



## Independent Auditor's Report to the Members of Sazgar Engineering Works Limited

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the annexed financial statements of **Sazgar Engineering Works Limited (the Company)**, which comprise the statement of financial position as at June 30, 2020, and the statement of profit or loss and other comprehensive income, the statement of changes in equity, the statement of cash flows for the year then ended, and notes to the 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 statement of financial position, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the 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 June 30, 2020 and of the profit and other 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 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 those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



S. No.	Key audit matters	How the matters were addressed in our audit
1	<p><b>Impact of COVID-19 (Refer note 44 to the annexed financial statements)</b></p> <p>Due to the pandemic of Covid-19 in Pakistan, Provincial and Federal Government announced temporarily lockdown as a measure of reduce the spread of the Covid-19. Accordingly, the Company shut down its plant as on March 24, 2020. However, in compliance with the relaxation announced by the Governments, the Company resumed its operation partially as on April 15, 2020 and completely as on May 18, 2020. This affected the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.</p> <p>In relation to the accounting and reporting obligations, management assessed the significant areas for incorporating COVID-19 impact in the financial statements by considering the applicable IFRS and going concern assumptions used.</p> <p>The COVID-19 pandemic is a significant development during the year having the most significant impact on audit strategy and its execution and involved assessment of significant management judgments in the preparation of financial statements. Therefore, we considered it to be a key audit matter.</p>	<p>Our audit procedures amongst others included the following:</p> <ol style="list-style-type: none"> <li>i. Obtained an overall understanding of the changes in financial reporting process and underlying controls in order to determine the appropriate audit strategy;</li> <li>ii. Assessed the reasonableness of the forward looking factors under the Covid-19 situation used by the management in preparing Expected Credit Loss Model as per IFRS 9.</li> <li>iii. Evaluated whether any impairment indicators exist that could trigger impairment for tangible and intangible assets;</li> <li>iv. Obtained the computation of NRV of inventory and checked its reasonableness;</li> <li>v. Evaluated management's assessment as to whether any provisions were required to be recorded as a result of COVID-19;</li> <li>vi. Reviewed the key debt covenants of the loan agreement and checked that the company is in compliance with these covenants.</li> <li>vii. Evaluated management's going concern assessment by reviewing the approved budget/ future cash flow forecast and assessed whether going concern assumption is appropriate.</li> <li>viii. Assessed the adequacy of the disclosures made by the Company under the applicable financial reporting framework.</li> </ol>



2	<p><b>Capitalization of Property, Plant and Equipment and Capital Work in Progress</b></p> <p>Refer notes 3.3 and 15 to the financial statements.</p> <p>The Company has made significant capital expenditure on four-wheeler projects.</p> <p>We identified capitalization of property, plant and equipment as key audit matter because there is a risk that amounts being capitalized may not meet the capitalization criteria.</p>	<p>Our audit procedures to assess the capitalization of property, plant and equipment and Capital Work in Progress, amongst others, include the following,</p> <ul style="list-style-type: none"> <li>i. Understanding the design and implementation of management controls over capitalization and performing tests of control over authorization of capital expenditure and accuracy of its recording in the system;</li> <li>ii. Tested on sample basis, the costs incurred on assets with supporting documentation and contracts.</li> <li>iii. Assessed the nature of costs incurred for the capital assets through testing, on sample basis, of amounts recorded and considering whether the expenditure meets the criteria for capitalization as per the accounting policy and applicable accounting standards; and</li> <li>iv. Inspected supporting documents for the date of capitalization when asset was ready for its intended use to assess whether depreciation commenced and further capitalization of costs ceased from that date and assessing the useful life assigned by management including testing the calculation of related depreciation.</li> <li>v. Evaluated whether any impairment indicators exist that could trigger impairment for tangible assets;</li> <li>vi. Assessed the adequacy of the related disclosures made in the financial statements in this respect with regard to the applicable accounting and reporting standards.</li> </ul>
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<b>3</b>	<p><b>Contingent Liabilities</b></p> <p>Refer notes 14.1 to the financial statements.</p> <p>The Company has significant contingent liabilities in respect of Income Tax, Sales Tax, Punjab Social Security Institution, The Employees' Old Age Benefits Institution and other claim matters, which are pending adjudication at various appellate forums.</p> <p>Contingencies require management to make judgments and estimates in relation to the interpretation of laws, statutory rules, regulations and the probability of outcome and financial impact, if any, on the Company for disclosure and recognition and measurement of any provision that may be required against such contingencies. Due to the significance of the amounts involved, inherent uncertainties with respect to the outcome of the matters and use of significant management judgments and estimates to assess the same including related financial impacts, we have considered contingent liabilities as a key audit matter</p>	<p>Our audit procedures, amongst others, included the following:</p> <ul style="list-style-type: none"> <li>i) Obtained an understanding of the Company's process and controls over litigations through meetings with management and review of minutes of the meetings of Board of Directors and Board Audit Committee;</li> <li>ii) Obtained and assessed details of the pending tax and other legal matters and discussed the same with the Company's management;</li> <li>iii) Circularized confirmations to the Company's external legal and tax counsels for their views on legal position of the Company in relation to these pending matters;</li> <li>iv) Involved internal tax professionals to assess management's conclusion on contingent tax and other legal matters and evaluated consistency of such conclusions with the views of management and external tax and legal counsels engaged by the Company;</li> <li>v) Checked correspondence of the Company with the relevant authorities including judgments or orders passed by the competent authorities in relation to the issues involved or matters which have similarities with the issues involved; and</li> <li>vi) Assessed the adequacy of the related disclosures made in the financial statements in this respect with regard to the applicable accounting and reporting standards.</li> </ul>
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## Information Other than the 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 financial statements and our auditor's report thereon.

Our opinion on the 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 financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the 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 Financial Statements

Management is responsible for the preparation and fair presentation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the 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 Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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.
- 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 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 financial statements, including the disclosures, and whether the 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 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 statement of financial position, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the 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) No zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

The engagement partner on the audit resulting in this independent auditor's report is Muhammad Yousaf

**H.Y.K and Co.**  
**Chartered Accountants**  
**Lahore**

**Date: September 24, 2020**