



SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
Enforcement Department

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Before Mr. Tahir Mahmood, Executive Director (Enforcement)

In the matter of

M/s Siddiqi & Company. Chartered Accountants

Under sub section (1) of Section 260 of the Companies Ordinance, 1984 (the “Ordinance”) read with the Companies (Audit of Cost Accounts) Rules, 1998 (the” Cost Audit Rules”) and Section 255, 258 and 476 of the Ordinance

Number and date of notice	No. CLD/EMD/FIU/32/2006-3408-9 dated March 3, 2008
Date of hearing	March 19, 2008
Present	Wasful Hassan Siddiqi, FCMA Mustafa Hussain Siddiqi, FCMA Partners, Siddiqi & Company, Cost and Management Accountants
Date of Order	July 25, 2008

ORDER

This order shall dispose of the proceedings initiated against M/s Siddiqi & Company, Cost and Management Accountants through show cause notice dated March 3, 2008 under sub section (1) of Section 260 read with the Companies (Audit of Cost Accounts) Rules, 1998 (the” Cost Audit Rules”) and Section 255, 258 and 476 of the Companies Ordinance, 1984 (the “Ordinance”), for making reports to the directors of M/s United Sugar Mills Limited (hereinafter referred to as the “USML”) for the year 2002, 2003 and 2004 on the statements pertaining to cost accounting record otherwise than in conformity with the requirements of Section 258 of the Ordinance and the Cost Audit Rules. M/s Siddiqi & Company, Cost and Management Accountants (hereinafter referred to as the “Cost Auditors”) is a firm consisting of following partners and was appointed as the Cost Auditor of the company on October 18, 2002, January 5, 2004 and November 11, 2004 by the Company for the aforesaid years in terms of the Cost Audit Rules.

1. Wasful Hassan Siddiqi, FCMA
2. Mustafa Hussain Siddiqi, FCMA



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2. Review, analysis and inquiry into the facts disclosed in the accounts revealed that the funds were siphoned out of USML and the cost accounts were fudged to camouflage the series of fraudulent transactions. These events and transactions could have been identified had the Cost Auditors performed their duties diligently. However, the Cost Auditor reported in their reports, for the years ended on September 30, 2002, September 30, 2003 and September 30, 2004, to the directors that proper cost accounting records as required by clause (e) of sub-section (1) of section 230 of the Ordinance, 1984 (XLVII of 1984), and as required by the applicable rules, including Rule 4 referred to above, have been kept by the company, the said books and records give the information required by the rules in the manner so required; and in their opinion and, subject to best of their information –

- a. the annexed statement of capacity utilization and stock-in-trade are 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 been properly kept so as to give a true and fair view of the cost of production, processing, manufacturing and marketing of the products of the company.

3. Brief background of the events and transactions is as follows:

- a. Mr. Bashir Ahmed, the unlawfully appointed Managing Agent and Ex-Chief Executive of USML entered into a so-called agreement dated January 17, 2001 with USML purporting to act through its directors Shaikh Abdul Waheed and Shaikh Muhammad Saeed to run / operate and manage the project of USML. Mr. Bashir Ahmed was to be given 53 % profits of the USML as per the profit sharing formula provided in the agreement for which parallel accounts were to be maintained.
- b. Subsequent to a dispute with Ex Directors Mr. Bashir Ahmed filed a suit in the Sindh High Court (the "SHC") for settlement of his claim amounting to Rs. 446.074 million, which also included receivable against total profit of Rs. 777.765 million for the period 2001-2005 not reported in the audited accounts of the USML. These figures were based on the parallel accounts maintained by the management of USML. The SHC, after giving an opportunity of being heard to the respective parties through its order dated October 7, 2005 made the following directions;

Quote

"The Plaintiff shall submit his claim, along with the relevant record, including books of accounts, ledgers and vouchers etc. to M/s A. F. Ferguson & Co. who are appointed Commissioner for determining the amount due and payable by the defendant Company to the plaintiff under and in terms of the agreements dated 17.01.2001,....
..... M/s A. F. Ferguson & Co. shall, after examining and scrutinizing the respective accounts and records, submit their report before the court within five weeks from today and shall supply copies of the report to the parties."

Unquote



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- c. M/s A. F. Ferguson (hereinafter referred as the “AFF”) determined an amount of Rs. 236.885 million payable to Mr. Bashir Ahmed after compilation of data and verification of figures referred by the claimant in the claim, in the following manner.

