



Corporate Supervision Department
Company Law Division

Before Amina Aziz– Director (Corporate Supervision Department)

In the matter of

**M/s. Ishtiaq Rana & Co. Chartered Accountants
Cost Auditor of Jauharabad Sugar Mills Limited**

Number and date of notice: CSD/ARN/153/2015-513 dated September 2, 2015
Date of hearings: December 22, 2015
Present: Mr. Laeeq Ahmed Rana – Partner, Ishtiaq Rana & Co. Chartered Accountants

ORDER

UNDER RULE 5 OF THE COMPANIES (AUDIT OF COST ACCOUNTS) RULES, 1998 READ WITH SECTION 476 OF THE COMPANIES ORDINANCE, 1984

This order shall dispose of the proceeding initiated against M/s Ishtiaq Rana & Co. Chartered Accountants (“respondent”) through show cause notice (the “SCN”) dated September 2, 2015 under Rule 5 of the Companies (Audit of Cost Accounts) Rules, 1998 (“Rules”) read with Section 476 of the Companies Ordinance 1984 (the “Ordinance”).

2. The facts leading to this case, briefly stated, are that, Jauharabad Sugar Mills Limited (“Company”) appointed respondent as its cost auditor with effect from November 26, 2014 for the year ended September 30, 2014. The respondents were required to submit Cost Auditors’ Report (“Report”) of the Company for the aforesaid period latest by January 25, 2015 in terms of rule 4(3) of the Rules, but the same was received by the Commission on April 8, 2015 with a delay of 72 days.

3. During the financial year 2014, the company wrote back an amount of Rs. 175 million of the bad debts previously written off and classified it as other income in the profit and loss accounts for the year. On the other hand the Report for the year ended September 30, 2014, shows the amount of Rs175 million as a reduction from the Total Cost to Make and Sell in the Annexure I to the Report.. As result, the cost to make and sell has been reduced in the year to the tune of Rs. 5,100 per M.Ton. The profit/loss per unit earned on sugar is wrongly stated in note 22 to the Report by the respondents. The respondents have, prima facie, failed to;

- a. Submit the Report to the Commission within prescribed time as required by Rule 4(3) of the Rules ;
- b. Make out the report as prescribed in f paragraph 13 of Appendix III to the Rules.



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The aforesaid contraventions attract the penal provisions contained in rule 5 of the Rules. Therefore, SCN was issued to the respondent on September 2, 2015.

4. The reply to SCN was submitted by the respondent vide letter dated September 14, 2015. The seriatim reply is summarized below.

- The Report was not provided to the Commission because while dispatching the Report, the address given to the courier man was mistakenly written for Company's registered office instead of concerned registrar and SECP.
- The matter of written off extra-ordinary item is clearly dealt in Note 24 of the Report under heading Cost Auditor's observations and conclusions which states as follows;
During the year under audit, the Company has written-off extra ordinary items i.e. bad debt/advances amounting to Rs. 175 million. The effect of this write off is incorporated in serial 24 namely other income/expenses in Annexure-1, as per performa provided in Sugar Industry(Cost Accounting Record) Order 2001 ("Sugar Industry Order"). As a result, the cost to make and sell has been reduced in the year to the tune of Rs. 5,243 per M.Ton.
- The profit/loss stated in Note 22 of the Report is reported to reflect the results that should be reconciled with financial accounting record of the Company as per Sugar Industry Order. As per Rule 14 of the Rules cost auditor has to give his observations and conclusions separately at the end of the report.

5. In order to provide opportunity of personal hearing; the case was fixed before the undersigned on December 22, 2015. Mr. Laeeq Ahmed Rana appeared before the undersigned and reiterated the earlier stance taken by the respondent in the written reply.

6. In terms of the Commission's notification SRO 1003 (I)/2015 dated October 15, 2015, the powers to adjudicate cases under rule 5 of the Rules have been delegated to Director (Corporate Supervision).

7. I have analyzed the facts of the case, relevant provisions of the Rules and Sugar Industry Order, arguments put forth by the respondent and observed the following;

- The aforementioned reasons submitted by the Cost Auditor for delay in submitting the report is not cogent. The Cost Auditor was required to submit the Report to the



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Commission within sixty days of his appointment in compliance with the provisions of Sub-rule (3) of rule 4 of the Rules but the respondent neither submitted the Report nor reported any reason of delay to the Commission within the prescribed time. The respondent has violated provisions of sub-rule (3) of rule 4 of the Rules by submitting the Report with a delay of 72 days.

- As per paragraph 15 of appendix III to the Rules 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.
- As per XV of Schedule 1 of the Sugar Industry Order, if integrated accounts are not maintained, the cost records shall be periodically reconciled with the financial accounts to ensure accuracy. Variations, if any, shall be clearly indicated and explained. The reconciliation shall be done in such a manner that the profitability of each product produced and sold is correctly judged and reconciled with the overall profits of the company from all of its activities. Adequate cost records shall be maintained in a manner so that the cost statements may be properly compiled.
- As per paragraph 13 of Appendix III to the Rules, 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.
- From above provisions it is clear that the cost auditor is required to provide reconciliation of cost record with financial accounts and not to provide financial accounting figures in the Report. The profit/loss per unit earned on sugar is wrongly stated in note 22 to the Report by the Cost Auditor.

8. Rule 5 of the Rules provides that whoever fails or refuses to comply with, or contravenes any provision of these rules, or knowingly and willfully authorizes 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.



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9. For the foregoing reasons, I am of the firm opinion that the provisions of aforementioned rules have been violated as the Report has not been submitted within prescribed time and provisions of paragraph 13 of Appendix III to the Rules have been violated. However, keeping in view the fact that the auditor had highlighted the wrong classification in the report, I hereby, take a lenient view close this matter with a strict warning.

Amina Aziz
Director

Announced:
April 20, 2016
Islamabad