

# **REPORT OF THE EXPERT GROUP TO REVIEW THE EXISTING COST ACCOUNTING RECORDS RULES, COST AUDIT REPORT RULES AND COST ACCOUNTING STANDARDS – A BRIEF**

*(This document contains a brief of the Expert Group Report. For clear understanding, Members are requested to read Part-II of the Report)*

## **CONSTITUTION OF THE EXPERT GROUP**

- To enable development of relevant cost accounting methodologies and standards to increase the competitiveness of the Indian manufacturing sector and to advise the Government on suitable measures for the same, Government of India, Ministry of Corporate Affairs vide their Order dated 21st January 2008 constituted an Expert Group under the chairmanship of Shri B.B. Goyal, Adviser (Cost), Ministry of Corporate Affairs. Other members of the Group were drawn from MCA, CII, FICCI, ASSOCHAM, PHDCCI, ICAI and ICWAI. The Group co-opted various CEOs/CFOs of top public/private sector companies, academicians, management consultants, representatives of regulatory bodies, accounting standards & IFRS experts, CII-TCM working group member, user ministries, financial institution directors, company law experts, etc. The Group was asked to undertake the following tasks.
  - a) Review the Cost Accounting Record Rules and their continued relevance in the contemporary competitive environment as per the presently prescribed structure / format, and make recommendations for requisite modifications and / or alternative structures;

- b) Review the existing Cost Audit Report Rules and formats prescribed therein, and recommend appropriate modifications to make them more relevant to the needs of different stakeholders including company management, shareholders, regulators, etc;
- c) Review the existing system with a view to making suggestions for addressing the concerns of the industry with regard to confidentiality of company cost data and cost of compliance;
- d) Review and, if required, give suggestions for redrafting the existing Cost Accounting Standards in the Indian context in light of international best practices, and to align them with the international cost accounting standards issued by International Federation of Accountants (IFAC).

The Group submitted its Report to MCA on 26th December, 2008.

### **KEY ECONOMIC ISSUES**

- The Expert Group embarked upon a major challenge to find a place for cost linkages in the following three important determinants in the Indian and global milieu:
  - › Focus shift from Corporate Governance to Enterprise Governance;
  - › Competitiveness of Indian Industry and the Economy; and
  - › Strengthening the Regulatory Mechanism

#### ***Corporate/Enterprise Governance:***

- Corporate governance is about how companies are directed and

controlled. The prime responsibility for good governance must lie within the company rather than outside it. Designing and implementing corporate governance structures are important, but instilling the right culture is essential. Today, if an organization has to survive and thrive in a commercial environment that is becoming increasingly global in its outlook, it has got to factor in the interests and concerns of every stakeholder in the business. It is in this context that corporate governance has assumed greater significance.

- Audits like Cost Audit and Corporate Social Responsibility (CSR) are elements of a corporate governance system. Enterprise governance substitutes corporate governance in the context of contemporary competitive scenario and increased consciousness to align the company to the global practices and standards. The enterprise governance is to focus in ensuring the competitiveness of the enterprise in the global context. This would strengthen the competitiveness of the Industry in which the enterprise is positioned and consequently the competitiveness of the Indian economy in the global context gets strengthened. Corporate reporting system needs to be strengthened through appropriate efficiency audit practices. In this connection, it is significant to appreciate the need to position cost audit in the enterprise governance structure. Clause 49 of SEBI guidelines on Listing Agreements mentions about performance monitoring, it must be duly amended to focus and to conform to the cost audit structure so that companies report on the efficiency performance in more detail and to the benefit of the stakeholders in evaluating the company.
- Cost audit, supported by cost accounting standards, can provide relevant and credible cost and revenue data to regulators to support

their decisions. Moreover, cost audit can provide relevant reports to the board of directors to strengthen its oversight function. Therefore, in a market economy, cost audit with changed emphasis on efficiency is as relevant as it was in a controlled economy. In an environment where ‘stakeholder theory’ of corporate governance is still rhetoric and management focus is on capital market, cost audit will help to protect the interest of stakeholders including investors. It will also help optimal use of national resources.

