



SECP  
Insurance Division  
Karachi

[Karachi]

Before Tariq Hussain, Director (Insurance)

*In the matter of*

Pakistan Reinsurance Company Limited

Show Cause Notice Issue Date: July 5, 2012

Date of Hearing: 1. September 14, 2012; and  
2. May 7, 2013

Attended By: 1. Mrs. Farzana Munaf, Chief Financial Officer;  
2. Mr. Shahzad Lodhi, Company Secretary; and  
3. Mr. Ayaz Hussain M. Gad, Executive Director.

Date of Order: June 12, 2013

**ORDER**

(Under Section 495 of the Companies Ordinance, 1984)

.....

This Order shall dispose of the proceedings initiated against M/s Pakistan Reinsurance Company Limited ("the Company") for not complying with the contents of the Direction given on February 15, 2010 under Section 472 of the Companies Ordinance, 1984 (the "Ordinance"), requiring the Company to take necessary measures to remove qualification of the external auditors of the Company regarding non-reconciliation of the balances.

**Background Facts**

2. The examination of the annual audited accounts for the year ended December 31, 2008 of the Company revealed that M/s. KPMG Taseer Hadi & Co., Chartered Accountants (external auditors of the Company) had expressed a qualified opinion on these accounts of the Company, as follows:

*"As more fully described in the notes 13, 16.1 and 21 to the financial statements, the balances of Rs.1,539.015 million (net of provision amounting to Rs.386 million) and*

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Rs.1,237.841 million were respectively due from and due to other persons and bodies carrying on insurance business. The Company is in process of obtaining confirmations and reconciling these balances as at 31 December 2008 with these persons and bodies. Further, as explained in note 16.2 to the financial statements, the Company has reversed certain claims lodged by other insurance companies amounting to Rs.54.68 million due to the reason that appropriate documentation for substantiating these claims was not provided. Pending confirmation of various balances, finalization of reconciliations with other companies and settlement of the differences with these persons and bodies, we are unable to verify these balances.

As stated in notes 14 and 22 to the financial statements, as at 31 December 2008, the balances in respect of premium and claim reserves retained by cedants amounted to Rs.45.822 million and balances in respect of premium and claim reserves retained from retrocessionaries amounted to Rs.35.884 million. These balances have not been confirmed by respective insurance companies. Consequently, we are unable to verify the balance."

3. In the light of the above quoted qualification by the Company's external auditor on the accounts of December 31, 2008, it appeared that the Company had failed to comply with the requirements of sub-Section (1) of Section 234 of the the Ordinance, which requires that:

*"(1) Every balance sheet of a company shall give a true and fair view of the state of affairs of the company as at the end of its financial year, and every profit and loss account or income and expenditure account of the company shall give a true and fair view of the profit and loss of the company for the financial year so, however, that every item of expenditure fairly chargeable against the year's income shall be brought into account and, in case where any item of expenditure which may in fairness be distributed over several years has been incurred in any one financial year, the whole amount of such item shall be stated, with the addition of the reasons why only a portion of such expenditure is charged against the income of the financial year."*

4. It was further observed that similar type of qualifications was continuously being raised by the external auditors of the Company in their Auditors' Reports since the year 2002 to 2008.

5. The Commission noted that the Company had failed to remove the external auditors' qualifications on the financial statements of the Company since long.

6. Section 234 of the Ordinance requires that every balance sheet and profit and loss account of a company shall give a true and fair view of the state of its affairs and that all listed companies shall follow such International Accounting Standards and other standards in regard to the accounts and preparation of the balance sheet and profit

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and loss accounts as are notified for the purpose in the official gazette by the Commission.

7. The Company, however, acted contrary to the requirements of Section 234 of the Ordinance, as due to non-verification / non-reconciliation of the balances, the accounts of Company did not give a true picture of the state of its affairs.

