Before
Amir M. Khan Afridi, Director/Head of Department
In the matter of

*****, Engagement Partner**
M/s Manzoor Hussain Mir & Company, Chartered Accountants
Auditor of Mian Textile Industries Limited

Dates of Hearings May 30, 2022

Order-Redacted Version

Order dated December 28, 2021, was passed by Director/Head of Department (Adjudication-I) in the matter of ***, Engagement Partner, M/s Manzoor Hussain Mir & Co., Chartered Accountants, auditors of Mian Textile Industries Limited. Relevant details are given hereunder:

Nature	Details
1. Date of Action	Show Cause Notice dated November 14, 2019
2. Name of Company	***, Engagement Partner, M/s Manzoor Hussain Mir & Co., Chartered Accountants, auditors of Mian Textile Industries Limited
3. Name of Individual*	The proceedings were initiated against ***, Engagement Partner, M/s Manzoor Hussain Mir & Co., Chartered Accountants, auditors of Mian Textile Industries Limited
4. Nature of Offence	Brief facts of the SCN are that inspection of books of accounts of the Company was authorized vide order dated March 17, 2017 under Section 231 of the Companies Ordinance, 1984 (the Ordinance). In light of the inspection report, the annual audited financial statements (the Accounts) of the Company for the years ended June 30, 2011, 2012, 2013, 2014, 2015 and 2017 were audited by M/s Manzoor Hussain & Company, chartered accountants, being the auditor of the Company. The inspection report, *inter alia*, highlighted that (i) the management of the Company had established *** to provide quality education, where at present 850 students (approximately) comprising all classes from grade 1-10 were enrolled. (ii) *** operating assets primarily comprising land, building, furniture and other assets were owned and controlled by the Company since inception of the school. (iii) since 2003 to 2008, the Company had accounted for the related/ incidental expenses of *** in the Company's books aggregating to Rs. 3,810,243/-. (iv) since 2008, these related / incidental expenses and revenues had been accounted for in the Company's books of accounts through a net resultant excess amount (school's revenue – expenditure) categorized as an 'other liability' under 'trade and other payable', and (v) since 2010 till 2017, the Company had earned revenue and correspondingly incurred expenditures aggregating to amounts of Rs. 71,683,450/- and Rs. 62,709,113/- respectively on account of running the affairs of ***.

	(vi) reliability and accuracy of revenue earned and expenses incurred by the Company on account of running the affairs of *** were not ascertained correctly in the following manner: (a) respective statutory auditors failed to perform audit procedures and obtain audit evidence to draw conclusions on transactions affecting to run the affairs of ***. (b) significant amount had been expensed out on account of 'house rent (school)' on yearly basis to run the affairs of ***, however, traces of incorporating the same as an 'income' of the books of the Company had not been observed, and (c) a considerable amount had been paid to unidentified individuals on account of salaries to confidential staff on yearly basis for running the affairs of ***. It was further highlighted that the auditor's report to the members of the Company issued by the statutory auditors for the financial years ended June 30, 2011, 2012, 2013, 2014, 2015 and 2017 had not highlighted the foregoing facts and appropriate modifications/qualification were not made in the Auditors' Reports therein despite the following: (i) the Company failed to conduct its business in accordance with objects of the Company and expenditure incurred during the relevant years were not for the purpose of its business as: a. the Company had been engaged in the business activities of *** and earning revenues and incurring expenses there against and b. The management of the Company has transformed *** to a top quality educational institute of the locality through distribution/allocation of the Company's resources in an effective and efficient manner towards the operations of ***. (ii) despite availability of discrete financial information, the Company failed to disclose all information to enable its stakeholder/shareholders to evaluate the nature and financial effects of the business activities in which the Company had been engaged and (iii) relevant statutory auditors failed to unearth the substance of 'net payable balance', which had been accounted in the financial statements since 2008. In view of aforesaid, the auditor, *prima facie,* failed to appropriately highlight the above misstatements in the auditors' report on the Accounts of the Company for the years ended June 30, 2011, 2012, 2013, 2014, 2015 and 2017 and the same were not in accordance with the requirements of Section 255 of the Ordinance and International Standards on Auditing (ISAs) as the auditors, *prima facie*, failed to bring out material facts about the affairs of the Company making liable for action under Section 260 of the Ordinance. The proceedings in this regard were initiated vide SCN dated November 14, 2019 under Section 260(1), Section 255 and Section 476 of the Ordinance.

5. Action Taken

Key findings are given as hereunder:

I have analyzed the facts of the case, relevant provisions of the Ordinance and of the applicable ISAs, arguments put forth by the Respondent and replies submitted in writing. In this regard, it is stated that:

a. At the outset, it is hereby pointed out that it is never denied by the Respondent that the Company has carried out the transactions on behalf of *** and the said transactions were significant in nature. Moreover, it is not denied by the Respondent that that running of school is not business issue of the Company as core business was textile as per articles of association.. The Respondent has relied on a letter dated October 5, 2015 of the Company in terms of which it was stated that school related funds were recorded in the books of the Company as a custodian and land of the school was owned by the Company. However, no such decision of board of directors in this regard, is provided by the Respondent. Besides, it is important to point out here that note 12.2 to the Accounts of 2015, disclosed that:

   Others:(School) (2015) Rs. 5,884,064 (2014) Rs. 4,357,607
   12.2 A school named Deen Public High School is being run by the Company and all its income and expenses are being charged to the school.