- A nation’s competitiveness is the sum up of individual firm’s competitiveness. There are no two opinions that to survive, endure and prosper in today’s hypercompetitive environment, enterprises of all sizes need to explore strategies to build competitiveness. To achieve competitiveness, while earlier theories emphasized on Total Quality in Management (TQM); the modern thinkers give equal weightage to the Total Cost Management (TCM). While the core attribute of TQM is its focus on customer and takes a total system view in linking the various business processes to provide a flexible response to customers; that of TCM is on cost management. Towards this, recent innovations suggested new tools and techniques such as Activity Based Costing, Target Costing, Lifecycle Costing, Quality Costing, Value Engineering, Supply Chain Management, Balanced Scorecard, Performance Pyramid, Lean Accounting, Theory of Constraints, Throughput Accounting, Kaizen Costing, Customer Valuation, Strategic Cost Management, and so on and so forth. In line with TQM argument, it is argued that TCM holds the key to competitive advantage.
- In the context of evaluating the economic competitiveness, the significance of cost management in enterprises cannot be underestimated. In this connection the Confederation of Indian

Industries (CII), through its Total Cost management (TCM) Division, had studied the cost management practices in different companies, both in the manufacturing and services sector. The study had evolved the concept of five maturity levels of companies in cost management. It also suggested the mechanism of certification of cost management practices in companies so as to makes companies more efficiency driven and competition conscious. The first three levels of maturity are clear stages of development in competition ladder and essential for any company in the modern competitive era. They focus on basic cost information, appropriately computed cost centre wise, system based cost data support for decision making processes, and finally ensuring that the cost information system thus evolved is used in operationalising the strategies for measuring productivity, profitability etc. The significance of cost information is greatly emphasized in the process of gaining competitive strength by companies. Further in the ladder, the study brings out the emphasis on Total Cost Management approach by companies being competitive and in the process become a benchmark for cost management and competitiveness, for others in the industry. The five stages, forming part of the Maturity Model as evolved by CII-TCM division, are significant indicators of the relevance of the cost information and an assurance process required for its effective implementation.

- The Expert Group agrees with the conclusions of the study and the model so evolved. It is clear that an appropriate cost management system is required in all business units to remain competitive and the Government should ensure through a legal framework that companies do install such a cost management system in their respective governance, and also an effective

assurance service mechanism so that the cost competitiveness of Indian industries is addressed through the assurance (Cost Audit) process which ultimately would ensure the competitiveness of the industry and the economy as a whole.

- In developed economies there are no explicit legal interventions needed that make the companies to comply with laid out rules on cost information systems. However, in developing economies like India, legal interventions are required for making companies to appreciate the need for cost information systems as a source for gaining competitiveness and also to ensure such cost information systems are based on well recognised principles of accounting and costing techniques. While there is widespread recognition of introducing an effective Enterprise Risk Management Systems in all companies, such risk management system would require good cost information system. Therefore, such a system should continue to exist to ensure that companies maintain appropriate cost information system and slowly mature in cost management mechanisms. A cost Audit system would ensure that such systems are in place in all companies.
- The reorientation of the economy from an import-substituting industrialization to export-led growth makes the improvement in the state of competitiveness even more necessary. This would require a directional movement of the industries and hence the need for reorienting the companies of all sizes towards the goal. The tools like cost management would go to strengthen these directional strategies of the Government and the latter would be correct in positioning appropriate legal system to ensure, among many other important mechanisms, that companies follow cost management techniques under a declared assurance system and ensure the competitiveness of their unit and thereby the

competitiveness of their respective industry and the economy as a whole.

