



Before Tahir Mahmood, Commissioner (Company Law Division)

In the matter of

Junaidy Shoaib Asad & Co. Chartered Accountants

Number & Date of the Show Cause Notice: EMD/242/L/67/2010-447
Dated November 18, 2014
Date of Hearing: March 31, 2015
Present: Shoaib A. Waseem – Partner
Authorized Representative

ORDER

Under Section 255 read with Section 260 and 476 of the Companies Ordinance, 1984

This order shall dispose of the proceedings initiated against Junaidy Shoaib Asad & Co. Chartered Accountants ("Auditor") through show cause notice dated November 18, 2014 under the provisions of Section 255 read with Section 260 of the Companies Ordinance 1984 ("Ordinance").

2. The facts leading to this case, briefly stated, are that, the examination of the annual audited accounts for the year ended June 30, 2010 and June 30, 2011 (the "Accounts") of Poly Paper and Board Mills (Pvt.) Limited (the "Company") revealed that the Accounts are audited by the Auditor and signed an unqualified report to the members of the Company (the "Report").

3. The analysis of the Accounts for the aforesaid periods revealed that, the accumulated losses of the Company had reached to Rs. 240.608 million (2010: Rs. 236.106 million) as against equity of Rs. 300 million. Additionally, the current ratio of the Company as at June 30, 2010 and June 30, 2011 stands at 1:1 and 0.88:1 respectively. Moreover, the Director's Report for the year ended June 30, 2011 stated that:

Quote

"Plant was remained closed during the year to avoid huge losses foreseen due to heavy load shedding of electricity and Sui Gas and increasing prices of raw material. The management making its efforts at the best level to overcome like these situations and planned to make the mill operative as soon as possible".

Unquote

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All the aforesaid facts cast significant doubts about the Company's ability to continue as a going concern. However, the auditor has failed to highlight these facts in his Report.

4. Moreover, following discrepancies has been observed in the Accounts for the year ended June 30, 2010 and June 30, 2011:

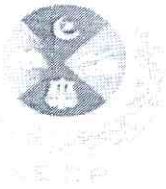
- (i) The Accounts for the year ended June 30, 2010 reflect discrepancy in the closing balance of "Statement of changes in equity" of Rs. 31.959 million and "Issued subscribed and paid up balance" reflected in balance sheet of Rs. 63.839 million.
- (ii) Following discrepancy has been observed in the comparative amount of "Advances" Note 14 to the Accounts for the year ended 2010 and note 12 to the Accounts for the year 2011:

Transaction	Opening balance 2011 (Rs.)	Closing balance 2010 (Rs.)
Advances	21,286,676	10,305,281

It is pertinent to mention here that, the Accounts do not disclose any information regarding reclassification made in this regard.

5. The auditor of the Company while responding to the Commission's letter dated May 09, 2014 on June 20, 2014 stated that:

- (a) We were not provided with the Director's Report for the year ended June 30, 2011. It has been stated in the para quoted in your letter that, plant remained closed during the year, whereas, in Note # 15 to the audited financial statements production expensed were have been shown which includes raw material, electricity consumed amounting to Rs. 6.328 million for production purpose. We were provided with the management representation along with financial projections with respect to our query regarding going concern assumption. After review of the management representation and projected accounts we concluded that the company would be a going concern.
- (b) The closing balance of statement of changes in equity for the year ended June 30, 2010 does not match with the balance of equity appearing in the balance sheet due to typing mistake which is apparent on the face of Statement of Changes in Equity whereby Rs. 31.934 million being the profit for comparative year has not been added inadvertently in the total figure resulting in mismatch of closing figure of Statement of Changes in Equity with balance sheet.
- (c) The difference of Rs. 10.981 million in opening and closing balance of "Advances" is due to reclassification of balance sheet of Zaman Paper & Board Mills (Pvt.) Ltd. in the year 2011. It is regretted that information regarding reclassification could not be disclosed in the audited accounts.



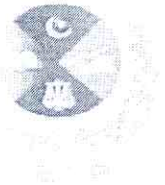
6. The auditor failed to modify his report in accordance with Section 255 of the Ordinance. Resultantly a show cause notice dated November 18, 2014 was issued to Auditor advising to explain within 14 days from the date of the notice as to why a penal action may not be taken against him for contravention of provisions of Section 255 read with Section 260 of the Ordinance.