8. Keeping in view the above, a notice under Section 472 of the Ordinance (the "notice") dated January 13, 2010, was issued to the Company to undo the default, thereby effecting a true and fair presentation of the state of affairs of the Company by reconciling the account balances of receivable and payables with the insurance companies to remove the aforesaid qualifications from the Auditors' Report of the Financial Statement for the year ended on 31 December 2008, and confirm to the Insurance Division that the aforesaid exercise has been completed within thirty days' time, as stated in the notice under Section 472 of the Ordinance.

9. Thereafter, Direction under Section 472 of the Ordinance dated February 15, 2010, was issued to the Company for making good the said default by removing the qualification raised by the external auditors ensuring that by the time the half yearly accounts for 2010 were ready for dissemination amongst the members and the Commission, as required under the Ordinances.

10. However, the then Chairperson of the Company, vide her letter dated April 30, 2010, stated that:

*"... the letter written by Mr Tariq Hussain, Director (Insurance) ... stated "you were directed to remove the qualification made by the Company's external auditors". I hope it is appreciated that I do not have the authority to remove the qualification made by the external auditors.*

*.... As you know, Section 472 of the Companies Ordinance pertains to enforcing compliance with the provisions of the Ordinance i.e. it is not specific to enforcement of Section 234(1), PRCL contests the contents of the Order by simply submitting for your kind attention that the failure on the part of the concerned insurance companies by not confirming the balances to the auditors can neither be termed as a default nor be judged as an irregularity committed by PRCL under Section 234(1) of the 1984 Ordinance.*

*In view of the above, it is requested that the Notice under Section 472 of the Companies Ordinance 1984, issued by SECP may please be withdrawn."*

11. The Commission, vide its letter dated May 18, 2010, conveyed to the Company that the balances as per the auditors' calculations, shows that the un-reconciled amount has increased from Rs. 302 million in 2008 to Rs. 642 million in 2009.

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12. On September 23, 2010, the erstwhile Executive Director (Insurance) again reminded the Company that the qualifications have not been removed and offered to act as a facilitator to resolve the matter, in question.

13. In response to the Commission's letter of September 23, 2010, the Company, vide its letter dated September 29, 2010, stated that the auditors shall "review" the qualification under reference at the end of the financial year i.e. December 30, 2010. Moreover, the Company thanked the Division for its offer to act as a facilitator on this issue and informed that the Company was a member of the Insurance Association of Pakistan and is in direct and active coordination with all member companies on the issue of reconciliation.

14. However, upon receipt of the accounts for the year ended December 31, 2010 in April 2011, the Commission again noted the auditors' [Anjum Asim Shahid Rahman & Co. (Chartered Accountants)] observation on the same issue, which is reproduced for the purpose of ready reference:

*"As on December 31 2010 "Amount due from other insurers/reinsurers includes gross amount of Rs.1,380.422 million (2009: Rs.1,367.718 million) which after provision of Rs.386 million (2009: Rs.386 million) amounting to Rs.994.422 million (2009: Rs.981.718 million) and "Due to other insurers/reinsurers" includes Rs.370.684 million (2009: Rs.340.082 million). Further, the company has reversed certain claims that have been lodged by other insurance companies amounting to Rs.29.950 million (2009: Rs.38.39 million) due to the reason that appropriate documents for substantiating these claims were not provided. The company is in process of reconciling these balances. Due to pending confirmations/reconciliation relating to above balances, resultant adjustments and consequential impact thereof, if any, on the financial statements remain unascertained.*

*The financial statements reflect the balances in respect of "Premium and claim reserve retained by cedants' amounting to Rs.97.723 million (2009: Rs.44.892 million) and balances in respect of "Premium and claim reserves" retained from retrocessioners' amount to Rs.20.252 million (2009: Rs.44.558 million). These balances have not been confirmed by respective insurance companies. Consequently, we are unable to verify these balances."*

15. Hence, the Commission, vide its letter dated July 15, 2011, enquired as to why the qualification has not yet been "removed". The Company, in response to the said letter of the Commission vide its letter dated August 10, 2011, stated:

*"The reconciliation of accounts with local insurance companies is a complex issue including various components such as claims not booked by PRCL due to lack of/insufficient documentation, unbooked profit commission due to non-submission of*

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relevant returns, disputed claims relating to compulsory cession, unilateral settlement/adjustments by insurance companies and various other similar cases.

