



SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

Adjudication Department- I

Adjudication Division

Before

Shahzad Afzal Khan, Director / Head of Department

In the matter of

Dar es Salaam Textile Mills Limited

Number of SCN: CSD/ARN/234 /2015 - 387
Dates of Hearing: September 12, 2024
Hearing Attended By: Ms. Abida Mukhtar, Chief Executive Officer

ORDER

UNDER SECTION 510 OF THE COMPANIES ACT, 2017

This Order shall dispose of the proceedings initiated against Dar es Salaam Textile Mills Limited (the "Company") and its board of directors (collectively referred to as the "Respondents") through Show Cause Notice (the "SCN") issued under Section 510 of the Companies Act, 2017 (the "Act").

2. Brief facts of the case are that the annual audited financial statements of the Company for the year ended June 30, 2022 (the "Accounts") revealed that the auditor of the Company (M/s. Rizwan & Co., Chartered Accountants) rendered adverse opinion in the Accounts of the Company stating that the Accounts do not conform with the approved accounting standards and do not give a true and fair view of the state of the Company's affairs. The Auditor states that:

"During the year; the Company has recognized loan from sponsor (after demise of shareholder) amounting to Rupees 42.5 million in lieu of settlement of liabilities with certain creditors in September 2014 by charging other operating expenses on account of "reversal of credit balance written back" in earlier period(s) as fully explained in note 20.2 to the financial statements. We however, could not verify the amount written back in absence of underlying record"

3. During the financial year 2022, the Company recorded loan from sponsors amounting to Rs 42.5 million in lieu of settlement of liabilities with certain creditors in September 2014. The Note 20.2 to the Accounts states that:

"The amount represents the settlements with vendors/parties through an agreement executed on September 03, 2014 by Mr. Ahmad Mukhtar (late). As per settlement agreement; the then sponsoring shareholder gave his personal property having aggregate value of Rupees 42.5 million to such vendors/parties as full and final settlement of their liabilities. However, the effect of this transaction was not reflected in the respective financial statements and such amounts



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were written back in prior period. Now, the management has decided to incorporate effect of this transaction in these financial statements by incorporating liabilities towards sponsoring director (late) and charging to income."

4. The Securities and Exchange Commission of Pakistan (the "Commission") vide letter dated March 03, 2023 sought clarification from the Company to which the Company vide letter dated April 08, 2023 stated that the sponsor had given a personal property in 2014 to four traders to settle the Company's market debt. At settlement of all of its market trade liabilities in 2022, it came to the management notice that the transaction was erroneously not recorded in the books of accounts at the time of settlement of liabilities rather the amount was written back by the then management. The management on the basis of its ledgers, and legal agreement and underlying record between the sponsors and creditors have now incorporated the transaction in these financial statements.

5. In view of the above, the Company has, *prima facie*, failed to comply with the requirements of IAS 1, as financial statements do not fairly present the financial position of the Company and do not give a true and fair view as substantiated by the auditor's adverse opinion. The Company has also failed to comply with IAS 8 by not correcting the material prior period errors retrospectively and also failing to provide the disclosures as required under IAS 8. The standard requires restating the comparative amounts for the prior period(s) presented in which the error occurred or, if the error occurred before the earliest prior period presented by restating the opening balances of assets, liabilities and equity for the earliest prior period presented.

6. The Company has, *prima facie*, contravened the requirements of IAS 1 and IAS 8, as notified by the Commission through SRO 633(I)/2014 dated July 10, 2014. In terms of said SRO, IAS 1 and IAS 8 are required to be followed for the preparation of the Accounts. Hence, *prima facie*, violation of Section 510(2) of the Companies Act, 2017 (the Act) is attracted.

7. In order to take cognizance of the aforesaid non-compliance, SCN was served on the Respondents for the contravention of Section 510 of the Act, requiring them to explain the reasons as to why action may not be taken against them for the aforesaid contravention.

8. In response to the SCN, the Company vide letter dated Nil, *inter alia* submitted that:

After carefully reviewing the document, we recognize that during the process of adjusting the 2014 entry in June 30, 2022, the Company's management inadvertently did not treat the entry as correction of error in earlier period and accordingly, the narrative note for correction of error was omitted by us and consequently restated statement of financial position for the year ended June 30, 2021 and June 2020 were not presented.

Unfortunately, the management was unaware of its oversight and to date have never received any prior directive from SECP regarding this issue. If we had received any directive from the commission, we would have promptly addressed the situation to ensure compliance.



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Please be assured that the company's management deeply regrets this omission and fully understands the importance of adhering to accounting standards and maintaining accurate financial records. Apart from this instance, we have consistently upheld these standards, followed regulations and maintained full transparency and visibility for our shareholders.

It is important to emphasize that this oversight has no financial repercussions and has not resulted in any loss to our shareholders. In addressing this matter, please be assured that we will correct it in our June 2024 accounts.