   The aforesaid disclosure clearly reflects that the Company was operating ***. Hence, the Respondent's stance that *** was a separate entity and was being run through Waqaf does not hold ground. Owing to the fact, that it was built on the land of the Company, revenue and expenditures were recorded in the books of the Company, net payable amount of Rs. 5.884 million was recorded and disclosed in 2015. The Respondent, however, did not perform due audit procedures in the matter of material and significant nature of *** related transactions. The Respondent thus failed to modify his respective auditors' reports in terms of ISA 705 and bring material facts about *** and related affairs of the Company in contravention of the requirement of Section 255 of the Ordinance for which penalty is provided in terms of Section 260(1) of the Ordinance.

b. As per available information shared with the inspection team, following has been revealed:

Year	**Revenue earned (Rs.)**	**Expenditure incurred (Rs.)**	**Excess Revenue over Expenditure (Rs.)**
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
Total	43,516,811	38,660,855	4,855,956

   With regard to the aforesaid recording of revenue and expenditures in the book of the Company, the Respondent during the proceedings, could not submit any cogent and persuasive justification for recording the amounts of revenues of 43,516,811/- and expenditures of 38,660,855/- related to *** in the relevant Accounts. Perusal of above information substantiates that the

	Respondent, did not discharge his obligations in terms of the applicable provisions of the Ordinance and ISAs, and did not modify the reports for the respective years and rather relied on the stance of the Company despite the facts that: (i) the amounts of revenues and expenditures were of significant amounts for each respective years (ii) the actual amount of revenues and expenditures was reported on net payable basis. The Company, therefore did not correctly report revenues and expenditure of *** in its books of accounts for the corresponding financial years and instead reported the amount on net basis contrary to the requirements of IAS 1. The aforesaid is material fact in nature and required to be reported by the Respondent, being auditor of the Company, in order to discharge his obligations envisaged in the Ordinance. c. As per the available record and submissions of the Respondent; 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 Rs. 315,000/- which is much below the materiality level. 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 in nature. It may also be noted that assets of the Company were being utilized without any return and were in the possession and control of ***. The Auditor was under obligation to bring out this material fact to the knowledge to the shareholders in terms of the requirements of ISAs, in respective financial statements. The Auditor, however, failed to bring out the said material facts in auditors' reports for the respective years. d. As per available information, the Company was charging rent of significant amount on yearly basis to the school account however, traces of such income were not reported in the Accounts of the Company. In this regard, I am of the view that the Respondent, did not highlight the fact that significant amount had been expensed out on account of 'house rent (school)' on yearly basis to run the affairs of *** however, traces of incorporating the same as an 'income' of the books of the Company had not been observed, e. The stance that no objection was ever raised by predecessor auditor is not tenable. In this regard, I would like to mention here that the audits of the financial statements of the Company for the corresponding financial years were conducted by the Respondent, and it was the responsibility of the Respondent to identify these issues and report the same in the auditors' reports of respective financial years to bring out the same for the information of the shareholders of the Company. f. In terms of section 255 of the Ordinance the powers and duties of the auditors have been provided, which, *inter alia*, provides that whether or not in their opinion and to the best of their information and according to the explanations given to them, the said accounts give the information required by this Ordinance in the manner so required and give a true and fair view. I, am of the view, the Respondent has not discharged his obligations and

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<tr><td></td><td>relied on previous practice of the Company and the same does not exonerate and absolve him for not highlighting the revenues and expenditures of the *** and related rent and for not modifying the auditors' reports accordingly.

g. It is important to note that the financial statements are the key source of information about the operational efficiency and financial stability of a listed Company. A statutory auditor is obligated to follow the requirements of the Ordinance, and to carry out audit procedures in terms of ISAs and to express an opinion using professional judgement and maintaining professional skepticism. Further, an 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. However, in view of the observations above, it is clear that the Respondent did not demonstrate prudent assessment of the revenues and expenditures incurred on behalf of the *** and the net amount payables in this regard.

h. The Respondent is of the view that he is an old citizen of 82 years of age and is suffering various health issues and left the audit profession in 2021. I prefer no comments in this regard.

From the above discussion and after careful consideration of all the facts of the case, I, am of the view that the Auditor of the Company did not appropriately highlight the material facts in the respective Auditor's Reports on financial statements of the Company. Hence, the Auditor's Reports on the aforesaid Accounts were not in accordance with the requirements envisaged in terms of Section 255 of the Ordinance and ISAs, hence, liable for action under Section 260(1) of the Ordinance. Keeping in view the above, in terms of Section 260(1) of the Ordinance, for the aforesaid violations, I, hereby impose a penalty of Rs. 50,000/- only (Rupees Fifty thousand) on ***.

The Respondent is hereby directed to deposit the aforesaid amount of penalty in the designated bank account maintained in the name of the Securities Exchange and Commission of Pakistan with MCB Bank Limited within thirty (30) days of the date of this Order and furnish receipted bank challan, evidencing payment of the same, to the Commission forthwith. In case of failure to deposit the penalties, the proceedings under Land Revenue Act, 1967 will be initiated for recovery of the fines as arrears of land revenue. It may please be noted that the penalty on the Respondent has been imposed in personal capacity; therefore, he is required to pay the said penalty from his personal resources.

Nothing in this Order may be deemed to prejudice the operation of any provision of the Ordinance providing for imposition of penalties in respect of any default, omission, violation of the Ordinance.</td></tr>
<tr><td>6. Penalty Imposed</td><td>Rs. 50,000/-</td></tr>
<tr><td>7. Current Status of Order</td><td>The penalty was deposited.</td></tr>
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