

Securities and Exchange Commission of Pakistan
Enforcement and Monitoring Division
NIC Building, Jinnah Avenue, Blue Area, Islamabad

Before Rashid Sadiq, Executive Director

In the matter of
MR. SAJJAD SAIFUDDIN SAFRI, FCA

Number and date of show cause notice	19 (5) CF / ISS/2001 January 18, 2002
Date of hearing	February 26, 2002
Present	Sajjad Saifuddin Safri, FCA

ORDER UNDER SUB-SECTION (1) OF SECTION 260 OF THE COMPANIES
ORDINANCE, 1984 AND RULE 35 OF THE COMPANIES
(GENERAL PROVISIONS AND FORMS) RULES, 1985

This Order will dispose of the show cause proceedings initiated against Mr. Sajjad Saifuddin Safri, FCA under Section 260 of the Companies Ordinance 1984 (the “Ordinance”).

2. Mr. Sajjad Saifuddin Safri is a Fellow Member of the Institute of Chartered Accountants of Pakistan (the “ICAP”). He was registered with ICAP on July 01, 1961 under registration number 80. He is a practicing Chartered Accountant and is conducting his business under the name and style of ‘**Sajjad Safri & Co.**’ at 19-20, 6th Floor, Al- Yousaf Chamber, Shahrah-e-Liaqat, Karachi.

3. The facts relevant to this case, briefly stated, are that M/s Sajjad Safri & Co., Chartered Accountant was appointed as Auditor of M/s Platinum Insurance Company Limited (the “Company”) in its Annual General Meeting held on June 24, 2000 to hold office from the conclusion of the said meeting until the conclusion of next Annual General Meeting.

4. The Commission has conducted an examination of the financial statements of the Company for the year ended December 31, 2000 (the “Accounts”) to determine, among other

things, as to whether the Auditor's Report pertaining to the aforesaid financial year has been made in conformity with the requirements of Section 255, is otherwise true, contained no statement, which is materially false and that there is no omission of material facts about the affairs of the Company.

5. The examination of the Company's Accounts revealed that the Audit Report signed by Mr. Sajjad Saifuddin Safri, sole proprietor of Sajjad Safri & Co., (date not mentioned) was not on the prescribed Form 35-A as notified vide SRO No. 594(1)/2000 dated August 25, 2000.

6. It was also noticed from the Accounts that the Company has not observed the requirements of the International Accounting Standards (IAS), as stated below, in regard to the accounts and preparation of the Balance Sheet and Profit and Loss Account for the year ended December 31, 2000:

- Disclosure of interest rate risk has not been made in the accounts as required by IAS 32 (Financial instruments: Disclosure and Presentation).
- Statement of changes in equity has not been prepared and annexed to the accounts as required by Para 7 of IAS 1(Presentation of Financial Statements).
- Number of employees has not been disclosed as required by Para 102(d) of IAS 1 (Presentation of Financial Statements).
- Earning per Share has not been disclosed in the accounts as per IAS 33 (Earnings Per Shares).
- Disclosure of fixed assets as per Para 60 of IAS16 has not been made in the accounts.
- Non-disclosures of Staff benefits in accordance with requirements of Para 120 of International Accounting Standard –19.

7. Mr. Sajjad Saifuddin Safri, the Auditor of the Company, however, has not drawn attention of the members in his Audit Report towards the aforesaid contraventions/non-disclosures in the Accounts.

8. It was also observed that Mr. Sajjad Saifuddin Safri was found guilty of professional misconduct in view of the following default of the audit of the Company for the year ended December 31, 1998 and was reprimanded by name by Institute of Chartered Accountants of Pakistan (the "ICAP").

- Audit report did not bear date and place of issue
- Format of audit report was not proper
- Cash flow statement was not given in the report
- There were some totaling mistake

9. In view of the above, the Commission felt concerned about the quality of audit of the Company conducted by M/s Sajjad Saifuddin Safri & Co. Chartered Accountant. A Show Cause Notice bearing No.19 (5) CF/ISS/2001 dated January 31, 2002, therefore, was issued to Mr. Sajjad Saifuddin Safri to show cause, in writing, within ten days to explain as to why action under Section 260 of the Ordinance and Rule 35 of the Rules may not be taken against him for the aforesaid contraventions.

10. No reply was received in response to the said Show cause notice, however, in order to provide an opportunity of hearing the case was fixed for hearing on February 26, 2002. Mr. Sajjad Saifuddin Safri, FCA appeared before the undersigned on the date of hearing. He has not controverted the position as set out above. He, however, requested for a lenient view of the non-compliance with the relevant provisions of the Ordinance by the Auditor and gave assurance to be more careful in future. Subsequently in his letter dated March 02, 2002, he has requested for a lenient view of the default. As he has not given any argument to rebut the aforesaid non-compliances / defaults, the undersigned is convinced that the default is confirmed and the Accounts of the Company do not conform to the approved accounting standards and also do not give all the information required by the Ordinance in the manner so required. The Audit report, therefore, has been made otherwise than in conformity with the requirements of Section 255 of the Ordinance. In the circumstances, it is clear that the Auditor has failed to perform his duties with reasonable degree of care and skill.

11. The Ordinance laid down provisions regarding several matters to be followed by the company in regard to the preparation of the accounts. The International Accounting Standards have been adopted to improve the quality of the financial statements and to improve increased degree of comparability. It is the responsibility of Directors to ensure that these provisions of law are followed in letter and spirit. At the same time, it is the duty of the Auditor to bring to the notice of the members the major breaches observed in the financial statements. The International Accounting Standards and Auditing Standards establish standards, which must be followed by

the Auditors to ensure that financial statements are prepared in accordance with the Generally Accepted Accounting Principles and that the auditors carry out their responsibilities in accordance with the Generally Accepted Auditing Standards. Mr. Sajjad Saifuddin Safri has not followed the prescribed practices and above stated mandatory requirements of law.

12. In view of the foregoing, the undersigned is convinced that an action against the Auditor is necessary. As the Auditor has admitted the default and has not been able to give any justifiable excuse for the same, therefore, I consider it a deliberate act on the part of Mr. Sajjad Saifuddin Safri who was under legal obligation to perform his duties, in the course of audit of Accounts of the Company and reporting thereon, in accordance with the provisions of the Ordinance, International Accounting Standards and Auditing Standards. It was also considered intentional because of the reason that he did not improve his performance in spite of the fact that ICAP had found him guilty of professional misconduct in the audit of the Company for the year ended December 31, 1998 and he was reprimanded by name.

13. For the reasons stated above, I impose a fine of **Rs 4,000** (Rupees four thousand) on Mr. Sajjad Saifuddin Safri under Sub-section (1) of Section 260 of the Ordinance and Rule 35 of the Rules read with Section 476 of the Ordinance.

14. I impress upon Mr. Sajjad Saifuddin Safri to perform his duties with a reasonable degree of care and skill in future. It is his responsibility to put in place the requisite quality control policies and procedures to ensure that audit is conducted in accordance with the applicable financial reporting framework.

15. Mr. Sajjad Saifuddin Safri is directed to deposit the above stated fine in the Bank Account of Securities and Exchange Commission of Pakistan maintained with Habib Bank Limited within 30 days of the date of this Order and furnish a receipted challan to the Securities and Exchange Commission of Pakistan.

RASHID SADIQ
Executive Director (Enforcement & Monitoring)

Announced
April 11, 2002
ISLAMABAD