



# Securities and Exchange Commission of Pakistan

Securities Market Division

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Through Courier

Before The Director / HOD (MSRD)

In the matter of Show Cause Notice issued to Aslam Malik & Company, Chartered Accountants under Section 22 of the Securities and Exchange Ordinance, 1969

*Date of Hearing:*

*August 6, 2014*

*Present at the Hearing:*

*Representing Aslam Malik & Company, Chartered Accountants*

*(i) Mr. Shoaib*

*Director*

*Assisting the Director/HOD (MSRD)*

*(i) Mr. Muhammad Tanveer Alam*

*Joint Director*

*(ii) Ms. Najia Ubaid*

*Deputy Director*

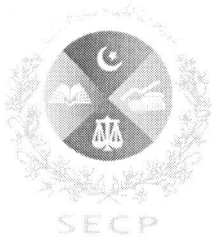
## ORDER

1. This Order shall dispose of the proceedings initiated through Show Cause Notice bearing No. 1(17) SMD/MSRD/C&IW/2013 dated July 2, 2014 ("SCN") served to Aslam Malik & Company, Chartered Accountants ("**Respondent**") under Section 22 of the Securities and Exchange Ordinance, 1969 ("**Ordinance**").

2. Brief facts of the case are that the Securities and Exchange Commission of Pakistan ("**Commission**") in exercise of its powers under sub-section (1) of Section 6 of the Ordinance read with Rule 3 and Rule 4 of the Stock Exchange Members (Inspection of Books and Record) Rules, 2001 ("**Inspection Rules**") ordered an inspection of the books and record of WE Financial Securities (Private) Limited ("**WFSL**"). WFSL is trading Right Entitlement Certificate Holder of the Karachi Stock Exchange Limited ("**KSE**") and registered with the Commission as a broker under the Brokers and Agents Registration Rules, 2001 ("**Brokers Rules**"). The Respondent certified the Net Capital Balance ("**NCB**") of WFSL.

3. The Inspection Team submitted the report ("**Inspection Report**") on December 3, 2013 which was shared with WFSL in accordance with Rule 7 of the Inspection Rules. On review of the Inspection Report, irregularities in calculation of NCB as of June 30, 2013 were observed. The NCB resulted in negative figure of Rs. 5 million after adjustments. From the review of the





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Inspection Report and subsequent comments of the Respondent shared vide letter dated March 28, 2014, it appeared that NCB certificate was not calculated and prepared in accordance with the Third Schedule of the Securities and Exchange Rules, 1971 ("SEC Rules").

4. In view of the above, the Commission served a SCN to the Respondent under Section 22 of the Ordinance. Hearing in the matter of aforesaid SCN was scheduled for July 17, 2014. However, the Respondent vide letter dated July 7, 2014 requested for change in venue of the hearing to Karachi. Acceding to the request of the Respondent, hearing was rescheduled for August 6, 2014 at the Commission's Karachi office.

5. The arguments put forward by the Respondent in its written response dated July 16, 2014 are reproduced as under:

a) **Adjustment in Receivables of Rs. 2.79 million:**

*"Regarding journal voucher of Rs.2.79 million was already pointed out by auditor of NCB for this query management has provided the request letter from WE Investment Management Limited (WIML) for the classification of receivable amount of Rs. 2.79 million. In the presence of third party letter and confirmation, the same was classified in the WIML client account."*

b) **Adjustment for Net Capital Dec-2013:**

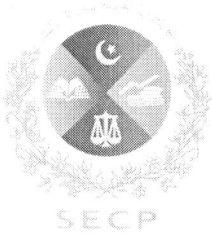
*"Adjustment entry in ledger account is made with the request of client to activate the trading account of the company, WFSL provide us third party request letter and relevant ledgers of the classification of receivable amount."*

c) **Negative NCB:**

*"The negative NCB of Rs. 5.0 million which was concerned to Dr. I.A. Mukhtar Balance of Rs. 5.0 million and Long Term Directors Loan Rs. 4.7 million. The account of Dr. I.A. Mukhtar is covered in Trial Balance of company as a "Client" (Client Balance Report already provided dated 28-03-2014). The Ledger Balance of Dr. Mukhtar shows in Trial balance as a client payable which is overdue for more than 30 day. Further the Director Loan Rs.4.7 million was wrongly classified as current liabilities in Trial Balance but actually it was Long Term Loan which was already disclosed in Non-current Liabilities in financial statement of June 30, 2012 as a Sub-Ordinated Loan.*

*In view of Dr. I.A. Mukhtar account balance and Directors Loan account balance, we classified the balances as per record provided by WFSL for preparation of Net Capital Balance Certificate and our given explanation regarding working of NCB and ledger record prove that we did act with responsibility while certifying the NCB of WFSL. As Commission give reference of Azee securities*





