



Corporate Supervision Department
Company Law Division

Before Abid Hussain - Executive Director

In the matter of

M/s Raza Siddiqui & Company
Auditor's of Imran Brothers Textile (Private) Limited

Number and date of notice: No. CSD/ARN/320/2016 - 4728 dated June 28, 2016
Date of hearing: August 4, 2016 and November 21, 2016
Present: Mr. Shafqat Raza, FCA Partner

ORDER

UNDER SECTION 255 READ WITH SECTION 476 OF THE COMPANIES ORDINANCE, 1984

This order shall dispose of the proceedings initiated against the partners of M/s Raza Siddiqui & Company (*the "respondents"*), appointed as statutory auditor of the Company by the Directors of Imran Brothers Textile (Private) Limited (*the "Company"*) through show cause notice ("SCN") dated June 28, 2016 issued under the provisions of Section 255 read with Section 476 of the Companies Ordinance 1984 (*the "Ordinance"*).

2. Brief facts of the case are that the examination of annual audited financial statements for the year ended June 30, 2015 (*the "Accounts 2015"*) of the Company revealed that audit report issued by M/s Raza Siddiqui & Company, Chartered Accountants (*the "auditor"*) to the members of the Company was not in conformity with the provisions of Sub-section 3 of section 255 of the Ordinance and form 35A, as prescribed under rule 17A of the Companies (General Provision & Forms) Rules, 1985 (*"Rules"*). Moreover, the auditor failed to modify / qualify the Audit Report, on certain issues, hence a SCN was issued to the auditors dated June 28, 2016.

3. Mr. Shafqat Raza, partner of the firm, in response to the contents of the SCN, informed this office vide his letter dated July 11, 2016, that their firm has not issued any audit report to the members on Accounts 2015 of the Company. A hearing in the matter was fixed on August



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4, 2016, Mr. Shafqat Raza, FCA, partner of the firm, appeared on behalf of the following partners and denied any audit report to be issued on the Accounts 2015 of the Company:

1. Shafqat Raza FCA
2. Mohammad Asif Ali Mufti FCA

The respondents were advised during the hearing to resolve the disputed position of audit report with the Company. The respondents sent a legal notice in line with their stance taken in the afore referred hearing through their lawyer on August 15, 2016 and also submitted a copy to the department. The directors of the Company responded the notice through their lawyer on August 26, 2016, refuting the allegations of the auditors, stating that the auditors have submitted their consent letters to act as auditor for the years 2013, 2014 and 2015 and has issued audit reports.

4. The Auditors served another notice dated September 2, 2016, to the directors of the Company as reminder to their earlier notice, giving rise to a situation where the controversy remained resolved. Hence another hearing was fixed on November 21, 2016. The authorized representative appeared on the date and time fixed for hearing and submitted lists of companies where the auditor has consented to act as statutory auditor for the years 2014 and 2015. The auditor further contended that he is unaware of the outlook and design of letter head or stamp that has been used in the documents submitted by the Company. He claimed that the letterhead is different from the one submitted by the company along with Form 29.

5. In order to verify the claim of the auditor copies of consent letters filed by the companies where auditor itself has confirmed its appointment as statutory auditor were scrutinized. The letter head used by the auditors in the matter of companies where the auditors confirmed their consent to act as auditors, was randomly checked and was found to be in close resemblance to what was submitted by the Company, in the following instances:

- a. ARNZ (Private) Ltd;
- b. Easilink (Private) Ltd;
- c. Fabiha Tours and Travel (Private) Ltd
- d. Rajko Enterprises (Private) Ltd, and
- e. Sunrise Aviation Private Ltd

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6. Before proceeding further, it is necessary to advert to the following relevant provisions of Ordinance:

Section 255 (3) of the Ordinance prescribes requirements and the manner of auditor's report on the Accounts:

"(3) The auditors shall make a report to the members of the company on the accounts and books of accounts of the company and on every balance-sheet and profit and loss account or income and expenditure account and on every other document forming part of the balance-sheet and profit and loss account or income and expenditure account, including notes, statements or schedules appended thereto, which are laid before"

