



SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

Adjudication Department- I

Adjudication Division

ORDER	
Name of Company:	M/s. Ittefaq Iron Industries Limited
Number and Date of Show Cause Notice (SCN):	CSD/ARN/587/2019-335 dated June 21, 2024
Name(s) of Respondent(s):	(i) Mian M. Pervaiz Shafi, Chairman; (ii) Mr. Shahzad Javed, Chief Executive Officer; (iii) Mr. Tayyab Ali, Director; (iv) Ms. Sobia Irshad, Director; (v) Mr. Khurram Jamil, Director; (vi) Mr. M. Mubashir Iqbal, Director; (vii) Ms. Wajeeha Shahzad, Director; and (viii) M/s. Ittefaq Iron Industries Limited.
Date(s) of Hearing(s):	(i) September 10, 2024; (ii) November 27, 2024; and (iii) December 09, 2024
Case represented by:	Mr. Muhammad Shahzad Bazmi, Advocate High Court (as the Authorized Representative.)
Provisions of law involved:	Section 510 of the Companies Act, 2017 read with SRO 633(I)/2014 dated July 10, 2014.
Date of the Order:	May 22, 2025

This Order shall dispose of proceedings initiated through the Show Cause Notice No. CSD/ARN/587/2019-335 dated June 21, 2024 (“SCN”) by the Securities and Exchange Commission of Pakistan (the “Commission”) against M/s. Ittefaq Iron Industries Limited (the “Company”) and its Board of Directors (“BOD”) including its Chief Executive Officer (“CEO”), hereinafter collectively referred to as the “Respondents”, issued under Section 510 of the Companies Act, 2017 (the “Act”) read with SRO 633(I)/2014 dated July 10, 2014 (the “SRO”).

2. Brief facts of the case are that review of the financial statements of the Company for the year ended June 30, 2022 (the “Accounts”) transpired that the Company had credited the prior year’s tax refund accepted by the Tax Authorities amounting to Rs. 86,382,542 (note 38) in the ‘taxation (expense)’ and correspondingly debited the tax recoverable amount (note 29.1). This treatment, as a residual impact, resulted in overstating the tax recoverable amount in the previous year as well as the profit after tax for the Financial Year (FY) 2022.

3. The Commission vide letter dated January 17, 2023 sought from the Company a year-wise computational difference of tax provisions for previous years as stated in the financial statements and as assessed by the tax department which, during the year 2022, had resulted in reversal of previous year’s tax by Rs. 86,328,542. In response, the Company, instead of providing requisite computation, informed through letter dated March 10, 2023 that the Federal Board of Revenue (“FBR”) had approved income tax refund amounting to Rs. 86,328,542 vide order dated January 18, 2022 passed by Deputy Commissioner-Inland Revenue under Section 170(3) of the Income Tax Ordinance, 2001 (the “Ordinance”) and also furnished the copy of the said order to substantiate its claim.

4. In order to further probe the matter, the Commission vide letter dated March 16, 2023 sought the rationale for adjustment of aforesaid refund in the profit and loss accounts (prior year

tax) against taxation along with detailed background of the case. In response, the Company vide letter dated April 08, 2023, while furnishing copies of assessment orders passed under Section 170(3) of the Ordinance for FY 2020 and 2021, submitted that it applied for an exemption under Section 153 of the Ordinance during the tax year 2022 and also requested FBR to treat the tax refunds available for tax years 2020 and 2021 as advance tax for the tax year 2022. After necessary verification, the department accepted its request and issued two refund/adjustment orders under Section 170(3) of the Ordinance.

5. Perusal of the aforesaid assessment orders revealed that the tax department had acknowledged tax refund for the tax years 2020 and 2021 to the extent of Rs. 86,328,542 as under:

Admitted advance income tax for the FY 2020	Rs. 63,846,240
Admitted advance Income tax for the FY 2021	Rs. 22,482,302
Total	<u>Rs. 86,328,542</u>

However, review of the Accounts for FY 2022 transpired that the Company, instead of adjusting opening balance of income tax recoverable (note 29.1) equivalent to acknowledged tax refund of Rs. 86,328,542, had further increased the income tax recoverable balance by adjusting prior year tax with the said amount (note 38). The Company, therefore, *prima facie*, misstated the Accounts by booking incorrect tax adjustment therein; which resulted in overstatement of Income tax recoverable amount (note 29.1) and profit after tax amount.