***Regulatory Framework:***

- Economic regulation, a form of government intervention, is designed to influence the behaviour of firms and individuals in the private sector. Regulation is a complex balancing act between advancing the interests of consumers, competitors and investors, while promoting a wider ‘public interest’ agenda, minimum prices to benefit the consumer (maximize consumer surplus); ensure adequate profits are earned to finance the proper investment needs of the industry (earn at least a normal rate of return on capital employed); provide an environment conducive for new firms to enter the industry and expand competition (police anti-competitive behaviour by the dominant supplier); preserve or improve the quality of service (ensure higher profitability is not achieved by cutting services to reduce costs); identify those parts of the business which are naturally monopolistic (statutory monopolies that are not necessarily justified in terms of either economies of scale or scope); take into consideration social and environmental issues (e.g. when removing cross subsidization of services).
- While regulation has significant relevance in the current economic scenario, cost data fed regulational issues are also many and worth considering while examining the relevance and usefulness of cost data of companies. For tariff fixation/approvals in public utilities like electricity, for ensuring objective subsidy policy, to ensure operational regulation within competitive practices, checking transfer pricing practices, etc. are some of the areas that would require adequate cost audit systems. Admittedly, these factors are not addressed in financial reporting mechanisms. In fact, the

nuances of competitive regulation would require elaborate cost data for ensuring that anti-competitive policies are not followed. Cost data has become imperatively mandatory under the WTO regime. The existing costing practices are poor in providing structured mechanisms for a good analysis of the cost information. Hence there is an urgent need to evolve mechanisms to ensure structured cost data in companies in all the sectors and a structured system to provide assurance service through cost audit mechanisms.

- At present, the regulatory bodies have prescribed their own formats in which the companies are required to submit the necessary cost information. In the absence of accurate and reliable cost data at the end of the companies/utilities, the regulatory bodies cannot discharge their statutory responsibilities in, say, fixing the correct tariff and other charges. They take the certified cost data in the prescribed formats from the companies/service providers. Such data is generated from the companies costing systems and if they are not well designed and implemented, even the certified copies may not provide relevant and reliable data to the regulatory bodies on which they base their decisions. Hence, it is highly mandated and imperative to ensure that the companies are maintaining proper records of costing through well designed costing accounting system and get these records duly audited/certified from an independent cost expert.

### **CONSULTATIONS WITH STAKEHOLDERS**

- For holding consultations with various stakeholders, the Expert Group devised a detailed Questionnaire on the existing and revised framework of cost accounting and cost audit in the corporate sector. The Questionnaire was circulated to all the interest groups

such as user ministries/departments, regulators, companies (public, private & co-operative), academicians/experts, management consultants, practicing professionals, all the central council members and past presidents of ICWAI, etc. Further, in order to ensure clear understanding of the all the related issues, the Group held personal discussions/consultations in open-house meetings at select cities in the country. Apart from participation in the open-house consultations, written responses were received from a large number of stakeholders.

- These responses have been tabulated and analyzed. Majority of all the respondents, including various regulators & user departments/agencies (SEBI, CCI, NPPA, FICC, CERC, C&AG, PNGRB, CAC, Tariff Commission, Tea Board, DGAD, etc.); Navratna/Miniratna PSUs (ONGC, IOC, BPCL, HPCL, GAIL, NTPC, NHPC, CIL, NLC, SAIL, RINL, BHEL, BEL, CEL, BEML, MTNL, NALCO, NMDC, NFL, NTC, PGCIL, GACL, etc.); major private sector industrial conglomerates/ companies (Tata, Birla, Reliance, ITC, Mahindra, Bajaj, Jindal, Mallaya, Muthiah, TVS, Maruti Suzuki, Dabur, HUL, Ashok Leyland, Asian Paints, BPL Mobile, Cadila, Finolex, Ford, HML, Kirloskar, Nestle, NDPL, Subros, Sundaram, Swaraj, W.S. Industries, etc.); major industry associations (CII, FICCI, ASSOCHAM, IBA, PHDCCI, CCFI, etc.); IIMs, and ISB, Hyderabad; ICWAI and leading management consultants have broadly agreed with the revised framework as proposed by the Expert Group. Views of various stakeholders have been summarized in chapter 5 of the Report.

**INTERNATIONAL FEDERATION OF ACCOUNTANTS  
(IFAC), GLOBAL COST ACCOUNTING PRACTICES AND  
THE MATURITY MODEL**

- Expert Group concluded that in the approach of IFAC, there is a major focus shift from the corporate governance to the enterprise governance. Hence, to achieve the objectives of enterprise governance, the content and relevance of purely financial accounting data and information, as a means to evaluate performance, is poised for a sea change. In this context, IFAC has started recognizing the need for adequate cost information and reporting framework to the governing body of enterprises for risk-management and decision making needed to enhance the stakeholders' value. IFAC has also very clearly highlighted the usage of such framework in the functioning of government and other public agencies.
  
