



Corporate Supervision Department
Company Law Division

Before Abid Hussain – Executive Director (Corporate Supervision Department)

In the matter of

Mr. Mohammad Ghalib, Audit Engagement Partner of Feroze Sharif Tariq & Co., Chartered Accountants - Auditor of Landmark Spinning Industries Limited

Number and date of notice: No. CSD/ARN/223/2015-2076, dated January 14, 2016
Date of hearing: February 18, 2016
Present: Mr. Mohammad Tariq, authorized representative

ORDER

**UNDER SECTION 260 READ WITH SECTIONS 255 AND 476 OF THE COMPANIES
ORDINANCE, 1984**

This order shall dispose of the proceedings initiated against Mr. Mohammad Ghalib (the “respondent”), audit engagement partner of Feroze Sharif Tariq & Co., Chartered Accountants (the “Auditor”) who audited the annual financial statements (the “Accounts”) of Landmark Spinning Industries Limited (the “Company”) for the year ended June 30, 2015. The proceedings were initiated through show cause notice (“SCN”) dated January 14, 2016 under the provisions of section 260 read with sections 255 and 476 of the Companies Ordinance 1984 (the “Ordinance”).

2. The brief facts of the case are that examination of the Accounts of the Company for the year ended June 30, 2015, revealed that the Auditor in its report to the members gave qualified opinion, on the following basis:

- i) For not charging depreciation of fixed assets except on Vehicle and Hut at Sandpit since the date of commercial operations has been suspended by the company in 2002-2003.
- ii) Indication of existence of a material uncertainty which may cast significant doubt about the Company’s ability to continue as a going concern and, therefore, it may be unable to realize its assets and discharge its liabilities in the normal course of business.
- iii) For not accounting for loans received from associated concerns and directors at amortized cost as required by International Accounting Standard (“IAS”) 39.



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The aforementioned contraventions with IAS 16, which form part of the International Financial Reporting Standards ("IFRS"), in preparation of its Accounts by the Company due to not charging the depreciation on fixed assets, prima facie, caused material misstatements as substantiated below:

(Amounts in Rs.)

Head of Account	Understated / Overstated	Figure Reported in Accounts	Amount of Misstatement due to incorrect treatment	Actual Accumulated Loss if correct treatment was applied	Misstatement as % of Actual Figures if correct treatment was applied
Accumulated Losses (without revaluation)	understated	(191,914,658)	(94,979,417)	(286,894,075)	33%
Accumulated Losses (With revaluation)	understated	(191,914,658)	(153,223,690)	(345,138,348)	44%
Loss for the year (without revaluation)	understated	(1,139,741)	(4,873,590)	(6,013,331)	81%
Loss for the year (with revaluation)	understated	(1,139,741)	(8,879,730)	(10,019,471)	89%
Equity (Without revaluation)	Overstated	(70,677,658)	(94,979,417)	(165,657,075)	57%
Equity (With revaluation)	Overstated	(70,677,658)	(153,223,690)	(223,901,348)	68%
Fixed Assets (With Revaluations)	Overstated	241,793,508	153,223,690	88,569,818	173%

The impact of not accounting for loan from directors and associated was not quantified. The Company was incorporated in the year 1991 but it did not commence its commercial operation until year 2001 when the production was temporarily started but again suspended since November 29, 2002. Despite lapse of considerable time and commitments given by the management to the stakeholders, including the Commission, the Company continuously failed to commence its production. The Commission has passed an order authorizing the Registrar of Companies to file a petition for winding up of the Company in terms of Section 305 and 309 of the Ordinance in a competent court. The Company has filed an application with the Commission for review of the aforesaid order.

In view of the facts highlighted above, the Company was, prima facie, not a going concern, and management's use of going concern assumption in preparation of the Accounts did not appear to be appropriate.



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3. In view of the provisions of the International Standards on Auditing ("ISAs"), the Auditor was required to give an adverse opinion because the Accounts were materially misstated and combined effect of misstatement was pervasive, as follows:

- (i) The Accounts were, prima facie, misstated due to not charging depreciation on fixed assets and not accounting for the loan from associated concerns and directors at amortized cost; and
- (ii) The Accounts were prepared on the going concern basis despite the facts highlighted in preceding paragraph, which indicated that management's use of going concern assumption in preparation of Accounts was not appropriate.

