



SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

Adjudication Department- I

Adjudication Division

ORDER	
Name of Auditor:	Malik Haroon Ahmed, FCA Partner, M/s. Malik Haroon Shahid Safdar & Co., Chartered Accountants
Show Cause Notice No. & Date:	CSD/ARN/487/2017-653 dated November 29, 2024
Respondent:	Malik Haroon Ahmed
Date(s) of Hearing(s):	December 11, 2024
Case represented by:	Malik Haroon Ahmed, FCA Partner, Malik Haroon Shahid Safdar & Co., Chartered Accountants
Provision of law involved:	Regulation 36 of the Listed Companies (Code of Corporate Governance) Regulation, 2019 read with Section 512 of the Companies Act, 2017 and Regulation 37 of the CCG Regulations
Order Date:	April 22, 2025

This Order shall dispose of the proceedings initiated by the Securities and Exchange Commission of Pakistan (the “Commission”) through Show Cause Notice No. CSD/ARN/487/2017-653 dated November 29, 2024 (the “SCN”) issued to Malik Haroon Ahmed, FCA, Partner, M/s. Malik Haroon Shahid Safdar & Co., Chartered Accountants (the “Respondent”) under Regulations 36 of the Listed Companies (Code of Corporate Governance) Regulation, 2019 (the “CCG Regulations”) read with Regulation 37 thereof and Section 512(2) of the Companies Act, 2017 (the “Act”) for failure to comply with the Regulation 36 of the CCG Regulations.

2. Sub-regulation (3) of Regulation 36 of the CCG Regulations stipulates that it is **mandatory** for the statutory auditors of the company to highlight any non-compliance with the CCG Regulations in their Review Report on the statement of compliance with the CCG Regulations.

3. The brief facts of the case are that during the review of the Annual Audited Financial Statements of M/s. Hala Enterprises Limited (the “Company”) for the year ended June 30, 2023 (the “Accounts”), it was noted that the Company did not comply with the requirements of Section 166 (1) of the Act and Regulation 6 of the CCG Regulations in respect of the appointment of the two Independent Directors namely, (a) Mr. Hassan Ahmad and (b) Mr. Rashid Ahmad Khan, respectively, in the EOGM held on December 21, 2023, i.e. the names of these two Independent Directors, as assessed on February 26, 2024, did not exist in the PICG independent directors’ database. It was further observed that the Company did not comply with the requirements of Section 166 (2) of the Act as both the persons appointed as Independent Directors were not eligible for such appointment on account of the fact that Mr. Hassan Ahmad was serving on the board of M/s. Premier Garments Limited, i.e., an associated company having common directorship with the Company, since December 30, 2021 and Mr. Rashid Ahmad Khan, who was first elected as a director on December 21, 2014, had already served three consecutive terms in the office and was

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appointed for his fourth consecutive term, in contravention of the requirements of Section 166(2)(g) of the Act.

4. In addition to the aforesaid, it was also observed that Mr. Rashid Ahmad Khan, while not being eligible to act as an independent director, acted as Chairman of the Audit Committee, which was contrary to the requirements of Regulation 27 of the CCG Regulations clearly requiring an independent director to be the Chairman of the Audit Committee. Moreover, the Company also failed to note the aforementioned non-compliances with the requirements of the CCG Regulations in its Statement of Compliance in terms of sub-regulation (1) of Regulation 36 of the CCG Regulations and also included a factually incorrect statement therein by stating that the Company is fully compliant with the requirements of the CCG Regulations.

5. In view of the above, the Engagement Partner namely; Malik Haroon Ahmad (Partner; Malik Haroon Shahid Safdar & Co.,) (the "Auditor") had, *prima facie*, failed to highlight the aforementioned non-compliances with the CCG Regulations and issued an unqualified review report on the Company's Statement of Compliance with the CCG Regulations, contrary to the requirements of Regulation 36 of the CCG Regulations; where such violation attracts penal action under Regulation 37 of the CCG Regulations read with Section 512 of the Act.

6. In order to probe the matter, the Commission vide email dated October 18, 2024 required the Auditor to comment on the aforementioned non-compliance, to which the Auditor replied vide email dated October 29, 2024 which *inter alia* stated as follows:

"....We did not perform detailed audit procedures to verify all representations made by the Company such as cross-referencing independent director information with PICG database;

.....We understand the requirement under Regulation 27 that the Audit Committee be chaired by an independent director. Mr. Rashid was classified as independent therefore his position as Chairman of Audit Committee was deemed compliant."