9. To provide opportunity of personal representation, hearing in the matter was fixed for September 04, 2024, wherein Ms. Abida Mukhtar, Chief Executive Officer, appeared before the undersigned on behalf of the Respondents as their Authorized Representative ("Representative") and reiterated the above-mentioned submissions.

10. Furthermore, the Company also vide letter dated September 25, 2024, *inter alia* submitted that:

It would not be prudent to republish the half-year accounts for June 2024. Instead, we will address the oversight in our nine-month accounts for the period ending 30th September 2024 as shown in addendum. The restatement would be reflected in the interim financial statements for the nine months period ended September 30, 2024 in accordance with the provisions of the International Accounting Standard 8. Since the Scheme of Arrangement was confirmed on June 10th, 2024, DSML has undergone several significant changes:

- 1. The fiscal year of the Company has been shifted from June 2024 to December 2024 to align it with the Insurance Sector;*
- 2. New Board of Directors was appointed on August 21st, 2024.*
- 3. The new board has appointed another firm as auditors of the Company with effect from August 21st, 2023.*
- 4. Financial results for the Half-year ended June 30th, June 2024 were disseminated on August 29th, 2024.*

Given that the new management has assumed responsibility and implemented these changes, we believe restating June 30th, 2024 accounts—especially after they have already been published on PSX would not reflect positively on the new leadership and time lag between the next dissemination of financial information is almost due. Therefore, it is submitted that we intend to make necessary restatement in accordance with the provisions of the International Accounting Standard 8 in nine-months financial statements for the period ending September 30th, 2024.



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11. Para 15 of the International Accounting Standard (IAS) 1 – Presentation of Financial Statements states that:

“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 Conceptual Framework for Financial Reporting. The application of IFRSs, with additional disclosure when necessary, is presumed to result in financial statements that achieve a fair presentation.”

12. In addition to the above, para 42 of IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors states that:

“Subject to paragraph 43, an entity shall correct material prior period errors retrospectively in the first set of financial statements authorized for issue after their discovery by:

(a) Restating the comparative amounts for the prior periods presented in which the error occurred;

or

(b) If the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity of the earliest prior period presented”.

13. Furthermore, the entity is also required to make disclosure in accordance with para 49 of IAS 8, which states that:

(a) the nature of prior period error;

(b) for each prior period presented, to the extent practicable, the amount of the correction:

i. for each financial statement line item affected; and

ii. if IAS 33 applies to the entity, for basic and diluted earning per share;

(c) the amount of correction at the beginning of the earliest prior period presented; and

(d) if retrospective restatement is impracticable for a particular prior period, the circumstances that led to the existence of that condition and a description of how and from when the error has been corrected.”

14. Section 510 of the Act states that:

“510. Power to issue directives, circulars, guidelines.- (1) The Commission may issue such directives, prudential requirements, codes, guidelines, circulars or notifications as are necessary to carry out the purposes of this Act and the rules and regulations made under this Act.

(2). Any person, who obstructs or contravenes or does not comply with any directive, prudential requirements, codes, circulars or notifications, given under this section shall be liable to a penalty of level 3 on the standard scale.”



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15. I have gone through the facts of case and considered both the written and verbal submissions of the Representative in light of the relevant provisions of the law and state that:

- It is evident that the Company has not complied with the relevant provisions of IAS 1 and IAS 8 as required under the Act. The Company's financial statements for the year ended June 30, 2022, fail to present a true and fair view of the Company's financial position, as highlighted by the adverse opinion of the auditor. The failure to retrospectively correct the material prior period errors, as mandated by IAS 8, and the absence of necessary disclosures further substantiate the non-compliance.
- Despite the explanations provided by the Representative regarding the oversight and the intention to correct the errors in subsequent financial statements, this oversight cannot be disregarded. The principles of IAS 1 require fair presentation of the financial position, which was compromised due to the lack of accurate representation of transaction from prior periods. IAS 8 similarly obligates the correction of prior period errors and full disclosure to ensure transparency for stakeholders.
- Lastly, the Representative requested to condone the negligence, and further added that non-compliance was not willful, hence, requested to condone the inadvertent omission.

16. Keeping in view the above, it is stated that the contravention of the provisions of Section 510 of the Act, at the relevant point of time, has been established and same has been admitted by the Representative as well. However, considering the fact that the oversight will be addressed in the accounts for the nine-month period ending September 30, 2024, through restatement in accordance with the provisions of the IAS 8, I hereby conclude the proceeding initiated through the SCN without imposition of any monetary penalty. Nevertheless, the Respondents are hereby **Warned** to ensure compliance with all the regulatory laws in letter and spirit in future.

17. Nothing in this Order may be deemed to prejudice the operation of any provisions of the Act providing for imposition of penalties on the Respondents in respect of any default, omission or violation thereof.

Shahzad Afzal Khan
Director/ HOD
Adjudication Department-I

Announced:
October 2, 2024
Islamabad.

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