



Securities and Exchange Commission of Pakistan

Adjudication Division
Adjudication Department

Before

Abid Hussain, Executive Director/HOD (Adjudication-I)

In the matter of Show Cause Notice issued to M/s EY Ford Rhodes, Chartered Accountant Auditor of Burshane LPG (Pakistan) Limited

Date of Hearing

May 13, 2022, June 01, 2022, June 09, 2022,
September 21, 2022

Order-Redacted Version

Order dated October 11, 2022 was passed by Executive Director/Head of Department (Adjudication-I) in the matter of M/s EY Ford Rhodes, Chartered Accountant Auditor of Burshane LPG (Pakistan) Limited

Relevant details are given as hereunder:

Nature	Details
1. Date of Action	Show cause notice dated April 06, 2022
2. Name of Company	EY Ford Rhodes, Chartered Accountant
3. Name of Individual*	The proceedings were initiated against Mr. ****, Engagement Partner, M/s EY Ford Rhodes, Chartered Accountants (the Auditor), the auditor of Burshane LPG (Pakistan) Limited (the Company) as Respondent.
4. Nature of Offence	Under Section 249 & 253 of the Companies Act, read with Section 479 thereof.
5. Action Taken	Key findings were reported in following manner: 1. At this juncture, I would like to highlight that the auditors being the ultimate watchdog of the shareholders' interest, are required to give a report on the accounts and books of accounts of the company after conducting the audit in accordance with the prescribed procedures and requirements of the Act and auditing as well as auditing standards. The shareholders are the ultimate stakeholders to whom the auditors are responsible to answer and they must keep this fact in mind while auditing the books of accounts and reporting thereon. The duties and responsibilities of an auditor under Section 249 of the Act, appointed by the shareholders can best be understood if we look the role 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 affairs of the company. In the case of a listed company, the general public also contributes



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towards the equity of the company. Such persons do not have any direct control over the affairs of the company except that they elect directors for a period of three years and entrust the affairs of the company to them in the trust that they will manage the company at the best. Adjoining to the above and also in our socio-economic environment, the auditor of listed and other companies enjoys a position of great respect. Hence it is utmost importance for the auditors to exercise due diligence in performing their duties and discharging their responsibilities. Any lapse in exercising due professional care and diligence, may ruin such trust and confidence of the shareholders and other stakeholders of the Company.

2. The auditor has a responsibility to plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. Reasonable assurance is a high level of assurance and not a procedural matter. As part of an audit, the auditor exercises professional judgment and maintains professional skepticism throughout the audit. The auditor also identifies and assesses the risks of material misstatement of the entity's financial statements and designs and performs audit procedures responsive to those risks, and obtains audit evidence that is sufficient and appropriate to provide a basis for the auditor's opinion. Any risk alert generated during the course of audit cannot be ignored in exposing financial misdeeds of the Company and auditors must be extra cautious and vigilant by taking additional measures to identify any misstatements in financial statements. Further auditor is required to compile information from all relevant sources in their risk assessments and any misstatement be identified during the course of audit should be addressed by application of additional audit procedures inclusive of seeking written representations from the management, as to whether management believes the effects of uncorrected misstatements are Immaterial, both individually and in aggregate, to the financial statements taken as a whole. Due professional care requires the auditor to exercise professional skepticism and the auditor's responses to the assessed risks of material misstatement, particularly fraud risks, should involve the application of professional skepticism in gathering and evaluating audit evidence.

3. Any risk alert generated during the course of audit cannot be ignored in exposing financial misdeeds of the company and auditors must be extra cautious and vigilant by taking additional measures to identify any misstatement in financial statements. Further auditor is required to compile information from all relevant sources in their risk assessments and any misstatement be identified during the course of audit should be addressed by application of additional audit procedures inclusive of seeking written representation from the management, as to whether management believes



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the effects of uncorrected misstatements are immaterial, both individually and in aggregate, to the financial statements taken as a whole. Due professional care requires the auditor to exercise professional skepticism and the auditors' responses to the assessed risk of material misstatement, particularly fraud risk, should involve the application of professional skepticism in gathering and evaluating audit evidence.

5. From the above discussion and after careful consideration of all facts of the case and written and verbal representations made before me, I, am of the view that though the nature of engagement with RIBS was not forensic that required 100% audit sample size; nonetheless before completion of audit of the Company, the Auditor was privy to existence of a different closing balances on account of investment by the Company in the books of RIBS and the Company. In the presence of this risk, the Auditor was required to design and implement appropriate measures to handle the material misstatement and to be extra cautious. The auditor was required to perform such additional audit procedures enabling him to figure out the existence of related party. It is believed that the Auditor, instead of merely relying on the representation by the Company, could have further explored the transaction to confirm the existence of related party transactions and to determine associate relationship between the Company and RIBS. This is further substantiated through para 18 of IAS-24 that requires to disclose the nature of related party relationship besides other information about transactions, etc. and para 6 of ISA 705 requiring the Auditors to modify the opinion in its audit report when:

- (a) The auditor concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement; or
- (b) The auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement.

6. Keeping in view the above, it is evident that the Respondent, being auditor of the Company failed to disclose:

- (a) relationship of the Company with RIBS, being associated by the virtue of common directorship of the CEO of the Company, as CEO hold 85% shares in RIBS,
- (b) the auditor failed to apply procedures to identify RIBS as related party as well as the existence of related party transactions to give its observation/qualification in terms of non-disclosure under IAS 24 despite the fact that its audit firm, being engaged by RIBS for preparing RIBS report,



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	<p>was privy to an amount of Rs. 235.321 million being payable to Company, as per RIBS report,</p> <p>(c) grant of loan to RIBS by the Company without approval of the BOD and shareholders and</p> <p>has contravened Section 249 of the Act. Hence, I in terms of the powers conferred under Section 253 and 479 of the Act, hereby, impose a penalty of <u>Rs. 50,000/- (Rupees fifty thousand only)</u> on the Respondent.</p> <p>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, violation of the Act.</p>
6. Penalty Imposed	A Penalty of Rs. 50,000/- (Rupees Fifty thousand Only) was imposed on the Respondent.
7. Current Status of Order	Appeal has been filed by the respondent.