- From the cross-country cost & management accounting practices, the Expert Group observed that these largely depend upon the maturity level of each economy in terms of its competitiveness, liberalisation & globalization, business pattern/models, average size/scale of an enterprise, risk-management models, market & information network, level of corporate/enterprise governance, strategic strengths & weaknesses, cost-leadership movement, sustainable cost reduction practices, extent of applied research, benchmarking, etc. Three maturity levels are recognized regarding the Regulation System in an economy:

**LEVEL-I** : This is lowest level in the maturity scale of regulation. This is a level where the Government has to perform role of regulation completely by itself. It makes detailed rules, procedures etc.; it monitors them whether they are properly

followed; and punish those who are not abiding by these rules. This provides practically no flexibility to the players for necessary growth with the change in time and conditions; enforcement of the rules is usually through by force; and it leads to sometime unnecessary interference from the side of the Government.

**LEVEL-II :** This is a higher level of maturity where the players in the economy have become more matured; they start appreciating role of discipline in the economy; started coming out voluntarily with models of self discipline; Government role reduced to provide necessary direction and guidance so as to achieve the desired objectives of the economy. At this level, independent regulators are given the responsibility of monitoring and ensuring the necessary discipline among the players of the economy.

**LEVEL-III:** This is the highest level of maturity among the players of the economy. At this level, every player is well conscious about his/her responsibilities; develops systems to ensure that necessary self-disciple mechanism exists so as to achieve the objectives of the whole economy and as well as those of stakeholders. At this stage, the Government role is practically non-existent in the regulation mechanism; market forces play more dominant role in disciplining the market.

- The Expert Group strongly believes that the Indian economy is at a maturity level of II. Therefore, instead of strict rules and laws, Indian industry needs directions, principles and guidance from the Government. At this maturity level, the Group feels that the industry should be given more freedom and flexibility and ultimately, over a period of time, the industry will achieve sufficient maturity level where driving force will be self discipline rather than any law of the Government. Till Indian industry

reaches at the highest level of maturity, there is a need for monitoring & compliance mechanism.

- The transitory phase through which economies like India are passing, having moved from being under-developed to developing and now to a fast developing and finally gradually heading towards the developed stage still require suitable regulatory mechanism. Thus, besides routine financial information and other disclosures, companies should be subjected to a cost-effective cost & management information system, enabling the Government and regulatory authorities to play their intended role in enhancing the competitiveness of Indian industry and ensuring a fair-play for all stakeholders.
- In an identical approach, the Confederation of Indian Industries (CII), through its Total Cost management (TCM) Division, had looked into the following maturity levels for devising a strategy:
  - Base Level** : Plethora of legacy practices of cost accounting/management
  - Level II** : A National standard level of cost accounting discipline
  - Level III** : A self driven level of world class cost/management accounting
- The Expert Group is of the view that migrating through above levels should be at great speed and especially Level II will require statutory drive through standard cost accounting practices for the entire corporate sector. Once an enterprise crosses Level II into Level III, it will be in a mode of voluntary adoption of all cost and management accounting standards/guidelines to be issued by professional bodies either for internal financial management or for external reporting. Considering the above the Expert Group recommends:

**Phased introduction of cost accounting and cost audit framework in all companies to achieve the highest levels of competitiveness, the Expert Group recommends that only such companies maturing into higher levels of adoption of best cost and management accounting practices/guidelines may be permitted voluntary compliance.**

### **COST ACCOUNTING RECORDS**

- Section 209(1) of the Companies Act, 1956 primarily relate to maintenance of books of account by the companies that includes cost records as well. This section does not insist on having separate books for maintaining particulars relating to costs referred to in clause (d) of sub-section (1) thereof. The law does not distinguish between the books of account maintained by a company either for the purposes of financial statements or for the preparation and presentation of cost statements. While financial accounting/reporting is supported by the principle based accounting standards approved by NACAS and adopted as Companies (Accounting Standards) Rules, 2006, a differential treatment has been accorded to cost accounting by prescribing separate rules/formats. Therefore, the Expert Group recommends:

**Individual Cost Accounting Records Rules (CARR) prescribing product wise formats for maintenance of cost records are not required. As such, necessary cost data should logically emanate from the same set of primary books of account and other accounting data/records.**

- In the Objects & Reasons of the Bill seeking insertion of clause (d) under sub-section (1) of section 209 of the Companies Act, 1956, in the Report of the Joint Select Committee, and in the

statements of the then Hon'ble Finance Minister made in reply to the debate in Rajya Sabha, it was stated that (a) maintenance of proper cost accounting records by the companies is essential which would make the efficiency audit possible; (b) all companies belonging to class of companies engaged in the production, processing, manufacturing or mining activities to include in their books of account particulars relating to the utilisation of materials, labour or other items of cost; and (c) every producing/manufacturing company to employ a cost accountant and to have a cost accountant's report in regard to the product(s) that it produces. The Group noted that the term "class of companies" belongs to all such companies that are engaged in the production, or processing, or manufacturing or mining activities. However, "class of companies" has been interpreted to mean companies engaged in the manufacture of a particular product or those belonging to a specified industry. Accordingly, Central Government has been prescribing separate CARR for each industry or product by assigning it the meaning as "class of companies". The Group recommends that:

**In order to enhance the competitiveness of the company, the term "class of companies" under the existing section 209(1)(d) of the Companies Act, 1956, should be considered at the company level rather than at the product level. This will facilitate focus shift to the enterprise governance.**

- The Group noted that with globalisation, the entire world economy is integrating into one single, huge system where geographic boundaries are fading out and protecting umbrellas held by governments over the industry and national economy are gradually closing down. In this 'borderless' world, one has to venture out not only for survival but also for life-supporting growth and

prosperity. In this context, strategic cost management plays the most vital role. In the present economic scenario, maintenance of cost records in a systematic manner is essential for all companies. It is also considered necessary to provide requisite cost inputs to various regulators and government departments/bodies to protect the interest of consumers and investors and to protect the industry from unfair trade practices under WTO agreements. In a survey conducted by the Expert Group, there has been a general consensus among all the respondents that all companies should maintain cost records as an integral part of books of account, but to be left free to follow and apply relevant method of cost management. The Group recommends that:

**All companies (excluding the exempted categories), should maintain cost accounting records in respect of utilisation of materials, labour or other items of cost, as an integral part of books of account. However, in order to promote uniformity and consistency in the preparation and presentation of cost statements under different statutes and under WTO, it is also recommended that such cost accounting records should adhere to the cost accounting standards issued by ICWAI that have integrated, harmonized and standardized the generally accepted cost accounting principles and practices. The above should be introduced in a phased manner as recommended in a later paragraph.**

- The Group noted that cost management is distinct from the cost accounting. Therefore, the Expert Group recommends that:

**It should be the management's prerogative to choose appropriate cost management framework. The Group also recommends that the Government, professional bodies and**

**industry associations should play a pro-active role in promoting such competitiveness of India Inc. by undertaking sector-based competitiveness and benchmarking studies. The Group further recommends that ICWAI should undertake an exercise to suggest sector specific standard costs on priority basis.**

- The Group noted that all the existing 44 Cost Accounting Records Rules (CARRs) carry almost identical prescription and formats (except for some industry specific minor variations) for maintaining cost accounting records by the companies. The Group also noted that these rules are incomplete documents that lack clarity leading to presentation of non-uniform and inconsistent results; create conflict with the parent Statute; force companies manufacturing multiple products to follow multiple rules; leave no room for flexibility with the company management to follow one standard cost accounting system suited to its' size, scale & type of operations; and results in companies incurring huge cost in preparing cost records as per the notified rules/formats. The existing mechanism can be considered as the prescriptive methodology rather than a principle based approach. The Expert Group has concluded that in the present competitive scenario having rapid changes in all dimensions, different needs of the industry can be met only from principle based costing system that would result in its value addition, flexibility and innovations.