7. Having being not satisfied with the aforesaid response, SCN was issued to the Respondent to show cause in writing as to why a penal action may not be taken for non-compliance of the mandatory provisions of the CCG Regulations. Moreover, in order to provide opportunity of personal representation and to meet the ends of justice, hearing in the matter was fixed for December 11, 2024; where the Respondent, i.e., Malik Haroon Ahmed, FCA, appeared and admitted the oversight on all accounts of alleged violations with a request for a leniency in the matter. He further assured to duly adopt necessary steps for detailed evaluation of such cases in the future in a more detailed manner.

8. Subsequently, the Respondent vide letter dated December 11, 2024 also submitted the response which *inter alia* states as follows:

"1. Scope and Limitations of Our Review Engagement; The review of the Statement of Compliance was conducted in accordance with the framework of a limited review engagement, as defined by applicable standards. This scope requires:

- Inquiries of Management: Our procedures involved obtaining representations from the Company's management regarding compliance with the Regulations.*

- Analytical and Review Procedures: Our work was limited to a review of documentation provided by the Company and did not include detailed verification or testing of compliance, such as cross-referencing the PICG database for independent directors.
- Nature of Assurance: As clearly stated in our review report, a review does not constitute an audit, and we do not express an audit opinion.

We relied on the representations made by the Company that the directors in question met the criteria for independence as per the Regulations. While we understand the importance of verifying these representations, the reliance on management's assertion was within the scope of our engagement.

2. Observation Regarding the PICG Database; We acknowledge the SECP's observation regarding the absence of the two independent directors' names in the PICG database and recognize the significance of this requirement under Regulation 6. This particular verification was regrettably not undertaken during our review. We assure the SECP that this oversight was unintentional and not a result of any deliberate negligence.

3. Chairman of the Audit Committee; The Regulations require the Audit Committee to be chaired by an independent director. Based on management's representations, we understood that Mr. Rashid Ahmad Khan was classified as independent. If this classification is deemed non-compliant due to his status in the PICG database, we acknowledge this point and assure you that greater scrutiny will be applied in future reviews.

4. Commitment to Improved Practices; We accept SECP's feedback and the observations regarding the gaps in our review. To prevent recurrence, we are taking the following steps:

- Introducing mandatory cross-referencing procedures with the PICG database in all future engagements involving the review of Statements of Compliance.
- Enhancing our staff training to ensure vigilance in identifying and reporting non-compliance.
- Strengthening internal quality control measures to ensure that all aspects of compliance, including mandatory and non-mandatory provisions, are verified.

We sincerely regret the unintended oversight in this case and reiterate our commitment to adhering to the highest standards of professional and regulatory compliance.

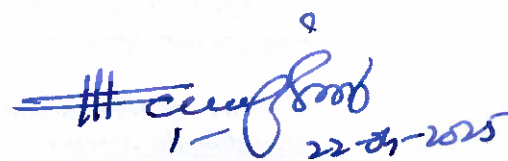
5. Request for Consideration; In light of the above, we respectfully request that the SECP consider the limited nature of our engagement and the unintentional nature of the oversight when deciding on the matter. We will be more careful from now onward and remain committed to addressing any deficiencies in our processes and welcome any further guidance from SECP to align our practices with regulatory expectations."

9. I have reviewed the facts of the case and also considered the verbal and written submissions made by the Respondent. Sub-regulation (3) of Regulation 36 of the CCG Regulations clearly requires the auditor to highlight any non-compliances with the CCG Regulations as part of the review of the statement of compliance by the Company. However, in the instant matter the Respondent, being the Engagement Partner, fell short of highlighting the

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non-compliances of the Company with the CCG Regulations. It is the incumbent upon the auditor to evaluate the representation made by the Company in a probing manner and obtain necessary evidence instead of simply relying upon the same without applying the cardinal tool of skepticism.

10. In view of the aforesaid and verbal and written submissions made by the Respondent, it is concluded that the violation of Regulation 36(3) has been established beyond doubt which attracts penal action in terms of Regulation 37 of the CCG Regulations read with Section 512(2) of the Act. However, considering the Respondent's admission of oversight, subsequent improvement measures taken in respect of the same and commitment for ensuring future compliance, I, in light of powers vested under Regulation 37 of the CCG Regulations and Section 512 of the Act read with S.R.O. 1545(I)/2019 dated December 06, 2019, am inclined to take a lenient view and to conclude the instant proceeding by strict WARNING the Respondent to exercise careful assessment and due diligence in ensuring compliance with regulatory requirements in the future, in true letter and spirit.

 22-04-2025

(Sohail Qadri)

Director/ Head of Department
Adjudication Department-I

Announced:

Dated: April 22, 2025

Islamabad