.... Resultantly, in the year 2010 the amount included in the qualification was the partial amount of due from and due to balances and not the total amount as was done in the past and it may be noted that there is a "dilution" in the qualification wording also which suggests the inherent limitation and business consideration for resolution of this issue."

16. In view of the above, it is evident that the Company was given ample time i.e. from the issuance of the notice under Section 472 of the Ordinance till the deadline as stipulated under the Direction which was subsequently issued under Section 472 of that Ordinance to make good the default as aforesaid, and thereafter till the date of issuance of the Show Cause Notice under Section 495 of the Ordinance i.e. July 5, 2012, however, the Company had failed to rectify the matter of reconciliation of longstanding balances.

17. The external auditors of the Company, in their Auditor's Report, annexed to the financial statements for the year ended December 31, 2011, stated that:

- 1) "As on December 31, 2011, Amount due from other insurers/ reinsurers includes gross amount of Rs. 1749.943 Million (2010: Rs. 1380.422 million) which after provision of 386 million (2010 Rs. 386 million ) Amounting to Rs. 1363.943 million (2010 Rs. 994.222 million) and due to other insurers / reinsurer include Rs. 235.687 million (2010 Rs. 370.684 million). Further the company has reversed certain claim that have been lodged by other insurance companies amounting to Rs. 22.63 million (2010 Rs. 29.950 million) due to the reason that appropriate documents for submitting these claims were not provided. The company is in process of reconciling these balances. Due to the pending confirmation/ reconciliation relating to above balances resultant adjustment and consequential impact thereof if any on the financial statement remain unascertained (Refer note 13,17.1, 17.2 and 23).
- 2) The financial statements reflect the balances in respect of premium and claim reserves retained by cedants amounting to Rs. 25.469 million (2010 Rs. 97.723 million) and balances in respect of premium and claim reserves retained from retricessionaires amounting to Rs. 26.587 million (2010 Rs.20.252 million) these balances have not been confirmed by the respective insurance companies. Consequently we are unable to verify these balances (Refer to Note 24 and 14)."

18. And, after reviewing the Auditor's Report attached to the Annual Audited Accounts for the year ended December 31, 2011, as aforesaid, it appears that the Company has committed default of the Direction of the Commission issued under Section 472 of the Ordinance, for which the Commission could have initiated proceedings under Section 495 of the Ordinance.



### Show Cause Notice

19. Accordingly, the Show Cause Notice was issued on July 5, 2012 under Section 495 of the Ordinance to the Chairperson / Chief Executive and the Directors of the Company, calling upon them to show cause as to why the penalty, as provided under Section 495 of the Ordinance, should not be imposed upon the Company and/or its Directors for not complying with the Commission's Direction under Section 472 of the Ordinance dated February 15, 2010.

### Company's Responses to the Show Cause Notice and Hearings of the Case & Subsequent Developments

20. The Company, vide its letter of July 13, 2012, had requested the Commission to schedule a meeting to discuss the matter, to which the Commission vide its letter dated July 16, 2012 had advised the Company to respond to the aforesaid Show Cause Notice.

21. Thereafter, the Company, vide its letter of July 17, 2012, had requested the Commission to schedule a hearing in the matter to allow them to clarify the matter to the Commission, on which the Commission, vide hearing notice of July 25, 2012, had scheduled the hearing in the matter for August 28, 2012 at 11:00 a.m.

