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PART II

Statutory Notification (S. R. O.)

GOVERNMENT OF PAKISTAN
SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
(Federal Board of Revenue)

NOTIFICATION

Islamabad, the 21st September, 2020

S.R.O. 893(I)/2020- The following draft Companies (Audit of Cost Accounts) Regulations, 2020, proposed to be made by the Securities and Exchange Commission of Pakistan, in exercise of the powers conferred under sub-section (1) of section 250 read with first proviso to sub-section (1) of section 220 and sub-section (1) of section 512 of the Companies Act, 2017 (XIX of 2017), is hereby published for information of all persons likely to be affected thereby and notice is hereby given that comments, if any, received within fourteen days of the date of this notification will be taken into consideration.

(1)

Price: Rs. 6.00

[6054 (2020)/Ex. Gaz.]

**DRAFT COMPANIES (AUDIT OF COST ACCOUNTS)
REGULATIONS, 2020**

1. Short title, application and commencement. - (1) These regulations may be called the Companies (Audit of Cost Accounts) Regulations, 2020.

(2) Every company engaged in production, processing, manufacturing or mining activities is required to maintain particulars relating to utilization of material or labour or the other inputs or items of cost under first proviso to subsection (1) of section 220 of the Act including but not limited to class of companies which have been recommended by the relevant regulatory authorities and entities in terms of subsection (2) of section 250 as mentioned in the Schedules to these regulations.

(3) These shall come into force on the date of their publication in the Official Gazette.

(4) These shall be applicable in respect of the financial years commencing on or after the date of this notification.

2. Definitions. - (1) In these regulations, unless there is anything repugnant in the subject or context.-

- i. "Act" means the Companies Act, 2017 (XIX of 2017);
- ii. "Appendix" means an Appendix to these regulations;
- iii. "Company" means as defined in the Act;
- iv. "Cost auditor" means a cost auditor appointed under regulations 3; and
- v. "Schedule" means a Schedules to these regulations.

(2) The words and expression used but not defined in these regulations shall have the same meaning as are assigned to them in the Act.

3. Maintenance of records.- (1) Every company to which these regulations applies shall, in respect of each financial year commencing on or after the commencement of these regulations, keep cost accounting records, containing, interalia, the particulars specified in Schedules to these regulations.

(2) The cost accounting records referred to in sub-regulation (1) shall be kept in such a way as to make it possible to calculate from the particulars entered therein, the cost of production and cost of sales of each of the products separately, during a financial year.

(3) Where a company is engaged in any other business(es) in addition to those referred to in Schedules to these regulations, the particulars relating to the utilization of materials, labour and other items of cost in so far as they are applicable to such other product shall not be included in the cost of product referred to in Schedules to these regulations.

(4) It shall be the duty of every person referred to in sub-section (6) of section 220 of the Act, to comply with the provisions of these regulations in the same manner as they are liable to maintain financial accounts required under section 220 of the said Act.

4. Appointment of cost auditors. - (1). The first cost auditor shall be appointed by the board within ninety days from the date of this notification of these regulations or amendment thereof and thereafter cost auditor for subsequent financial year shall be appointed within one hundred and eighty days of the commencement of every financial year of the company.

(2) Every company shall inform the appointment of cost auditor to the Commission within a period of fourteen days of the board meeting in which such appointment is made, in the Form set out in Appendix I.

(3) Every cost auditor appointed as such shall continue in such capacity till the expiry of one hundred and eighty days of the closure of the financial year for which he has been appointed or till he submits the cost audit report.

Provided that the cost auditor appointed under these regulations may resign from such office of the company or may be removed from his office before the expiry of his term through a board resolution after being given a reasonable opportunity of being heard and recording the reasons for such removal in writing.

(4) Any causal vacancy in the office of a cost auditor, whether due to resignation, death or removal, shall be filled by the board within thirty days of occurrence of such vacancy and the company shall inform the appointment of cost auditor to the Commission on relevant form within fourteen days of such appointment.