Rupees in million

Components of claim	Claim lodged by Mr. Bashir Ahmed	Claim determined by AFF
Share of “balance profit” payable to Mr. Bashir Ahmed.	202.644	166.873
Amount of loan recoverable from USML	74.712	70.012
Amounts payable to sundry creditors	65.447	-
Expenses incurred during the period April 1,2005 to September 30,2005	103.270	-
Total	446.074	236.885

- d. The claim of Rs. 236.885 million determined by AFF, included share of profit amounting to Rs. 166.874 million. This amount of Rs.166.874 million was charged in the accounts for the year ended September 30, 2006 as other operating expenses / other charges and was not a stand-alone transaction. Infact this was the remaining profit of Mr. Bashir Ahmed out of a total profit of Rs. 777.765 million for 2001-2005 based on the accounts maintained parallel to the audited accounts. The gist of material transactions not reported in the audit accounts and basis for aforesaid profit of Rs.777.765 million are summarized below:

Rupees in million

Misstatements	2002	2003	2004
Concealment of revenues - out of books sales	25.540	49.532	63.876
Fixed assets overstated and repair & maintenance expenses understated	6.997	57.672	3.452
Payments to USML sponsors against profit.	8.000	13.200	12.000

4. The audited accounts were materially misstated mainly on account of the above transactions and the effect of the above items resulted in understatement of the profit for these years. Information / facts disseminated through Cost statements were misleading as the impact of the aforesaid transactions on the cost data for the relevant audit years was not incorporated. The cost accounting record maintained by the management of the USML do not reflect true and fair view of the cost of production, processing, manufacturing and marketing of the products of the company for the year ended on September 30, 2002, September 30, 2003 and September 30, 2004.



5. In view of the above, it appeared that the Cost Auditors have failed to discharge their duties and responsibilities laid down in the Ordinance by not modifying their report in respect of the following matters, which impairs the true and fair view of the statement of production, capacity utilization and stock-in-trade annexed with the Cost Auditor Report for the financial year ended on September 30, 2002, September 30, 2003 and September 30, 2004.

- **Concealment of the sales and other income.**
- **Concealment of receivable / receipts.**
- **Depreciation not fairly provided.**
- **Repair & Maintenance expenses overstated**

6. Consequently, a show cause notice (SCN) was issued to the Cost Auditors on March 3, 2008 pointing out their responsibilities under the Ordinance, International Auditing Standards, the Cost Audit Rules and non-compliances observed in the Accounts. A period of 14 days was given to respond to the aforesaid notice.

7. In response to the SCN, written representations were submitted by the Cost Auditors on March 14, 2008 and March 15, 2008 wherein, it was stated at the very outset that as the Cost Auditors, they had worked in a highly professional manner and organized the cost audit program in the most professional manner. That as Cost Auditors they had no reason to believe to start their work with any suspicion or doubt about the conduct of the company or any of its directors. That it is strongly denied that there is any misstatement in the cost audit reports. The cost audit reports are in agreement with books of accounts as maintained by the company. They further stated that;

- a. The Cost Auditors relied on the books of accounts and records relating to the years 2001-02, 2002-03 and 2003-04, required to be kept under clause (1) (e) of section 230 of the Ordinance (*"particulars relating to utilization of material or labour or the other inputs or items of cost as may be prescribed"*). The financial statements of the company were audited by Chartered Accountants.
- b. Form –RT-4 (Final manufacturing report of sugar factories) is an important document as it contains critical cost information and is distributed to various departments for their record, control / monitoring of sugar production. During the audit, the Cost Auditors did not come across any adverse remarks on Form RT-4 from any quarter as such they had to rely on the information contained in this vital document.



- c. As part of cost audit program, the cost statements were thoroughly examined and the cost of goods manufactured was arrived which was in agreement with financial statements, that were duly audited by the reputed Chartered Accountants Firms. At the same time, the data for sugar production and sale was duly reconciled in quantitative terms so as to ascertain the accuracy of the information which gave no clue of any leakage / concealment of sale.
 - d. There is no misstatement in the cost audit reports. The Cost Auditors were perfectly gone by the book and applied all the cost accounting techniques which were necessary to ascertain the accuracy of the quantitative data that had reconciled with the books of accounts.
 - e. The Cost Auditors have provided Stock Reconciliation Statements of white sugar and of Sugar Cane crushed based on Form RT-4 and stated that all the quantities of sugar produced / sales match with sugar cane crushed; and are in agreement with capacity utilization.
 - f. It is the responsibility of the company's management to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards and the requirements of the Ordinance. The Cost Auditor's responsibility is to express on opinion on these statements based on our audit.
8. Based on the cost audit exercises, the Cost Auditors have explained their position on the following issues;
- a. The AFF stated that the concealment of revenue and receivable / receipts was out of books, however the mode of concealment was not defined. In view of quantitative data being in agreement with the books of accounts of the company which was produced for financial audit / cost audit, the concealment (if any) committed by the directors which being out of books could not come under scrutiny either by the financial auditors or the Cost Auditors.

