



SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

Adjudication Department- I

Adjudication Division

ORDER	
Name of Company:	M/s. Sitara Peroxide Limited
Show Cause Notice No. & Date:	CSD/ARN/292/2016/508 Dated October 11, 2024
Name(s) of Respondent(s):	All Partners; M/s. Yousaf Adil., Chartered Accountants
Date(s) of Hearing(s):	i. December 05, 2024; and ii. December 20, 2024.
Case represented by:	i. Mr. Javed Panni, Chief Executive, M/s. M. J. Panni & Associates (<i>as Authorized Representative</i>) ii. Mr. Muhammad Sufyan, Partner, M/s. Yousaf Adil, Chartered Accountants (<i>Engagement Partner</i>) iii. Mr. Shahzad Ali, Partner, M/s. Yousaf Adil, Chartered Accountants
Provision of Law involved:	Sections 249 and 253 of the Companies Act, 2017
Date of Order:	May 12, 2025

This Order shall dispose of the proceedings initiated against the Partners of M/s. Yousaf Adil., Chartered Accountants (the “Respondents/Auditors”) through Show Cause Notice No. CSD/ARN/292/2016 dated October 11, 2024 (“SCN”), issued under Sections 249 and 253 of the Companies Act, 2017 (the “Act”), on account of alleged contravention of Sections 249 and 253 of the Act.

2. Brief facts of the case are that M/s. Sitara Peroxide Limited (the “Company”) was required to hold its Annual General Meeting (the “AGM”) by November 29, 2023 and lay therein its annual audited financial statements for the year ended June 30, 2023 (the “Accounts”). On November 07, 2023, the Company through a notice of material information on the Pakistan Stock Exchange (the “PSX”) announced that the Board of Directors (the “BOD”) in their meeting on November 06, 2023 approved the financial results of the Company for the year ended June 30, 2023. It was also disclosed that the Company had suffered a loss after taxation and that there is a material uncertainty about going concern where the financial statements are prepared on a ‘going concern basis’ with reasons fully explained in the notes to the Accounts. The Company also stated that the AGM will be held on November 27, 2023.

3. However, prior to the date of the AGM the Company, on November 24, 2023, proceeded with an announcement regarding the postponement of its AGM citing “unavoidable circumstances” and that a fresh date for the meeting will be intimated in due course. Moreover, neither the date of AGM was announced nor the annual financial statements were circulated again. Subsequently, the Securities and Exchange Commission of Pakistan (the “Commission”) received a complaint via an email dated April 9, 2024 from one of the directors of the Company attaching thereby a letter dated November 14, 2023 from the Auditors of the Company to the Chairman of the BOD, which transpired that the Auditors expressed their dissociation from the financial results for the year ended June 30, 2023, as announced by the Company on PSX via the afore-referred notice dated November 7, 2023 and stated that the audit of the financial statements had not been concluded due to non-receipt of certain information which was substantial for completing the audit. Accordingly, the Auditors required the Company to revoke its

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announcement of financial results on PSX by November 16, 2023 failing which it shall take necessary action.

4. The matter was taken up by the Commission with the Auditors vide email dated April 19, 2024. The Auditors vide email dated April 23, 2024 mentioned that they were in the process of satisfying themselves on the use of going concern assumption by the Company, citing evaluation of the business plans shared with them and projections before the audit may be finalized. The Auditors reiterated the submission vide email April 23, 2024 and submitted that the documentary evidence of mitigating factors presented by the management regarding the use of the going concern assumption remains pending, thereby resulting in non-conclusion of the audit for the year ended June 30, 2023.

5. The Accounts due to be circulated and laid before the AGM latest by November 28, 2023, were substantially delayed mainly on the contention of non-conclusion of the audit stemming from the pending critical review of the Auditors on the Company's going concern status. The requirements of International Standards on Auditing (the "ISA") 570 are explicit in such circumstances which requires that:

"the auditor shall evaluate whether sufficient appropriate audit evidence has been obtained regarding, and shall conclude on, the appropriateness of management's use of going concern basis of accounting in preparation of the financial statements"

Furthermore, ISA 570 also requires that:

"based on the audit evidence obtained, the auditor shall conclude whether, in the auditor's judgement, a material uncertainty exists related to events or conditions that, may cast significant doubt on the entity's ability to continue as going concern."

6. Paras 21 to 24 of ISA-570 expressly provides for such circumstances by detailing the implications on the audit report in case the going concern assumption is inappropriate or the required disclosure regarding the uncertainty are not adequately made out. In instant matter, it was clear from the Auditors' response regarding its dissatisfaction with the use of the going concern basis by the Company for the preparation of financial statements for the year ended June 30, 2023. The Auditors' dissatisfaction on the business plan shared with it and projections did not materialize either, clearly, requiring the auditor to issue the audit report as per the requirements set out in Para 21 to 24 of ISA-570 read with ISA-700 and by withholding the audit report, the Auditors had *prima facie* failed to discharge the duties in terms of Section 249 of the Act.