4. Instead of giving an adverse opinion in line with provisions of the Ordinance and the applicable ISAs, the Auditor in its report to members on the Accounts only qualified the opinion in respect of not charging depreciation on fixed assets and material uncertainty about the Company's ability to continue as a going concern as highlighted as para 2 (i) & (ii) above. Moreover, the Auditor only added an emphasis of matter paragraph in respect of violation of IAS-39 by the Company by not accounting for loans received from associated concerns and directors at amortized cost, as highlighted at para 2 (iii) above. Hence the audit report on the Accounts was not in accordance with the requirements of section 255 of the Ordinance and ISAs as the Auditor, prima facie, failed to bring out material facts about the affairs of the Company making him liable for action under section 260 of the Ordinance. Consequently, the SCN was issued to the respondent, who was the engagement partner of the Auditor, to explain his position as to why penalty may not be imposed on him.

5. In response to the SCN, the respondent vide letter dated January 29, 2016 submitted reply. A brief of his submissions with reference to the contents of the SCN is given below:

(i) Depreciation of fixed assets

The audit report has been qualified instead of giving an adverse opinion due to the mitigating factors available on record. The company had made revaluation through independent valuers every three to five years as required by IAS -16 and adjusting the cost/WDV of assets with



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resulting surplus/ deficit. Major class of assets was revalued in 2014 resulting in net surplus of Rs.13.215 million. The SCN correctly disclosed the impact of non-charging of depreciation on losses, accumulated losses, equity and assets of the Company. Auditors' report and note 7.2 to the Accounts qualify and amply disclose the non -charging of deprecation on assets, respectively. The management maintained that it did not charge depreciation on assets as the plant remained idle and no continuous commercial production took place since beginning. The management also took advantage of ICAP circular No. 10/2002 dated November 11, 2002 wherein it is advised to apply depreciation on number of days utilized. We, however, did not concur with the relevance of this circular in the instant case and qualified our opinion in this regard.

(ii) Loans Amortization

As per your observation, the loan from directors and associated concerns are to be booked at amortized cost as per IAS 39. However the conditions for discounting are not met due to following reasons:

- The loan is not for a definite period.
- Due to Company being non-operational, future cash flow from operating activities cannot be ascertained. The facts regarding Company's operations being suspended and present situation have been disclosed in note 2 read with note 1, 12.2 and 23 to the Accounts. The Company's commencement of production depends upon supply of gas by the government that has plans to provide gas connection to the mills in Winder, Baluchistan and the company also is actively persuading the government in this regard. The government's agreement with Iran for supply of gas will enable it to supply gas to Winder.
- Note 15.3 to the financial statements states that the loans are payable on demand/ will be paid as and when convenient to the company. There is no fixed schedule and tenure for repayment of these loans. Owing to the uncertainties regarding remaining tenure of these loans, and future cash flows the amortized cost cannot be ascertained and accordingly these loans have been carried at historical cost". Therefore a definite time for repayment cannot be ascertained.



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(iii) Going Concern

The opinion in the audit report has been qualified as the company did not make adequate/ full disclosure in the Accounts (under note 2), in line with requirements of para 34 of ISA 570 which requires that if adequate is not made in the financial statements, the auditors should express a qualified or adverse opinion as appropriate.

It may be pertinent to mention that note 2 to the Accounts did not dilate on the following statement, hence a qualified opinion was given:

"These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern and therefore it may be unable to realize its assets and discharge its liabilities in the normal course of business".

The Company under note 23 to the Accounts has made detailed disclosure regarding suspension of production and Company's readiness to recommence production once gas is made available. Moreover, under notes 12 and 12.1 to the Accounts, the Company has also disclosed that the Commission has passed order under section 305 of the Ordinance for filing petition in the court for winding up of the Company and pending status of Company's appeal in Commission's Appellate Bench in this regard.