6. The Commission, considering the fact that the Company carried forward the impact of aforesaid material misstatement in the financial statement for the year ended June 30, 2023 ("FS2023"), again took up the matter with the Company vide letter dated February 13, 2024 and also shared the computation with the Company as tabulated below; highlighting the impact of said material misstatement:

<u>Computation of overstated amount of Income Tax Recoverable</u>			
Refund Acknowledged by FBR based on Tax years 2020 & 2021 assessment			86,328,542
<u>Add: Net Advance tax for FY 2022</u>			
Advance Income tax/deduction during the year	103,225,890		
Provision during the year	(151,479,367)		
Workers' Welfare Fund	(5,884,250)		(54,137,727)
Income Tax recoverable as of June 30, 2022			32,190,815
<u>Add: Net Advance tax for FY 2023</u>			
Advance Income tax/deduction during the year	170,425,554		
Provision during the year	(103,555,670)		66,869,884
Income Tax recoverable as of June 30, 2023			99,060,699
Income Tax recoverable as of June 30, 2023 as per financial Statements 2023			295,793,400
Overstated amount required to be adjusted against prior year tax			196,732,701

7. The Company, in response to aforesaid, vide letter dated March 06, 2024 responded and asserted that the FS2023 are not overstated by Rs. 196,732,701, as it is closing balance of advance income tax for FY 2021. It is however noted that the opening balance of income tax recoverable for FY 2022 amounting to Rs. 196,732,701, as claimed by the Company, is prior to adjusting Rs. 86,328,542 i.e. *the refund approved by the tax authorities*. Accordingly, the Company should have adjusted the allowed refund of Rs. 86,328,542 against the prior years' tax expenses instead of further enhancing the balance of recoverable income tax by the said amount. The aforesaid error of accounting treatment by the Company in adjusting income tax recoverable amount resulted in overstatement of profit by Rs. 196.732 million and accordingly the Company was required to rectify/adjust its financial statements for FY 2022 by Rs. 196.732 million:

8. In view of the aforesaid, the Accounts and FS2023 of the Company, *prima-facie*, do not present a true and fair view due to following material misstatements:

- (i) Overstatement of after tax profit (for the FY 2022 only) by Rs. 196.732 million and accordingly Earning Per Share (EPS) by Rs. 1.36.
- (ii) Overstatement of Income Tax Recoverable balance by Rs. 196.732 million.
- (iii) Overstatement of Un-appropriated Profit balance by Rs. 196.732 million.

The aforesaid misstatements are, *prima-facie*, contrary to the requirements prescribed in paragraph 15 of International Accounting Standards ("IAS")-1 on 'Presentation of Financial Statements' as notified by the Commission through the SRO. The relevant requirements of paragraph 15 of IAS 1 are reproduced for the sake of reference, as under:

Para 15 of IAS-1:

"Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Framework. The application of IFRSs, with additional disclosure when necessary, is presumed to result in financial statements that achieve a fair presentation."

9. Accordingly, cognizance in the matter was taken by issuing SCN to the Respondents requiring them to show the cause in writing as to why a penal action as prescribed under Section 510 of the Act may not be taken against them for non-compliance of the requirements of the IAS 1 and the SRO. In response to SCN, the Company vide letter dated July 15, 2024, *inter-alia*, stated that:

- (i) *The Company did not create excessive tax provision in the previous year and the same was recorded in compliance with the provisions of the Ordinance.*
- (ii) *Adjustment of allowed refund of Rs. 86,328,542 from the advance tax amount of subsequent year was allowed by the FBR.*
- (iii) *Admitted the misstatement made by the Company and agreed to reverse the same in the financial statements for the year 2024.*

10. In order to provide opportunity of personal representation to the Respondents, hearing in

the matter was fixed for September 10, 2024; when Mr. Muhammad Shahzad Bazmi-Advocate High Court, appeared on behalf of the Respondents as their Authorized Representative (“Authorized Representative”). During the course of hearing, the Authorized Representative reiterated the response to SCN submitted vide letter dated July 15, 2024 and assured that the said misstatement will be rectified in the Annual Financial Statements for the FY 2024 (“FS2024”). Subsequently, the Company vide letter received at this office on September 16, 2024 submitted the extracts of resolution passed by the BOD of the Company in its meeting held on September 13, 2024; whereby the rectification of aforesaid misstatement was approved.

