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# INDEPENDENT AUDITORS' REPORT

**To the Members of Pak Datacom Limited**

## Report on the audit of the Financial Statements

We have audited the annexed financial statements of Pak Datacom Limited, which comprise the statement of financial position as at 30 June 2019, 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 explanations given to us, the statement of financial position, 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 30 June 2019 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 *Auditors' 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.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Emphasis of Matter**

We draw attention to note 11.2 to the financial statements which describes the uncertainty relating to outcome of the contingency.

Our opinion is not modified in respect of this matter.

**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.

Following are the key audit matters:

| Sr No. | Key audit matters | How the matters were addressed in our audit |
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| 1. | **Recognition of Revenue**<br>*(Refer to notes 3.2, 4.7 and 22 to the financial statements)*<br><br>The Company is engaged in setting up, operating and maintaining a network of data communication.<br><br>The Company recognized revenue during the year from data communication services, telecom infrastructure services and projects amounting to Rs. 775.115 million, Rs. 2.258 million and Rs. 269.582 million respectively. | Our audit procedures, amongst others, included the following:<br><br>• Obtained an understanding of the process relating to recognition of revenue and tested the design and implementation of key internal controls over recording of revenue;<br>• Assessed the appropriateness of the Company's accounting policies for revenue recognition and compliance of those policies with accounting and reporting standards as applicable in Pakistan;<br>• In respect of revenue against provision of data |

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| | We identified recognition of revenue as a key audit matter because revenue is one of the key performance indicators of the Company and gives rise to an inherent risk that revenue could be subject to misstatement to meet expectations or targets and that during the year IFRS 15 "Revenue from contracts with customers" became applicable to the Company which requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive, when the control is transferred to the customer. | communication and telecommunication infrastructure facilities, compared a sample of revenue transactions recorded during the year with invoices, agreements/demand notes and other relevant underlying documents;<br>• In respect of revenue against provision of data communication and telecommunication infrastructure facilities, inspected the commissioning and closing certificates issued subsequent to the year end to assess whether revenue has been recorded in correct accounting period;<br>• Considered the appropriateness of the accounting policy for revenue recognition and comparing it with the applicable accounting standards;<br>• Reviewed management's assessment of impact of IFRS 15 "Revenue from contracts with customers" on the Company in respect of revenue recognition;<br>• Assessed the adequacy of disclosures related to revenue as required under applicable financial reporting standards; and<br>• Compared the details of journal entries posted to revenue accounts during the year, |

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| | | which met certain specific risk-based criteria, with the relevant underlying documentation. |
| 2. | **Valuation of trade debts in accordance with IFRS 9 – Financial Instruments**<br>*(Refer note 3.1, 4.5, 4.13 and 15 to the financial statements)*<br><br>As at 30 June 2019, the Company's gross trade debtors were Rs. 439.652 million against which provision for doubtful debts of Rs. 96.335 million was recorded.<br><br>The Company has adopted IFRS 9 with effect from 1 July 2018. The new standard requires, among other matters, the Company to recognize impairment loss for financial assets using Expected Credit Loss (ECL) approach as against the Incurred Loss Model previously applied by the Company under IAS 39.<br><br>Determination of ECL provision for trade debts requires significant judgment and assumptions including consideration of factors such as historical credit loss experience and forward-looking macro-economic information.<br><br>We have considered the first time application of ECL | Our audit procedures, amongst others including evaluation of ECL on trade debts in accordance with IFRS 9 – "Financial Instruments" included the following:<br>• Obtained an understanding of and testing the design and implementation of management's key internal controls relating to credit control, debt collection and recording Expected Credit Loss allowance;<br>• Circularized, on a sample basis, request for direct confirmation of balance due from customers, reviewed confirmations received and tested reconciliations, where differences were identified;<br>• Tested, on sample basis, whether items in the trade debtors' ageing report were classified within the appropriate ageing bracket by comparing individual items in the report with underlying documentation;<br>• Compared, on sample basis, cash receipts from customers subsequent to the financial year end from trade debtor balances existing as at 30 June 2019 with bank statements;<br>• Assessed the methodology developed and applied by the |

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| | requirements as a key audit matter due to significance of estimates and judgments in this regard. | • Assessed the methodology developed and applied by the Company to estimate the ECL in relation to trade debts;<br>• Assessed and evaluated the assumptions used in applying the ECL methodology based on historical credit loss experience and forward-looking macro-economic information as relevant for such estimates;<br>• Assessed the integrity and quality of the data used for ECL computation based on the accounting records of the Company as well as the related external sources as used for this purpose;<br>• Checked the mathematical accuracy of the ECL model by performing recalculation on test basis; and<br>• Assessed the adequacy of disclosures related to ECL as required under applicable financial reporting standards. |

## Information Other than the Financial Statements and Auditors' Report Thereon

Management is responsible for the other information. Other information comprises the information included in the annual report for the year ended 30 June 2019, but does not include the financial statements and our auditors' 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.

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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.

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**Auditors' 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 auditors' 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 auditors' 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 auditors' 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 auditors' 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) 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 auditors' report is Inam Ullah Kakra.

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**Chartered Accountants**
**Islamabad**

**4 November 2019**