The above disclosures indicate that the company is not in operation since long time and does not plan to start its production till the availability of gas and electricity. We did not fully agree with the management's use of going concern. The mitigating factors are that there is no third party liability including the banks/financial institution and the directors/associates are willing to finance the company with ability and intention, as disclosed in the financial statements. In our opinion going concern assumption used by management was not fully supported as uninterrupted supply of gas and electricity is beyond the control of the company and time frame was uncertain. Therefore, audit report was qualified on the going concern issue because the mitigating factors are available.

The intention was not to hide the information, disclosures were made in the Accounts and directors' report and facts regarding non-charging of depreciation, doubts regarding going concern assumption and non-amortizing the loan as per IAS 39, were communicated to the users.



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We have performed our duties as an auditor in compliance with ISAs and the substantive test were performed in arriving at our opinion which was expressed accordingly. In the audit report qualified opinion was given instead of adverse opinion in line with para 7 of ISA-570.

Based on the aforesaid the respondent stated that he performed his duties as per ISAs and standard set by the ICAP and, therefore, accepting their plea, the proceedings may be vacated.

6. The case was fixed for hearing on February 18, 2016, and Mr. Muhammad Tariq, another partner of the Auditor appeared before the undersigned on behalf of the respondent. He reiterated the earlier written submissions and also made following additional submissions verbally:

- There is a fine line between an adverse opinion and a qualified audit opinion and due to mitigating factors in the case of the Company; opinion was qualified instead of giving adverse opinion, as the impact was material but was not considered pervasive.
- We did not hide any fact, and even the SCN has been issued based on the facts disclosed in the Auditor's report.
- Since the revaluations of major fixed assets have been carried out, therefore, their values disclosed in the Accounts reflect the correct figures and due to non-charging of depreciation these values are not exaggerated.
- Impairment has also been charged where revaluation of assets indicated that the assets are impaired.

The representative of the respondent was apprised of the fact that in view of suspension of business since 2002 coupled with other non-compliances the mitigating factors were not appropriate, adequate and relevant and the combined effect of misstatements in the Accounts was material and pervasive. Hence, adverse opinion should have been rendered instead of only a qualified opinion. The respondent submitted that having considered the aforementioned facts, the Auditor would consider giving an adverse opinion in its report to members on the upcoming half yearly accounts for the period ended December 31, 2015, if there does not appear to be any improvement in circumstances of the Company. He further stated that the same may be considered by the Commission before reaching a decision in the subject proceedings.



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7. Before proceeding further, it is necessary to advert to the following relevant provisions of the Ordinance, the Rules, IFRS and ISAs regarding auditor's responsibilities:

IAS 16-Property Plant and Equipment

30. *After recognition as an asset, an item of property, plant and equipment shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses.*

31. *After recognition as an asset, an item of property, plant and equipment whose fair value can be measured reliably shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.*

ISA 570 – Going Concern

6. *The auditor's responsibility is to obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern. This responsibility exists even if the financial reporting framework used in the preparation of the financial statements does not include an explicit requirement for management to make a specific assessment of the entity's ability to continue as a going concern.*

10. *When performing risk assessment procedures as required by ISA 315 the auditor shall consider whether there are events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.*

11. *The auditor shall remain alert throughout the audit for audit evidence of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. (Ref: Para. A6)*

12. *The auditor shall evaluate management's assessment of the entity's ability to continue as a going concern. (Ref: Para. A7–A9, A11–A12)*

16. *If events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern, the auditor shall obtain sufficient appropriate audit evidence to determine whether or not a material uncertainty exists through performing additional audit procedures, including consideration of mitigating factors.*

17. *The auditor shall conclude whether, in the auditor's judgment, a material uncertainty exists related to events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern.*

18. *If the auditor concludes that the use of the going concern assumption is appropriate in the circumstances but a material uncertainty exists, the auditor shall determine whether the financial*



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statements:

(a) Adequately describe the principal events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and management's plans to deal with these events or conditions; and

(b) Disclose clearly that there is a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and, therefore, that it may be unable to realize its assets and discharge its liabilities in the normal course of business. (Ref: Para. A20)

19. 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 doubt 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 matters set out in paragraph 18. (Ref: Para. A21–A22)