11. In order to conclude the matter, another opportunity of personal representation was provided to the Respondents by fixing the hearing in the matter on November 27, 2024 which was adjourned on the request of the Authorized Representative made vide letter dated November 22, 2024. Later, in order to meet the ends of justice another hearing in the matter was fixed for December 09, 2024; when the Authorized Representative appeared, informed that the misstatement has been rectified in FS2024 and requested for a lenient view in the matter. Subsequently the Authorized Representative vide letter dated December 09, 2024 furnished a copy of FS2024 as evidence to substantiate his claim relating to rectification of the aforesaid misstatement.

12. I have gone through the relevant provisions of IAS 1, Section 225 of the Act, and have also considered the facts of the case, the record available with the Commission along with the written and verbal submissions of the Respondents and their Authorized Representative. I have also perused Section 510 of the Act which stipulates penal action for contravention of the aforesaid IAS which is conformed through the SRO. It is essential to note that IAS 1 prescribes the basis for the presentation of financial statements and requires that they must present a true and fair view of a company's financial position, financial performance and cash flows. It is observed that requirement for the financial statements to present true and fair view is prescribed to ensure transparency, accuracy and reliability in the financial statements of listed companies, which is essential for safeguarding the interests of investors, creditors and other stakeholders who use such financial statements primarily for their investment decisions.

13. Computation of the advance tax for Tax Years 2020 and 2021 was analyzed which revealed that the Company in FY 2020 claimed advance tax of Rs. 136.55 million out of which Rs. 19.15 million was unverified/rejected by the tax authority. This resulted in a balance of admitted advance tax amounting to Rs. 117.39 million. Similarly, the Company in FY 2021 claimed advance tax of Rs. 143.08 million out of which Rs. 15.19 million was unverified/rejected by the tax authority; resulted in a balance of admitted advance tax amounting to Rs. 127.88 million. Accordingly, the total balance of admitted advance tax for both years was Rs. 245.28 million as against the advance tax of Rs. 279.63 million. In addition to the above, the Company had prior year adjustments for short provisioning amounting to Rs. 37.73 million (Rs. 18.80 million for FY 2020 and Rs. 18.93 million for FY 2021). Moreover, as per the financial statements for FY 2020 and 2021, the Company recorded advance tax of Rs. 274.06 million, which exceeded the admitted advance tax by Rs. 28.78 million; thus, representing the excess advance tax recorded in the books.

14. Furthermore, it was observed that prior year tax adjustment of Rs. 66.51 million (sum of excess advance tax recorded in FS and the prior years short provisioning i.e., Rs 28.783 + 37.73 million) was not reflected in the Accounts and whereas the actual credit adjustment of Rs. 86.328 million, as approved by the FBR, relating to FY 2020 and 2021 was erroneously booked in the

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Accounts; resulting in an overstatement of profit by Rs. 152.84 million in FY 2022 (Rs. 66.51+86.328 million). Additionally, for computing actual overstatement of profit, the opening balance of advance tax of Rs. 43.09 million from 2020 and a prior year adjustment of Rs. 0.80 million made during FY 2022 had also been accounted for, leading to a total overstatement of profit of Rs. 196.732 million in the Accounts, which required appropriate adjustment for accurate financial reporting and compliance. The said computation tabulated below for reference;

Computation of Excess advance Tax being recorded in the Books									
Tax year	Advance tax claimed	Unverified / rejected	Admitted Advance Tax	Prov. As per FS	Tax Assessed	Adjustment 2016/ refund rejected	Prior year adj. for short prov.	Advance Tax as per FS	Excess advance tax recorded in FS
	(a)	(b)	c=(a-b)	(d)	e	(f)	(g)=[(e+f)-d]	(h)	i=(h-c)
2020	136,547,616	19,154,507	117,393,109	34,744,194	50,776,869	2,770,000	18,802,675	130,982,205	13,589,096
2021	143,078,706	15,193,905	127,884,801	86,473,693	101,155,116	4,247,383	18,928,806	143,078,706	15,193,905
Sub-total	279,626,322	34,348,412	245,277,910	121,217,887	151,931,985	7,017,383	37,731,481	274,060,911	28,783,001

Adjustment of prior year tax that should have been recorded in Accounts-2022 (g+i)	66,514,482
Actual credit adjustment made against prior year in the Accounts 2022	86,328,542
Profit for FY 2022 is overstated by	152,843,024
Opening balance-Tax Recoverable of 2020	43,087,567
Add: Prior year adjustment made during 2020	802,110
	196,732,701

