



Corporate Supervision Department
Company Law Division

Before Abid Hussain – Executive Director

In the matter of

Associated Builders (Private) Limited

Number and date of notice: CSD/ARN/411/2016/1886-88 dated December 16, 2016
Date of hearing: January 16, 2017
Present: Mr Mansoor Khan – authorized representative

ORDER

UNDER SECTION 492 READ WITH SECTION 476 OF THE COMPANIES ORDINANCE, 1984

This order shall dispose of the proceeding initiated against directors and chief executive (“respondent”) of Associated Builders (Private) Limited (the “Company”) through show cause notice (the “SCN”) dated December 16, 2016 under the provisions of Section 492 read with Section 476 of the Companies Ordinance 1984 (the “Ordinance”).

2. The facts leading to this case, briefly stated, are that, review of the annual audited accounts of the Company for the year ended December 31, 2015 (“Accounts”) audited by Sandhu & Co. Chartered Accountants revealed that the following observations.

- a) The Company has prepared its Accounts as per the Accounting and Financial Reporting Standard (“AFRS”) for Medium Sized Entities (“MSE’s”) instead of International Financial Reporting Standards as issued by International Accounting Standards Board; in violation of the requirements of the Commission’s notification SRO 929 (I)/ 2015 dated September 10, 2015.
- b) The Company has disclosed investment properties amounting to Rs.2.03 billion as per Note 7 to the Accounts. The Company measures investment properties at cost as disclosed under Note 4.2 to the Accounts. However, the Accounts do not disclose the fair value of investment properties in terms of para 32 of International Accounting Standard 40 (the “IAS”), which requires entities to measure the fair value of investment property for the purpose of disclosure, if cost model is used. Considering that investment property constitutes 64% of the Company’s assets.
- c) Note 6.2 to the Accounts discloses that the Gwadar land classified as ‘work in progress’ was last revalued on May 7, 2005. IAS 16 permits carrying the asset at a revalued amount, being its fair value at the date of revaluation less subsequent depreciation and impairment, provided that fair value can be measured reliably. However, in such case the



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revaluations should be carried out with sufficient regularity, so that the carrying amount of an asset does not differ materially from its fair value at the balance sheet date. However, the Company has neither revalued its 'work in progress' for more than a decade nor has it assessed it for impairment as required under IAS 16 and IAS 36.

3. Para 41 of IAS-16 provides that;

This Standard requires all entities to determine the fair value of investment property, for the purpose of either measurement (if the entity uses the fair value model) or disclosure (if it uses the cost model). An entity is encouraged, but not required, to determine the fair value of investment property on the basis of a valuation by an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and category of the investment property being valued.

4. Par 34 of IAS 16 provides that:

The frequency of revaluations depends upon the changes in fair values of the items of property, plant and equipment being revalued. When the fair value of a revalued asset differs materially from its carrying amount, a further revaluation is required. Some items of property, plant and equipment experience significant and volatile changes in fair value, thus necessitating annual revaluation. Such frequent revaluations are unnecessary for items of property, plant and equipment with only insignificant changes in fair value. Instead, it may be necessary to revalue the item only every three or five years.

5. In view of the above, it *prima facie* appears that accounts for the year ended December 31, 2015 were misstated. Therefore, SCN was issued to the respondent under the provisions of Section 492 of the Ordinance. The respondents submitted no written submissions.

6. In order to provide opportunity of personal hearing; the case was fixed before the undersigned on January 16, 2017. Mr. Mansoor Khan appeared on behalf of respondents and made the following submissions.

- a) The Company acknowledges that the accounts have been prepared as per the AFRS instead of IFRS. However, the said discrepancy was due to an oversight of SRO No. 929(I)/2015 dated 10-9-2015 and even otherwise the material disclosures required under IFRS have been made in the Accounts. In light of the foregoing and the fact that the Company is a private limited company, it is submitted a lenient view may be taken and the default may be condoned. Further, the Company ensured that compliance will be made with the SRO in future financial statements.



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- b) As per the Company's internal assessment there has been no significant and volatile change in the fair value of the investment properties stated in Note 7 to the Accounts which are reported at cost method. Even otherwise, it may be noted that as per para 32 of IAS 40, an entity is encouraged but not required, to determine the fair value of investment property based on a valuation by an independent valuer. However, the point raised in the para under reply has been duly noted and appropriate disclosures will be made in the next financial statement.
- c) There has been no significant change in the work in progress of the Gwadar Land, the carrying amount doesn't materially differ from its fair value at the balance sheet date. Hence as stated in para 43 of IAS 16 such frequency revaluations are unnecessary for items of property, plant and equipment with only insignificant changes in fair value. Nevertheless, the point raised in the para under reply has been noted and the Company will ensure that the same is disclosed in the financial statements based on fresh valuation report and as this land is measured at fair value, IAS 36 is not applicable, further, provided copy of valuation report dated May 2, 2016.

7. Before proceeding further, it is necessary to advert to the following relevant provisions of Section 492 of the Ordinance, which states as under:

"Whoever in any return, report, certificate, balance sheet, profit and loss account, income and expenditure account, prospectus, offer of shares, books of accounts, application, information or explanation required by or for the purposes of any of the provisions of this Ordinance or pursuant to an order or direction given under this Ordinance makes a statement which is false or incorrect in any material particular, or omits any material fact knowing it to be material, shall be punishable with a fine not exceeding five hundred thousand rupees."

8. In terms of the Commission's notification SRO 1003 (I)/2015 dated October 15, 2015, the powers to adjudicate cases under section 492 of the Ordinance have been delegated to the Executive Director (Corporate Supervision Department).

9. I have analyzed the facts of the case, relevant provisions of the Ordinance and IFRS, arguments put forth by the respondent in writing during the hearing and observed that Accounts were misstated due to the following;

- a) The Company accepted the default that the Accounts were prepared as per AFRS instead of IFRS due to oversight and ensured future compliance.



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- b) IAS 40 allowed to choose either the fair value model or the cost model for all investment property, however, mandated to determine the fair value of investment property in both cases, and if the company is using the cost model disclosure of fair value is required which the Company failed to disclosed.
- c) As per IAS 16 the Company was required to revalue its Gwadar Land every three to five years which it failed to revalue for last decade. In order to rectify the default the Company has now revalued the Gwadar Land.

10. For the foregoing reasons and as the respondents accepted the defaults and making efforts to rectify them, the case is hereby disposed of with warning to the respondent to be careful in future regarding compliance with applicable accounting standards and legal framework.

Abid Hussain
Executive Director

Announced:
March 17, 2017
Islamabad