22. However, the Company, vide its letter dated August 15, 2012, requested the Commission to reschedule the hearing in the matter for first week of September 2012.

23. Therefore, the hearing in the matter was rescheduled for September 5, 2012 at 11:00 a.m., which was communicated to the Company vide the Commission's hearing notice dated August 23, 2012.

24. However, due to certain unavoidable circumstances, the hearing in the matter was again rescheduled for September 14, 2012 at 11:00 a.m., which was communicated to the Company vide the Commission's hearing notice no. ID/Enf/PRCL/2012/14366 dated August 27, 2012.

25. The hearing of September 14, 2012, was attended by Mrs. Farzana Munaf, Chief Financial Officer of the Company, Mr. Shahzad F. Lodhi, Executive Director (HR) and Company Secretary of the Company, and Mr. Ayaz Hussain M. Gad, Executive Director (HD & Re), who shall be collectively referred to as the "Company's representatives" hereinafter.

26. Brief proceedings of the hearing of September 14, 2012 are as follows:



- a. Prior to the start of the hearing proceedings, the Company's representatives handed over the Power of Attorney to the Commission, which was signed by Mr. Munawar Opel, Chairman of the Company, whereby all the Company's representatives were authorized to attend the hearing on behalf of the Company;
- b. The Company's representatives were asked to present the stance of the Company, on which the Company's representatives delivered a detailed presentation about the occurrence of the situation. They also mentioned that the Company would like to seek the advice of the Commission as to how this issue of reconciliation of balances can be resolved;
- c. The Company's representatives were clarified that the Commission shall not involve itself in the commercial decisions of the Company. Since, the matter involved writing off receivables and payables, therefore, the Commission advised the Company's representatives to involve the Board of Directors of the Company and seek their guidance in the matter, under intimation to the Commission.

27. Subsequent to the hearing of September 14, 2012, the Company, vide its letter no. 2-INVT(Corporate-1)/2012 dated September 19, 2012, stated that the Company will prepare a roadmap which would first be submitted to the Board of Directors of the Company for its approval and then the same would be submitted to the Commission for its consideration, after the approval of the Board, by October 31, 2012.

28. Thereafter, the Company, vide its letter no. 2-INVT(Corporate-1)/2012 dated October 30, 2012, had submitted the roadmap, which was duly approved by the Board of Directors of the Company. The Company's Board of Directors in their meeting, which was held on October 25, 2012 resolved that the Company would take all possible efforts to prepare the accounts for the year ended December 31, 2012 without any sort of qualification by the external auditors of the Company.

29. The said roadmap highlighted certain limitations of the Company in removing the qualification by the auditors. These limitations were:

*"The issue relating to qualification of Auditor's Report is complex in nature and it is subject to limitation, internal as well as involving external factors. Prior to Year - 2006, PRCL accounting system was confined to batch-mode and the figures relating to receivable and payables were booked on quarterly basis at the time of preparation of accounts. Furthermore, the settlement of 'Due To' and 'Due From' balances were used to be made on "on account payment" basis in a lump-sum round figure, which the breakup of the payment received from ceding insurance companies used to be recorded in manual ledgers, the accuracy of which was only dependent on interest taken by the*

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individual responsible for maintaining such manual records as this was neither a part of the computerized accounting records nor was verifiable in any other manners.

Accordingly, at any given point in time, it was very difficult to identify outstanding entries in PRCL's books of accounts. Similarly, since payments received from ceding insurance companies were recorded as one figure, it was very difficult to match as to which premiums have been settled there-against. One needed to make manual breakups and entries in order to come up with composition of closing outstanding balance. The issue was further aggrieved due to fact that people working in PRCL's finance and audit departments were not professionally qualified accountants and despite using their best efforts, they could not obtain the command over accounting issues.

