



SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

Adjudication Department-I

Adjudication Division

ORDER	
Name of Company:	M/s Rahman Sarfraz Rahim Iqbal Rafiq Chartered Accountants
Show Cause Notice No. & Date:	No. CSD/ARN/233/2015-885 dated January 28, 2025
Respondents:	(i) Mr. Zubair Irfan Malik, Partner; and (ii) M/s Rahman Sarfraz Rahim Iqbal Rafiq Chartered Accountants
Date(s) of Hearing(s):	March 04, 2025
Case represented by:	Mr. Zubair Irfan Malik, Partner (As Authorized Representative)
Provision of law involved:	Section 249 read with Section 253 of the Companies Act, 2017
Date of Order:	April 28, 2025

This Order shall dispose of the proceedings initiated by the Securities and Exchange Commission of Pakistan (the “**Commission**”) through the Show Cause Notice No. CSD/ARN/233/2015-885 dated January 28, 2025 (“**SCN**”) against M/s Rahman Sarfraz Rahim Iqbal Rafiq Chartered Accountants (the “**Audit Firm**”) and the engagement partner for the audit of M/s D.S. Industries Limited (the “**Company**”) i.e. Mr. Zubair Irfan Malik (the “**Auditor**”), hereinafter collectively referred to as the “**Respondents**”, issued under Section 249 read with Section 253 of the Companies Act, 2017 (the “**Act**”).

2. Brief facts of the case are that the Audit Firm and the Auditor, in terms of Section 249 of the Act, were required to report to the members of the Company that, in their opinion, the financial statements of the Company have been drawn up in conformity with the requirements of accounting and reporting standards as notified under the Act and are in agreement with the books of accounts and returns. Further an investigation of the Company was carried out under Section 257 of the Act by the Securities and Exchange Commission of Pakistan (the “**Commission**”) to ascertain its factual position. Perusal of the Investigation Report dated June 28, 2024 (the “**Investigation Report**”) revealed that Company had two lands appearing in its assets, Land 1 (22 Kanals and 9 Marlas) and Land-2 (13.45 Kanals) situated at the backside of the factory without proper passage from the main road or through the factory. It was observed that the Company did not recognize impairment loss on Land 2 by assessing its recoverable amount on the basis of disposal proceeds of Land 1 i.e. Rs. 345,212 per kanal. Had the Company conducted the required assessment, the recoverable amount of Land-2 would have been Rs. 4.643 million (Rs. 345,212 x 13.45 Kanals) against the carrying amount of Rs. 18.875 million. The Company should have recognized an impairment loss of Rs. 14.232 million (Rs. 18.875 million – Rs. 4.643 million) in its financial statements for the year ended June 30, 2022 (“**Accounts**”). Moreover, on the sidelines, it was also observed that the Company also proceeded with the sale of almost 95% of its assets without due approval of its shareholders as required in terms of Section 183(3)(a) of the Act. It was noted that the Auditor failed to highlight the non-recognition of impairment loss on Land 2 by the Company in the Accounts which, *prima-facie*, constitutes contravention of clause (c) of sub-section (3) of Section 249 of the Act which attracts penal action as provided under Section 253 of the Act. The relevant provisions of law are reproduced hereunder for clarity of reference:

“249. Duties of auditor.—(3) The auditors shall make out a report to the members of the company on the accounts and books of accounts of the company and on every financial statements and on every other document forming part of such statements including notes, statements or schedules appended thereto, which are to be laid before the company in general meeting and the report shall state...

(c) whether or not in their opinion the statement of financial position and profit and loss account and other comprehensive income or the income and expenditure account and the cash flows have been drawn up in conformity with the requirements of accounting and reporting standards as notified under this Act and are in agreement with the books of accounts and returns.

Handwritten signature and date: 28-04-2025

253. Penalty for non-compliance with provisions by auditors.— (1) If any auditor's report or review report is made, or any document of the company is signed or authenticated otherwise than in conformity with the requirements of section 131, sections 249 and 251 or is otherwise untrue or fails to bring out material facts about the affairs of the company or matters to which it purports to relate, the auditor concerned and the person, if any, other than the auditor who signs the report or signs or authenticates the document, and in the case of a firm all partners of the firm, shall be liable to a penalty of level 2 on the standard scale."

