



SECURITIES & EXCHANGE COMMISSION OF PAKISTAN
Securities Market Division
Market Supervision and Registration Department

Through Courier

Before The Director / HOD (MSRD)

In the matter of Show Cause Notice issued to

Rahman Sarfraz Rahim Iqbal Rafiq, Chartered Accountants

Date of Hearing:

September 25, 2013

Present at the Hearing:

Representing Rahman Sarfraz Rahim Iqbal Rafiq

(i) Mr. Muhammad Rafiq Dosani

Partner

(ii) Mr. Muhammad Waseem

Partner

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(1) SMD/MSRD/C&IW dated August 27, 2013 ("SCN") served to Rahman Sarfraz Rahim Iqbal Rafiq, 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 records of Intermarket Securities Limited ("ISL"), Trading Right Entitlement Certificate Holder of the Karachi Stock



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Exchange Limited ("KSE") and registered with the Commission as a broker under the Brokers and Agents Registration Rules, 2001 ("Brokers Rules") and the Respondent was the auditor of ISL.

3. The inspection team submitted its report ("Inspection Report") on May 31, 2013 which highlighted major irregularities in calculation of Net Capital Balance ("NCB") of ISL as on June 30, 2012, the calculation of which was duly verified and certified by the Respondent. From the evaluation of the Inspection Report, it appeared that NCB was not calculated in accordance with the Third Schedule of the Securities and Exchange Rules, 1971 ("Rules 1971").

4. The Inspection Report highlighted following discrepancies in calculation of the NCB of ISL as on June 30, 2012:

- a) Trade Receivables were understated by an amount of Rs. 667,127.
- b) Investments in the listed securities in the name of the company were overstated by an amount of Rs. 17,018,000.
- c) Securities purchased for client were overstated by an amount of Rs. 39,867,239.
- d) Total current assets were understated by Rs. 39,222,067.
- e) Trade payables were overstated by an amount of Rs. 179,611.
- f) Other liabilities were understated by an amount of Rs. 3,600,360.
- g) Total Current Liabilities were understated by an amount of Rs. 3,393,748.
- h) NCB was overstated by Rs. 57,206,160.

5. The Commission, in light of the Inspection Report, served a SCN to the Respondent under Section 22 of the Ordinance. Hearing in the matter of aforesaid SCN was scheduled for September 11, 2013. However, the Respondent vide letter dated August 30, 2013 requested that hearing be fixed at Karachi. The Respondent vide letter dated September 9, 2013 further requested for 15 days extension for submission of its written response. Acceding to the request of the Respondent, hearing was rescheduled for September 25, 2013 at the Commission's



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Karachi Office and the Respondent was required to submit its written response to the SCN by the said date.

6. The Respondent vide letter dated September 21, 2013 submitted its written response to the SCN. Mr. Muhammad Rafiq Dosani and Mr. Muhammad Waseem, partners of the Respondent ("**Representatives**") attended the hearing on behalf of the Respondent. The following arguments were put forward by the Respondent in its written response to the SCN and by the Representatives of the Respondent during the hearing held on September 25, 2013:

a) **Trade Receivables:** The Respondent in its written response stated that:

"Our calculation of the trade debts due within 14 days is based on the figures as per General Ledger of the company as of June 30, 2012. Perhaps the difference, which is about half percent of the total debtors, may have arisen due to difference in methodology adopted as we took the balance of 16th June 2012 for the purpose of ageing."

The Representatives of the Respondent during the hearing asserted that the receivable was calculated on the basis of the evidence provided by ISL in this context. The Representatives of the Respondent added that it would provide the relevant documents to the Commission. The Representatives of the Respondent during the hearing was apprised that First National Equities Limited ("**FNEL**") accounted for in the calculation of trade debts for the purpose of NCB calculation is not a client of ISL and should not have been accounted in the trade receivable.

b) **Investment in Listed Securities:** The Respondent in its written response stated the following:

"Script wise statement of Investment in listed security is attached as per our working paper file..... The difference is mainly due to "Negotiated Deal Market Transaction" (NDM) in quantity of shares only as of the date of calculation of the net capital. Based on our observation and taking prudent view, we have taken the quantity of shares reflected in CDC statement."

