

**PAKISTAN STEEL MILLS CORPORATION
(PRIVATE) LIMITED**

FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
JUNE 30, 2017**

DRAFT INDEPENDENT AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of **Pakistan Steel Mills Corporation (Private) Limited (the Corporation)** as at June 30, 2017 and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that except for matters as discussed in paragraphs (1) to (5) below, we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit.

It is the responsibility of the Corporation's management to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards and the requirements of the Companies Ordinance, 1984. Our responsibility is to express an opinion on these statements based on our audit.

Except for the matters as discussed in paragraphs (1) to (5) below, we conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our qualified opinion and, after due verification, we report that:

1. We were appointed as auditors of the Corporation in February 2019 and thus did not observe the counting neither were we provided valuation of the physical stores, spares and stock-in-trade at June 30, 2017. We were unable to satisfy ourselves by alternative means of the inventories held by the Corporation as at that date. Since opening and closing inventories enter into the determination of the financial performance of the Corporation, we were unable to determine whether adjustments might have been necessary in respect of the stores, spares and stock-in-trade.
2. IAS 16 Property, Plant and Equipment (PPE) requires that land which is measured under revaluation model with significant changes in its fair value, as evident from the revaluation of investment property of the Corporation carried out during the year, must be re-measured at fair value as of the each balance sheet date. However, the Corporation has not revalued the land classified under PPE since 2014, accordingly we were unable to determine the adjustments that would have been required, if any, on the carrying amount of land and the related gain that would have been recorded in the surplus on revaluation of land.
3. An amount of Rs. 2,981 million has been reflected as tax refundable in the Corporation's balance sheet. Such refundable amounts have remained outstanding for several years, and we have not observed any communication with the tax authorities that indicate recovery of such refunds in the foreseeable future. Further, we have also not received any confirmation from the Corporation's tax advisor with regard to its recovery. Subsequent to the balance sheet date, management through a letter dated July 12, 2017 to Federal Board of Revenue (FBR) has requested for early settlement of these refunds, but no response has been received from FBR.

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Consequently, we were unable to ascertain whether and to what extent such refundable amounts are expected to be realized.

4. As more fully disclosed in note 28.7 to the financial statements, the Corporation is in dispute with Sui Southern Gas Company Limited (SSGCL) with regard to Late Payment Surcharge (LPS) claimed by SSGCL, as management believes that based on the decisions of the Economic Coordination Committee of the Cabinet (ECC), SSGCL should waive LPS, which SSGCL did not accede and stopped gas supply during the year and filed a suit against the Corporation for recovery of outstanding gas bills and LPS in the Sindh High Court (the Court). The Corporation also filed a counter-suit against SSGCL in the Court, claiming damages for losses suffered by the Corporation owing to discontinuance of gas supply by SSGCL from June 2015. Management has not recognized any liability in respect of LPS in the enclosed financial statements, as it expects that decision of ECC should prevail and ultimately, LPS will not be payable. However, in view of suit filed by SSGCL for LPS claim instead of waiver of the same, we were unable to determine what will be the amount payable by the Corporation in respect of LPS claimed by SSGCL.
5. As disclosed in note 20 to the financial statements, the Corporation has obtained various long term loans from Government of Pakistan, the records of terms and conditions of such long term financing are not available. In the absence of such records, we were unable to determine what will be the amount payable by the Corporation in respect of interest amount and when will the amount become payable.

We report that;

in our opinion, except for the possible effects, if any, of the matters described in paragraphs (1) to (5) above, proper books of account have been kept by the Corporation as required by the Companies Ordinance, 1984;

in our opinion;

- i. except for the possible effects, if any, of the matters described in paragraphs (1) to (5) above, balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;
- ii. the expenditure incurred during the year were for the purpose of the Corporation's business; and
- iii. the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Corporation;

except for the possible effects, if any, of the matters described in paragraphs (1) to (5) above, in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with the approved accounting

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