**Based on the wide-spread opinion expressed by all categories of stakeholders to provide due flexibility to the companies to have a sound cost accounting framework, as also to reduce their compliance cost, the Expert Group recommends as under:**

- a. **Maintenance of cost accounting records by the corporate sector should be shifted from the existing rule/format-based mechanism to a principle-based mechanism having universal application.**
- b. **Maintenance of cost accounting records by the corporate sector should be based on generally accepted cost accounting principles that have to be integrated, harmonized and standardized in the Cost Accounting Standards (CAS) to be issued by ICWAI in consultation with all stakeholders and in harmony with the Indian GAAP and Accounting Standards. The Group has already made detailed recommendations in the relevant chapter on CAS.**
- c. **As recommended by the Working Group, this may be done in a phased manner as under:**

**Phase-I:**

- **No change in the existing provisions under section 209(1)(d) of the Companies Act, 1956 required.**
- **In place of all the existing CARRs, single combined CARR should be notified.**
- **Scope of CARR should cover all companies (except the micro & small companies) engaged in the production, processing, manufacturing or mining activities.**

**Phase-II:**

- **No change in the existing provisions under section 209(1)(d) of the Companies Act, 1956 required.**

- All the Cost Accounting Standards issued by ICWAI should be adopted under the Companies Act, 1956 based on the recommendations of either the existing NACAS or a similar body to be set-up.
- Single combined CARR as notified in Phase-I should be replaced with modified CARR containing adherence to the Cost Accounting Standards issued by ICWAI.

**Phase-III:**

- The existing provisions under section 209(1)(d) of the Companies Act, 1956 should be amended as under:

*Section 209(1)(d): Every company shall keep at its registered office proper books of account with respect to utilization of material or labour or to other items of cost as may be prescribed by the Central Government.*

*The Central Government may, by notification in the Official Gazette, exempt any company or class of companies from compliance with any of the requirements of section 209(1)(d), if in its opinion, it is necessary to grant the exemption in the public interest.*

- Scope of CARR as notified in Phase-II above should cover all companies.
- d. ICWAI should issue simplified format/proformae for preparation and presentation of requisite cost data/information for the benefit of industry & professional fraternity.

- e. **For certain regulated industries such as electricity, telecommunications, petroleum & natural gas, etc., ICWAI should issue industry-specific guidelines in consultation with the concerned regulatory body and industry association.**
- f. **A sample of combined simplified CARR is enclosed as Annexure-XVII, Page 614 of the Expert Group Report).**

- Keeping in view the existing provisions and the IFAC observations, the Group recommends that:

**The existing provision of exemption to small scale industrial undertakings, as defined in the Industries (Development and Regulation) Act, 1951 from the requirement of maintaining cost accounting records should be continued.**

- As regards the threshold limit for identifying such small scale industrial undertakings, the Group already noted that the limit for the value of machinery & plant that was earlier fixed as Rs.3 crore has been revised to Rs.5 crore as per the Micro, Small and Medium Enterprises Development Act, 2006. Therefore, this has to be revised accordingly. Accordingly, the Expert Group recommends that:

**All micro and small scale industrial undertakings, as defined in the Micro, Small and Medium Enterprises Development Act, 2006 should continue to remain exempted from the requirement of maintaining cost accounting records even if they belong to class of companies engaged in the production, processing, manufacturing or mining activities, subject to the following conditions. Such companies should also remain outside the ambit of cost audit.**

- a. **The aggregate value of the machinery and plant installed wherein, as on the last date of the immediate preceding accounting year, does not exceed limit as specified for a small scale industrial undertaking under the provisions of Micro, Small and Medium Enterprises Development Act, 2006;**
- b. **The aggregate value of the turnover made by the company from sale or supply of all its products during the immediate preceding accounting year does not exceed twenty crore of rupees;**
- c. **The company's equity or debt securities are not listed or are not in the process of listing on any stock exchange, whether in India or outside India;**
- d. **It is not a bank, financial institution or an insurance company;**
- e. **It does not have borrowings (including public deposits) in excess of rupees five crore at any time during the immediately preceding accounting year; and**
- f. **It is not a holding or subsidiary company of a company which is not a small sized company.**

