SECP **Before Abid Hussain – Executive Director (Corporate Supervision Department)**

In the matter of

Yousuf Adil Saleem & Co., Chartered Accountants- Auditor of Allawasaya Textile and Finishing Mills Limited

Number and date of notice: EMD/233/437/02-1035, dated January 8, 2014

ORDER

UNDER SECTION 260 READ WITH SECTION 476 OF THE COMPANIES ORDINANCE, 1984

This order shall dispose of the proceedings against Mr. Talat Javed (the "respondent"), audit engagement partner of Yousuf Adil Saleem Co., Chartered Accountants, ("Auditor"), in respect of audit of annual audited financial statements (the "Accounts") of Allawasaya Textile and Finishing Mills Limited (the "Company") for the year ended June 30, 2012. The proceedings against the respondent were initiated through show cause notice ("SCN") dated January 8, 2014 under the provisions of section 260 read with section 476 of the Companies Ordinance 1984 (the "Ordinance").

2. The brief facts of the case are that examination of Accounts of the Company for the year ended June 30, 2012 revealed that building on freehold land, generators and electric installations relating to Power House amounting to Rs298 million (*WDV of Rs70 million*) were revalued and sated at revalued amounts while assets of the same class (i.e. building on freehold land, electric installations and plant & machinery) other than those of the Power House were stated at historical costs (*WDV Rs126 million*). This was, prima facie, in violation of requirements of para 36 of International Accounting Standard ("IAS") 16 - Property, Plant and Equipment, which states that *if an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs shall be revalued.* Due to apparently selective revaluation of assets done by the Company, the Accounts of the Company, prima facie, did not present a true and fair view. The Auditor in his report to members did not report the aforesaid non-compliance by the Company with requirements of IAS 16. Consequently, the SCN was issued to the respondent being audit engagement partner of the Auditor as the audit report on the Accounts was, prima facie, not in compliance with requirements of section 255 of the Ordinance.

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3. In response to the SCN, the respondent through letter dated January 21, 2014 submitted as under:

- The Company was established in 1958 and the major plant and machinery was installed at that time to manufacture yarn, and since then the same is being used by the Company with few modifications, additions and up-gradations. The building of the Power House is purpose built and is situated away from the Company's other manufacturing facilities (i.e. Mills Area). This building is specifically designed for installation of generators with the help of some ancillary equipment. Moreover, generator cannot be classified as part of normal plant and machinery as it is designed solely for power generation and is act from other machines used for textile products. Collectively, building (used for power house), generators and ancillary electrical installation make up "Power House" in which each part is integral for operation of other. Para 37 of IAS 16 states that: "*A class of properly plant and equipment is a grouping of assets of similar nature and use in an entity's operations*".
- As disclosed in note 3 to the financial statements for the year ended June 30, 2012, the Power House is treated as a separate class of assets on the premise that the nature and use of Power House clearly differs from the rest of property, plant and equipment being used for normal operations. Since assets are classified and grouped on the basis of nature and their intended use; therefore, power house has been considered by the entity as a separate class of assets.
- The above paragraph clearly shows that the objective of establishing Power House (inclusive of its sub-classes) was different from the rest of classes of assets; therefore, it was separately presented and disclosed under the fixed assets of the Company. For valuation purposes, the valuer has also considered the Power House as a single unit. It is not prudent to assess the fair value of each item of Power House in isolation with other parts. In isolation, every component may be considered to be useless.
- Further it is very important to understand what does a class of asset mean and the nature and use of an asset in the entity's operations is critical, based on which class of asset is established. For this purpose clarifications and guidelines from a big four public accounting firms, is a useful source. It has been elaborated in a publication by one of the big four firms that different treatments can be followed for different assets of the same class of assets. The relevant explanation provided in the Manual of Accounting –IFRS 2013

(Global guide to International Financial Reporting Standards) by PricewaterhouseCoopers (PWC), explains that for revaluation purposes, an entity may adopt classes of assets at level narrower than a list given in para 37 of IAS-16. Further, it also suggests that when assets are treated as a separate class, each such class must be presented separately in the table of movements as required by para 73 of IAS 16. *(The respondent also produced extracts from the aforesaid manual in the reply)*

- The above requirements have been appropriately addressed in the financial statements of the Company for the year ended June 30, 2012. Regarding your query as to why the revaluation of the remaining assets in 2013 were not incorporated in financial statements 2012, we want to mention that when an entity initially adopts a policy to measure property, plant and equipment using the revaluation model, this initial adoption of the valuation basis represents a change in accounting policy. 1AS 8, para-17 specifies, however, that it should be dealt with as revaluation rather than as a prior period adjustment. Consequently, the valuation uplift or write-down occurring on the initial adoption of the revaluation basis is dealt with in accordance with the requirements 3f S 16. Prior period amounts are not restated. Therefore the impact of 2013 revaluation has not been taken as a prior period restatement and hence the 2012 financial statements are in line with the requirements of approved accounting standards.
- We also understand that management's assumption of treating Power House as a separate class of asset is appropriate in view of the guidance provided in 1AS-16 and we concur with the management's assumptions and to the best of our information and according to the explanations given to us by the management of the Company, we believe that the report given under section 255 and the use of ISA-700 was appropriate in forming our opinion.

4. Subsequently the Commission obtained technical opinion from the Institute of Chartered Accountants of Pakistan ("ICAP") on the subject matter, and the technical committee of the ICAP concluded the opinion, as under:

"The Committee is of the view that determining the class of assets according to their nature and use is an area involving significant estimates and judgment. There may be instances where management intends to put assets of similar nature to dis-similar use. Accordingly, such assets may be grouped as separate class of assets.

However, in the instant case, the Committee could not reach to a conclusion that the assets comprising building and power generators forming part of Power House do not constitute a separate class of assets as all facts which may have been considered by the management in considering the assets as Separate class are not available with the Committee." (Emphasis added)

5. I have gone through the facts of the case, provisions of the IAS, technical opinion of the ICAP and the submissions made by the respondent. It is evident that the ICAP has not reached to a concrete conclusion citing the unavailability of all the facts that were available with the management of the Company for reaching the decision. However, ICAP has, inter alia, rendered the opinion that *there may be instances where management intends to put assets of similar nature to dissimilar use.* Moreover, as per record, the Company got the assets comprising building on freehold land, electric installations and plant & machinery other than those of the Power House revalued subsequently, and the effect of the same has been incorporated in the Accounts for the year ended June 30, 2013. Therefore, considering all these facts, I hereby concluded the proceedings against the respondent without any adverse order.

Abid Hussain
Executive Director (Corporate Supervision Department)

Announced:
March 7, 2016
Islamabad