Before

Amir M. Khan Afridi, Director/Head of Department

In the matter of
Dar es Salaam Textile Mills Limited

Dates of Hearings	September 03, 2021; November 08, 2021; December 02, 2021; December 14, 2021;

Order-Redacted Version

Order dated April 14, 2022 was passed by Director/Head of Department (Adjudication-I) in the matter of Dar es Salaam Textile Mills Limited. Relevant details are given as hereunder:

Nature	Details
1. Date of Action	Show Cause Notice dated July 15, 2021
2. Name of Company	Dar es Salaam Textile Mills Limited
3. Name of Individual*	The proceedings were initiated against the directors of the Company.
4. Nature of Offence	The Company, *prima facie,* did not comply with the directions of the Commission given through the Order passed under Section 474(1) of the Act. Hence, proceedings under Section 499(1) of the Act were initiated against the Respondents.
5. Action Taken	Key findings are given as hereunder: (i) In terms of Order dated May 2, 2019 passed under Section 474(1) of the Act, the Commission directed in the following manner: *It is clear that in terms of provisions of Section 225 of the Act, listed companies are required to prepare their financial statements as per requirements of the Fourth Schedule to the Act and IFRS notified by the Commission under the said section. Moreover, section 225 of the Act requires that the financial statements shall give a true and fair view of the state of affairs of the Company and its profit and loss. It is responsibility of respondents in their capacity as directors of the Company to keep proper books of accounts in conformity with the requirements of the Act and IFRS notified by the Commission. The respondents have clearly committed default by not complying with the requirements of section 225 of the Act with regard to preparation of its Accounts for the year ended June 30, 2018. Therefore, in exercise of the powers conferred by section 474 of the Act, I hereby direct the Company to rectify the above-mentioned defaults affecting true and fair view of its financial statements for the year ending on June 30, 2019 and subsequent interim Accounts of the Company, be meticulously complying with all the applicable requirements of the Act, Fourth Schedule and the IFRS. In the end, it is emphasized that in case of non-compliance of the direction given through this order, the directors of the Company shall be liable for action under section 499 of the Act.*

	(ii) The Directors' report annexed with 2019 Accounts provided justifications against the opinion and qualification/observations given the Auditors' report, which are being reviewed in the following manner: (a) It was highlighted by the Auditors that going concern assumption was not appropriate. The Auditors stated that: "*At present, the Company is unable to implement approved alternate business plan for future periods envisaged in the shareholders meeting held on April 30, 2018. These conditions and events indicate material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern and therefore it may not be able to realize its assets and discharge its liabilities in normal course of business. However, as described in note 2.2 to these financial statements have been prepared under the going concern assumption. Because of the circumstances and events as mentioned herein, in our opinion, the Company cannot be considered to be a going concern and thus the preparation of these financial statements on a going concern basis is inappropriate.*" In this regard, the Directors' report stated that: "*The management of the Company tried its utmost efforts to restart plant but due to inability to raise investment in the unit to update old and outdated machinery, continuous losses in the past few years that had eroded equity, unfavourable debt ratios, and pressure from creditors, it was not a viable option. Therefore, an alternate business plan was discussed with the Board of Directors meeting on April 6th 2018 and approved by the shareholders in its meeting held on April 30, 2018. The plan is two-pronged, first step is to dispose-of plant and machinery and use the proceeds to pay down partial debt. In the second phase, the management will focus on selling off the land and Building and plant and other assets and commence trading of yarn. Subsequent to approval of the shareholders meeting, the Company has partially disposed off its plant and machinery. The Company is making its efforts to dispose land and building which is subject to execution of settlement agreement. Upon realization of proceeds; the Company shall be implemented alternate business plan as envisaged and approved by the shareholders.*" The aforesaid observation of the Auditor clearly highlighted that in view of non-implementation of alternate plan, the Company was not going concern. The justification provided there against also highlighted that the Company's alternate business plan was not fully implemented till the year 2019. In view of the given circumstances, Accounts 2019 of the Company were required to be adjusted to reduce the value of assets to their recoverable amount. (b) As regards, adjustment against mark-up, the Auditors' report contained following qualification: "*As disclosed in note 15, the*