7. In order to provide opportunity of personal hearing, the case was fixed before the undersigned for March 31, 2015. Mr. Shoaib A. Waseem, representing the Auditor, appeared and submitted the following:

- Emphasis of matter paragraph regarding going concern was not added after opinion paragraph as the management was of the view that the company would continue as going concern. Based on the representations obtained from the management along with necessary evidences in shape of financial projections.
- There is no error in the balance sheet in year 2010 with respect to closing balance of 'Statement of Changes in Equity'. There is only typing mistake in 'Statement of Change in Equity'.
- The disclosure regarding reclassification of balance of Zaman Paper & Board Mills (Pvt.) Ltd. could not be given in the accounts inadvertently which is regretted.

8. Before parting with the order, I feel appropriate to quote the provisions of Sub-section (3) of Section 255 of the Ordinance stipulating duties of auditors, require that the auditor shall make a report to the members of the company on the accounts and books of account of the company and on every balance sheet and profit and loss account and on every other document forming part of the balance sheet and profit and loss account, including notes, statements or schedules appended thereto, which are laid before the Company in general meeting during their tenure of office, and the report shall state:

(d) 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 in the case of the balance-sheet, of the state of the company's affairs as at the end of its financial year; in the case of the profit and loss account or the income and expenditure account, of the profit or loss or surplus or deficit, as the case may be, for its financial year; and in the case of the statement of changes in financial position or sources and application of funds of a listed company, of the changes in the financial position or the sources and application of funds for its financial year;



9. Furthermore, the provisions of Sub-section (4) of Section 255 requires that where any of the aforesaid matters is answered in the negative or with a qualification, the report shall state the reason for such answer along with the factual position to the best of the auditors' information.

10. Moreover, Para 19 of International Standard on Auditing (ISA) 570 (Going Concern) states that:

"If adequate disclosure is made in the financial statements, the auditor shall express an unmodified opinion and include an Emphasis of Matter paragraph in the auditor's report to:

- a) *Highlight the existence of a material uncertainty relating to the event or condition that may cast significant doubts on the entity's ability to continue as a going concern; and*
- b) *Draw attention to the note in the financial statements that discloses the matter set out in paragraph 18.*

11. I have analyzed the facts of the case, relevant provisions of the Ordinance, arguments put forth by the auditor in writing and by the authorized representative during the hearing and observed that the provisions of Section 255 are very clear and the spirit of the aforesaid provisions is that, the primary responsibility of the auditor is to opine on the Accounts of the Company after obtaining all the relevant and necessary information which is essential to form an opinion. In the instant case, the Firm has failed to perform its duty diligently as an un-qualified Report has been issued without highlighting the facts that, the Company was non-operational during the year.

12. The Auditor stance that, it properly performed risk assessment procedures, keeping in view the accumulated losses of the Company in respect of financial, operational and other aspects is not tenable. The accumulated losses of the Company had reached to Rs. 240.608 million (2010: Rs. 236.106 million) as against equity of Rs. 300 million and as per Director's report for the year ended June 30, 2011, plant was remained closed during the year to avoid huge losses foreseen due to heavy load shedding of electricity and Sui gas and increasing prices of raw material. The Auditor also failed to highlight error in the Statement in change of equity and failed to disclose any information regarding reclassification made in Advances of Rs. 10.981 million. In the circumstances, it is clear that, the Firm has failed to perform his duties with reasonable degree of care and skill.

13. For the foregoing reasons, I am of the firm opinion that the Auditor failed to bring about material facts about the affairs of the Company and accordingly Auditors Report has not been made in conformity



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with Section 255 & 260 of the Ordinance and is liable for the penalty as prescribed by Section 260 of the Ordinance. Therefore, in exercise of the powers conferred by the aforesaid provisions of the Ordinance, I hereby impose a fine of Rs.10,000 (Rupees ten thousand only) on the Auditor.

14. The Auditor is hereby directed to deposit fine of Rs.10,000 (Rupees ten thousand only) in the designated bank account maintained in the name of Securities and Exchange Commission of Pakistan with MCB Bank Limited within thirty days from the receipt of this Order and furnish receipted vouchers for information and record, failing which proceedings under the Land Revenue Act,1967 will be initiated which may result in the attachment and sale of movable and immovable property.

Tahir Mahmood
Commissioner (CLD)

Announced:
April 16, 2015
Islamabad