3. Accordingly, SCN was served upon the Respondents to show the cause in writing as to why a penal action may not be taken against them for non-compliance with the provisions of Section 249(3)(c) of the Act. In response the Respondents vide letter dated February 10, 2025 requested an extension of fourteen (14) days to submit the response to SCN which was duly granted. Later the Respondents vide letter dated February 25, 2025 furnished the response to SCN, *inter-alia*, stating that:

- (i) *The two parcels of land are distinct in nature as land 1 is situated behind the factory, with other land parcels situated between land 1 and the main factory land, whereas land 2 is directly adjacent to the main factory land. Valuation of land 1, therefore, cannot be used as a reference for assessing value of land 2;*
- (ii) *Land 2 is recorded in Company's book at Rs. 1.397 million per kanal whereas the main factory land was sold at Rs. 5.801 million per kanal, indicating that land 2 has already been valued at a 76% discount compared to the main factory land, which in our professional judgement, sufficiently accounts for lack of direct access from the main road and accordingly no additional impairment was necessary; and*
- (iii) *Land 2 remains accessible from the main factory land and management of the Company confirmed through a written representation that following the acquisition of a retail women's fashion brand, land 2 is intended to be used for warehousing and as such its carrying amount will be recovered through use rather than sale. The Company also confirmed that buyer of factory land i.e. Ayesha Spinning Mills Limited has committed to provide unrestricted access to land 2 through the main factory land.*

4. In order to provide an opportunity of being heard to the Respondents and to meet the ends of justice,, hearing in the matter was fixed for March 04, 2025; which was attended by Mr. Zubair Irfan Malik – Partner (“**Respondent No. i**”) on behalf of the Respondents as their Authorized Representative (“**Authorized Representative**”). The Authorized Representative during the hearing reiterated the response already provided in response to SCN submitted vide letter dated February 25, 2025 and, *inter-alia* stated that:

- (i) *The location map clearly shows distinct features of both land 1 and land 2. The land 1 which was sold is not attached while land 2 is adjacent/ attached to the main factory land sold to Ayesha Spinning Mills Limited. Further there is another piece of land between land 1 and main factory land which is owned by a third party;*
- (ii) *There was a difference in valuation of both lands. The Company through management representation informed its intention to recover value of land 2 through “use” as a warehouse and stitching of ready-made garments for its women brand. The Company also informed that owner of main factory land, M/s Ayesha Spinning Mills Limited has allowed it unrestricted access to land 2;*
- (iii) *If Ayesha Spinning Mills Limited was not providing access to land 2 than its price cannot be recovered through use and, therefore, would have been impaired;*
- (iv) *The Company has changed its auditor/ audit firm for audit of financial year ended June 30, 2023 as it wanted to appoint a cost effective auditor of Category B; and*
- (v) *In response to a query by the Adjudicating/ Authorized Officer, the Auditor confirmed that land 2, as a result of sale of the main factory premises, had no direct access and the only understanding available from the new owner of main factory premises was verbal and prima-facie non-binding.*

Handwritten signature and date: 28-04-2025

Subsequent to the hearing, the Authorized Representative furnished a copy of Management Representation Letter as submitted to it by the Company.