It is surprising how the concealment was engineered by the directors when entire quantity of white sugar produced was sold and its value properly recorded in the books of account. There is no misstatement in the cost audit report as production / sale quantity is correctly stated in the cost audit report in conformity with Form RT-4 together with cost / financial data as produced for audit.



Our role as Cost Auditors was restricted to the scrutiny and verification of cost data from the books of account falling within the preview of clause (e) of sub section (1) of section 230 of Ordinance.

- b. Depreciation is a matter which is provided under significant accounting policies duly approved by the directors and consistently followed by the management of the company. Being a policy matter, we had no reason either to deviate from the accounting policies or disagree with the financial auditors who had already certified the schedule of fixed capital expenditure and depreciation charged therein. In case of dispute by any party the directors may reconsider their policies and decide the matter. As Cost Auditors our duty is to report it correctly as is reflected in the books of account.
- c. The expenditure on repairs and maintenance was fairly taken in cost audit reports from the books of accounts which have already been checked and certified by the Chartered Accountants appointed as Statutory Auditors.

The directors of the company are responsible for the preparation of proper books of accounts and incur expenditure exclusively for the purpose of company's business. Statutory Auditors have already certified this fact in their audit report.

We as Cost Auditors have correctly reported the expenditure on repairs and maintenance in the cost audit reports, as was shown in the books of accounts. If in the opinion of any other party, it appears excessive; the onus to prove of its being correct rests with the directors.

It is strongly denied that there is any misstatement as the contents of cost audit reports are the same as are reflected in the books of accounts. Had there been a difference between the book version and the figures reported in the cost audit reports it could be classified as misstatement of facts and figures.

There is no contravention of any provision of law cited above as such it is prayed that the show cause notices may kindly be vacated.

9. In addition to the above, the Cost Auditors submitted another representation vide their letter dated March 15, 2008, wherein they reiterated their above representation and further stated;

- a. That having used cost accounting techniques to verify the results which were necessary for the purpose of cost audit and having not found anything contrary to the fact as shown in the



books, we had no reason to believe not to accept the book version to be correct and true for the purpose of our audit. It is strongly denied that there is any misstatement as the contents of cost audit reports are the same as are reflected in the books of accounts. Had there been any difference between the book version and the figures reported in the cost audit reports it could be classified as misstatement of facts and figures. Fortunately this is not the case in respect of our cost audit reports.

- b. Prima facie as one of the possible reasons, it appears that the directors had misstated in the production records maintained by the company in respect of
- Capacity declaration
 - Recovery (yield) ratio declaration

It is pointed out that capacity assessment and ascertainment of correct yield ratios based on technical features of the mills is a highly technical matter. A technical audit by the sugar industry engineers / experts may however provide a basis for factual evaluation of results. In case any variance is discovered in the capacity and yield ratios as declared by the company, the directors shall be held responsible for cheating every one by their fraudulent practices.

There is however no omission on the part of Cost Auditors who acted upon the books as maintained by the directors of the company. The audit reports are in agreement with the books of account and production record as maintained by the company and provided to the Cost Auditors.

- c. Amount shown in the cost audit reports is the same as was shown in the financial accounts already examined and certified by the Statutory Auditors of the company.
10. The Cost Auditor stated in his cost audit reports for the year 2002 , 2003 and 2004 that;
“Manufacturing of sugar is a continuous process. The company, however, uses financial and cost integrated accounting system, which shows overall cost of production. There is however the need to develop process cost accounting system so as to be able to develop cost data at each stage of production process”.

The Cost Auditor was asked for his representation on the audit methodology employed for independent verification and examination of cost statements / record provided and adequacy of cost accounting system, who submitted his contention vide his letter dated March 26,2008 that are as under;



- a. Having been enforced in the year 2001, cost audit was new to the sugar industry as such it was advisable to organize and develop the accounting system in a manner that process cost accounting system could be systematically and gradually introduced in the sugar industry.

