



SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

[Islamabad]

Before Ali Azeem Ikram, Director (Enforcement)

In the matter of

Mr. Abdul Muqtadir Siddiqui,
Partner, Muqtadir & Co., Chartered Accountants

Number and date of Show Cause Notice	EMD/233 /701 /2008-1942 dated January 27, 2009
Date of final hearing	April 13, 2009
Present	No one appeared on behalf of Abdul Muqtadir Siddiqui, Partner, Muqtadir & Co., Chartered Accountants
Date of Order	May 6, 2009

ORDER

Under Section 260 read with Section 255 and Section 476
of The Companies Ordinance, 1984

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This Order shall dispose of proceedings initiated against Mr. Abdul Muqtadir Siddiqui, Partner, Muqtadir & Co., Chartered Accountants ("the Auditor") through Show Cause Notice under Section 260 and Section 255 of the Companies Ordinance, 1984 ("the Ordinance") in relation to statutory audit of Progressive Insurance Company Limited ("the Company") for years 2004 to 2007.

2. The relevant facts for disposal of this case, briefly stated, are that the Auditors have been auditing the annual financial statements of the Company as statutory auditors since the year 2004. As reflected in the Audited Financial Statement of the Company for the year 2004, the Company has increased its share capital by Rs. 35 million during the year by issuing 3.5 million shares through other than right issue and for consideration other than cash, without complying with the requirements of Section 86 of the Ordinance and Rule 8 of the Companies (Issue of Capital) Rules, 1996 ("the Rules"). For this purpose, the allotment of 3.5 million shares was made exclusively to Mr. Sabur Rehman against 800 acres land which was allegedly valued at Rs.40 million by the *Mukhtarkar of Kharo Chand*. However, legal title of the land (property in consideration) has yet not been transferred in the name of the Company despite expiry of a period of over four years.

3. In accordance with International Accounting Standard (IAS)-7, the aforesaid transaction should have been accounted for in the statement of cash flow of annual audited accounts of the Company for the year 2004 as a "non cash transaction" but contrary to this requirement, the cash flow statement for the said year reflected the proceeds of Rs. 35 million against issue of share capital as Financing Activity and payment made for purchase of land of Rs. 35 million as Investing Activity.

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4. Further, the annual audited accounts of the Company for the years 2004 to 2007 continued to show the said issue of 3.5 million shares as "fully paid in cash" which is misrepresentation of the facts and misleading information.

5. The annual audited accounts of the Company for year 2004 report that an advance of Rs. 28.696 million was made in the month of October 2003 for the purchase of land. However, land (property) has still not been transferred in the name of the Company which is contravention of Section 39 of the Insurance Ordinance, 2000 which reads as follows:-

"None of the assets in Pakistan of any insurer shall, except in the case of deposits made with the State Bank of Pakistan under Section 29, or in the case of assets, other than deposits, with a scheduled bank acting as a custodian, be kept otherwise than in the corporate name and under the direct control of the insurer and, in the case of assets of a statutory fund of a life insurer, in the name of the statutory fund."

6. In the annual audited accounts for year 2007, it was noted that the depreciation on investment in building (situated at Lahore), was not correctly provided for. The depreciation expense was recorded properly but its corresponding impact on the carrying value of the property was not accounted for. In accordance with the double entry accounting system, obviously, the carrying value of asset must be reduced by the same amount of depreciation expense for the year as otherwise the total of debit side of the balance sheet will not reconcile with total of credit side of balance sheet.

7. During the inspection of the Company conducted under Section 231 of the Ordinance (December 29 to 31, 2008), it was noticed with concern that the Company has not been maintaining proper books of accounts as per requirement of the Ordinance as trial balances, accounting ledgers, cash and bank book, banks statements with reconciliations, vouchers and supporting evidences, fixed assets register, and other accounting records and documents for the years ended December 31, 2003 to 2007 were not provided to the inspection team.

8. By neglecting the aforesaid matters as mentioned in para 2 to 7, the Auditor failed to bring out material facts about the affairs of the Company in auditor's reports on the annual accounts of the Company for the respective years. Accordingly, a Show Cause Notice dated January 27, 2009 under Section 260 and 255 of the Ordinance was served on the Auditor.

9. In reply to Show Cause Notice, the Auditor vide his letter dated February 4, 2009 requested for grant of extension in time up to February 26, 2009 as the same could not be replied due to his heavy personal and official engagements and due to frequent power failure in Karachi. According to his request, the Commission granted the extension till February 26, 2009 for replying to the said Show Cause Notice.

10. The reply was received from the Auditor vide his letter dated February 23, 2009 however the issues raised in Show Cause Notice were not adequately and properly addressed. A hearing notice was issued to him for appearing in person before the Commission for pleading his case.



Accordingly, the hearing of the case was fixed for March 12, 2009. However, letter dated March 9, 2009 received from the Auditor informed his inability to appear in hearing on medical grounds.

11. The Commission vide hearing notice dated March 12, 2009 advised the Auditor that his authorized representative may appear on his behalf in the hearing, which was re-fixed on March 20, 2009 and present his submissions before the Commission. Meanwhile, upon receiving *vakalatnama* from Mr. A. K. Qureshi, Advocate authorizing him to appear in the proceedings of the case on behalf the Auditor, the hearing notice was sent to Mr. A. K. Qureshi ("authorized representative") whereby case was once again fixed for hearing on March 26, 2009. However, the hearing notice was received back as undelivered despite the fact that address was complete and correct as appearing on letterhead received from Mr. A. K. Qureshi, Advocate. In spite of this, the Commission affording another opportunity, sent another hearing notice to Mr. A. K. Qureshi, Advocate on his given address and hearing was fixed for April 1, 2009 but again notice was not received and was returned back. On making telephonic contact, Mr. A. K. Qureshi, Advocate confirmed that address at which previous notices were sent was correct and complete and requested that hearing of the case may be fixed for April 13, 2009. Accordingly, final hearing notice was sent to him at the same address. This time notice was not returned back but no one appeared on scheduled date of final hearing of the case.

