

Securities and Exchange Commission of Pakistan

Securities Market Division
Public Offering and Regulated Persons Department
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File No. SMD(SCN)/LCID/BRL-23/2015/

March 10, 2016

Mudassar Ehtisham & Co,
Chartered Accountants,
Room # M-11, Mezzanine Floor,
50/2 Lawrence Road,
Lahore

Subject: ORDER PASSED U/S 22 OF THE SECURITIES AND EXCHANGE ORDINANCE, 1969
ISSUED TO MUDASSAR EHTISHAM & CO CHARTERED ACCOUNTANTS

Dear Sir,

Please find enclosed herewith copy of order dated January 19, 2016 passed by the Director/HOD (Licensing & Capital Issue Department) on the above mentioned subject for compliance.

Yours sincerely,

Nauman Khan
Deputy Director (LCID)

CC:

- i). The Chief Regulatory Officer, Pakistan Stock Exchange Limited.



Securities and Exchange Commission of Pakistan

Securities Market Division
(Licensing & Capital Issue Department)

Before The Director / HOD (LCID)

In the matter of Show Cause Notice issued to M/s Mudassar Ehtisham & Co. under Section 22 of the Securities and Exchange Ordinance, 1969

Date of hearing

December 30, 2015

Present at the Hearing

Representing Mudassar Ehtisham & Co

(i) Mr. Hafiz Rizwan, Manager Audit

Assisting the Director/HOD (LCID)

(i) Mr. Muhammad Farooq,
Additional Director

(ii) Mr. Nauman Khan,
Deputy Director

This Order shall dispose of the proceedings initiated through Show Cause Notice bearing No. SMD(SCN)/LCID/BRL-23/2015 dated December 03, 2015 ("**SCN**") served to M/s Mudassar Ehtisham & Co. ("**Auditor**") by the Securities and Exchange Commission of Pakistan ("**Commission**") under section 22 of the Securities and Exchange Ordinance, 1969 ("**Ordinance**"). The Auditors had certified the net capital balance ("**NCB**") of M/s MSD Capital Equities (Pvt.) Limited ("**Brokerage House**") as of December 31, 2013 & December 31, 2014. The NCB Certificate issued by the Auditor, *prima facie*, was not in accordance with the Third Schedule of the Securities and Exchange Rules, 1971 ("**SE Rules**").

2. Brief facts of the case are that as a part of an application for renewal of registration as broker under the Brokers and Agents Registration Rules, 2001 ("**the Broker Rules**"), the Brokerage House submitted its NCB Certificate as required in clause 11 of the Form A under the Broker Rules to the Commission. The NCB Certificate as of December 31, 2013 and December 31, 2014 was signed by the Auditor.

3. In terms of Rule 2(d) of the SE Rules read with Clause 19.3.2 of the Regulations Governing Risk Management of the Exchange ("**PSX Regulations**"), the NCB is to be calculated in accordance with the Third Schedule to the SE Rules. Moreover, the NCB Certificate is required to be duly audited/verified in terms of Clause 19.3.2 (c) of the Risk Management Regulations which provides that:-

"the certificate shall specify that the Net Capital Balance calculated have been duly audited/verified by the auditor".

4. As part of an exercise conducted by the Commission regarding the verification of NCB Certificates of all registered TREC holders directly from the auditors, the Auditor was asked by the Commission vide letter dated August 17, 2015 to verify the amount





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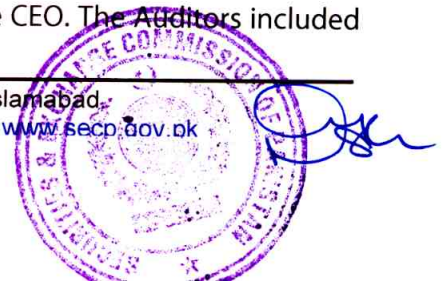
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appearing under the head "**Investment in listed securities appearing in the name of the Brokerage House**" appearing in NCB Certificate. The Auditor vide letter dated October 05, 2015 informed that investments in listed securities amounting to Rs 3,276,986 were taken into account for the NCB Certificate as of December 31, 2013. The Auditor further informed that the said investments were not in the name of the Brokerage House. The Commission through letter dated October 26, 2015 provided an opportunity to the Brokerage House to clarify its position with regard to above referred NCB certificate. In response, the Auditor on behalf of the Brokerage House stated that "*the Company was a sole proprietorship before its conversion into a private limited company and the shares at that time were in the name of Ms Saliha Haroon, which were actually the shares of the company and subsequently were due to be converted in the company's name*".

5. In light of the above, the Commission served a SCN to the Auditor under section 22 of the Ordinance. The Auditor vide letter dated December 17, 2015 received to our office on December 21, 2015 submitted its written response to the SCN. Hearing in the matter of aforesaid SCN was scheduled for December 30, 2015. Mr. Hafiz Rizwan, Manager Audit of the Auditor ("**Representative**") attended the hearing on December 30, 2015 at Commission's Lahore Office through video conference. The arguments put forth in written response and by the Representative during the course of hearing are summarized below:

- (i) *The Auditors had audited the NCB Certificate of the Brokerage House of December 31, 2013 and December 31, 2014.*
- (ii) *The Brokerage House was previously a sole proprietorship and the investments in listed securities were held in the account of Ms. Saliha Haroon, CEO. The sole proprietorship was subsequently converted in to a private limited company and the investments in listed securities were to be transferred to the account of the Brokerage House.*
- (iii) *The Auditors audited the said NCB Certificate as per the International Auditing Standards and obtained a declaration from the Brokerage House that the said shares appearing in the account of Ms. Saliha Haroon, CEO are the property of the Brokerage House.*
- (iv) *Since the investments in listed securities were not transferred to the account of the Brokerage House, the Auditors did not take these investments in the NCB as of June 30, 2015.*
- (v) *The Auditors assured that they would follow the directions of the Commission regarding preparation of NCB in letter and spirit in future.*

6. I have perused the written reply of the Auditors and heard the arguments presented by the Representative at length during the course of hearing. Additionally, I have perused the available record. After a detailed and thorough perusal of the facts, evidence/information available on record, it is evident that the status of the Brokerage House was converted from sole proprietorship into company on December 28, 2012. However, the investments in listed securities were not transferred to the account of Brokerage House and were appearing in the account of the CEO. The Auditors included





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these investments in the NCB of December 31, 2013 and December 31, 2014, which resulted in overstatement of NCB on both the dates in violation of the SE Rules and PSX Regulations.

7. The main reason for the requirement of auditing the NCB Certificate by an auditor is to ensure that the NCB Certificate has been prepared in accordance with the regulatory framework. In my view, the Auditors defaulted in the performance of their obligations and duties while auditing the NCB as of December 31, 2013 and December 31, 2014. However, the Auditors did not include the investments appearing in the name of the CEO in the NCB as of June 30, 2015. In view of the facts stated above, in exercise of powers conferred under section 22 of the Ordinance; I hereby impose a penalty of Rs. 5,000/- (Rupees Five Thousand Only) on the Auditor.

8. The Auditor is directed to deposit the fine in the account of the Commission being maintained in the designated branches of MCB Bank Limited not later than thirty (30) days from the date of receipt of this Order and furnish a copy of the deposit challan to the undersigned.

9. This Order is issued without prejudice to any other action that the Commission may initiate against the Auditor in accordance with the law on matter subsequently investigated or otherwise brought to the knowledge of the Commission.

Announced on January 19, 2016


(Nasir Askar)
Director/HOD (LCID)