20. If adequate disclosure is not made in the financial statements, the auditor shall express a qualified opinion or adverse opinion, as appropriate, in accordance with ISA 705. The auditor shall state in the auditor's report that there is a material uncertainty that may cast significant doubt about the entity's ability to continue as a going concern. (Ref: Para. A23–A24)

ISA 705 -Modifications to the Opinion in the Independent Auditor's Report

A2. ISA 700 requires the auditor, in order to form an opinion on the financial statements, to conclude as to whether reasonable assurance has been obtained about whether the financial statements as a whole are free from material misstatement. This conclusion takes into account the auditor's evaluation of uncorrected misstatements, if any, on the financial statements in accordance with ISA 450.5

A4. In relation to the appropriateness of the accounting policies management has selected, material misstatements of the financial statements may arise when:

(a) The selected accounting policies are not consistent with the applicable financial reporting framework; or

(b) The financial statements, including the related notes, do not represent the underlying transactions and events in a manner that achieves fair presentation

A6. In relation to the application of the selected accounting policies, material misstatements of the financial statements may arise:

(a) When management has not applied the selected accounting policies consistently with the financial reporting framework, including when management has not applied the selected accounting policies consistently between periods or to similar transactions and events (consistency in application); or

(b) Due to the method of application of the selected accounting policies (such as an unintentional error in application)

A7. In relation to the appropriateness or adequacy of disclosures in the financial statements, material misstatements of the financial statements may arise when:



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- (a) *The financial statements do not include all of the disclosures required by the applicable financial reporting framework;*
- (b) *The disclosures in the financial statements are not presented in accordance with the applicable financial reporting framework; or*
- (c) *The financial statements do not provide the disclosures necessary to achieve fair presentation. (emphasis added)*

6. *The auditor shall modify the opinion in the auditor's 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 (Ref: Para. A2-A7)*
- (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. (Ref: Para. A8-A12)"*

Para 7, 8, 9 and 10 of the ISA 705 prescribe the criteria for determining the type of modification to the auditor's opinion. Para 8 of International Standard on Auditing ("ISA") 705 states that *the auditor shall express an adverse opinion when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in aggregate, are both material and pervasive to the financial statements.*

Rule 17 (A) of the Companies (General Provisions and Forms) Rules, 1985 (the "Rules") states that the auditors' report on the accounts and books of accounts and balance-sheet and profit and loss account of a company required by section 255 of the Ordinance shall be on a prescribed format contained in FORM 35-A, and the prescribed format, inter alia, contains the statement by the auditor that *"we conducted our audit in accordance with the auditing standards as applicable in Pakistan"*.

Section 255 of the Ordinance prescribes powers and duties of the auditors and sub-section (3) of section 255 prescribes requirements, manner and content of auditors' report on the Accounts.

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 wilful, be punishable with fine which may extend to one hundred thousand rupees.

(2) If the auditor's report to which sub-section (1) applies is made with the intent to profit such auditor or any other person or to put another person to a disadvantage or loss or for a material consideration, the auditor shall, in addition to the penalty provided by that sub-section, be



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punishable with imprisonment for a term which may extend to one year and with fine which may extend to one hundred thousand rupees."

8. I have analyzed the facts of the case, the relevant provisions of the Ordinance, the Rules, requirements of ISAs and the arguments put forth by the respondent. My observations in this regard are as under:

- a) A statutory auditor is bound to follow the requirements prescribed by the Ordinance, the Rules and the ISAs and has to express an opinion remaining within the confines set by them. *The ISAs contain objectives, requirements and application and other explanatory material that are designed to support the auditor in obtaining reasonable assurance. The ISAs require that the auditor exercise professional judgment and maintain professional skepticism throughout the planning and performance of the audit. In terms of the ISAs it is auditor's duty to identify and assess risks of material misstatements, obtain sufficient appropriate evidence and form an opinion based on conclusions drawn from the audit evidence. Para 8 of ISA 200 clearly states that the form of opinion expressed by the auditor will depend upon the applicable financial reporting framework and any applicable law or regulation. (Ref: Para. A12-A13).*
- b) Preparation of financial statements is responsibility of the management and it is auditor's responsibility to express an independent opinion on the financial statements. Any information contained in the notes to the financial statements is a part thereof and cannot be construed as an opinion of the auditor. Even though any reference to such notes will be treated as part of the auditors' report, in terms of sub-section (3) of section 255 of the Ordinance, yet where the auditor is required to specifically give an opinion, he has to render a specific opinion and merely giving a reference to disclosure of certain facts in the Accounts does not absolve the auditor of his responsibility to express opinion on the prescribed formats. Auditor after evaluating the audit evidence expresses his opinion on financial statements but while doing so he has to follow the requirements of the law and the ISAs as these requirements cannot be overruled.
- c) In terms of ISA 570 it is auditors' responsibility to remain alert throughout the audit for audit evidence of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and evaluate management's assessment of the