Another problem being faced is certain balance which pertains to old accounting periods particularly for periods relating to compulsory cession. There are still receivables amount coming in PRCL's book of accounts relating to period of compulsory business. Ceding insurance companies do not agree with such balances and according to them their books are not showing any payables in this regard. Unfortunately due to certain limitations in PRCL accounting system prior to 2006, it was not possible to comprehend such receivables and the situation is even worse for balances prior to the Year-2002 as computerized accounting only started in the Year-2002 and manual ledger and books of accounts relating to period prior to 2002 are not easily traceable.

In addition to internal limitations, there were certain external factors as explained below:-

- That the financial reporting period for PRCL as well as ceding insurance companies is the same i.e. December 31<sup>st</sup> and therefore the external audit, the annual closing and the reporting, including all formalities such as holding of Audit Committee, Board of Directors meetings, etc., take place in the same period for PRCL and ceding insurance companies. Whenever PRCL request for confirmation of balances from the ceding insurance companies, their response is "that our accounts are being audited, the amounts are provisional and we would only provide the confirmation once the accounts are finalized". In such situations, confirmations are arranged before the audit is over. If somehow confirmations are arranged before the audit is over, then there are differences in the balances appearing in PRCL's books of accounts and balances as per ceding insurance companies' books of accounts, then auditors ask for an item-wise reconciliation. Again when the ceding insurance companies are approached, they normally say that "such reconciliation would be possible once annual closing is done and accordingly it is not possible for PRCL to provide breakup of reconciliation differences in respect of year end balances to the auditors and this creates a limitation in providing such information."
- Another complication being faced is unilateral adjustment by ceding insurance companies for claims which though have been recorded in their books of accounts,





but which neither have been agreed with PRCL, nor complete documentation as required by PRCL has been provided to PRCL. Such claims are deducted from the premium amounts payable to PRCL. PRCL only comes to know about such deductions once the confirmations are received and then PRCL has to chase through its Underwriting Department to the Underwriting Department of the concerned ceding insurance companies for not only providing the breakup of such deductions, but also documents required in order for PRCL to book such claims in its books of accounts. Accordingly to international practices, such deduction could not be made and the set off as of receivable and payable balances is only allowed once both the parties have agreed for such adjustments. We had also requested SECP to come up with some legislation changes so that ceding insurance companies are prohibited from making these kind of adjustments and deductions. SECP is of the view that since ceding insurance companies are PRCL's customers, therefore, such matter cannot be tackled through legislation changes, rather they should be discussed and decided on commercial understanding basis." (Underlined to put emphasis)

30. The limitations listed in the roadmap submitted by the Company seemed to be genuine and practical. Furthermore, the Company submitted the proposed future strategy, which covered following areas:

- **A comprehensive audit assignment by the external auditors on verification of reconciliation 'Due From' and 'Due To' balances up to December 31, 2011 and June 30, 2012 as an additional audit assignment:**

The external auditors of the Company agreed to carry out a detailed exercise after closing of the third quarter of the year 2012, in which following was mainly agreed to be done:

- Verification and reconciliation of differences up to December 31, 2011, separately for the claims which have been booked in the year 2012, and verification of the reasons not booked by then;
- Verification and reconciliation of the differences occurred during the period from January 1, 2012 to June 20, 2012 and ascertaining their status including the reasons for not booking in the 2012;
- Ensuring that the claims up to June 2012, which have not been booked / accounted for properly in the books of accounts in the form of underwriting provisions, should be properly booked and reconciled so that Profit and Loss Account of subsequent years is not adversely affected for the prior years' claims; and

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- Working out a method whereby the differences, which may occur during the period from July 1, 2012 to December 31, 2012, may be accounted for in the form of underwriting provisions on estimation basis.

