**Before**

**Amir M. Khan Afridi – Director/Head of Department**

**In the matter of Show Cause Notice issued to Mr. Osman Hameed Chaudhri,**

**Engagement Partner Shinewing Hameed Chaudhri & Co., Chartered Accountants**

**Auditor of Janana De Malucho Textile Mills Limited**

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| Dates of Hearing | January 21, 2021 and July 05, 2021 |

**Order-Redacted Version**

Order dated July 28, 2022 was passed by Director/Head of Department (Adjudication-I) in the matter of Shinewing Hameed Chaudhri & Co., Chartered Accountants. Relevant details are given as hereunder:

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| **Nature** | **Details** |
| 1. Date of Action | Show cause notice dated June 09, 2020 |
| 1. Name of Company | Shinewing Hameed Chaudhri & Co., Chartered Accountants |
| 1. Name of Individual\* | The proceedings were initiated against the Mr. Osman Hameed Chaudhri, Engagement Partner , Shinewing Hameed Chaudhri & Co., Chartered Accountants, Auditor of Janana De Malucho Textile Mills Limited |
| 1. Nature of Offence | Proceedings were initiated in terms of Section 253 of the Companies Act, 2017 (**the Act**) read with Section 249 and Section 479 thereof  Brief facts of the case are that examination of audited financial statements for the year ended June 30, 2018 (Accounts-2018) of the Company transpired that while applying equity method in accounting for its investments in associates in its prior years’ audited financial statements for the years ended June 30, 2016 (year 2016) and June 30, 2017 (year 2017), did not include effect of surplus on revaluation of Property, Plant and Equipment (PPE) of Bannu Wollen Mills Limited (BWM) and Babri Cotton Mills Limited (BCM) (hereinafter together referred to as the “associated companies”), contrary to the requirements of the International Accounting Standards- 28 (IAS-28), ‘Investments in Associates and Joint Ventures’.  Review of financial statements of the Company for year 2016 and 2017 revealed that recoverable amounts of investments in associated companies as of June 30, 2016 and June 30, 2017, was lower than the comparative figures of such investments on respective dates, as restated in the Accounts-2018.  The comparative restated amounts of investments in associated companies for the years ended June 30, 2016 and June 30, 2017, as disclosed in the Accounts-2018 exceeded their recoverable amounts, contrary to the requirements of IAS-36, ‘Impairment of Assets’ (IAS-36).  The auditor in its report to members for the years ending June 30, 2017 did not contain any reference or observation regarding the non-compliance with the requirements of IAS-28. Moreover, the audit report for year 2018 did not contain any observation despite the fact that the comparative restated amounts of investments in associated companies for the years 2016 and year 2017, as disclosed in the Accounts-2018, exceeded their recoverable amounts, contrary to the requirements of IAS-36, ‘Impairment of Assets’ (IAS-36). |
| 1. Action Taken | Key findings were reported in the following manner:  I have gone through the facts of case, quoted references, considered the verbal submissions of the Respondents in light of the relevant provisions of the Act. In this context, I would like to mention here that basic premise for issuance of instant SCN was that while applying equity method of accounting for its investments in associates in its prior years’ audited financial statements for the year 2016 and year 2017; the Company did not include effect of surplus on revaluation of PPE of BWM and BCM, which was contrary to the requirements of IAS-28 and the Respondent, being the engagement partner of the statutory auditor of the Company, did not bring out this material misstatement i.e. noncompliance of IAS 28 and IAS 36 in its audit report for the respective years. The Respondent during the course of hearing and in written submission, referred the Order dated August 30, 2019 issued by Executive Director (Corporate Supervision Department), under Section 474(1) of the Companies Act 2017, which was also issued on the same grounds as alleged in the instant SCN.  Executive Director (Corporate Supervision Department) while agreeing with the accounting treatment adopted by the Company, disposed-off the proceedings initiated against the directors of the Company, in respect of carrying value of associates in prior year account and concluded that “*I agree to the stance taken in respect of Carrying value of associates in prior year accounts, that were valued in accordance with the provisions of the then applicable Companies Ordinance, 1984, owing to difference in the provisions contained in Section 235 thereof and IAS 28”.*  Therefore, in view of the aforesaid, I hereby conclude that the instant matter has already been conceded vide Order dated August 30, 2019; hence the proceedings initiated through the SCN against the Respondents are hereby closed with no further action.  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. |
| 1. Penalty Imposed | No penalty has been imposed on the respondents. |
| 1. Current Status of Order | No Appeal has been filed by the respondents. |