(5) The remuneration of the cost auditor shall be fixed by the board or by the Commission, if the cost auditors are appointed by the board or the Commission, as the case may be.

5. Qualification and disqualification of cost auditors: (1). 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) having a valid certificate of practice from the respective institute;

Provided that a firm whereof majority of practicing partners are qualified for appointment shall be appointed by its firm name to be the cost auditors of the company;

Provided further that in the case of listed company, the cost auditor or firm shall hold satisfactory rating under the Quality Control Review Program of the Institute of Chartered Accountants of Pakistan.

(2) Where a partnership firm is appointed as cost auditor of a company, only the partners who meet the qualification requirements as provided in sub-regulation (1), shall be authorized to act and sign on behalf of the firm.

(3) 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 246 of the Act;
- 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. the spouse of a director of the company;
- e. a person who is indebted to the company other than in the ordinary course of business of such entities;
- f. a person who has given a guarantee or provided any security in connection with the indebtedness of any third person to the company other than in the ordinary course of business of such entities;

- g. a person or a firm who, whether directly or indirectly, has business relationship with the company other than in the ordinary course of business of such entities;
- h. a person who has been convicted by a court of an offence involving fraud and a period of ten years has not elapsed from the date of such conviction;
- i. a body corporate;
- j. a person who is not eligible to act as auditor under the code of ethics as adopted by the Institute of Chartered Accountants of Pakistan and the Institute of Cost and Management Accountants of Pakistan;
- k. a person or his spouse or minor children, or in case of a firm, all partners of such firm who hold any shares of an audit client or any of its associated companies:

Provided that if such a person holds shares prior to his appointment as cost auditor, whether as an individual or a partner in a firm the fact shall be disclosed on his appointment as cost auditor and such person shall disinvest such shares within ninety days of such appointment.

Explanation. - In this sub-regulation,

- (i) reference to an "officer" or "employee" shall not include a cost auditor;
- (ii) for the purposes of clause (e), a person who owes-
 - (a) a sum of money not exceeding one million rupees to a credit card issuer; or
 - (b) a sum to a utility company in the form of unpaid dues for a period not exceeding ninety days;

shall not be deemed to be indebted to the company.

(4) A person shall also not be qualified for appointment as cost auditor of a company if he is, by virtue of the provisions of sub-regulation (3), disqualified for appointment as cost auditor of any other company which is that company's subsidiary or holding company or a subsidiary of that holding company;

(5) If, after his appointment, cost auditor becomes subject to any of the

disqualifications specified in this section, he shall be deemed to have vacated his office as cost auditor with effect from the date on which he becomes so disqualified;

(6) The appointment as cost auditor of a company of an unqualified person, or of a person who is subject to any disqualifications to act as such, shall be void, and, where such an appointment is made by a company, the Commission may appoint a qualified person in place of the cost auditor appointed by the company.

6. Cost auditors' report. – (1). Every company shall, in addition to the records and statements specified in the Schedule to these regulations, prepare –

- a. a statement of production capacity of the plant, in terms of machine hours and production units, the actual utilization 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.

(2) The statement specified in clauses (a) and (b) of sub-regulation (1) shall be signed by the chief executive and chief financial officer of the company.

(3) The cost auditor shall make out a report within one hundred and eighty days of the close of the financial year to which the cost audit relates, to the board in the form set out in Appendix II along with a statement in the form set out in Appendix III and simultaneously shall submit copy thereof to the Commission and the registrar concerned.

(4) The company shall, within thirty days from the date of receipt of copy of the report, furnish the Commission with full information and explanation on every reservation or qualification contained in such report.

7. Penalty for contravention of these regulations.- Whoever fails or refuses to comply with, or contravenes any provision of these regulations, or authorises or permits such failure, refusal or contravention shall, be also punishable with penalty as provided in sub-section (2) of section 512 of the Act and wherever applicable penalty provided in sub-section (6) of section 220 or other provisions of law as provided in the Act will be applicable.

