



Building a better
working world

EY Ford Rhodes
Chartered Accountants
Progressive Plaza, Beaumont Road
P.O. Box 15541, Karachi 75530
Pakistan

UAN: +9221 111 11 39 37 (EYFR)
Tel: +9221 3565 0007-11
Fax: +9221 3568 1965
ey.khi@pk.ey.com
ey.com/pk

INDEPENDENT AUDITOR'S REPORT

To the members of Agriauto Industries Limited

Report on the Audit of the Unconsolidated Financial Statements

Opinion

We have audited the annexed unconsolidated financial statements of Agriauto Industries Limited (the Company), which comprise the unconsolidated statement of financial position as at 30 June 2019, and the unconsolidated statement of profit or loss, the unconsolidated statement of comprehensive income, the unconsolidated statement of changes in equity, the unconsolidated statement of cash flows for the year then ended, and notes to the unconsolidated financial statements, including a summary of significant accounting policies and other explanatory information, and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of the audit.

In our opinion and to the best of our information and according to the explanations given to us, the unconsolidated statement of financial position, the unconsolidated statement of profit or loss, the unconsolidated statement of comprehensive income, the unconsolidated statement of changes in equity and the unconsolidated statement of cash flows together with the notes forming part thereof conform with the accounting and reporting standards as applicable in Pakistan and give the information required by the Companies Act, 2017 (XIX of 2017), in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at 30 June 2019 and of the profit, comprehensive income, the changes in equity and its cash flows for the year then ended.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) as applicable in Pakistan. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Unconsolidated Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants as adopted by the Institute of Chartered Accountants of Pakistan (the Code) and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are the matters that, in our professional judgment, were of most significance in our audit of the unconsolidated financial statements of the current period. These matters were addressed in the context of our audit of the unconsolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

EY



Building a better
working world

Following are the key audit matters:

Key audit matter	How our audit addressed the key audit matter
1. Adoption of IFRS 9 - Financial Instruments and IFRS - 15 Revenue from Contracts with Customers	
<p>As referred to in note 4.1 to the accompanying unconsolidated financial statements, the Company has adopted IFRS 9 and IFRS 15 with effect from 1 July 2018.</p> <p>IFRS 9 requires the Company to calculate loss allowances for financial assets using expected credit loss (ECL) model as against the incurred loss model previously applied by the management.</p> <p>Assessment of allowance for ECL against trade debts requires significant judgement, estimates and assumptions applied by the management including historical credit loss experience adjusted with forward-looking macro-economic information.</p> <p>IFRS 15 provides comprehensive model of revenue recognition along with detailed presentation and disclosure requirements. The standard requires the Company to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying the model to contracts with customers.</p> <p>Given the significance of the estimates and judgments used by the management related particularly to the calculation of allowance for ECL and to the timing and measurement of revenue recognition as well as incremental qualitative and quantitative disclosure, we considered these as a key audit matter.</p>	<p>Our key audit procedures in this area included, amongst others, review of the methodology developed and applied by the management to estimate the allowance for ECL against trade debts. We considered and evaluated the assumptions used in applying the ECL model based on historical information and qualitative factors as relevant for such estimates.</p> <p>Further, we assessed the integrity and quality of the data used for allowance for ECL computation based on the accounting records and information system of the Company as well as the external sources used for this purpose.</p> <p>We checked the mathematical accuracy of the ECL model by performing recalculation on test basis.</p> <p>We obtained an understanding of the additional processes and tested controls over revenue recognition established by the management and also assessed the warranty obligations there against in accordance with IFRS 15.</p> <p>We reviewed the assessment prepared by the management relating to the application of five-step model for revenue recognition. We assessed the reasonableness of judgments exercised by the management. We also considered and reviewed, on a sample basis, terms of revenue contracts and evaluated the timing and amount of revenue recognised.</p> <p>We further assessed the adequacy of unconsolidated financial statement disclosures in accordance with the applicable financial reporting framework.</p>
2. Existence and valuation of stock-in-trade	
<p>As disclosed in note 12 to the accompanying unconsolidated financial statements, the stock-in-trade balance constitutes approximately 24% of total assets of the Company. The cost of finished goods is determined at weighted average cost including a proportion of production overheads.</p> <p>The obsolescence is calculated by taking into account the Net Realisable Value (NRV) of related stock-in-trade while mainly keeping in view the estimated selling price, forecasted stock-in-trade usage and forecasted sales volume.</p>	<p>Our audit procedures included, amongst others, reviewing the management's procedures for evaluating the NRV of stock-in-trade, observing physical stock counts to ascertain the condition and existence of stock-in-trade, performing testing on a sample of items to assess the NRV of the stock-in-trade held and evaluating the adequacy of write down of stock-in-trade to NRV as at the year end.</p> <p>Further, we evaluated the appropriateness of the basis of identification of the obsolete stock-in-trade and the accuracy of write down of stock-in-trade to NRV assessed by the management, on a test basis.</p>



