



Securities and Exchange Commission of Pakistan

Adjudication Division
Adjudication Department-I

Before

Amir M. Khan Afridi – Director/ Head of Department

In the matter of Show Cause Notice issued to Kreston Hyder Bhimji & Co., Chartered Accountants Auditors of MirpurKhas Sugar Mills Limited

Dates of Hearings

February 03, 2022; March 7, 2022

Order-Redacted Version

Order dated April 26, 2022 was passed by Head of Department (Adjudication-I) in the matter of Kreston Hyder Bhimji & Co., Chartered Accountants, the auditors of MirpurKhas Sugar Mills Limited. Relevant details are given as hereunder:

Nature	Details										
1. Date of Action	Show cause notice dated November 26, 2021										
2. Name of Company	Kreston Hyder Bhimji & Co., Chartered Accountants, the auditors of MirpurKhas Sugar Mills Limited										
3. Name of Individual*	The proceedings were initiated against M/s Kreston Hyder Bhimji & Co., Chartered Accountants, through its Managing / Acting Partner and ***, Engagement Partner of Kreston Hyder Bhimji & Co., Chartered Accountants, the auditors of MirpurKhas Sugar Mills Limited										
4. Nature of Offence	<p>Proceedings were initiated in terms of the Section 253(1) of the Companies Act, 2017 read with Sections 249 and 479 thereof</p> <p>Brief facts of the case are that review of the annual audited financial statements of the Company for the Financial Year ended September 30, 2020 (the 2020 Accounts), at note 1.1 to the Accounts, <i>inter alia</i>, disclosed that:</p> <p><i>“The geographical location and addresses of the Company’s business units/ immovable assets are as under:</i></p> <table><tbody><tr><td><i>Business Unit</i></td><td><i>Address</i></td></tr><tr><td><i>Head Office</i></td><td><i>Modern Motors House,</i></td></tr><tr><td><i>Beaumont Road, Karachi</i></td><td></td></tr><tr><td>Registered Office/ Factory</td><td>Sub Post Office Sugar Mill</td></tr><tr><td></td><td>Jamrao, Umerkot Road,</td></tr></tbody></table>	<i>Business Unit</i>	<i>Address</i>	<i>Head Office</i>	<i>Modern Motors House,</i>	<i>Beaumont Road, Karachi</i>		Registered Office/ Factory	Sub Post Office Sugar Mill		Jamrao, Umerkot Road,
<i>Business Unit</i>	<i>Address</i>										
<i>Head Office</i>	<i>Modern Motors House,</i>										
<i>Beaumont Road, Karachi</i>											
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	<p><i>(Immovable assets)</i> <i>MirpurKhas Sindh, (Land measuring 606.05 acres and covered area 569,434 sq.ft)”</i></p> <p>In note 18.1 to the Accounts it was stated that valuation of the land/property of the Company was carried out by the valuer K.G. Traders (Pvt.) Limited. The valuation report dated October 30, 2020 disclosed that the Company owned residential property namely Volkart House situated at Hyderabad Road, MirpurKhas. As per valuation report, the aforesaid property i.e. Volkart House comprised of 3.18 acres of land whereas other land of the Company comprised of 602 acres of land. In terms of value, Volkart House constitutes sizable part (i.e. 34%) when its value of Rs. 300.564 million is compared with book value of the total land of Rs. 905.451 million as per the 2020 Accounts. Moreover, as per the available information, the Volkart House was subsequently sold and reportedly fetched a value of Rs. 750 million. However, disclosure of aforesaid property and its location was not found in Accounts 2020.</p> <p>The Respondents, being the auditors and the concerned engagement partner of the audit firm, however, failed to bring out the aforesaid non-disclosure of the material facts in their auditors’ report, contrary to the requirements of para vi(1)(ii) of part I of the fourth schedule to the Act. The said failure on part of the concerned engagement partner of the audit firm, attracts applicability of the penal provision contained in Section 253 of the Act. Keeping in view the aforesaid failure/ non-compliance/ contravention, the SCN was served upon the Respondents, requiring them to show cause in writing within fourteen (14) days of the date of the SCN as to why penalty may not be imposed on them under Section 253(1) of the Act.</p>
5. Action Taken	<p>Key findings were reported in the following manner:</p> <p>I have gone through facts of the case, relevant requirements of the law and the written and verbal submissions by the Respondents and state that:</p> <p>(i) In terms of para vi(1)(ii) of Part I of the Fourth Schedule to the Act, <i>particulars of company’s immovable fixed assets, including location and area of land</i> are required to be disclosed in the financial</p>