At the time of our audit, the company was operating a computer based in house software which generated cost statements showing overall cost of production relating to the manufacturing of sugar. The cost statements were drawn in conformity with Sugar Industry (Cost Accounting Records) Order, 2001, as such the same were taken as reliable and acceptable for the purpose of cost audit.

- b. Audit methodology included Plant visit; comparison of cost accounting data and Net Sales Value with financial accounts already examined by Statutory Auditors to ascertain its accuracy, reliability and authenticity; examination of cost statements to ascertain their correctness and accuracy and preparation of quantitative reconciliations.

11. In response to the SCN, written representations were submitted by the Cost Auditors vide their letters dated March 14, 2008 and March 15, 2008 wherein, it was stated at the very outset that as the Cost Auditors, they had worked in a highly professional manner and organized the cost audit program in the most professional manner.

12. In order to provide an opportunity of personal hearing, hearing in the matter was fixed on March 19, 2008. Wasful Hassan Siddiqi, FCMA and Mustafa Hussain Siddiqi, FCMA, Partners Siddiqi & Company, Cost and Management Accountants represented the company before the undersigned. Written submissions were reiterated by the representative of the company. During the course of hearing, the representatives reiterated the same arguments as were given through written submissions in response to the SCN and also submitted as follows:

- a. The cost audit reports were in agreement with the books of accounts of the company. Cost audit reports were reconciled with statutory audit reports. They relied on the financial records since they are appointed after the close of year. The financial and cost records are maintained in an integrated manner.
- b. The Cost Auditors explained the methodology employed and upon inquiry regarding the variances in capacity utilization that increased from 87 % of the installed capacity in year 2001-02 to 164 % in the year 2003-04 vis-à-vis the recovery ratios that declined from 9.43 to 9.16 in the same period, replied that the company had removed major technical faults in the machinery and process, resulting into increased utilization of installed capacity. The Cost



Auditors also expressed their concern that the company may have not disclosed the actual installed capacity which can only be verified by a highly technical person.

13. The written representations of the Cost Auditors, as well as arguments advanced during the hearing have been considered and have been discussed as follows; -

a. What is the objective of the cost audit?

The objective of an audit of cost accounts is to enable the Cost Auditor to express an opinion whether the cost statements are prepared, in all material respects, in accordance with an applicable reporting framework. Sugar Industry is required to comply with Sugar Industry (Cost Accounting Records) Order, 2001 (“Cost Order, 2001”) and the Companies (Audit of Cost Accounts) Rules, 1998 (“Cost Audit Rules”).

b. Whether the cost accounts give the information required by the Cost Order, 2001 in the manner so required and give a true and fair view?

The cost accounting records for the years 2002, 2003 and 2004 were not kept properly as required by the Cost Order, 2001 and the cost statements for the years 2002, 2003 and 2004 did not give true and fair view of the company as required by the Cost Audit Rules, 1998. The USML was in fact earning profit in these years, however loss was reported in the cost statements and the cost statements were fudged mainly due to the concealment of revenues, overstatement of fixed assets, understatement of repair and maintenance in year 2002, 2003 and 2004.

The cost of production, processing, manufacturing and marketing of the products of the company along with the statement of capacity utilization and value of stocks were incorrect and the cost accounting record of the Company do not reflect true and fair view of the aforesaid, for the year ended September 30, 2002, September 30, 2003 and September 30, 2004.

c. Cost Auditor statement regarding the verification of only the basic elements of cost.

The Cost Auditor agreed that he has to scrutinize and verify the cost data (the basic elements of cost viz. material consumption, wages of worker and overheads) However, he could not demonstrate the same from the audit conducted, as the figures disclosed in the Cost Statement, does not reflect true and fair information including unit cost.



The Cost Auditors could not adopted audit methodology for independent verification and examination as they generally relied on comparison of cost accounting data and Net Sales Value with financial accounts already examined by Statutory Auditors to ascertain its accuracy, reliability and authenticity.

d. Was an adequate cost accounting system available to provide accurate and authentic cost data?

The Cost Auditor commented in his cost audit report for the year 2002, 2003 and 2004 that the company uses financial and cost integrated accounting system, which shows overall cost of production. There is however the need to develop process cost accounting system so as to be able to develop cost data at each stage of production process”.

