

STATUTORY NOTIFICATION (S.R.O)

Government of Pakistan

SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

PUBLISHED BY AUTHORITY

Islamabad the, 1998

S.R.O (I)/98.- In exercise of the powers conferred by sections 258 and 506 of the Companies Ordinance, 1984 (XLVII of 1984), read with the Finance Division's Notification No. S.R.O.698(I)/86, dated the 2nd July, 1986, the Corporate Law Authority hereby makes the following rules, the same having been published previously as required by sub-section (1) of the said section 506, namely:-

COMPANIES (AUDIT OF COST ACCOUNTS) RULES, 1998

1. Short title, application and commencement.-

- i. These rules may be called the Companies (Audit of Cost Accounts) Rules, 1998.
- ii. These rules shall apply to companies or class of companies, which are required by the Corporate Law Authority through a general or special order issued under clause (e) of sub-section (1) of section 230 of the Companies Ordinance, 1984, to include in their books of account, such particulars relating to utilisation of material or labour or to other inputs or items of cost, as specified in that order.
- iii. They shall come into force at once.

2. Definitions.- In this rules, unless there is anything repugnant in the subject or context,-

- i. "Appendix" means an Appendix to these rules;
- ii. "company" means a company formed and registered under the Companies Ordinance, 1984 (XLVII of 1984), and to which these rules apply;
- iii. "director" means a director of a company; and
- iv. "cost auditor" means a cost auditor appointed under rule 3.

3. Appointment of cost auditors.-

- i. Every company shall be required to get its cost accounts audited by a cost auditor who is a Chartered Accountant within the meaning of the Chartered Accountants Ordinance, 1961 (X of 1961), or a Cost and Management Accountant within the meaning of the Cost and Management Accountants Act, 1966 (XIV of 1966).
- ii. The cost auditor shall be appointed by the directors with the prior approval of the Corporate Law Authority within sixty days of the close of financial year of the company.

- iii. The company shall apply to the Corporate Law Authority in the form set out in Appendix I for appointment of cost auditor not later than thirty days before the date on which cost auditor is to be appointed.
- iv. None of the following persons shall be appointed as cost auditor of a company, namely :-
 - a. a person who has been appointed as auditor of the company for the respective period under section 252 of the Companies Ordinance, 1984
 - b. a person who is, or at any time during the preceding three years was, a director, officer or employee of the company ;
 - c. a person who is a partner of, or in the employment of, a director, officer or employee of the company ;
 - d. a spouse of a director of the company ;
 - e. a person who is indebted to the company ; and
 - f. a body corporate.
- v. The remuneration of the cost auditor shall be fixed by the directors.

Explanation.- In this sub-rule reference to an "officer" or "employee" shall be construed as not including reference to a cost auditor.

4. Cost auditors' report.-

- i. Every company shall, in addition to the records and statements specified in the order of the Corporate Law Authority issued under clause (e) of sub-section (1) of section 230 of the Companies Ordinance, 1984, prepare -
 - a. a statement of production capacity of the plant, in terms of machine hours and production units, the actual utilisation of the capacity and the reasons of difference between the two; and
 - b. a statement of stock-in-trade of the company as at the end of financial year in terms of quantity and cost thereof distinguishing between-
 - I. stock of raw material and components;
 - II. stock of work in process;
 - III. stock of finished products; and
 - IV. other stocks.
 - ii. The statement specified in clauses (a) and (b) of sub-rule (1) shall be signed by the chief executive and chief accountant of the company.
 - iii. The cost auditor shall make out a report within sixty days of his appointment to the directors in the form set out in Appendix II alongwith a statement of capacity utilisation and stock-in-trade as specified in clauses (a) and (b) of sub-rule (1) in the form set out in Appendix III and simultaneously shall submit two copies thereof to the Corporate Law Authority and the registrar concerned.
 - iv. The company shall, within thirty days from the date of receipt of copy of the report, furnish the Corporate Law Authority with full information and explanation on every reservation or qualification contained in such report.
- 5. Penalty.-** Whoever fails or refuses to comply with, or contravenes any provision of these rules, or knowingly and wilfully authorises or permits such failure,

refusal or contravention shall, in addition to any other liability under the Companies Ordinance, 1984, be also punishable with fine not exceeding two thousand rupees and, in case of continuing failure, refusal or contravention, with a further fine not exceeding one hundred rupees for every day after the first during which such contravention continues.