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statements. It is also highlighted that notes to the Accounts are key components of financial statements. The said disclosure requirement was envisaged so that particulars and location of immovable assets of the listed company are known to the users;

- (ii) In terms of note 1.1 to the 2020 Accounts of the Company, particulars and location of immovable assets were disclosed as “*Sub Post Office Sugar Mills Jamro, Umerkot Road, Mirpurkhas Sindh, (Land measuring 606.05 acres and covered area 569,434 sq. ft.)*”. In this regard, it is noted that the Company owned residential property namely ***Volkart House*** situated at ***Hyderabad Road, Mirpurkhas***, comprising of ***3.18 acres*** of land amounting to ***Rs. 300.564 million***, comprising of 34% book value of the total land amounting to Rs. 905.451 million. The Respondents informed that relevant disclosures about particulars and location of immovable assets were updated in subsequent 2021 Accounts of the Company. Relevant disclosures made in 2021 Accounts with regard to particulars and location of immovable assets comprising of ***Volkart House property*** are as under: “*Jiryan No.218, Deh 109, Taluqa Mirpurkhas, Hyderabad Road (Immovable assets) Mirpurkhas Sindh. (Land measuring 3.45 acres and covered area 6,825 sq.ft)*”.

The aforesaid, transpires that particulars and location of Volkart House property are distinct and it is situated at Hyderabad Road, Mirpurkhas, whereas immovable assets comprising 602 acres of other land is situated at Umerkot Road, Mirpurkhas. Moreover, in terms of note 1.1 to the 2020 Accounts, particulars including name of Volkart House property were also not correctly reported as the same was disclosed as land only. Since the Volkart House property was distinct in nature and was also located on separate location i.e. Jiryan No.218, Deh 109, Taluqa Mirpurkhas, Hyderabad Road, Mirpurkhas, hence, particulars including area and



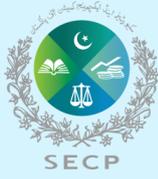
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location of said property was required to be disclosed in the same manner in 2020 Accounts in terms of the requirements of para vi(1)(ii) of Part 1 of the Fourth Schedule to the Act. The Company, being a listed company, is required to follow the requirements of fourth schedule to the Act. The 2020 Accounts of the Company, however, did not disclose particulars including area and location of Volkart House property, and the auditors' report annexed with the 2020 Accounts did not highlight the aforesaid non-compliance; and

- (iii) The Respondents furnished that Volkart House property was residential property and deficiency, if any, in disclosures of Volkart House property had no material impact on decision making of users. In this regard, I would like to point out that financial statements of the Company and related disclosures are the key source of information for users of the financial statements of a listed company. The requisite disclosures about the area and location of immovable assets comprising Volkart House property, were significant, due to its nature and of considerable value. Moreover, compliance of disclosure requirements of fourth schedule to the Act is mandatory requirement for a listed company.

After careful consideration of all the facts of the case, I, am of the considered view that location and area of the Volkert House was not fairly disclosed by the Company. This fact should have been highlighted by the Auditor in its report on the Company's 2020 Accounts. But the Auditor of the Company did not highlight the said non-compliance of requirement of disclosure of particulars of the Volkert House in the form and manner as required under para vi(1)(ii) of Part I of the fourth Schedule to the Act, in the respective Auditor's Report on financial statements of the Company for the year 2020. I have also considered submissions of the Respondents that disclosures were updated subsequently in 2021 Accounts of the Company but disclosing the said material information in subsequent year's financial statements, does not absolve the Respondents of their responsibilities under Section 253(1) of the Act. Keeping in view the above, I, in terms of Section 253(1) of the Act, for the aforesaid violation, hereby impose a penalty of **Rs.**



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	<p>50,000/- (Rupees Fifty Thousand only) on ***, and hereby warn other Respondent to be careful in future.</p> <p>The Respondent is hereby directed to deposit the aforesaid amount of penalty in the designated bank account maintained in the name of the Securities Exchange and Commission of Pakistan with MCB Bank Limited within thirty (30) days of the date of this Order and furnish receipted bank challan, evidencing payment of the same, to the Commission forthwith. In case of failure to deposit the penalties, the proceedings under Section 485 of the Act. It may please be noted that the penalty on the Respondent has been imposed in personal capacity; therefore, she is required to pay the said penalty from her personal resources.</p> <p>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, violation of the Act.</p>
6. Penalty Imposed	Rs. 50,000/- (Rupees Fifty Thousand only)
7. Current Status of Order	Appeal has been filed by the respondents.