Building a better
working world

Key audit matter	How our audit addressed the key audit matter
<p>We have considered this area to be a key audit matter due to its materiality and judgments involved in estimating the NRV of underlying stock-in-trade as well as the management judgment in determining an appropriate costing basis and assessing its valuation.</p>	<p>We tested the accuracy of the ageing analysis of stock-in-trade, on a sample basis and cost of goods with underlying invoices and expenses incurred in accordance with stock-in-trade valuation method.</p> <p>We also tested the calculations of per unit cost of finished goods and assessed the appropriateness of management's basis for the allocation of cost and production overheads.</p> <p>We further tested the NRV of stock-in-trade by performing a review of sales close to and subsequent to the year-end and comparing with the cost for a sample of products.</p> <p>We further assessed the adequacy of unconsolidated financial statement disclosures in accordance with the applicable financial reporting framework.</p>
3. Capital Expenditure	
<p>As disclosed in note 7 to the accompanying unconsolidated financial statements, the Company has incurred significant amount of capital expenditure including transfers from capital work in progress during the year.</p> <p>We focused on capital expenditure incurred during the year as this represents a significant transaction for the year and involves certain judgmental areas, such as management's estimates about the useful life of assets and capitalization of elements of eligible components of cost as per the applicable financial reporting standards. Therefore, we have identified this as a key audit matter.</p>	<p>Our key audit procedures in this area included, amongst others, obtaining an understanding of the Company's process with respect to capital expenditure and related controls relevant to such process.</p> <p>We performed substantive audit procedures through inspection of related documents supporting various components of the capitalized costs.</p> <p>We also considered whether the items of cost capitalized meet the recognition criteria of an asset in accordance with the applicable financial reporting standards.</p> <p>We reviewed management's estimates about the useful life of assets so capitalized and consequent depreciation rates used by the Company.</p> <p>We further assessed the adequacy of unconsolidated financial statement disclosures in accordance with the applicable financial reporting framework.</p>

ETW



Building a better
working world

Information Other than the Unconsolidated Financial Statements and Auditor's Report Thereon

Management is responsible for the other information. The other information comprises the information included in the Annual Report, but does not include the unconsolidated and consolidated financial statements and our auditor's report thereon.

Our opinion on the unconsolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the unconsolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the unconsolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Board of Directors for the Unconsolidated Financial Statements

Management is responsible for the preparation and fair presentation of the unconsolidated financial statements in accordance with the accounting and reporting standards as applicable in Pakistan and the requirements of Companies Act, 2017 (XIX of 2017) and for such internal control as management determines is necessary to enable the preparation of unconsolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the unconsolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Board of directors are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Unconsolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the unconsolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs as applicable in Pakistan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these unconsolidated financial statements.

As part of an audit in accordance with ISAs as applicable in Pakistan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the unconsolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

EM



Building a better
working world

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the unconsolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the unconsolidated financial statements, including the disclosures, and whether the unconsolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the board of directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the board of directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the board of directors, we determine those matters that were of most significance in the audit of the unconsolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Based on our audit, we further report that in our opinion:

- a) proper books of account have been kept by the Company as required by the Companies Act, 2017 (XIX of 2017);
- b) the unconsolidated statement of financial position, the unconsolidated statement of profit or loss, the unconsolidated statement of comprehensive income, the unconsolidated statement of changes in equity and the unconsolidated statement of cash flows together with the notes thereon have been drawn up in conformity with the Companies Act, 2017 (XIX of 2017) and are in agreement with the books of account and returns;
- c) investments made, expenditure incurred and guarantees extended during the year were for the purpose of the Company's business; and
- d) zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the Company and deposited in the Central Zakat Fund established under section 7 of that Ordinance.

The engagement partner on the audit resulting in this independent auditor's report is Tariq Feroz Khan.

EY Feroz Khan

Chartered Accountants

Place: Karachi

Date: 13 September 2019