The Cost Auditor was called for his representation on the adequacy of cost accounting system to generate accurate and verifiable cost data. In his representation, the Cost Auditor stated that having been enforced in the year 2001, cost audit was new to the sugar industry as such it was advisable to organize and develop the accounting system in a manner that process cost accounting system could be systematically and gradually introduced in the sugar industry. However he stated that at the time of cost audit, the company was operating a computer-based in-house-software which generated cost statements showing overall cost of production relating to the manufacturing of sugar and the same were taken as reliable and acceptable for the purpose of cost audit since they were drawn in conformity with Sugar Industry Cost Order, 2001.

The above representations reflect serious doubts on the existence and adequacy of an effective cost accounting system capable to generate reliable and authentic cost data. The computer based in-house-software used for generating cost statements cannot assure the authenticity of the underlying cost data due to aforesaid reasons.

e. Whether reconciliation with the production data including RT-4 would provide required degree of assurance on correctness of cost data?

The Cost Auditor represented that he has related production with the information / data disclosed in RT-4 (Final Manufacturing Report of Sugar Factories (Rule-83) and quantitative reconciliation statements were prepared in respect of white sugar bagged/ sold, sugar cane crushed and capacity utilization. He further stated that authenticity of capacity utilization and yield declared are beyond his skills.



The information declared in the RT-4 was fudged and the Cost Auditor's representation that information / data disclosed in Cost Statements was reconciled with RT-4 means that distorted figures are matched with distorted figures.

An effective cost accounting system coupled with strong internal controls on inventories would have enabled the Cost Auditors to identify these embezzlements. An accounting system, where physical flow of component could be identified at each stage, would have enabled to provide information leading to the identification of the pilferage. It is observed that adequate accounting records related to inventories of work in process and production at each stage, on real time basis, were absent and in the absence of these records and controls, how Cost Auditors have expressed "good enough" opinion.

f. Whether the verification of depreciation and repairs and maintenance has to be done independently by the Cost Auditors?

The Cost Auditor has acknowledged that he has to verify the cost components and was accordingly required to check the reasonability of the depreciation and repair & maintenance. The Cost Auditor representation that depreciation is a matter of policy that is decided by the management of the company and that they cannot deviate from the financial auditors who had already certified the schedule of fixed capital expenditure and depreciation charged is totally irrelevant in the situation. The issue under consideration is that the capital expenditure which was supposed to be capitalized was expensed out that reduced the profit of the year. This has nothing to do with the policy and independent, diligent work on part of the Cost Auditor was required.

g. Whether in 2002, 2003 and 2004 cost audit, Cost Auditors duly discharged their duties and responsibilities.

Cost Auditors failed to provide documentation / information that were important in providing audit evidence to support the audit opinion that the audit was carried out in accordance with ISA. Cost Auditors were required to plan and execute the audit ensuring that:

- Completeness and accuracy of quantitative data including capacity utilization and stock-in-trade.
- Completeness and accuracy of cost data including cost of production, processing, manufacturing and marketing of the under-mentioned products of the company.



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The embezzlements, frauds and misstatements in the cost statements do not support the Cost Auditor's contention that they have adequately designed and applied audit procedures to obtain sufficient and appropriate evidence. Had the audit been conducted with the required diligence, these material misstatements would have been identified. This was further substantiated by the inability of the Cost Auditors to demonstrate that the audit was diligently planned and conducted and to provide that elaborate procedures were applied and audit evidence obtained resultantly.

The Industries engaged in the manufacturing of goods in the process based production system, are required to establish a cost accounting system, enabling them to calculate / workout the cost of goods sold, valuation of stocks including raw material, work in progress and finished goods. A diligent review and analysis of the quantitative data and physical flow of the equivalent units at various stages would have enabled the Cost Auditor to identify the lost units / misplaced quantity. Thus, identification of the quantity embezzled out of the finished goods would have been relatively easier work. The Cost Auditor acknowledged that adequate cost accounting system was not available and at the time of their audit, the company was operating a computer based in-house-software which generated cost statements showing overall cost of production relating to the manufacturing of sugar that were taken as reliable and acceptable for the purpose of cost audit being in conformity with Cost Order, 2001. It may be noted that the computer software only tabulate cost data into desired formats i.e. cost statements and do not provide assurance that the underlying data is authentic. The Cost Auditor's representation relied on the reconciliation with financial statements for verification of cost statements which shows that they complacently drawn comfort from the fact that the Statutory Auditors have duly audited financial statements, and failed to conduct their audit independently. The financial statements referred and relied upon by the Cost Auditor were fudged meaning that the Cost Statements are also fudged defeating the very purpose of maintaining the Cost records and the Cost Audit. The Cost Auditor failed to perform independent audit procedures to ascertain correctness of the quantitative data including review and analysis of quantitative reconciliations.