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entity's ability to continue as a going concern. If the auditor concludes that the use of the going concern assumption is inappropriate in the circumstances, then he is required to render an adverse opinion in line with para 21 of ISA 570. It is a matter of fact that the Company has not been operations since 2002 and the management of the Company has no alternate plan for revival of the Company. Management's use of going concern assumption is solely reliant on availability of gas and electricity in the vicinity where the Company is situated without any definite revival plan along with substantiating evidence and basis. The management has put reliance on the Iran Pakistan gas pipeline which is a project without any definite timeline and is dependent on the factors which are beyond the control of the management. Despite elapse of several years, the management of the Company has not been able to come up with any alternative plan for revival of the Company. Therefore, under the circumstances, the use of going concern assumption is clearly inappropriate. The presence of mitigating factors cited by the Auditors as a justification to continue using going concern assumption is untenable in the circumstances. The auditor himself states that he does not fully agree with the management's use of going concern but considered the mitigating factors. It is relevant to note that if auditors concluded that management's use of going concern is inappropriate, he is required to render adverse opinion as per para 22 of ISA 570. However, the respondent only gave a qualified opinion in this regard.

- d) The Company has not been charging any depreciation on fixed assets except on Vehicle and Hut at Sandpit since the date of commercial operations has been suspended by the company in 2002-2003. This is against the requirements of Framework for the Preparation and Presentation of Financial Statements (the "Framework") and IAS 16. In terms of the requirement of the Framework and IAS 16, once an asset constituting property plant and equipment is recognized, it has to be depreciated over its useful life unless it is the land owned by the entity. Therefore, it was mandatory to charge depreciation on fixed assets. As disclosed under note 6.5 to the Accounts, the Company's policy regarding depreciation is as under:

"Depreciation is charged to income using reducing balance method, at the rates specified in the annexed schedule, whereby the cost/revalued amounts of assets is written off over its estimated



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useful life..... (Continued)". It has further been disclosed that except a hut at Sandpit, and Vehicles no depreciation has been charged on the assets of the Company since 2002-2003. The Company has not charged any depreciation since 2002-2003, in violation of requirements of IAS 16 and its own accounting policy and has resorted to giving a disclosure regarding non-charging of depreciation. In terms of para 18 of IAS 1, an entity cannot rectify inappropriate accounting policies either by disclosure of the accounting policies used or by notes or explanatory material. Since the Company has not complied with the requirements of IAS 16, the Accounts were not in conformity with the requirements of the Framework and IFRS. The impact of the misstatement due to the non-compliance with IAS 16 was in itself material on standalone basis, as has been highlighted at para 2 above, as the balances of loss for the year, accumulated loss, equity and fixed assets were materially misstated. The overall impact of non-compliances taken together with the inappropriate use of going concern assumption and non-amortization of loans from associates was clearly material as well as pervasive and an adverse opinion was imperative. Under the circumstances, the statement of compliance (note 3 to the Accounts) wherein the Company has stated that the Accounts have been prepared in accordance with approved accounting standards, is also incorrect.

- e) The respondent has stated that the Company took advantage of the ICAP's circular No10/2002 for not charging the depreciation on fixed assets. The aforesaid circular addresses the questions regarding following accounting policy for fixed assets whereby depreciation for the full year is charged on additions while no depreciation is charged on assets disposed of during the year. In terms of the circular the auditors were advised to encourage adoption of an appropriate depreciation policy for additions and deletions in line with the financial reporting requirements pertinent to the concerned entity. However, in the instant case, the aforesaid circular is of no relevance at all. Moreover, the respondent himself states that he does not agree with managements' standing in this regard.