The Representatives of the Respondent during the course of hearing communicated that back office record at the time of issuance of NCB certificate was not complete and accordingly based on the concept of prudent we took the value as per CDC record.



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- c) **Securities purchased for client:** The Respondent in its written statement regarding securities purchased for client specified:

"We refer to the relevant note of audited financial statement of the company in respect of amount disclosed as other receivables of Rs. 64 million, which represents an amount of "Other receivable" from First National Equity Limited. As of the net capital balance clarification, the accounts were not audited, however, out of the amount of other receivables, the amount indicated in the show- cause Notice to the extent of amount secured was included in the amount of securities purchased for client. Please note that the amount of "other receivables" is otherwise separately taken as a line item in the net capital balance submitted. A note was also given in our certificate to that effect."

With regard to the calculation of securities purchased for client, the Representatives of the Respondent during the course of hearing asserted the stance taken in the written response.

- d) **Trade Payables:** The Respondent in its written response stated:

"Our calculation of the trade payable due within 30 days is based on the figures as per General Ledger of the company as of June 30, 2012. The slight variation in the figures may have arisen due to the difference in methodology adopted as we took the balance as of 1st June 2012."

The Representatives of the Respondent avowed the above stance during the hearing.

- e) **Other Liabilities:** Written response of the Respondent clarified that:

"Figure of other liabilities is based on the trial balance of the company as of June 30, 2012 as provided to us by the company. However, keeping in view the observation of SECP in this regard, we have examined the matter and found that the difference represents the amount of three JVs passed by the client subsequently to the issuance of net capital statement, which comprises of;

- *Sukheri received from dealer Rs. 162,333/-*
- *Accrued bills, 90,000/-; and*
- *Other accrued expenses of Rs. 3,345,186/-"*

The Representatives of the Respondent during the course of hearing contended the above stance and added that we should have checked that complete accruals with regard to expenses have been accounted for. The Representatives of the Respondent assured to take care of it in future.



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7. The Respondent vide letter dated September 30, 2013 provided the requisite documents evidencing the receivable balance in the name of FNEL that was accounted for by the Respondent in the calculation of NCB. The Respondent also provided copy of the reconciliation statement of the differences in back office record and CDC House account of ISL.

8. I have heard the arguments presented by the Representatives of the Respondent at length during the hearing. Additionally, I have perused the available record and the written response 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.

- a) The Representatives of the Respondent during the course of hearing accepted that FNEL was not a client of ISL and the receivable balance from FNEL should not have been accounted for in the calculation of NCB as trade receivable.
- b) The Respondent with reference to the securities purchased for clients and investment of ISL in listed securities accepted that it should have ensured that all the back office record is complete before the issuance of NCB certificate.
- c) The Respondent with regard to understatement of other liabilities acknowledged the fact that it should have ensured at the time of calculation of NCB that complete accruals for the period have been accounted for.

9. The Representatives of the Respondent during the course of hearing stated that in light of the guidelines recently issued by the Commission, they will ensure that the NCB and the Certificate issued is in strict compliance with the applicable laws, rules and regulations.

10. After a detailed and thorough perusal of the facts, evidence/information available on record, contentions and averments made by the Representatives of the Respondent during the course of the hearing, it is evident that the Respondent did not apply the necessary prudence in certifying the NCB. The Respondent is responsible to ensure that the amounts/numbers used to arrive at the NCB value are duly audited and is also expected to give a statement to the same



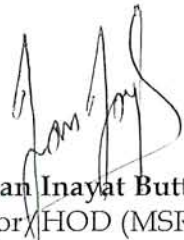
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effect in the NCB Certificate. An auditor should be perceived as professional that is beyond reproach and it should perform its functions in a fair, proficient and impartial manner. The Respondent, being a Chartered Accountant Firm certifying the NCB Statement, should be well versed with the applicable rules and regulations, its significance for the securities business and adhere to professional conduct.

11. The violation of the Rules and Regulations is a serious matter. However, on this occasion taking a lenient view, the Respondent is strictly warned to comply with the directions of the Commission in future failing which appropriate action will be taken against it. This Order is issued without prejudice to any other action that the Commission may initiate against the Respondent in accordance with law on matters subsequently investigated or otherwise brought to the knowledge of the Commission.




(Imran Inayat Butt)
Director (HOD) (MSRD)

Announced on November 07, 2013
Islamabad.