Section 260 of the Ordinance states as under:

"(1) If any auditor's report is made, or any document of the company is signed or authenticated otherwise than in conformity with the requirements of section 157, section 255 or section 257 or is otherwise untrue or fails to bring out material facts about the affairs of the company or matters to which it purports to relate, the auditor concerned and the person, if any, other than the auditor who signs the report or signs or authenticates the document, and in the case of a firm all partners of the firm, shall, if the default is willful, be punishable with fine which may extend to one hundred thousand rupees.

In terms of the Commission's notification SRO 1003 (I)/2015 dated October 15, 2015, the powers to adjudicate cases under section 260 have been delegated to the Executive Director (Corporate Supervision Department).

It is important to highlight here that the Ordinance has been repealed while promulgating Companies Ordinance, 2016 ("Ordinance 2016"). However, provisions of Section 509(1)(f) of the Ordinance 2016 clearly provides that pending proceedings shall be concluded as provided in the Ordinance :

"509. Repeal and savings.— (1) The Companies Ordinance, 1984 (XLVII of 1984), hereinafter called as repealed Ordinance, shall stand repealed, except Part VIII A consisting of sections 282A to 282N, from the date of coming into force of this Ordinance and the provisions



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of the said Part VIII A along with all related or connected provisions of the repealed Ordinance shall be applicable *mutatis mutandis* to Non-banking Finance Companies in a manner as if the repealed Ordinance has not been repealed:

Provided that repeal of the repealed Ordinance shall not-

- (f) affect any inspection, investigation, prosecution, legal proceeding or remedy in respect of any obligation, liability, penalty, forfeiture or punishment as aforesaid, and any such inspection, investigation, prosecution, legal proceedings or remedy may be made, continued or enforced and any such penalty, forfeiture or punishment may be imposed, as if this Ordinance has not been passed”.

7. I have analyzed the facts of the case, relevant provisions of the Ordinance, arguments put forth by the representative during the hearing and observed that the respondent has not offered any cogent reasons to clarify the non-compliances observed in the SCN and instead denied issuing audit report on the Accounts 2015 of the Company apparently to avoid the penal consequences.

8. In our socio-economic environment chartered accountants, who act as auditors of listed and other companies enjoy a position of great respect. Accounts audited by them carry a weight and are relied upon by various authorities and stakeholders. They are often called upon by different authorities including stakeholders and also by international organizations, to certify various financials of the companies, as a means to provide due comfort to these authorities, stakeholders and organizations for their intended purposes. For these reasons, it is further more important for the auditors to exercise due diligence in performing their duties and discharging their responsibilities and maintain a high level of trust and integrity at their end.

9. It is a matter of record that in another case same violation has been observed in the matter of the respondent where again he has taken the same plea which makes his statement, regarding appointment as statutory auditor, doubtful. Further, the verification exercise of the consent letters submitted by different companies along with their form 29 revealed that the similar letterhead was used by the auditor giving its consent for appointment as statutory auditor. I am therefore of the firm opinion that the provision of Section 255 of the Ordinance has been violated and the respondent is liable for the fine as prescribed by Section 260 of the Ordinance. Consequently, in exercise of the powers conferred by the aforesaid provision of the



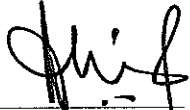
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Ordinance, I hereby impose a fine of Rs. 10,000 (Rupees Ten thousand only) on the respondent for contravening the provision of Section 260 of the Ordinance.

The aforesaid fine 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 fine, proceedings for recovery of the fines as arrears of land revenue will be initiated under Section 42B of Securities and Exchange Commission of Pakistan Act, 1997. It may also be noted that the said fines are imposed on the respondents in his personal capacity; therefore, he is required to pay the said amount from his personal resources.


Abid Hussain
Executive Director

Announced:
December 6, 2016
Islamabad