8. Repeal and Saving.—(1) The following rules and notifications hereinafter referred to as repealed instruments are hereby repealed, namely

- (a) Companies (Audit of Cost Accounts) Rules, 1998;
- (b) Vegetable Ghee and Cooking Oil Companies (Cost Accounting Records) Order, 1990;
- (c) Cement Industry (Cost Accounting Records) Order, 1994;
- (d) Sugar Industry (Cost Accounting Records) Order, 2001;
- (e) Chemical Fertilizer Industry (Cost Records) Order, 2012;
- (f) Synthetic and Rayon Companies (Cost Records) Order, 2012;
- and
- (g) Electric Power Generation Industry (Cost Records) Order 2015.

(2) Anything done, actions taken, orders passed, registration granted, notifications issued, proceedings initiated and instituted, prosecutions filed, processes or communications issued, fee charged and powers conferred, assumed or exercised by the Commission under the repealed instruments, shall, on the coming into operation of these regulations, be deemed to have been validly done, taken, passed, granted, charged, issued, initiated or instituted, filed, conferred, assumed and exercised and every action, prosecution or proceeding instituted and

every order, directive, notification, circular etc. issued by the Commission shall be deemed to have been initiated, instituted or issued under these regulations and shall be proceeded with to completion and be enforced and have effect accordingly.

Appendix - I

[see regulation 4(2)]

INITIATION TO THE COMMISSION FOR APPOINTMENT OF COST AUDITOR(S)

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. Details of appointed cost auditor:
 - (i) Name of the cost auditor
 - (ii) Address of cost auditor:
 - (iii) Phone No. Landline/ Mobile Number
 - (iv) Email address
 - (v) Whether the appointed 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
 - (vi) The associateship/fellowship No. of the cost auditor:
6. Confirmation that the cost auditor is not subject to any disqualification under regulation 5(3):
7. Remuneration for the cost auditor:
8. The financial year to be covered by the cost audit:
9. Date of passing of resolution by directors:

10. Type of appointment: Regular/ Casual vacancy:
11. Name and address of cost auditor for previous financial year(s), if any:
12. If there is any change in appointed cost auditor from previous financial year, the reasons therefore may be stated:
13. If the cost auditor has been removed during tenure, the reasons therefore may be stated:

Declaration: I/ We solemnly declare that facts stated in this form are true, correct and complete including the documents annexed to this form and nothing has been concealed. I/ We also declare that all the requirements of regulations in respect of appointment of cost auditor and matters incidental thereto have been complied with.

Signature:

Designation (Chief Executive)

Dated: This.....day of....20.

Enclosure: Duly certified copy of board resolution regarding appointment of cost auditor.

Appendix-II

[See regulation 6(3)]

COST AUDITORS' REPORT

I/We.....having been appointed to conduct an audit of cost accounts of M/s.....have examined the books of account and the statements specified under first proviso to sub-section (1) of section 220 of the Companies Act, 2017 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 first proviso to sub-section (1) of section 220 of the Companies Act, 2017 (XIX of 2017)), and as required by these regulations, 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; and
- c. the said books and records give/do not give the information required by the regulations in the manner so required.

in my/our opinion and, subject to best of my/our information –

a. the annexed statement of capacity utilization and stock-in-trade are/are not in agreement with the books of account of the company and exhibit/do not 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, marketing, cost of sales, profit margin on indigenous and export sales and any other information of the undermentioned products of the company, namely: -

(i) _____

The matter contained in the Appendix III forms part of this report and approved by the board on fcid/rnm/YY)

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

Signature:

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

Appendix III

[See regulation 6(3)]

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

1. Capacity:

- a. Licensed, installed and utilized capacities of the unit or units 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.

- c. Details need to be furnished about whether capacity was owned or available through leasing arrangements/loan/outsourcing;
- d. Normal capacity shall be determined vis-a-vis installed capacity after carrying out adjustments, i.e., number of shifts, holidays, normal shut down days and normal idle time; loss in efficiency due to ageing of the equipment/ plant or any other etc.

