



Securities and Exchange Commission of Pakistan

BEFORE APPELLATE BENCH

In the matter of

Appeal No. 43 of 2018

Ale Imran & Co. (Chartered Accountants)

...Appellant

Versus

The Executive Director (CSD), SECP

...Respondent

Date of hearing:

August 20,

2020

Present:

For Appellant:

1. Mr. Ale Imran Siddiqi
2. Mr. Ahmad Muzammil, Advocate
3. Mr. Ali Qazilbash

For Respondent:

1. Mr. Amir Saleem, Joint Director (Adjudication-I), SECP.
2. Mr. Muhammad Anwar Hashmi, Additional Joint Director (Adjudication-I), SECP.

ORDER

1. This Order shall dispose of Appeal No. 43 of 2018 filed by M/s. Ale Imran & Co., Chartered Accountants (the Appellant) against the Order dated October 22, 2018 (the Impugned Order) passed by the Executive Director, CLD-CSD (the Respondent) under Section 255 read with Section 260 and 476 of the Companies Ordinance, 1984 (the Ordinance).
2. The brief facts of the case are that audited accounts for the years ended June 30, 2015 and 2016 (the Accounts) revealed that in violation of the International Financial Reporting Standard-5 (IFRS-5) M/s. Nazir Cotton Mills Limited (the Company) recorded surplus of



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Rs. 165.32 million on assets held for sale (plant and machinery, land and building). Note 6.1 to the Accounts also revealed that in 2009 the Honorable Lahore High Court (the Court) ordered auction of moveable and immovable properties of the Company, however, the Company started classifying its assets as held for sale from the year ended June 30, 2012. The Company did not classify the subject assets as held for sale in the accounts for the year ended June 30, 2009, June 30, 2010 and June 30, 2011 and charged depreciation on fixed assets, which resulted in material misstatements, however, the Appellant failed to highlight such violation. Therefore, a show cause notice dated September 7, 2017 (the SCN) was issued to the Appellant. Hearings in the matter were held on December 4, 2017 and July 5, 2018 whereas, reply of the SCN was received vide letter dated July 16, 2018. The Appellant being the statutory auditor of the Company failed to appropriately highlight the above misstatements in the Audit Reports. Therefore, the Audit Reports on the Accounts were not in accordance with the requirements of Section 255 of the Ordinance and International Standards on Auditing (ISA). The Appellant failed to bring out material facts about the affairs of the Company, therefore, the Respondent, imposed a penalty of Rs. 50,000/- on the Appellant.

3. The Appellant had filed this Appeal *inter alia* on the grounds that appropriate disclosure of classification was made in Accounts but there was a printing error on part of the Company where “tangible fixed assets” were erroneously shown as assets “held for sale”. The Appellant contended that disclosure in Audit Reports has no material financial impact on stakeholders’ interest. In written comments, the Appellant stated that upon discovery of printing error in the Accounts, the Company’s board of directors was informed in writing, however, the Appellant had no responsibility to communicate such error to the Securities and Exchange Commission of Pakistan (SECP) or Institute of Chartered Accountants of Pakistan (ICAP). The Appellant stated that the Company was not operational, therefore, IFRS was not strictly applicable. The Appellant has taken stance that IFRS-1 indicate that strict compliance of IFRS is applicable on operational companies and on companies where stakeholders have multiple stakes. On the other hand, the Respondent rebutted grounds of the Appeal through written comments and stated that the Accounts were materially misstated and Audit Reports for the year ended June 30, 2015 and June 30, 2016 were not in accordance with the requirements of Section 255 of the Ordinance and International



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Standards on Auditing (ISA) as the auditor of the Company failed to bring out material facts and misstatements in the Accounts, therefore, the Appellant is liable under Section 260 of the Ordinance.

4. The Appellate Bench (the Bench) has heard the parties and perused the record. The Appellant's representatives and the Respondent's representatives reiterated their grounds of appeal and rebuttal thereof. The Bench is of the view that the Appellant being the statutory auditor of the Company was responsible to ensure that the Accounts have been prepared as per applicable laws and accounting standards, however, the Appellant had failed to highlight non-compliances committed by the Company in the Accounts. The Bench has also observed that in violation of the requirements of IFRS-5, the Company has recorded revaluation surplus of Rs. 165.32 million on assets "held for sale", however, the Appellant had failed to modify its opinion and highlight such violation in the Auditor Reports. The Bench is of the view that the Appellant's written arguments regarding a printing error in the Accounts is not tenable because the Appellant had failed to provide any documentary evidence that any such error in the Accounts was communicated to the Company. Furthermore, the Bench conceives that the Appellant is trying to absolve itself from the violation by attributing printing error to the Company, where, allegedly "tangible fixed assets" were erroneously shown as assets "held for sale". The Bench is not inclined to accept the Appellant's representative assertion that the requirements of IFRS are only applicable to operational companies and if company is not in operation then strict compliance of IFRS is not required. We are of the view that neither IFRS nor any other applicable laws have recognized any such exception, therefore, a company whether in operation or has suspended its operations, is responsible to ensure compliance of all applicable laws and accounting standards. In this case, the Accounts reflected that assets of the Company were "held for sale", however, contrary to the requirements of IFRS-5, the same were revalued and a surplus of Rs. 165.32 million was recorded.
5. The Bench has also observed that in 2009 the Court has ordered to auction all assets of the Company, however, in violation of Court's order, assets were "held for sale" in 2012 and depreciated those assets during 2009, 2010 and 2011. The Bench has no doubt that after the Court's order, the Company was required to keep its assets as "held for sale", however, the



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Company had not only violated the Court's order but also depreciated such assets for three years consecutively. The Bench is astonished as to why such a glaring non-compliance and misstatement was not highlighted by the Appellant. The circumstances, suggest that the Appellant had not performed its obligations in a required manner, therefore, the Respondent has rightly penalized the Appellant.

6. In view of the forgoing, the Bench find no reason to interfere with the merits of the Impugned Order, therefore, we hereby dismiss this Appeal, without any order as to cost.

(Sadia Khan)

Commissioner (SCD-S&ED, INS-SD, AML)

(Farrukh Hamid Sabzwari)

Commissioner (SCD-PRDD)

Announced on:

09 OCT 2020