

**Before the Director (Market Supervision & Registration Department)**  
**Securities Market Division**  
**Securities and Exchange Commission of Pakistan**

**In the matter of Show Cause Notice dated April 24, 2013 issued to**  
**M/s. Mansoor Aslam Seraj Saleem Shahid, Chartered Accountants under Section 22**  
**of the Securities and Exchange Ordinance, 1969**

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**Date of Hearing:** May 14, 2013

**Present at the Hearing:** Mr. Muhammad Saleem - Authorized  
Representative of M/s. Mansoor Aslam Seraj  
Saleem Shahid, Chartered Accountants

**Representing (MSRD):** Mr. Tanveer Alam (Joint Director – MSRD)  
Mr. Murtaza Abbas (Deputy Director – MSRD)

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**ORDER**

This Order shall dispose of the proceedings initiated through a Show Cause Notice No. 4/BRK-14/SE/SMD/01 dated April 24, 2013 (“**the SCN**”) issued to M/s. Mansoor Aslam Seraj Saleem Shahid, Chartered Accountants (“**the Respondent**”) under Section 22 of the Securities and Exchange Ordinance, 1969 (“**the Ordinance**”).

2. Brief facts of the case are that the Securities and Exchange Commission of Pakistan (“**the Commission**”) in exercise of its powers under sub-section (1) of Section 6 of the Securities and Exchange Ordinance, 1969 (“**the Ordinance**”) read with Rule 3 and Rule 4 of the Stock Exchange Members (Inspection of Books and Record) Rules, 2001 (“**the Inspection Rules**”) ordered an inspection of the books and record of M/s. Zafar Moti Capital Securities (Pvt.) Limited (“**ZMCS**”), TREC Holder of the Karachi Stock Exchange Limited (“**the Exchange**”). The inspection team submitted its report to the Commission and on review of the inspection report it was noted that the Net Capital Balance (“**NCB**”) of ZMCS as on June 30, 2012 as verified and certified by the Respondent was not in accordance with the Third Schedule of the Securities and Exchange Rules, 1971 (“**the 1971 Rules**”) and was overstated by Rs. 191.16 million. As per Rule 2(d) of the 1971 Rules read with Clause 2.1 of the Regulations Governing Risk Management of the Exchange (“**the Regulations**”) the NCB is required to be calculated in accordance with the Third Schedule to the 1971 Rules.

3. Given these facts a SCN dated April 24, 2013 was issued to the Respondent the contents of which are reproduced below.

**“SUBJECT: SHOW CAUSE NOTICE UNDER SECTION 22 OF THE SECURITIES AND EXCHANGE ORDINANCE, 1969 IN THE MATTER OF ZAFAR MOTI CAPITAL SECURITIES (PVT.) LIMITED”**

*WHEREAS, the Securities and Exchange Commission of Pakistan (“the Commission”) in exercise of its powers under sub-section (1) of Section 6 of the Securities and Exchange Ordinance, 1969 (“the Ordinance”) read with Rule 3 and Rule 4 of the Stock Exchange Members (Inspection of Books and Record) Rules, 2001 (“the Inspection Rules”) ordered an inspection vide order No. SMD/MS&CID-C&IW/10-1(182)/2012 dated October 23, 2012 of the books and record required to be maintained by M/s. Zafar Moti Capital Securities (Pvt.) Limited (“ZMCS”) a TREC Holder of the Karachi Stock Exchange Limited (“the Exchange”).*

2. *WHEREAS, on review of the inspection report submitted by the Inspection Team it has come to the notice of the Commission that Net Capital Balance (“NCB”) of ZMCS as on June 30, 2012 as verified and certified by M/s. Mansoor Aslam Seraj Saleem Shahid, Chartered Accountants (“the Auditor”) is not in accordance with the Third Schedule of the Securities and Exchange Rules, 1971 (“1971 Rules”) and has been overstated by an amount of Rs. 191,160,996.*

3. *WHEREAS, in terms of Rule 2(d) of the 1971 Rules read with Clause 2.1 of the Regulations Governing Risk Management of the Exchange (“the Regulations”) the NCB is required to be calculated in accordance with the Third Schedule to the 1971 Rules.*