2. Cost accounting system:

- a. Brief comments on the cost accounting system and its adequacy or otherwise to determine correctly the cost of the product under reference.
- b. Briefly specify the changes, if any made in the cost accounting policy for goods under audit during the current financial year as compared to previous financial year
- c. Observation of the cost auditor regarding adequacy or otherwise of the budgetary control system, if any.

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.
- e. Details should be furnished that whether the raw material was a domestic purchase or imported, In case it was imported breakup

of cost must be given showing

- i. Price (in foreign currency)
- ii. Insurance and freight /travelling expenses
- iii. Custom Duty/if any
- iv. Clearing charges
- v. Other expenses (if any)

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), (H) 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 centers 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 services 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 realization of the different categories, varieties or quantities of product under reference showing the average sales realization per unit.

b. If product under reference is exported, quantity exported, net realization 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 maximization of profit.

14 . Related party transactions: Details should be furnished for each sale/purchase made to related party separately. Following details must be shown

- Name and address of the related party
- goods given
- quantity
- amount
- normal price and basis adopted to determine normal price
- transfer price and the related cost to produce and the profit earned, if any on the transfer price

Details of related party transactions without indicating the Normal Price and the basis thereof shall be considered as incomplete information.

15. Distribution of earning:

Details need to be shown that how the earnings were distributed to the following parties

- Employees as salaries and wages, retirement benefits etc
- Shareholders as dividends
- Company as retained earnings
- Governments as taxes
- Extra ordinary expenses

16. Adjustment of cost variances:

Where the company maintains cost records on any basis other than actual such as standard costing, the records shall indicate the procedure followed by the company in working out the cost of the goods under such system. The

cost variances shall be shown against separate heads and analyzed into material, labour, overheads and further segregated into quantity, price and efficiency variances. The method followed for adjusting the cost variances in determining the actual cost of the goods or services shall be indicated clearly in the cost records. The reasons for the variances shall be duly explained in the cost records and statements.

17. 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. full utilization of installed capacity;
 - iii. comments on areas offering scope for-
 - I. 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.

18. Reconciliation with financial statements:

After the auditor appointed under section 246 of the Act , 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 in the manner as given below:

Sr. No	particulars	Current Year	Previous year
'1	Profit and loss per cost accounting records		
2	Add: incomes not considered in cost accounts(specify)		
3	Less: expenses not considered in cost accounts		
4	Add: overvaluation of closing stock in financial accounts		
5	Add: undervaluation of opening		
6	Less: overvaluation of opening stocks in financial accounts		
7	Less: undervaluation of closing stocks in financial accounts		
8	Adjustment for other, if any (specify)		
9	Profit or loss as per financial account		

19. Cost statement:

Copies of all the cost statements on the formats specified in Schedule to these regulations, duly authenticated by the chief executive and chief financial officer of the company, and verified by the cost auditor, shall be appended to the report.

20. Miscellaneous:

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

SCHEDULE**(i) Class of Companies:**

Public interest, large and medium sized companies falling within the criteria as laid down under the Third Schedule of the Act, in the following class of companies, shall be required to maintain particulars of cost accounting records and prepare cost statements as per relevant Schedule mentioned hereunder:

Sr. No.	Class of Companies	Relevant Scedule
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1.	Every company engaged in the production, processing and manufacturing of sugar in any form except liquid	Schedule I
2.	Every company engaged in the production, processing and manufacturing of Clinker or cement or both.	Schedule II
3.	Every company engaged in the production, processing and manufacturing of vegetable ghee, cooking oil, margarine, bakery shortening and allied products; and in addition to vegetable ghee and cooking oil, any other product such as refined hard oil, margarine or any such product using the same plant or machinery, partly or fully.	Schedule III
4.	Every company engaged in the production, processing and manufacturing of Chemical Fertilizers.	Schedule IV
5.	Every company engaged in milling of Wheat and production of Flour and other extracts in any form.	Schedule V

[File No. SY/SI:CP/8/13]



(Bilal Rasul)
Secretary to the
commission