The Cost Auditors pointed out that there is no omission on their part who acted upon the books as maintained by the directors of the USML, and duly audited by the Statutory Auditors. The cost audit reports are in agreement with the books of account and production record as maintained by the company and provided to the Cost Auditor. However the Cost Auditors, being mandated with the powers and duties as of Statutory Auditors in the



Ordinance, were suppose to independently and objectively examine, scrutinize and verify the cost statements and cost data without relying on the work of Statutory Auditors for expressing their audit opinion. This would enable them to express appropriate opinion on the completeness, accuracy and reliability of cost data on a stand alone basis, based on sufficient and appropriate audit evidence instead of gaining / drawing strength from the work of the statutory audit. Infact the Cost Auditors were to independently verify the cost data to confirm that the cost figures flowing in the financial statements were correct and presenting true and fair view of the cost of goods sold.

14. Before deciding this case, I deem it necessary to make some observations on the role of Cost Auditors of a Company. The powers, duties and responsibilities of the Cost Auditor, as stated in section 258 of the Ordinance are similar to that of the Statutory Auditor of the company. Cost Auditor is responsible to audit and express opinion on the true view and fairness of the Cost Statements. In case, opinion expressed is not correct, the whole exercise will be rendered useless and the user / reader will be deceived. Sugar manufacturing in one of these industries where cost audit is mandatory and Cost Auditor is responsible to ensure that the information disseminated through Cost statements is true and fair. The Cost Auditor's duty is not only to bring to light the errors of omission and commission but also to detect manipulation in the cost accounts. Beside the fact, the role of Cost Auditor has been enhanced by requiring him to submit the copies of his report to the Commission, in addition to submit his cost audit report to the directors, that is used by the Commission as a regulatory surveillance tool to keep a check on the listed companies. The law, therefore, make the Cost Auditors responsible in case they failed to make out a report in accordance with the legal requirements. It is, therefore, extremely important for the Cost Auditors to be vigilant and perform their duties and obligation with due care while auditing the cost.

15. The USML was stripped off from its assets and revenues in a blatant manner. Mr. Bashir Ahmed, inducted as Chief Executive under a so-called agreement to operate and manage the USML along with the directors of USML, made huge gains from the project while depriving the shareholders of their rightful shares in the profits made out of the project. Parallel / hidden accounts were maintained in accordance with the agreement to record the actual profits to be embezzled later on. The shareholders were deprived from their rightful share in the profits rather they were made liable for the liabilities arising out of the embezzlements.

16. The Cost Auditors had to play an important role in developing an insight into this whole plethora of frauds and embezzlement on behalf of the shareholders. However, it is clear from the preceding paragraphs that the Cost Auditors placed reliance on financial information provided by the management



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and on the reconciliation of cost accounts with the financial statements duly audited by the Statutory Auditors, and while doing so failed to perform their professional duties with reasonable degree of care and skill. The cost accounting records for the year 2002, 2003 and 2004 were not kept properly as required by the Cost Order, 2001 and the cost statements for the year 2002, 2003 and 2004 did not give true and fair view of the company as required by the Cost Audit Rules. It is therefore viewed that the Cost Auditors have committed a breach of fiduciary duty cast upon them. Absence of the requisite accounting system coupled with inadequate internal controls on inventories facilitated the embezzlements and Cost Auditors expressed satisfactory opinion.

17. The audit representation affirms that the Cost Auditors were cognizant of their responsibilities that they have to verify the basic elements of cost viz. material consumption, wages of worker and overheads ensuring that the cost of production has been arrived at as per principles of cost accounting. The Cost Auditor has acknowledged his responsibilities in respect of the verification of the cost of production, however, he could not demonstrate the same from the audit conducted, as the figures disclosed in the Cost Statements, does not reflect true and fair information including unit cost.

18. After consideration of the facts and circumstances of this case, I am of the view that the Cost Auditors have signed the audit reports otherwise than in conformity with the requirements of Section 255 and 258 of the Ordinance and have committed a default in terms of Section 260 of the Ordinance. However since the Cost Auditors have offered to cooperate with the Commission in the legal recourse against the delinquent management, the partners of M/s Siddiqi & Company. Chartered Accountants are only reprimanded. Moreover, the Cost Auditors are further directed to take the action appropriate in the circumstances in terms of the effects on the Cost Auditor's opinion, including modification of the Cost audit reports.

Tahir Mahmood
Executive Director (Enforcement)