7. Relevant provisions of the Act provide that:

"249. Duties of Auditor.-

(1). A company's auditor shall conduct the audit and prepare his report in compliance with the requirements of International Standards on Auditing as adopted by the Institute of Chartered Accountants of Pakistan.

(3). The auditor 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:

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(a) whether or not they have obtained all the information and explanations which to the best of their knowledge and belief were necessary for the purposes of the audit and if not, the details thereof and the effect of such information on the financial statements;

(6). The auditor shall express unmodified or modified opinion in his report in compliance with the requirements of International Standards on Auditing as adopted by the Institute of Chartered Accountants of Pakistan

"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. "

8. In view of the facts and details mentioned above, the Auditors *prima facie* had failed to conduct the audit in a timely manner and report thereon, in contravention with the requirements of ISAs as adopted by the Institute of Chartered Accountants of Pakistan (the "ICAP"). Therefore, the Auditors had *prima facie* violated Section 249 of the Act which attracts a penal action under Section 253 thereof. Accordingly, the Commission while taking cognizance of the aforementioned non-compliance served SCN upon the Respondents, requiring them to submit written reply within 10 days of the date of SCN.

9. In response to SCN, Mr. Javed Panni, Chief Executive, M/s. M. J. Panni & Associates, on behalf of the Respondents as their Authorized Representative (the "Authorized Representative"), vide letter dated November 18, 2024, submitted a written reply which *inter alia* stated as under:

"... We wish to assert that the engagement partner has been compliant and fully adhere to all applicable laws including Companies Act, 2017 (the Act), relevant regulations and International Standards on Auditing as applicable in Pakistan (ISAs).

... The engagement partner had provided the initialed draft audit report and initialed draft financial statements through letter dated September 13, 2024, to the management for consideration of their Board considering the requirement of International Standards on Auditing (ISAs) as applicable in Pakistan. It may be emphasized that since the firm had not initialed the draft audit report and the financial statements in November 2023, the management should not have declared the results in the absence of initialed audit report and initialed financial statements.

Under the Listed Companies (Code of Corporate Governance) Regulations, 2019 ("the Regulations"), the management is required to arrange the financial statements initialed by the external auditors before presenting it to the audit committee and the Board for approval. However, the management did not obtain the initialed financial statements in November 2023 before presenting it to audit committee and the Board. [Reference presented of Regulation 26 of the CCG Regulations, 2019]

...
"Evaluating Management's Assessment

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12. The auditor shall evaluate management's assessment of the entity's ability to continue as a going concern."

"Management's Assessment and Supporting Analysis and the Auditor's Evaluation

A8. Management's assessment of the entity's ability to continue as a going concern is a key part of the auditor's consideration of management's use of the going concern basis of accounting

A9. It is not the auditor's responsibility to rectify the lack of analysis by management. In some circumstances, however, the lack of detailed analysis by management to support its assessment may not prevent the auditor from concluding whether management's use of the going concern basis of accounting is appropriate in the circumstances. For example, when there is a history of profitable operations and a ready access to financial resources, management may make its assessment without detailed analysis. In this case, the auditor's evaluation of the appropriateness of management's assessment may be made without performing detailed evaluation procedures if the auditor's other audit procedures are sufficient to enable the auditor to conclude whether management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate in the circumstances.

A10. In other circumstances, evaluating management's assessment of the entity's ability to continue as a going concern, as required by paragraph 12, may include an evaluation of the process management followed to make its assessment, the assumptions on which the assessment is based and management's plans for future action and whether management's plans are feasible in the circumstances.

In accordance with aforesaid para A9 of ISA 570, it is not the auditors' responsibility to rectify lack of analysis by management. Therefore, the auditor had requested the management to provide its assessment of the Company's ability to continue as a going concern and continued to keep following up on the management to provide the same. It may be added that in the absence of the aforesaid assessment the firm could not have issued the draft audit report and the draft financial statements. However, the management took significant time until September 2024 to provide the firm the aforesaid assessment along with necessary details as requested by the firm from time to time. After final submission from the management ongoing concern assessment, the firm evaluated the information and documents provided to them in support of going concern assessment and accordingly issued disclaimer of opinion in firm's draft report for the reasons stated in the basis of disclaimer of opinion in accordance with the requirements of relevant ISAs and guidance issued by The Institute of Chartered Accountants of Pakistan (ICAP). It is important to mention that subsequently the management provided the firm the financial statements approved by the Board and signed by the Chief Executive Officer (CEO), a director and the Chief Financial Officer (CFO) of the Company on October 28, 2024 and accordingly, the engagement partner of the firm had signed the audit report on the same date. It may also be mentioned that under paragraph A68 of ISA 700, before dating audit report, the auditor is required to obtain evidence of the approval of financial statements and section 232 of the Companies Act, 2017 requires that the financial statements must be approved by the Board and signed on behalf of the Board by CEO (extracts para A68 reproduced) and at least one director, and in case of a listed company also by CFO [extracts of para A68 reproduced].