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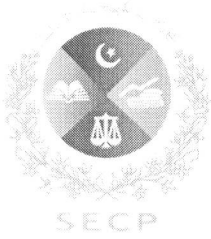
*(Pvt) Ltd regarding misrepresentation and overstatement. We request you to please verify the record of Azee securities (Pvt) Ltd that the company provided the various different data to Auditors. In light of the above facts we request you to please consider the matter as per ground reality."*

6. Mr. Shoaib, Director of the Respondent ("**Representative**") attended the hearing on August 6, 2014 on behalf of the Respondent. The Representative during the course of hearing submitted that:

- a) The Respondent is now exercising caution, while certifying the NCB and is strictly preparing the NCB Certificates for the brokerage houses in light of the SEC Rules and guidelines issued by the Commission. The Representative asserted that it is also evident from the fact that the Respondent issued negative NCB of WFSL in December 2013 disallowing number of transactions, which were not in accordance with the guidelines issued by the Commission, from inclusion in NCB. The Representative further added that the WFSL's NCB as of June 30, 2014 has been significantly enhanced to meet capital adequacy requirements, which is also issued by the Respondent. The Respondent also agreed to provide NCB as of June 30, 2014 of WFSL.
- b) With regard to adjustments appearing in the ledger in the nomenclature of Adjustments for NCB, the Representative communicated that WFSL provided copies of third party agreements. However, with regard to inclusion of short term investments classified under the same nomenclature, the Respondent disallowed the same from inclusion in the calculation of NCB.
- c) With regard to the penalizing of the Respondent in the matter of Azee Securities (Private) Limited ("**Azee**"), the Representative argued that it was not the fault of the Respondent since Azee provided different ledger accounts to the Commission from those it provided to the Respondent.

7. I have heard the arguments presented by the Representative of the Respondent during the course of hearing. Additionally, I have perused the available record and the written reply filed by the Respondent. Accordingly, my findings on the arguments and assertions made by the Respondent to the issues raised in the SCN are as follows:



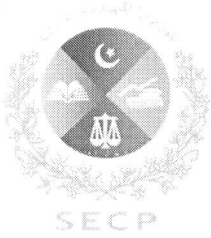


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- a) The Representative during the course of hearing and the Respondent in its written response admitted that earlier the Respondent used to accept the calculation provided by the brokerage houses and it did the same in the matter of WFSL. However, the Respondent asserted that it is now evaluating the individual line items included in NCB in light of the guidelines issued by the Commission to ensure adherence to the applicable regulatory framework.
- b) NCB Certificate as of June 30, 2014 was received from WFSL along with trial balance of the same date. Copy of the same was also received from the Respondent as was agreed during the hearing. The WFSL's NCB as per the certificate issued by the Respondent was Rs. 8.259 million and the breakup of the same was clearly identifiable from the trial balance of WFSL of the same date.
- c) With regard to Azee, the Representative during the course of hearing communicated that because of provision of different ledgers by Azee to the Respondent and to the Commission, the Respondent failed to provide correct figures. However, the Respondent did not provide any documentary evidence to substantiate the claim. Review of the Order dated July 19, 2013 issued by the Commission in the matter of Azee revealed that the Respondent did not mention this fact during the course of those proceedings. Moreover, the aforesaid Order only mentioned that the Respondent, for calculation of Azee's NCB, relied on the information provided by Azee without applying its own judgment.
8. After a detailed and thorough perusal of the facts, evidence/information available on record, contentions and averments made by the Representative of the Respondent during the course of the hearing, it is evident that the Respondent failed to apply necessary prudence in certifying the NCB of WFSL, despite of being penalized for the same noncompliances in case of Azee earlier through Commission's Order, wherein the Respondent assured that it shall be cautious and careful in certifying the NCB of the brokerage houses in future. The Respondent was responsible to ensure that the figures used to calculate the NCB depict completeness and accuracy and was also expected to give a statement to the same effect in the NCB Certificate. An auditor should be perceived as professional that is beyond reproach and it should perform its functions in a fair, proficient and impartial manner. However, the Respondent by not





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ensuring the completeness and accuracy of items included in the calculation of WFSL's NCB of June 30, 2013 failed to perform its responsibilities diligently.

9. The Respondent, however, while certifying the WFSL's NCB as of June 30, 2014 exercised caution. Moreover, the Respondent assured that it shall ensure compliance with the applicable regulatory framework in future. The violation of the Rules and Regulations is a serious matter, however, taking a lenient view and in exercise of the powers under Section 22 of the Ordinance, I hereby impose on the Respondent a penalty of Rs. 10,000/- (Rupees Ten Thousand Only). The matter is disposed of in the above manner and the Respondent 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 this Order and furnish a copy of the deposit challan to the undersigned.

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

Announced on September 03, 2014  
Islamabad.



  
(Imran Inayat Butt)  
Director/HOD (MSRD)