- **Removal of external auditors' qualification from the Company's accounts:**

Here, the Company has stated that they were able to obtain confirmation of balances from ceding insurance companies for about 90 percent of the amount involved and accordingly reconciliation difference on the basis of such confirmation were worked out. The Company further mentioned that although the accounting work involving identification of the difference has been completed, however, work related to their resolution by the Underwriting Department was still in process. The process involved the following:

- Obtaining required documents for un-booked claims from ceding insurance companies;
- Identification of claims involving disputes etc. and ascertaining the Company's stance in this regard; and
- Tracing the supporting documents for differences pertaining to the period for compulsory cession and differences pertaining to prior to computerized accounting.

- **Revamping documentation / agreements for reinsurance arrangements:**

Here, the Company disclosed that they are considering inclusion of certain clauses in their upcoming reinsurance arrangements so as to improve timely recovery of the outstanding dues to and from the ceding insurers so as to mitigate the chances of any un-reconciled balances in future.

31. Thereafter, the Company, vide its letter no. 2-INVT(Corporate-1)/2012 dated November 28, 2012, informed the Commission that their Board of Directors have approved the appointment of their external auditors i.e. M/s Anjum Asim Shahid Rahman, Chartered Accountants, to carry out an additional audit assignment of reconciliation of "Due To" and "Due From" balances.

32. On December 5, 2012, the Company had issued a letter to various insurance companies requesting them to ensure filing of all returns / statements of compulsory surplus cession, including the fourth quarter's statement of outstanding losses on the relevant prescribed Form S-6, with the Company latest by January 30, 2013, thereby enabling the Company to file its quarterly returns with the Commission within the prescribed time limit.

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33. The Company, vide their letter no. 2-INVT(Corporate-1)/2012 dated April 4, 2013, had confirmed that the qualification from the Auditor's Report in respect of un-reconciled "Due To" and "Due From" balances has been removed, and the Board of Directors of the Company has approved the financial statements for the year ended December 31, 2012 in their meeting, which was held on April 3, 2013.

34. Thereafter, in order to provide the Company with an opportunity of hearing before any decision in the matter is taken, the Commission, on its own motion, issued hearing notice no. ID/Enf/PRCL/2013/16425 dated April 29, 2013, whereby the hearing in the matter was scheduled for May 7, 2013 at 3:00 p.m. However, the time of the hearing of May 7, 2013 was later on shifted from 3:00 p.m. to 10:30 a.m. on the request of Mr. Shahzad F. Lodhi, Executive Director (HR) and Company Secretary of the Company vide his email of April 30, 2013, which was communicated to him via email on the same date i.e. April 30, 2013.

35. Again, the hearing of May 7, 2013 was attended by the Company's representatives i.e. Mrs. Farzana Munaf, Chief Financial Officer of the Company, Mr. Shahzad F. Lodhi, Executive Director (HR) and Company Secretary of the Company, and Mr. Ayaz Hussain M. Gad, Executive Director (HD & Re). And, in this regard, the decision of the management regarding nomination of these persons was communicated to the Commission vide the Company's letter no. E.D.(H.R)/Company Secretary's Sectt. dated April 30, 2013.

36. Brief proceedings of the hearing of May 7, 2013 are as follows:

- a. The Company's representatives informed the Commission that the Company has successfully removed the external auditors' qualification in the accounts for the year ended December 31, 2012, after an extensive exercise of reconciling the balances with respective insurers;
- b. The Company's representatives were then asked whether the Company has recorded bad debts for the un-reconcilable balances, or not, to which the Company's representatives mentioned that the Company has not booked any balance as "bad" without any reason, rather an extensive exercise of reconciliation was done by the Company, as a result of which the external auditors of the Company have expressed their clean opinion on the accounts for the year ended December 31, 2012.

