient to reduce sampling risk to an acceptably low level.



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	<p>9. The auditor shall perform audit procedures, appropriate to the purpose, on each item selected.</p> <p>15. The auditor shall evaluate:</p> <p>(a) The results of the sample; and</p> <p>(b) Whether the use of audit sampling has provided a reasonable basis for conclusions about the population that has been tested."</p> <p>(d) It is however noted that subsequent to letter of the Commission dated July 18, 2019, the Company in its subsequent financial statements for year ended June 30, 2019, under notes 5 and 6, has disclosed that the operating fixed assets have been restated and effect of such changes have been applied retrospectively in accordance with IAS-8 "Accounting Policies, Changes in Accounting Estimates and Errors". The same has been disclosed in key audit matters of audit report for year 2019 by Respondent.</p> <p>ii) Accumulated depreciation amounting to Rs.30.993 million included depreciation incorrectly charged on freehold land:</p> <p>(a) The effect of misstatement on accumulated depreciation was acknowledged to be 7% of accumulated depreciation of freehold land and building and 2% of overall accumulated depreciation on property, plant and equipment. It is also noted that among others, unappropriated profit was understated by 1.958 million.</p> <p>(b) Nonetheless, the effects of misstated financial statements have been recognized by the Company subsequent financial statements for year ended June 30, 2019 by restating the data as presented under note 6 and taking effect of changes applied retrospectively in accordance with IAS-8 "Accounting Policies, Changes in Accounting Estimates and Errors".</p> <p>iii) Failure to disclose transactions with related parties as</p>
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	<p>required under IAS-24: Para 23 of IAS-24 states: <i>“Disclosures that related party transactions were made on terms equivalent to those that prevail in arm’s length transactions are made only if such terms can be substantiated.”</i></p> <p>The Company had disclosed nature of transaction i.e. sale and purchase with related party under note 27 to financial statements for year 2018. Therefore, disclosure as per para 23 of IAS-24 was required to be made under note 27 and therefore non-disclosure of the same implies that such transactions have been made on terms not equivalent to those prevailing in arm’s length transaction. The assertion by Respondent by quoting incomplete requirement of para 23 and referring to accounting policies do not suffice appropriate disclosure as per the aforesaid requirements of IAS-24.</p> <p>iv) Contravention to the requirements of Fourth Schedule to Act not highlighted by Respondent:</p> <p>(a) It has been acknowledged that the disclosure as per the requirements of sub-clause (v) of clause (1) of para VI, Part I of Fourth Schedule was not made under note 27 to the financial statements of year 2018. The assertion that the term director is clearly showing the nature of relationship of party with the reporting entity; is not appropriate basis nor any such exemption is given under the law. The Respondent therefore was required to highlight the said contravention in its audit report to members.</p> <p>(b) Nondisclosure of number of directors and executive under note 25 has been admitted as an inadvertent default by Company. It is however noted that without prejudice to the reliance of Company on inadvertent default, the subject proceedings relate to responsibilities of the Respondents in performing its responsibilities as auditor by failing to highlight the contravention to the</p>
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requirements of para 35, part III of Fourth Schedule. The consequent rectification by Company in subsequent financial statements have been provided by Respondent. However, the same does not absolve the Respondent from diligently performing audit in subject year i.e. 2018 and making report to members.

2. I would like to emphasize that the role of auditor is critical in order to ensure that the financial accounts present true and fair view. The duties of the auditors have been stipulated in section 249 of the Act and the relevant ISAs. Further auditor is required to identify and assess risks of material misstatements, obtain sufficient appropriate audit evidence and form an opinion based on conclusion drawn from such evidence. Therein the auditor is required to exercise due care and diligence in performing their duties and discharging their responsibility and maintain the trust and integrity. It is evident that the Respondent while performing audit for year 2018 have not exercised an attitude of professional skepticism, failed to perform the audit to obtain reasonable assurance and make a report to the shareholders thereof. It is however noted that the materiality of misstatements in figures relating to property plan and equipment and effect on accumulated depreciation was relatively low and that the auditor disclosed in key audit matters under audit report for year 2019 that the Company had in its financial statements for year 2019 took effect of changes retrospectively as per requirements of IAS-8 and made disclosures as per requirements of IAS-24 and Fourth Schedule of the Act. Nonetheless the aforesaid does not absolve the Respondent from their responsibilities under the Act for subject year i.e. audit report to members for year 2018.

It is therefore viewed that considering the facts of the case presented before me and observations made in the preceding para, the Respondent being engagement partner for year 2018 failed to discharge his duties diligently and failed to bring out misstatement and contravention with the disclosure requirements under the IAS and the Act and make a report to the shareholders thereof. Therefore, the Respondent is liable under Section 253 of the Act. Taking cognizance of materiality of misstatement and subsequent audit report for year 2019, I, hereby, in exercise of the powers under Section 253 of the Act,



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	impose penalty of Rs 50,000/- (Rupees fifty thousand only) on Respondent. Penalty order dated December, 2020 was passed by Executive Director (Adjudication-I).
2. Penalty Imposed	A penalty of Rs. 50,000/- (fifty thousands) was imposed on Tahir Siddiqi and Co., Chartered Accountants Auditor of Al-Khair Gadoon Limited.
3. Current Status of Order	No Appeal has been filed by the respondents