4. *WHEREAS, the TREC Holders of the Exchange are required to submit bi-annually a certificate from an auditor as specified in Clause 2.1 (b) of the Regulations confirming their NCB on the format prescribed by the Exchange. The NCB is also required to be duly audited/verified in terms of Clause 2.1 (c) of the Regulations which provides that:*

*“the certificate shall specify that the Net Capital Balance calculated have been duly audited/verified by the auditor”*

5. *WHEREAS, prima facie it appears that the certificate of NCB of ZMCS as on June 30, 2012 certified by the auditor is not in accordance with the Third Schedule of the*

1971 Rules and that the auditor has prima facie certified a statement and given information which it had reasonable cause to believe to be false or incorrect in material particular in violation of Section 18 of the Ordinance.

6. **WHEREAS**, in light of the facts mentioned above, prima facie, it appears that the auditor is in contravention of Section 18 of the Ordinance, which invokes penalty under Section 22 of the Ordinance.

7. **WHEREAS**, section 18 of the Ordinance provides that:

“No person shall, in any document, paper, accounts, information or explanation which he is, by or under this Ordinance, required to furnish, or in any application made under this Ordinance, make any statement or give any information which he knows or has reasonable cause to believe to be false or incorrect in any material particular.”

8. **AND WHEREAS**, Section 22 of the Ordinance provides that:

“ If any person refuses or fails to furnish any document, paper or information which he is required to furnish by or under this Ordinance; or refuses or fails to comply with any order or direction of the Commission made or issued under this Ordinance; or contravenes or otherwise fails to comply with the provisions of this Ordinance or any rules or regulations made thereunder, the Commission may if it is satisfied after giving the person an opportunity of being heard that the refusal, failure or contravention was willful, by order direct that such person shall pay to the Commission by way of penalty such sum not exceeding fifty million rupees as may be specified in the order and in the case of continuing default, a further sum calculated at the rate of two hundred thousand rupees for every day after the issue of such order during which the refusal, failure or contravention continues.”

9. **NOW THEREFORE**, you are hereby called upon to show cause in writing by May 3, 2013, as to why action as provided under Section 22 of the Ordinance may not be initiated for violation as indicated above. You are further directed to appear in person or through an authorized representative (with documentary proof of such authorization), on **May 7, 2013** at 11:00 a.m. at the SECP Headquarters – Islamabad. You are advised to bring all relevant record in original, which you may consider necessary for clarification or in your defense. This notice sufficiently discharges the Commission's obligation to afford an opportunity of hearing in terms of Section 22 of the Ordinance. In case of your failure to appear on the stated date of hearing it will be deemed that you have nothing to

*say in your defense and the matter will be decided ex-parte on the basis of available record.*

*10. Please note that this show cause notice is being issued without prejudice to any action, which may be taken or warranted for the above said or any other default under the above referred or any other provisions of law. Kindly acknowledge receipt of this show cause notice through return fax or courier at your earliest.*

***Hasnat Ahmad***  
*Director”*

4. Pursuant to the said SCN the Respondent requested the Commission to adjourn the hearing and accordingly the hearing was rescheduled for May 14, 2013. The Respondent appeared on the said date for hearing and also submitted its written comments before the undersigned. The written comments of the Respondent are reproduced below:-

- 1. “The Net Capital Balance as per review report signed by the engagement partner was based on the figures duly audited by another firm of Chartered Accountants whose initialed accounts were available at that time. As a support to those initialed figures, the accounts as certified by the management were also obtained and are attached as Annexure – A. the accounts were later signed by the statutory auditors and are also attached as Annexure – B.*
- 2. We also attach a certificate from the company’s Chief Executive regarding trade debts due for more than 14 days. The certificate is attached as Annexure – C. The firm’s review team also checked some of the ledger accounts on test basis to see which particulars clients balances are due within 14 days and which are due for more than 14 days. The results were satisfactory.*
- 3. An extract of bank statement of Summit Bank Limited Account No. 1-2-5-20311-714-100438 was obtained in order to verify the bank overdraft balance of Rs. 47,915,561/-. The extract is attached as Annexure – D.*
- 4. Other liabilities of Rs. 82,315/- were enquired from the company and it was stated that these were normal accounting accruals of Federal Excise Duty and are payable within 30 days.*
- 5. Further, we have issued our review report in accordance with International Standard on Review Engagements – 2410 as per directive issued by the Institute of Chartered Accountants of Pakistan.*