Appendix-I
[see rule 3(3)]

**form OF APPLICATION TO THE CORPORATE LAW AUTHORITY FOR
APPOINTMENT OF COST AUDITORS**

1. Name of the company together with the address of its registered office and the date of its incorporation:
2. Status of the company:
3. Capital structure of the company:
4. Principal line(s) of business of the company:
5. Proposal for which the Corporate Law Authority's approval is sought indicating the product for which cost audit is ordered:
 - i. The name and address of the cost auditor who is recommended to be appointed:
 - ii. Whether the proposed cost auditor is a Chartered Accountant within the meaning of Chartered Accountants Ordinance, 1961(X of 1961) or Cost and Management Accountant within the meaning of the Cost and Management Accountants Act, 1966 (XVI of 1966) and whether he has a certificate of practice:
 - iii. The associateship/fellowship No. of the cost auditor:
6. Whether the cost auditor is subject to any disqualification under rule 3(3).
7. Remuneration for the cost auditor:
8. The financial year or years to be covered by the cost audit:
9. Date of the meeting of the directors recommending the name of the cost auditor:
10. A certified copy of the resolution passed by the directors of the company sanctioning the proposal for which the Corporate Law Authority's approval has been sought:
11. Name and address of the previous cost auditor, if any, together with the financial year of the company which was subjected to cost audit:
12. If there is any change in the appointment of cost auditor, the reasons therefore may be stated:
13. Declaration

I/We solemnly declare that facts stated in the application are true to the best of my/our knowledge, information and belief.

Signature:
Designation (Chief Executive)

Dated : This day of.....19..

Appendix-II
[See rule 4(3)]
COST AUDITORS' REPORT

I/We having been appointed to conduct an audit of cost accounts of Messrs....., have examined the books of account and the statements prescribed under clause (e) of sub-section (1) of section 230 of the Companies Ordinance, 1984 and the other relevant record for the year ended on.....and report that -

I/We have/have not obtained all the information and explanations which to the best of my/our knowledge and belief were necessary for the purposes of this audit.

in my/our opinion -

- a. proper cost accounting records as required by clause (e) of sub-section (1) of section 230 of the Companies Ordinance, 1984 (XLVII of 1984), and as required by these rules, have been / have not been kept by the company;
- b. proper returns, statements and schedules for the purpose of audit of cost accounts have / have not been received from branches not visited by me/us;
- c. the said books and records give/do not give the information required by the rules in the manner so required; and
in my/our opinion and, subject to best of my/our information -
 - a. the annexed statement of capacity utilisation and stock-in-trade are/are not in agreement with the books of account of the company and exhibit true and fair view of the company's affairs; and
 - b. cost accounting records have/have not been properly kept so as to give a true and fair view of the cost of production, processing, manufacturing and marketing of the undermentioned products of the company, namely:-

The matter contained in the ANNEX forms part of this report.

Dated: Thisday of

Signature:

(Name of the cost auditor or firm of cost auditors)

Appendix III

[See rule 4(3)]

PARTICULARS TO BE INCLUDED IN COST AUDITORS'
REPORT TO THE DIRECTORS OF THE COMPANY

1. Capacity:

- a. Licensed, installed and utilised capacities of the factory or factories for the products under reference.
 - b. If the company is engaged in other activities besides the manufacture of the product under reference, give a brief note on the nature of such other activities.
2. **Cost accounting system:**
Brief comments on the cost accounting system and its adequacy or otherwise to determine correctly the cost of the product under reference.
3. **Production:**
 - a. Production in quantities of each type of product under reference.
 - b. Percentage of production of the product under reference in relation to installed capacity. If there is any shortfall in production as compared to the installed capacity, brief comments as to the reasons for the shortfall.
 - c. If there is any addition to the production capacity during the year under review or in the immediately preceding two years, this may also be mentioned.
4. **Raw material:**
 - a. The cost of major raw material consumed both in terms of quantity and value. Where the cost of transport, etc., of raw material is significant, specify the same separately.
 - b. Consumption of major raw material per unit of production compared with the standard requirements, if any.
 - c. Explanations for variances, if any, in the consumption of major raw material per unit of production as compared to the preceding two years, and with standard requirement, if any.
 - d. Comments on the method of accounting followed for recording the quantities and value of receipts, issues and balances of all material directly used in production.
5. **Wages and salaries:**
 - a. Total wages and salaries paid for all categories of employees, separately in respect of each of the following, namely:-
 - i. direct labour costs on production ;
 - ii. indirect employees' cost on production ;
 - iii. employees' cost on administration ;
 - iv. employees' cost on selling and distribution ;
 - v. bonus to workers and employees ;
 - vi. other employees' cost, if any (including taxes and levies) ; and
 - vii. total employees' cost [total of items (i) to (iv) above].
 - b. Salaries and perquisites of directors and chief executive.
 - c. Total man-days of direct labour available and actually worked for the year.
 - d. Average number of workers employed for the year.
 - e. Direct labour cost per unit of output of the product (give information in respect of each).
 - f. Brief explanations for variances in item (e) above, if any, as compared to the previous two years.