...

On behalf of the engagement partner, it is reiterated that all the requirements of ISAs and specifically the requirements of ISA 570, ISA 700, the Act and the guide issued by ICAP have been complied with. It is not correct to assume that the firm had withheld the audit report. After final submissions by the management, firm's draft audit report was prepared and provided to

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the Board through their letter dated September 13, 2024 as described in detail in para 4 above. Therefore, the engagement partner fully asserts, beyond any doubt that he has complied with all the duties mentioned in the Act. Moreover, penalty under section 253 is only applicable in those cases where the auditor's report is issued otherwise than in conformity of the requirements of section 131, sections 249 and 251 or the report issued is untrue or fails to bring out material facts about the affairs of the Company. However, in the instant case, the report issued by the firm is compliant with all the requirements of ISAs, the Act and the guide issued by ICAP, and the audit has been conducted and issued the audit report in compliance with the requirements of ISAs as applicable in Pakistan and the requirements of the Act."

10. The Respondents were provided an opportunity of personal representation and the hearing was fixed in the matter for December 05, 2024. However, the Respondents requested for an adjournment and accordingly, hearing was re-fixed on December 20, 2024 which was attended by the Authorized Representative along with, Mr. Muhammad Sufyan, Partner, M/s. Yousaf Adil, Chartered Accountants (*engagement partner*) and Mr. Shahzad Ali, Partner, M/s. Yousaf Adil, Chartered Accountants. During the course of hearing, the Authorized Representative and the two Respondents reiterated the written submissions and requested for exonerating the Respondents in the matter.

11. At this juncture, it is important to discuss the following legal and factual elements:

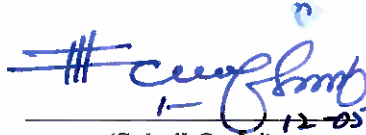
- i. In the instant matter, the Auditors have been able to successfully demonstrate their adherence to the requirements of the Act, the Listed Companies (Code of Corporate Governance) Regulations, 2019 (the "CCG Regulations"), and ISAs as applicable in Pakistan. The audit procedures undertaken, including the evaluation of management's assessment of going concern (i.e. the business plan as shared with the Auditors), issuance of the initialed draft audit report and final issuance of the signed audit report on October 28, 2024, align with the prescribed standards.
- ii. It is also observed that the Auditors dissociated themselves from the Financial Statements circulated by the Company on PSX vide a notice dated November 7, 2023, in a timely manner thereby resulting in the withdrawal of the AGM notice. Moreover, it is pertinent to observe here that Auditors continued their engagement with the Company till the conclusion of the audit activity in respect of the financial year 2023; where the delay was primarily owing to Company's insistence upon using the going concern basis for preparation of the financial statement where the Auditors did not agree with the assumptions and basis provided by the management resulting in significant delay in the issuance of the audited financial statements which were eventually presented at the AGM held on November 21, 2024.
- iii. The engagement partner has provided sufficient evidence that the Auditors did not withhold the audit report. The draft financial statements and the audit report initialed by the engagement partner, were duly shared with the management (*vide firm's letter dated September 13, 2024*) although with a substantial delay and after duly considering the fact that the management prepared the financial statements on the basis of going concern assumption which the Auditors did not agree to and thereby issued a Disclaimer of Opinion.
- iv. It is observed that the engagement partner's responsibility was limited to evaluating the management's assessment of the Company's ability to continue as a going concern and to satisfy itself. As per ISA 570 (A9), it is not the auditors' responsibility to rectify the lack of analysis by management. The Auditors consistently followed up with the

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management for the required assessment, which was only provided in September 2024 with a substantial delay.

- v. It is also pertinent to observe that the audit opinion was issued in compliance with the ISAs and based on the information available at the time, but the failure to conclude the audit activity in an efficacious manner was caused by lack of satisfactory information shared by the company specifically to objectively evaluate the going concern assumption basis.
- vi. The evidence provided establishes that the Auditors fulfilled the duties prescribed under Section 249 of the Act and therefore did not withheld the audit report but continued with the audit engagement which was eventually concluded with a delay in October 2024. The audit report was issued in accordance with the ISAs, including ISA 570 and ISA 700, hence, the engagement partner has complied with all applicable requirements and the alleged violations stem primarily from management's failure to adhere to the regulatory provisions.

12. I have gone through the facts of the case and considered both written and verbal submissions of the Authorized Representative and the Respondents in light of the applicable provisions of the law and the available record. I have also perused the requirements of ISAs along with relevant provisions of the CCG Regulations and the Act, especially Section 249 of the Act with regards to the responsibilities of the Auditors. In view of the foregoing, it is concluded that no violation has been committed by the Respondents. Accordingly, the proceedings initiated under SCN are hereby disposed of without any adverse action against the Respondents.


1-12-05-2025
(Sohail Qadri)
Director/ Head of Department
Adjudication Department-I

Announced:

Dated: May 12, 2025

Islamabad