*In view of the above, it is evident that there was NO willful overstatement of net capital balance as on June 30, 2012 on the part of the firm.”*

5. I have examined the facts, evidences and documents on record, in addition to written and verbal submissions made on behalf of the Respondent and the documents submitted subsequent to the hearing. Looking into the facts of the case the following two issues are framed to decide the matter.

- i. To ascertain the responsibility of the Respondent with regards to submission and ensuring accuracy of NCB as provided in the regulatory framework; and
- ii. Clarification on overstatement of Rs. 191 million in the NCB of ZMCS.

6. The responsibility of Respondent with regards to submission and ensuring accuracy of NCB certificate is stipulated in, regulation 2.2 (c) of the “Regulations Governing Risk Management of Karachi Stock Exchange Limited which stipulates that NCB certificate shall be duly verified/audited by the auditor. For ease of reference the same is reproduced below.

*“2.2 Capital Adequacy Procedures and Exposure Limit based thereon;  
(c) The certificate shall specify that the Net Capital Balance calculated have been duly verified/audited by the auditor referred in 2(b) above;”*

As per above mentioned clause the NCB certificate is required to be duly verified/audited by the auditor, hence auditors are required to ensure that due verification/audit process has been carried out in certifying the NCB calculated.

7. With regard to the issue of overstatement of Rs. 191.161 million in NCB the Respondent during the course of hearing was asked to provide copy of evidence that was obtained in support of trade debts balance. In this connection the Respondent provided copy of ledger account of Mr. Siddiq Moti of the relevant period in which an amount of Rs. 190 million was recorded through a Journal Voucher (JV). During the hearing this fact was brought to the knowledge of the Respondent that the said amount does not represent actual trading transaction rather it was a cosmetic change made by ZMCS to make that amount receivable within 14 days and to include it in the calculation of NCB. Therefore, it was established that the NCB has been overstated by an amount of Rs. 191.161 million. The Respondent admitted the stance of the Commission and requested to take a lenient view into the matter.

8. In this regard it has been observed that JV of Rs. 190 million was appearing in the ledger of Mr. Siddiq Moti (printed on September 13, 2012), as presented during the

hearing, whereas the said JV was not appearing rather other transactions were appearing in the ledger provided to the inspection team.

9. For certification of NCB the Respondent relied on the audited accounts and the certification provided by ZMCS regarding aging of the receivables without applying its own judgment. The Respondent being auditor for certification of NCB was responsible to independently verify the figures provided by ZMCS for NCB rather than solely relying on a certificate issued by the Chief Executive Officer of ZMCS.


10. Given these facts and after evaluating the documents on record, along with the written and verbal submissions made on behalf of the Respondent I am of the considered opinion that the Respondent has failed to perform its duties as Auditor for certification of NCB. The Respondent was required to perform further necessary and appropriate assurance procedures which were not performed. The Respondent did not apply necessary prudence while certifying the NCB certificate which resulted in misrepresentation and overstatement. It seems that the auditor was negligent in performing its professional duties with regard to audit and certification. However, since this violation has been noted for the first time, therefore, while taking a lenient view I, hereby, through this Order, impose a penalty of Rs. 10,000 (Rupees Ten Thousand Only) on the Respondent. The Respondent is further directed to ensure full compliance with the Ordinance, rules, regulations and directives of the Commission in future.

11. The matter is disposed of in the above manner and the Respondent is directed to deposit the penalty in the bank 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 copy of the deposit challan to the undersigned.

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

**Announced on October 31, 2013  
Islamabad.**



  
**Hasnat Ahmad**  
Director (MSRD)