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- f) With regard to not accounting for the loans from directors and associated concerns at amortized cost, it has been stated that the impact could not be quantified as the conditions for discounting were not met due to following reasons:
- The loan is not for a definite period.
 - Uncertain cash flow as the Company was not operational and its revival was dependent on factor beyond the control of the management.
 - There is no fixed schedule and tenure for repayment of these loans.

It is the responsibility of the management of the Company to ensure that loans obtained from associates are based on agreements in writing that include the terms and condition of such loans so that the liabilities of the Company could be appropriately determined.

- g) The aforementioned non-compliances with the requirement of the IFRS including the IAS 16, IAS 39 coupled with inappropriate use of going concern assumption in preparation of Accounts of the Company by the management caused misstatements in the Accounts which were both material as well as pervasive in aggregate. In the circumstances of the case, it was responsibility of the Auditor to give an adverse opinion in his report to members, to discharge his duties under the Ordinance, Rules and ISAs. However, the auditor only gave a qualified opinion. It has been stated by the respondent that all the disclosures were made in the Accounts, directors' report attached thereto and in the Auditor's report and nothing was hidden from the users of the Accounts. However, it is clear that despite disclosures given in the Accounts and directors' report, the Auditors was bound to follow the requirements of ISA's while forming and rendering the opinion on the Accounts. As per the requirements of the Ordinance, Rules and ISAs it was Auditor's duty to appropriately modify his opinion to bring out all material facts about the affairs of the Company. Since the Accounts were materially misstated and impact of misstatements was pervasive, therefore, giving an adverse opinion was imperative. Section 255 of the Ordinance prescribes powers and duties of the auditors and also sets the format of auditors' report. In terms of section 260 of the Ordinance, it is duty of the auditor to bring out all material facts



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about affairs of the Company in his report to members. In the instant case, the respondent in his capacity as engagement partner of the Auditor has failed to discharge his duties as per requirements of the Ordinance, Rules and the ISAs, as explained above.

9. Before proceeding to decide the matter, I deem it necessary to make some observations on the role of auditor of a company. The duties and responsibilities of an auditor appointed by the shareholders under the law can best be understood if we look at the place 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 company. They elect directors and entrust the affairs of the company to them in the hope that they will manage the company to shareholders' benefits. There is no such arrangement in place whereby the shareholders can have an independent view as to how the directors have managed the affairs of the company. The financial statements are the most important source of reliable information for the shareholders who make their investment decision based on such information. The financial statements not only show the financial position and performance of the company but also show the results of management's stewardship of resources entrusted to it. Therefore, correct reporting in the financial statements in line with applicable financial reporting framework is of utmost importance. The law, therefore, recognizing this situation, has provided for the appointment of auditors who shall be responsible to audit the books of account, documents and financial statements required by the law and make out a report on them at the end of each year. This being the only safeguard provided by law to the shareholders to ensure accountability of the management, put the auditors to a high level of accountability in case they fail to make out a report in accordance with the legal requirements. For these reasons, it is of utmost importance for the auditors to exercise due care and diligence in performing their duties and discharging their responsibilities and maintain a high level of trust and integrity at their end.

10. For the foregoing reasons, I am of the view that the Auditor in his audit report to members on Company's Accounts for the year ended June 30, 2015 did not appropriately modify the opinion to address the inappropriate use of the going concern assumption by the management and non-compliances with IAS 16 and IAS 39 and hence failed to bring out material facts about the affairs of the Company. Therefore, the audit report was not in conformity with the requirements of

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section 255 of the Ordinance. However, I have reviewed the Company's subsequent half yearly accounts for the period ended December 31, 2015, wherein the Auditor in his review report to members has appropriately given an adverse opinion on these accounts. Considering these facts and circumstances of the case, instead of imposing maximum fine on the respondent, I take a lenient view and in exercise of power under section 260 of the Ordinance conclude the proceedings with a stern warning to the respondent.

Abid Hussain
Executive Director

Announced:
March 25, 2016
Islamabad