5. I have gone through the relevant provisions of Section 249(3)(c) of the Act and considered the facts of the case along with the available record of the Company as well as written and verbal submissions of the Respondents and the relevant extracts of International Accounting Standard – 36 'Impairment of Assets'. I have also perused Section 253(1) of the Act, which stipulates penal provisions for contravention of the afore-referred provisions of law. It is observed that the auditors being the frontline watchdog of the shareholders' interest, are required to give a report on the accounts and books of accounts of the company after conducting the audit in accordance with the prescribed procedures and requirements of the Act, and accounting as well as auditing standards. The shareholders are the ultimate stakeholders to whom the auditors are responsible to express their opinion by reporting if the financial statement are drawn up in conformity with the accounting and reporting standards and are in agreement with the books of account, and they must keep this fact in mind while auditing the books of accounts and reporting thereon. The duties and responsibilities of an auditor under Section 249 of the Act, appointed by the shareholders can best be understood if role of an auditor is looked at in the scheme of the company law. The capital required for the business of a company is contributed by its shareholders who may not necessarily be the persons managing the affairs of the company. It is pertinent to observe that in the case of a listed company, the general public also contributes towards the equity of the company. Such persons do not have any direct control over the affairs of the company except that they elect directors for a period of three years and entrust the affairs of the company to them in the trust that they will manage the company at the best. Adjoining to the above and also in our socio-economic environment, the auditor of listed and other companies enjoys a position of great respect. Hence it is utmost importance for the auditors to exercise due diligence in performing their duties and discharging their responsibilities. Any lapse in exercising due professional care and diligence, may ruin such trust and confidence of the shareholders and other stakeholders of the Company.

6. The Investigation Report clearly pointed out that had two lands appearing in its assets, Land 1 (22 Kanals and 9 Marlas) and Land-2 (13.45 Kanals) situated at the backside of the factory without proper passage from the main road or through the factory. It is a established and admitted fact that both lands are agricultural lands situated outside the main factory building with no independent and direct access. Further the buyer of Land 1 i.e. Mr. Asif Chaudry informed the investigation team that he initially agreed to buy 36 kanals of land i.e. both land 1 and land 2 together from the Company however the deal was amended upon request of the Company to limit the purchase area to 22.45 kanal. This clearly indicates that the Company initially intended to sell both land 1 and land 2 to the same buyer at an agreed sale price of Rs. 345,000 per kanal for both pieces of land thereby meaning that available offer price for both parcels of land was potentially the same.

7. It is observed that as stated by the Respondents, Land 1 and Land 2 may differ in terms of their precise location and distance from the main factory land. However, the fundamental requirement under applicable accounting standard is to assess an asset's recoverable amount, which is defined as the higher of its fair value less costs to sell and its value in use. In the absence of a market-based valuation specific to Land 2, it is reasonable and in line with standard accounting practices to use the actual sale of a comparable asset—such as Land 1—as a reference point. The Respondents have not provided a convincing explanation as to why a similar parcel of land, with comparable characteristics in terms of type, location, and access, should not trigger an impairment assessment—particularly when Land 1 was sold for a significantly lower amount than Land 2's carrying value. The Auditor, exercising professional skepticism, was expected to challenge the basis for determining the recoverable amount of Land 2 and to verify whether any independent valuation justified its notably higher carrying value. The failure to do so represents a clear lapse/ oversight in the audit process.

8. The comparison between Land 2 and the main factory land is not appropriate as the factory land is a developed industrial property with established infrastructure and access, which justifies a higher valuation. In contrast, Land 2 is an undeveloped and potentially landlocked parcel, making such a premium valuation inapplicable, therefore, using the factory land as a benchmark for assessing impairment on Land 2 is not valid. A more suitable comparison would be with Land 1—another parcel with similar limitations in access—which was sold at Rs. 345,212 per kanal which is significantly lower than the recorded value of Rs. 1.397 million per kanal for Land 2, suggesting a clear overstatement in value. Furthermore, the absence of a revaluation or

Handwritten signature and date: 28-04-2025

impairment assessment in light of these indicators points to non-compliance with relevant accounting standards and Section 249(3)(c) of the Act.

9. The argument of the Respondents that Ayesha Spinning Mills Limited has agreed to allow access to land 2 to the Company is not plausible as it hinges on assumptions that lack both documentary evidence and objective verifiability. Firstly, while management's written representation is a necessary component of financial reporting, it cannot override objective indicators pointing to impairment. According to accounting standards such as IAS 36, the presence of impairment indicators — including lack of access and comparable market data, such as the sale of Land 1 — requires the company to perform an impairment test. Secondly, any intention for future use must be backed by feasibility studies, projected cash flows, and confirmed legal rights of access, particularly since the land is no longer contiguous with the factory (which has been sold). The statement that Ayesha Spinning Mills Limited will provide "unrestricted access" falls short of the standard for enforceable rights as without any legal agreements or documented easements such an assumption remains speculative. As such, the recoverable amount cannot reasonably be supported by a "value in use" approach, and the failure to recognize impairment is not justified.

