



Securities and Exchange Commission of Pakistan
Enforcement and Monitoring Division
7th Floor, NIC Building, 63, Jinnah Avenue, Blue Area

Before Abdul Rehman Qureshi, Commissioner

In the matter of
M/S SANDHU & Co.
CHARTERED ACCOUNTANTS

Number and date of notice	EMD/233/171/2002-3552-3553 Dated November 27, 2002
Date of final hearing	September 05, 2003
Present on final hearing	Sheikh Jalaluddin, FCA
Date of Order	September 19, 2003

Order

This Order will dispose of the notice issued to M/S Sandhu & Co.; Chartered Accountants (hereinafter called the “Auditors”) under Rule 17-A of the Companies (General Provisions & Forms) Rules, 1985 (the “Rules”) and sub-section (1) of section 260 read with Section 255 and 476 of the Companies Ordinance, 1984 (the “Ordinance”) in respect of Qayyum Spinning Limited (the “Company”). The notice was issued to the auditors namely Mr. Inayatullah Sandhu and Mr. Sheikh Jalaluddin for not giving report on the format prescribed



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by the Ordinance and failure to modify the report on the financial statements for the year ended September 30, 2000 (the “Accounts”) in a manner so as to form a qualified, disclaimer or an adverse opinion.

2. The brief facts of the case are that the Enforcement and Monitoring Division of the Commission while examining the balance sheet, profit and loss accounts for the year ended 30.09.2000 and reports of the auditors and directors thereon observed that the Auditors report to the members on the Accounts was not according to Form 35-A prescribed under Rule 17-A of the “Rules” and that the disclosure requirements were not followed with regard to International Accounting Standards 1, 19, 32, 33 and clause (viii) of Para 2 of Part I of the Fourth Schedule to the Ordinance.

3. Thus in response to the show cause notice, Sheikh Jalaluddin submitted his written reply on December 23, 2002. In order to provide an opportunity of personal hearing to the accused, the case was fixed for hearing on September 5, 2003. Mr. Inayatullah Sandhu sought exemption in the case praying that he was not involved in the audit of Qayyum Spinning Limited. In the written reply as well as at the time of hearing Shaikh Jalaluddin, FCA submitted that the non-mentioning of statement of changes in equity in the audit report, is itself a qualification. The words ‘Cash Flow Statement’ were replaced by the words ‘Statement of Changes in Financial Position’. He stated that he has qualified his opinion, as he was unable to verify the balances from bankers and creditors, however, he obtained reasonable assurance by applying alternate procedures to confirm them. The report was qualified, as he did not express an unqualified opinion. Shaikh Jalaluddin further stated that he had reported that the current liabilities exceeded current assets and due to heavy losses



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the company will be unable to carry on business as a going concern. The operations of the company have been closed and the staff liability was negligible and so it was not separately reported. There was no production worker at the year-end. The audit was conducted in accordance with the International Accounting and Auditing Standards and other pronouncements relating to audit practice.

4. I have taken into consideration the submissions, made in writing as well as those at the time of hearing of this case and am of the view that most of the grounds taken by him are not convincing due to the following reasons: -

- (i) The report of the auditor was not submitted on the prescribed Form 35-A as required under Rule 17-A of the "Rules". However his argument that instead of using the words 'Cash Flow Statement' in his opinion, he had mentioned the words 'Statement of Changes in Financial Position' can be accepted as both words convey the same meaning.
- (ii) The Auditors' argument that the number of employees have not been disclosed as there were no employees at all, cannot be accepted, as the absence of employees does not warrant that the disclosure of the same should not be given in the Accounts. In such a situation, the best is to disclose that there are no employees working in the Company.
- (iii) The argument of the auditor that staff liability was negligible and so it was not separately reported is not tenable as all the accounting policies need to be disclosed, regardless of the fact that those are material or not.
- (iv) The auditors also failed to express an adverse opinion on the going



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concern assumption.

- (v) The argument that the report was qualified as it was not unqualified cannot be accepted, because the report was not modified in the manner to express a qualified, disclaimer or an adverse opinion.

5. In view of the above, I am convinced that Shaikh Jalaluddin has failed to perform his duties towards the shareholders of the Company, who appointed the auditors to report about the authenticity and quality of the annual accounts presented to them. Accordingly, taking into consideration the auditors admission of various non-disclosures, a lenient view of the case is taken and I impose a penalty of Rs. 1000/- (Rupees One Thousand Only) on Sheikh Jalaluddin, FCA. He is directed to deposit the said fine in the designated bank account in the name of Securities & Exchange Commission of Pakistan in the Habib Bank of Pakistan within 30 days of the date of this order and furnish a receipted challan to the SECP in this regard.

Abdul Rehman Qureshi
Commissioner (Enforcement & Monitoring)

Announced
September 19, 2003
Islamabad