



Securities and Exchange Commission of Pakistan
Enforcement and Monitoring Division

[Islamabad]

Before Rashid Sadiq, Executive Director

In the matter of
MR. SAJJAD SAIFUDDIN SAFRI, FCA

Number and date of notice	EMD/233/40/2002-5215 June 11, 2002
Date of hearing	October 09, 2002
Present	Mr. Sajjad Saifuddin Safri, FCA

Order

This Order shall dispose of the show cause proceedings initiated against Mr. Sajjad Saifuddin Safri, FCA under Section 260 of the Companies Ordinance, 1984 (the “Ordinance”) and the Companies (General Provisions and Forms) Rules, 1985 (the “Rules”).

02. 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.



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03. The facts leading to this case, briefly stated, are that M/S Sajjad Safri & Co., Chartered Accountant was appointed as Auditor of M/S Crescent Star Insurance Company Limited (the “Company”) in its Annual General Meeting held on June 29, 2001 to hold office from the conclusion of the said meeting until the conclusion of next Annual General Meeting.

04. The Commission has conducted an examination of the financial statements of the Company for the year ended December 31, 2001 (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.

05. The aforesaid examination of the Company’s Accounts revealed that the Audit Report signed by Mr. Sajjad Saifuddin Safri on March 20, 2002 was not on the prescribed Form 35-A as notified vide SRO No. 594(1)/2000 dated August 25, 2000.

06. It was further noticed from the perusal of the Accounts that the Company has not observed the following requirements of International Accounting Standards (IAS) in regard to the accounts and preparation of the Balance Sheet and Profit and Loss Account for the year ended December 31, 2001:

- Disclosures of financial instruments as per requirements of Para 56, 66 and 77 of IAS 32 (Financial Instruments: Disclosure and Presentation).



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- Disclosure of number of employees as per Para 102(d) of IAS 1 (Presentation of Financial Statements).
- Disclosure of fixed assets as per Para 60 of international Accounting Standard 16 (Property, plant and Equipment) has not been made in the accounts.
- Disclosure of Earnings per Share as per IAS 33 (Earnings Per Share).
- Non-compliance of Para 11 of IAS 1 (Presentation Of Financial Statements).

07. Mr. Sajjad Saifuddin Safri, the Auditor of the Company, however, has not drawn attention of the members towards the aforesaid non-disclosures in his Audit Report signed on March 20, 2002.

08. It was also observed that Mr. Sajjad Saifuddin Safri was found guilty of professional misconduct while auditing the accounts of the Company for the year ended December 31, 1998 and he was reprimanded by name by Institute of Chartered Accountants of Pakistan (the "ICAP"). Mr. Sajjad Saifuddin Safri was also penalized by the Commission vide order dated April 11, 2002 in the matter of another listed company as he was found grossly negligent in performance of his duties.

09. In view of the above, the Commission felt concerned about the quality of audit of the Company conducted by M/S Sajjad Safri & Co., Chartered



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Accountant. This appeared to be a case where the Auditor has *prima facie* failed to report in conformity with the requirements of Section 255 and the report was otherwise untrue and contained a statement, which was materially incorrect.

10. Consequently, a notice dated June 11, 2002 was issued to Mr. Sajjad Saifuddin Safri to show cause 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. The reply to the show cause notice was received through letter dated June 25, 2002. In order to provide an opportunity of personal hearing, the case was fixed on October 09, 2002. Mr. Sajjad Saifuddin Safri appeared at the time of hearing and admitted that the disclosures as pointed out in show cause notice were lacking in presentation of accounts of the Company for the year ended December 31, 2001. As he has not been able to offer any satisfactory explanation to the non-compliances / defaults pointed out in the show cause notice, the undersigned is convinced that he has performed his duties while auditing the accounts of the Company too indulgently. 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. Mr. Safri has admitted the default and has requested for lenient view. He has also assured that he would perform his duties with reasonable degree of care in future.

11. The auditors being the ultimate watchdog of the shareholders interest are required to give a report on the accounts and books of account after conducting the audit in accordance with the prescribed procedures and requirements of the Ordinance and Standards. If they found any irregularity, they are required to issue a modified report, if the said irregularity is material to the accounts. Otherwise



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they issue a clean report to the shareholders. The shareholders, therefore, are the ultimate entity to whom the auditors are responsible. They must keep this fact in mind while auditing the books of account and reporting thereon. Practically, it is the management of companies, which by virtue of their majority power hire and fire the auditors. In these circumstances, the auditors often violate the mandatory provisions to accommodate their clients with a favourable report to ensure a continuity of their appointment. It is high time that the auditors must realize their true role and restrain themselves from performing their duties indulgently.

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 is also considered intentional because of the reason that he could not improve his performance in spite of the fact has was reprimanded by ICAP due to professional misconduct in the audit of the Company for the year ended December 31, 1998 and the Commission has also fined him for negligence in the audit of another listed company. Mr. Sajjad Saifuddin Safri has, therefore, made himself liable for punishment under Sub-section (1) of Section 260 of the Ordinance and Rule 35 of the Rules.

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



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14. I, once again, 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.

16. Since Mr. Sajjad Saifuddin Safri, FCA has been found guilty by ICAP in other cases, therefore, he has made himself liable for action under the provisions of the Chartered Accountants Ordinance, 1961. ICAP may consider taking appropriate necessary action against him including suspension of his membership. A copy of this Order, therefore, may be sent to President, ICAP for his information and necessary action.

RASHID SADIQ

Executive Director (Enforcement & Monitoring)

Announced
November 04, 2002
ISLAMABAD