#### Consideration of Company's Submissions

37. I have carefully examined and given due consideration to the written and verbal submissions of the Company (through the Company's representatives, Mrs. Farzana Munaf, Chief Financial Officer of the Company, Mr. Shahzad F. Lodhi, Executive Director (HR) and Company Secretary of the Company, and Mr. Ayaz



Hussain M. Gad, Executive Director (HD & Re)), and have also referred to the provisions of the Ordinance and also the contents of the Direction given under Section 472 of the Ordinance. I am of the view that there has been an established default of contents of the Direction under Section 472 of the Ordinance, as the Company was required to ensure proper reconciliation of the longstanding un-reconciled balances and removal of the auditors' qualification, latest by the time the half yearly accounts for the year 2010 were ready for dissemination amongst the members and the Commission. In the context of the said Direction, the Company was essentially required to ensure that each balance sheet and profit & loss account of the Company should present a true and fair picture of the affairs of the Company, to which the Directors of the Company had failed to comply by the timeframe as stipulated in the said Direction of the Commission.

38. However, before proceeding further, I find it relevant to discuss the duties of the Directors. The Directors, in addition to the day-to-day running of the Company and the management of its business, also have some 'fiduciary' duties i.e. duties held in trust and some wider duties imposed by statute and breach of these statutory duties will usually be a criminal offence, punishable by fine or imprisonment. Hence, the Directors are gauged against a higher standard of accountability which requires them to be vigilant and perform their duties with due care. In the instant case, however, the Company and its Directors had essentially failed to perform their duties in terms of ensuring presentation of true and fair picture of the Company's affairs on its balance sheets and profit & loss account, with due care and prudence. As the Directors are supposed to be well aware of their legal obligations in connection with the aforesaid statutory requirement of Section 234 of the Ordinance i.e. to ensure that each balance sheet and profit & loss account of the Company should present a true and fair picture of the affairs of the Company, which was reinforced through the Commission's Direction under Section 472 of the Ordinance in connection therewith, as aforesaid, therefore, it could be legitimately inferred that the default was committed.

### Conclusion

39. After carefully examining the arguments and studying the facts and findings of the case as mentioned in the above paras of this Order, the default of the contents of the Direction under Section 472 of the Ordinance is established. Therefore, the penalty as provided under Section 495 of the Ordinance can be imposed onto the Company and/or its Directors.

40. And, the provisions of Section 495 of the Ordinance state that:

*"Punishment for non-compliance of directive of Court, etc.- (1) Where any directive is given or order is issued by the Court, the officer, the Commission, the registrar or the Federal Government under any provision of this Ordinance, non-*

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*compliance thereof within the period specified in such direction or order shall render every officer of the company or other person responsible for non-compliance thereof punishable, in addition to any other liability, with fine not exceeding fifty thousand rupees and, in the case of a continuing non-compliance, to a further fine not exceeding two thousand rupees for every day after the first during which such non-compliance continues.*

*(2) If non-compliance or failure continues after conviction under sub-section (1), the officer or other person who is a party to such non-compliance or failure shall be liable to punishment with imprisonment which may extend to six months and fine not exceeding two thousand rupees for every day after the first during which such non-compliance continues, and shall further cease to hold office in the company and be disqualified from holding any office in any company for a period of five years."*

### Order

41. In exercise of the power conferred on me under Section 495 of the Ordinance, I, instead of imposing the penalty, take a lenient view, and thus, condone the Company due to fact that:

- a. the Company and its Directors have finally been successful in removing the external auditors' qualification relating to un-reconciled balances from the accounts for the year ended December 31, 2012, and the external auditors of the Company have given a clean report on these financial statements, which the Company's balance sheet and profit & loss account present a true and fair picture of the Company's affairs; and
- b. the Company and its Directors have devised a strategy for avoiding any such qualification to appear in the auditors' reports, in future, by inclusion of relevant clauses for early recovery of the outstanding balances.

However, the Company is hereby issued a stern warning that in case of similar non-compliance in future a stronger action against the Company will be taken.

42. This Order is issued without prejudice to any other action that the Commission may initiate against the Company and / or its management (including the Chief Executive Officer of the Company) in accordance with the law on matters subsequently investigated or otherwise brought to the knowledge of the Commission.

**Tariq Hussain**  
Director