

Before Shahzad Afzal Khan, Director/Head of Department (Adjudication-I)

In the matter of Show Cause Notice issued to UHY Hassan Naeem & Co. Chartered Accountants

Date of Hearing

January 06, 2023

Order-Redacted Version

Order dated January 13, 2023 was passed by Director/Head of Department (Adjudication-I) in the matter of UHY Hassan Naeem & Co. Chartered Accountants. Relevant details are given as hereunder:

Nature	Details
1. Date of Action	Show cause notice dated November 03, 2022.
2. Name of Respondent	UHY Hassan Naeem & Co. Chartered Accountants (the "Audit Firm" or "Respondent"), auditor of M/s Lakhani Securities (Private) Limited (the "Company").
3. Nature of Offence	Alleged contraventions of <u>Regulation 35(5) of the Securities Brokers (Licensing and Operations) Regulations, 2016 (the "Regulations")</u> read with <u>Section 78 and 159(5) of the Securities Act, 2015 (the "Act")</u> .
4. Action Taken	<p>Key findings were reported in the following manner:</p> <p>I have gone through the relevant provisions of the law and submissions made by the Audit Firm in its written response as well as during the subsequent hearing. I have also perused Section 159(5)(a) of the Act, which stipulates penal provisions for contravention of the Regulations. I have noted the following pertinent aspects vis-à-vis the submissions made by the Respondent/Audit Firm:</p> <p>a. At the outset it is noted that the instant proceedings have been initiated against the Audit Firm particularly for non-compliance of the requirements of Regulation 35(5) of the Regulations, which mandatorily and unambiguously requires the auditor to opine on a securities broker's status of compliance with Section 78 of the Act, and the auditor is obliged under International Standards on Auditing read with the applicable provisions of the Act & the Companies Act,</p>

2017 to comply with all of the relevant requirements of rules & regulations.

- b. The requirement of Regulation 35(5) of the Regulations requiring an explicit opinion in the statutory audit report is independent of the annual verification of securities broker's asset segregation statement by the auditor required under the PSX Rule Book for submission to the PSX. The fact that the Audit Firm has reportedly issued the said certificate to PSX does not absolve it of its responsibility to comply the specific requirements of Regulation 35(5) of the Regulations. Further, the requirement has been imposed unequivocally irrespective of any client base or brokerage income of a securities broker.
- c. Section 85(b) of the Act, though inter-connected to Section 78, is an independent obligation imposed on an auditor to promptly report in writing to the Commission, in case he discovers evidence of a contravention of *inter alia* Section 78 (customer assets) during the performance of his duties as an auditor for a regulated person. This obligation persists from the date of appointment of an auditor till the completion of his tenure, is essentially an ongoing responsibility, and is distinct from the opinion required to be given in the audit report on the financial statements in term of Regulation 35(5) of the Regulations.
- d. The subsequent audited financial statements of the Company for the year ended June 30, 2022 reflect that the Audit Firm has adequately provided the requisite opinion therein regarding the Company's status of compliance with the requirements of Section 78 of the Act and relevant requirements of the Regulations as at the date when the said financial statements were prepared.

It is evident from the above that the omission of the requisite opinion in the audit report on the financial statements for the financial year 2021 is an admitted position; however, the Audit Firm has demonstrated a corrective behavior and duly rectified the omission in its subsequent audit report in the financial year 2022. The Audit Firm has also shown its commitment *to do whatever is necessary as per the applicable law in future including complying with the provisions of Regulation 35(5) of the Regulations, as and when applicable.*

In view of the above-stated fact, and circumstances and submissions made by the Audit Firm I, in exercise of the powers

	conferred upon me under Section 159(5) of the Act, hereby conclude the instant proceedings without imposing any monetary penalty on the Audit Firm; however, the Audit Firm is hereby warned to remain vigilant and ensure meticulous compliance with all applicable laws including the Regulations & the Act in true letter and spirit in the future.
5. Penalty Imposed	Warning
6. Current Status of Order (As of the uploading date)	No Appeal has been filed by the respondent.