15. It is also imperative to note that the Company, in its Accounts, instead of adjusting the opening balance of income tax recoverable by the amount of tax refund of Rs. 86,328,542, erroneously recognized the same as current year income by crediting it to the profit and loss account under the head 'taxation' and concurrently, debited the same amount to the income tax recoverable balance. This accounting treatment was fundamentally incorrect and resulted in the double recognition of the same tax refund: (i) first, as part of the opening balance of income tax recoverable, and (ii) second, as income during the year. As a consequence, the Company materially overstated its profit after tax and income tax recoverable balance by Rs. 196.732 million as computed above. The misstatement was also carried forward to the FS2023.

16. It is important to note that the Company, during the proceedings, asserted that the adjustment resulted from an internal entry in the FBR's records and was mistakenly treated as income in its books of accounts and while admitting the error has also subsequently rectified the misstatement by restating the financial position of 2022 in FS2024; however, it is an established principle of law that subsequent restatement of financial position/rectification of error does not absolve the Respondents of their non-compliance with the prescribed requirements of law at the relevant point in time, as IAS 1 requires that financial statements must present a true and fair view.

at the time they are issued. The initial misstatement led to the overstatement of profit, income tax recoverable, and unappropriated profit, which in turn misled stakeholders who relied on the FS 2022 and 2023.

17. It is also pertinent to underscore that the BOD of a company holds fiduciary responsibility for the overall governance, strategic direction and regulatory compliance of the company. Among its key duties are ensuring the integrity of the company's financial reporting process and approving financial statements that present a true and fair view in accordance with the applicable financial reporting framework and the law. Furthermore, the CEO of a company holds a broader and more hands-on role, as he, in his capacity as the in-charge of the affairs of the company and head of management, has an operational obligation to ensure that the financial statements present a true and fair view of the company's financial position, are free from material misstatements, and accurately reflect the company's operations and financial condition as of the reporting date. Moreover, the CEO must exercise oversight over the entire financial reporting process, including ensuring that the finance team and internal controls are adequate and effective, and overseeing the preparation of quarterly and annual financial reports. Therefore, the CEO plays a central role in ensuring that financial statements are not only technically compliant but also faithfully represent the company's financial reality.

18. In light of the aforesaid, the contravention with the requirements of IAS 1 has been established beyond doubt which attracts penal action in terms of Section 510(2) of the Act. Furthermore, the same has been admitted by the Respondents and their Authorized Representative. I, therefore, in terms of powers conferred under Section 510(2) of the Act read with S.R.O. 1545(I)/2019 dated December 06, 2019, impose an aggregate penalty of **Rs.175,000/- (Rupees One Hundred and Seventy-Five Thousand only)** on the Respondents on account of established default in the following manner:

Sr. #	Names of the Respondents	Penalty Amount
1	Mian M. Pervaiz Shafi	5,000
2	Mr. Shahzad Javed	45,000
3	Mr. Tayyab Ali	5,000
4	Ms. Sobia Irshad	5,000
5	Mr. Khurram Jamil	5,000
6	Mr. M. Mubashir Iqbal	5,000
7	Ms. Wajeeha Shahzad	5,000
8	M/s. Ittefaq Iron Industries Limited	100,000
	Total Amount	175,000

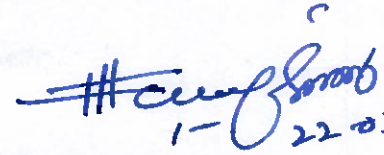
The Respondents are also advised to ensure meticulously compliance with applicable legal and regulatory requirements in future.

19. Furthermore, the Supervision Department of the Commission is also advised to review the rectifications carried out by the Company in FS2024 to ensure that the entries made by the Company are in accordance with the applicable requirements of the IAS 1 and the law, especially to ascertain the fact that the Company has carried out such rectification to fully cater to the impact

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of recorded recoverable tax amounts from all previous periods as have been addressed by the order of the Tax Authority (FBR), including the due rectification in the Profit and Loss Statements.

20. The Respondents are, 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 penalty as arrears of land revenue pursuant to provision of Section 42B of the Securities and Exchange Commission of Pakistan Act, 1997.


1-22-05-2025

(Sohail Qadri)
Director/ HOD
Adjudication Department-I

Announced:

Dated: May 22, 2025

Islamabad.