10. In a judgment passed by the Appellate Bench of the Commission in the matter of *Ilyas Saeed & Co. Chartered Accountants vs. Director/HoD Adjudication-I* (Appeal No. 122 of 2021), it was held that "*the statutory auditors have a fiduciary duty towards the stakeholders of a company and that an audit report also helps the regulator to carry out its oversight of the affairs of a company....The Bench has observed that Appellant has failed to discharge their duty with regard to accurately reflecting books and records of the Company in the auditor's report, therefore not carrying out their professional duties in a diligent, transparent and professional manner. It was stated that the Bench expects statutory auditors to be more vigilant while carrying out the statutory audit of a company.... it is established that the Appellant has failed to comply with the requirements of duty of auditors.... and it is clear that the Appellant did not adopt an attitude of professional skepticism. ---*"

11. It is observed that the auditor has a responsibility to plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. Reasonable assurance is a high level of assurance and not a procedural matter. As part of an audit, the auditor exercises professional judgment and maintains professional skepticism throughout the audit. The auditor also identifies and assesses the risks of material misstatement of the entity's financial statements and designs and performs audit procedures responsive to those risks, and obtains audit evidence that is sufficient and appropriate to provide a basis for the auditor's opinion. Any risk alert generated during the course of audit cannot be ignored in exposing financial misdeeds of the Company and auditors must be extra cautious and vigilant by taking additional measures to identify any misstatements in financial statements. Further auditor is required to compile information from all relevant sources in their risk assessments and any misstatement be identified during the course of audit should be addressed by application of additional audit procedures. Due professional care requires the auditor to exercise professional skepticism and the auditor's responses to the assessed risks of material misstatement, particularly fraud risks, should involve the application of professional skepticism in gathering and evaluating audit evidence. It is believed that the Auditor, instead of merely relying on the representation by the Company, could have further explored value of land 2 and could have independently obtained direct confirmation from Ayesha Spinning Mills regarding granting access to land 2 to the Company. It is noted that para 6 of ISA 705 requiring the auditors to modify the opinion in its audit report when:

- (a) The auditor concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement; or
- (b) The auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement.

12. It is also noted that that para 17 of ISA 700 requires the auditor to modify the opinion in the auditor's report in accordance with ISA 705, if he/ she:

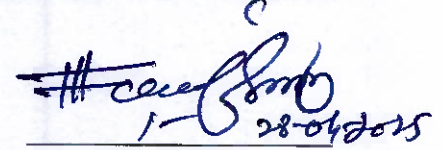
- (a) concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement; or

Handwritten signature and date:
28/04/2025

(b) is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement.

13. In view of the above-stated facts and circumstances, I am of the considered view that there was a clear indication with undeniable reasons as to impairment of value of land 2, the Respondents by not modifying the audit report or appropriately disclosing the said fact through an emphasis of matter paragraph therein, have failed to bring out the material fact in the audit report and, therefore, have contravened the requirements of Section 249 of the Act. I, therefore, in exercise of the powers conferred upon me under Section 253(1) of the Act read with S.R.O. 1545(I)/2019 dated December 06, 2019, hereby, impose a penalty of **Rs. 80,000/- (Rupees Eighty Thousand only)** on Respondent No.(i) i.e. Mr. Zubair Irfan Malik.

14. The Respondent No. (i) is, hereby, directed to deposit the aforesaid amount of penalty in the designated bank account maintained in the name of the Commission with MCB Bank Limited or United Bank Limited within thirty (30) days from the date of this Order and to furnish a receipted bank challan to the Commission forthwith. In case of failure to deposit the penalty, the proceedings under Section 485 of the Act will be initiated for recovery of the fines as arrears of land revenue pursuant to provision of Section 42B of the Securities and Exchange Commission of Pakistan Act, 1997.



Sohail Qadri
Director/ HOD
Adjudication Department-I

Announced:
Dated: April 28, 2025
Islamabad