		Company has recognized accrued markup on short term borrowings and long-term financing to the extent of Rupees 54.127 million and Rupees 54.302 million respectively. As per confirmations received from various banks, the Company has recognized aggregate accrued markup of Rupees 108.429 million against aggregate accrued markup of Rupees 47.500 million for which no adjustment has been made on the plea that it will be incorporated upon final settlement / extinguishment of short term and long-term borrowings. Moreover, the Company had not charged the markup / cost of funds on long term financing and short-term borrowings during the year. The effect of this matter has not been adjusted appropriately in these financial statements." The directors' report in this regard stated that: "*Auditors were provided with letters from banks stating the principal amount and mark up. The mark up amount accrued in the Company's accounts do not reflect the settled mark-up amount. The difference in mark-up shall be settled upon execution of settlement with the Banks."* The Auditors' qualification given in auditors report in Accounts 2019 highlighted non-recognition of mark-up for long term and short-term borrowings during the year and non-adjustment of accrued mark-up.
	(c)	As regards to trade payables, the Auditors qualified that: *"As disclosed in note 14, the Company has trade and other payables amounting to Rupees 133.990 million. Out of total, trade and other payables amounting to Rupees 107.693 million could not be verified in the absence of direct confirmation. Further as disclosed in note 25, during the period liabilities of Rupees 16.815 million has been written back which could not be verified in absence of underlying record and confirmations from the relevant parties. The cumulative effect of this matter has neither been determined not adjusted in these financial statements."* The Auditors' report stated that: *"Most of these amounts are older than five-years and are time barred in accordance with the Limitation Act. Nevertheless, the management provided details and address of parties for confirmation and provided required information with regard to amount written back."* The aforesaid qualification highlighted that necessary adjustments against payables were not made and the amounts were not justified due to absence of underlying record and confirmations.
	(iii)	It is noted that Auditors' in his report to members on Accounts 2019 again given adverse opinion, *inter alia*, highlighting qualifications/observations as narrated in para 4 above, and the Auditors reported that Accounts of the Company for the year ended on June 30, 2019 were not given true and fair view

	and were in non-compliance of given applicable requirements of IFRS/IAS and the Act. (iv) The stance of the Respondents submitted vide letter dated January 07, 2022 that in the ensuing Auditors' report the matter of qualification/observation have been addressed. In this regard, I have observed that the auditors' qualifications still persist and auditors has given adverse opinion on Accounts 2021. Nonetheless, I am of the view that proceedings through aforesaid SCN were initiated based on non-compliance of directions given through Order dated May 2, 2019 passed under Section 474(1) of the Act and despite the directions of the Commission, Accounts 2019 were not giving true and fair view and were not prepared in compliance of applicable requirements of IFRS/IAS and the Act. Hence, stance of the Respondents is not tenable and does not fall in the scope of the instant proceedings. (v) I have also noted that in subsequent interim accounts for the period ended June 30, 2020, following qualifications were also reported by the Auditors, in addition to qualifications contained in Auditors' report of 2019: *The Company has not recognised liability against Gas Infrastructure Development Cess to the extent of Rupees 22.333 million despite the fact that Supreme Court of Pakistan has announced its decision on August 13, 2020 where Honorable Court has rejected appeals filed by various companies and has directed all the companies to pay the outstanding amounts within twenty four quarterly installments with effect from August 01, 2020. The effect of this matter has not been adjusted appropriately in these financial statements.* *We could not verify the unclaimed dividend payable pertaining to financial years ended on June 30, 2000 and June 30, 2001 amounting to Rupees 1,159,777 in absence of underlying record with the Company. The effect of this matter has not been adjusted appropriately in these financial statements.* The aforesaid reflects that subsequent interim Accounts for the period ended June 30, 2020 were also not prepared reflecting true and fair view and in terms of applicable requirements of IFRS/IAS and the Act. To sum up, I am of the view that the Company was directed to prepare its 2019 Accounts and subsequent interim accounts reflecting true and fair view in accordance with applicable requirements of IFRS/IAS and the Act. I am of the view that inappropriate use of going concern assumption, non-adjustment and non-accrual of mark-up on loans, adjustments against trade payables in absence of relevant documents are material and significant events and have resulted that 2019

	Accounts and subsequent interim accounts for the period ended June 30, 2020 were not prepared in compliance with applicable requirements of IFRS/IAS and the Act, and do not reflect true and fair view. In view of the persistent qualifications and opinion of the Auditor, 2019 Accounts and subsequent interim accounts for the period ended June 30, 2020 were not prepared in compliance of the directions given by the Commission in terms of Section 474(1) of the Act vide order passed dated May 2, 2019, the Respondents are thus liable for action in terms of Section 499(1) of the Act. Nothing in this Order may be deemed to prejudice the operation of any provision of the Act providing for imposition of penalties in respect of any default, omission or violation of the Act.
6. Penalty Imposed	**Rs. 70,000/-**
7. Current Status of Order	No Appeal has been filed by the Company.