12. In his reply dated February 23, 2009 to Show Cause Notice, the Auditor submitted as follows:-

Issue of Shares of Rs. 35 million for consideration other than cash and through other than Right Issue

The provisions of Section 86(3) of the Ordinance have been complied with but only lapse is that shares were allotted before expiry of last date of rights subscription as by personal contacts the management had no hope of any subscription. Auditor had planned to verify the requirements for increase in capital at the time of final audit but due to time constraint we could not do so. Since he did not find any lapse in the process of increase in capital during year 2003, he believed that the Company would have followed correct procedure in year 2004 as well. Hence, he did not include this item in his test check. He agrees that explanation may be called for from management for this misrepresentation.

Misleading Disclosure of Non Cash Transaction

Regarding non cash transaction in cash flow statement, IAS-7 says that these transactions should be excluded from cash flow statement and be shown elsewhere in financial statements. Since complete verification of this item was not carried out by Auditor, he took it as "Issue of Share Capital for Cash" on the lines as for the year 2003.

Failure in transfer of Land (against issue of Rs. 35 million shares) in the name of Company

Complete documents were submitted to *Mukhtarkar* for transfer of land. The concerned departments have no objections thereon but delaying tactics are being used by the Company.



Failure in transfer of Land (against advance of Rs. 28.696 for purchase of land)

The amount advanced by the Company is part payment for land purchased; the remaining amount of Rs. 31.307 million has not yet been paid. The management has written several letters to owner of land for expediting the process of transfer of land in respect of which correspondence is available on record. So Auditor did not consider it necessary to qualify its opinion on the financial statements.

Non-Production of books of Accounts

The Company has provided the required books of accounts to Auditor during the course of Audit. However, if the same were not supplied to inspection team, then explanation may be called from the management.

Incorrect Carrying Value of Investment in Property

This mistake was noted by them and communicated to the Company for making correction. Since the said transaction did not appear in their audit sample, he was unable to find contra entry of this particular transaction. In view of nominal amount involved, Auditor did not consider it necessary to change their opinion.

13. I have carefully considered the arguments presented by the Auditor and have also examined the record pertaining to the case. Having referred to the relevant provisions of the Companies Ordinance, 1984 as well as those of Insurance Ordinance, 2000 and applicable International Accounting & Reporting Standards (IASs & IFRSs) and International Standards on Auditing (ISAs), I am not convinced with the arguments presented by the Auditor. Based on the findings of the inspection as mentioned in para 7 above, which are of material in nature, his unqualified opinion regarding true and fair view of the state of affairs of the Company and maintenance of proper books of accounts for years 2004, 2005, 2006 and 2007 proved inappropriate and incorrect. Where almost 68% of the total assets as reflected in the account for the year 2007 were not in possession and title is also not transferred in the name of the Company. The auditors have neglected to take notice of the gravity of the situation. They complacently opted for an easy exit without taking appropriate steps to verify the relevant assertions, by giving an unqualified opinion on the financial statement. The auditor should have to plan and perform an audit with an attitude of professional skepticism recognizing that circumstances may exist that may cause the financial statements to be materially misstated where such attitude of professional skepticism may be adopted by making a critical assessment with a questioning mind of the validity of audit evidence obtained to support various assertions. However, it further implies that Auditor failed to perform the audit of the financial statements of the Company as per the standards and guidelines provided in auditing framework and have not discharged their duties of making a truthful report to the members of the Company and have been grossly negligent in conducting their professional duties. Due to the aforesaid facts the audit reports for the said years are misleading, are not in conformity with the requirements of Section 255 of the Companies Ordinance and are untrue and fail to bring out the above mentioned material facts about the affairs of the Company. Auditors also failed to perform their duties diligently and acted too indulgently to provide advantage to the management of the Company. The aforesaid violations attract the penal provisions contained in Sub-Section (1) and (2) of Section 260 of the Ordinance. The facts of the case warrant no sympathy for the Auditor and require a stern action against the Auditor. I, therefore, impose a fine of Rs. 100,000/- (Rupees One Hundred Thousand Only) on



SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
Enforcement Department

Continuation Sheet - 3 -

Mr. Abdul Muqtadir Siddiqui, Partner, Muqtadir & Co., Chartered Accountants for contravening the provisions of Section 260(1) of the Ordinance

14. Mr. Abdul Muqtadir Siddiqui is hereby directed to deposit the aforesaid fine of Rs. 100,000/- (Rupees One Hundred Thousand Only) in the designated bank account maintained in the name of Securities and Exchange Commission of Pakistan with "MCB Bank Limited" or pay the same through a demand draft in favour of Securities and Exchange Commission of Pakistan within thirty (30) days of the receipt of this Order and furnish receipted vouchers to this Commission, failing which proceedings for recovery of the fine under the Land Revenue Act, 1967 would be initiated which may result in the attachment and sale of movable and immovable property.

(Ali Azeem Ikram)
Director (Enforcement)