- g. Comments on the incentive schemes, if any, with particular reference to its contributions towards increasing productivity and its effect on cost of production.
6. **Stores and spare parts:**
- a. The expenditure per unit of output on stores, etc.
 - b. Comments on the system of stores accounting for recording receipts, issues and balances, both in quantities and values.
 - c. If practicable, the proportion of closing inventory of stores representing items which have not moved for over twenty four months.
7. **Depreciation:**
- a. The method of depreciation adopted by the company, e.g. straight line or diminishing balance, etc.
 - b. The basis of allocation of depreciation on common assets to the different departments.
 - c. The basis of charging depreciation to the cost of products.
8. **Overheads:**
- a. The total amounts of the following overheads and a break-up of items (i), (ii) and (iii) below:-
 - i. Factory overheads.
 - ii. Administration overheads.
 - iii. Selling and distribution overheads.
 - iv. Financial charges.
 - b. Reasons for any significant variances in the expenditure incurred against the item, included in overheads as compared with previous two years.
 - c. The basis of allocation of overheads to cost centres and of absorption to products with brief comments, if any, on the basis of allocation adopted by the company.
 - d. Cost of packing, if any, of the products under reference to be shown separately with details to the extent possible.
9. **Royalty/technical aid payments:**
The total amount of royalty/ technical aid fees payable for the year and the amount chargeable per unit of the product.
10. **Abnormal non-recurring features:**
- a. If there were any abnormal features affecting production during the year, e.g., strikes, lock-outs, major breakdowns in the plant, substantial power cuts, serious accidents, etc., they shall, wherever practicable, be briefly mentioned indicating their impact on the cost of production.
 - b. If there are any special expenses which have been directly allocated to products under reference, the total amount as also the incidence per unit of product shall be shown.
11. **Cost of production:**
The cost per unit of different categories, varieties or qualities of each of the products under reference with comparative figures for the previous year and comments on the reasons of difference.
12. **Sales:**

- a. The sales in quantities and net sales realisation of the different categories, varieties or quantities of product under reference showing the average sales realisation per unit.
- b. If product under reference is exported, quantity exported, net realisation per unit, countries to which exported indicating the profit or loss incurred in export

13. Profitability:

The profit per unit earned on each category, variety or quantity of the products, comments on the comparative profits of different categories of the products per unit as well as in term of per machine hour, etc., and comments on the adequacy or otherwise of product for maximisation of profit.

14. Cost auditors' observations and conclusions:

- a. Matters which appear to him to be clearly wrong in principle or apparently unjustifiable.
- b. Cases where the company's funds have been used in a negligent or inefficient manner.
- c. Factors which could have been controlled, but have not been done resulting in increase in the cost of production.
 - i. The adequacy or otherwise of budgetary control system, if any, in vogue in the company; and
 - ii. the scope and performance of internal audit, if any.
- d. Suggestions for improvements in performance, if any, e.g., by-
 - i. rectification of general imbalance in production facilities;
 - ii. fuller utilisation of installed capacity ;
 - iii. comments on areas offering scope for-
 - I. cost reduction ;
 - II. increased productivity ;
 - III. key limiting factors causing production bottle-necks ;
 - IV. improved inventory policies or
 - V. energy conservancy ;
 - iv. state of technology, whether modern or obsolete; and
 - v. plant, whether new or second-hand when installed.

15. Reconciliation with financial account:

After the auditor appointed under section 252 of the Companies Ordinance 1984, submits his report, the cost auditor shall submit a supplementary report on reconciliation with financial accounts to the directors before the date fixed for holding the annual general meeting of the company.

16. Cost statement:

Copies of all the cost statements on the formats prescribed by the Corporate Law Authority under clause (e) of sub-section (1) of section 230 of the Companies Ordinance, 1984, duly authenticated by the chief executive and chief accountant of the company, and verified by the cost auditor, shall be appended to the report.

17. Miscellaneous:

As far as practicable, comparison of all figures of cost and production shall be made with the figures of previous year.

[No. CO-258(2)/RCP/91]

(MOHAMMED HAYAT JASRA)
Registrar of Companies

**GOVERNMENT OF PAKISTAN
CORPORATE LAW AUTHORITY
STATE LIFE BUILDING, 7-BLUE AREA

NO.CO.258(2)/RCP/91

Islamabad, the 21st October, 1998.

OFFICE MEMORANDUM

**SUBJECT: PUBLICATION OF NOTIFICATION REGARDING COMPANIES
(AUDIT OF COST ACCOUNTS) RULES, 1998.**

The undersigned is directed to forward herewith corrigenda in S.R.O. 846(I)/98 regarding Companies (Audit of Cost Accounts) Rules, 1998 and to request that it may please be published in Part-II of the Gazette of Pakistan, Extra Ordinary and 200 copies be supplied to the undersigned on printing.

(Mohammad Hayat Jasra)
Registrar Of Companies (HQ)

Encl: As above.
The Manger,
Printing Corporation of Pakistan,
Islamabad.