- The Group noted that medium size companies are not presently exempted from the application of CARRs. Such companies would necessarily require requisite cost data/information for internal purposes as well as for legal or statutory purposes. Hence, the Group is of the view that there appears no justification in granting them exemption from merely maintenance of cost records as they would draw much greater benefits from such mechanism and it

would also help them to comply with any type of legal/statutory requirements. Therefore, the Expert Group recommends as under:

- I. **All medium sized companies should maintain cost accounting records based on generally accepted cost accounting principles and cost accounting standards, as may be notified under section 209 (1)(d) of the Companies Act, 1956.**
- II. **With a view to avoiding incidence of any additional cost of compliance, such class of companies should also be exempted from the provisions of cost audit under section 233B of the Act.**
- III. **Such companies should only file a compliance report with the Central Government, on a proforma to be notified, from a cost accountant certifying requisite maintenance of cost accounting records, as notified under section 209 (1)(d) of the Act.**
- IV. **Medium size companies should be classified based on investment in plant & machinery exceeding Rs.5 crore but not exceeding Rs.10 crore (as defined in the statute) and annual turnover exceeding Rs.20 crore but not exceeding Rs.50 crore in the immediately preceding accounting year. While calculating annual turnover, any turnover from trading operations, consultancy services, other incomes, etc. in a manufacturing organisation will not be considered. But turnover from job work or loan license operations would stand included.**
- V. **Other conditions that would apply to a medium size company shall be as under:**

- a. **The aggregate value of the machinery and plant installed wherein, as on the last date of the immediate preceding accounting year, does not exceed limit as specified for a medium size industrial undertaking under the provisions of Micro, Small and Medium Enterprises Development Act, 2006;**
- b. **The aggregate value of the turnover made by the company from sale or supply of all its products during the immediate preceding accounting year does not exceed fifty crore of rupees;**
- c. **The company's equity or debt securities are not listed or are not in the process of listing on any stock exchange, whether in India or outside India;**
- d. **It is not a bank, financial institution or an insurance company;**
- e. **It does not have borrowings (including public deposits) in excess of rupees ten crore at any time during the immediately preceding accounting year; and**
- f. **It is not a holding or subsidiary company of a company which is not a small and/or medium sized company.**

### **AUDIT OF COST ACCOUNTING RECORDS**

- The Expert Group noted that owing to notification of industry/product wise separate Cost Accounting Records Rules under section 209(1)(d) of the Companies Act 1956 and thus issue of

multiple cost audit orders under section 233B for a single company producing multiple products has led to large number of anomalies/difficulties. Therefore, the existing practice of notifying industry/product wise CARR and ordering product-wise cost audit orders only on selective companies, seeking unit-wise cost details and other data/information, does not support to any justification either from the user (i.e. the Government) point of view or from the provider's (i.e. the company) viewpoint. Such a situation should be avoided and rectified. In view of this, the Expert Group recommends that:

**The existing practice of notifying industry/product wise CARR and ordering product-wise cost audit orders only on selective companies, seeking unit-wise cost details and other data/information, should be dispensed with.**

- In para 13.116 of the Report, the Expert Group has elaborated in detail all issues relating to the utility of cost audit reports, cost data/information, and the need to review the existing mechanism/framework. The Expert Group also noted that in a country-wide survey conducted, it was found that different stakeholders/interest groups are in total support of continuation of the existing mechanism of cost audit, but with simplification of the structure/formats as contained in the existing Cost Audit Report Rules, 2001. Further, such practices of cost accounting, audit & assurance do prevail in many developed/developing countries, across the globe, in varying degrees, content and structure. Large numbers of external interest groups for cost data/information exist in these economies.
- On the issue of audit, assurance & good governance, the International Federation of Accountants (IFAC), in its various documents, has observed that (a) creation and optimization of

stakeholder value should be the objective of governance; and (b) the conformance and performance dimensions of governance are both important to optimize shareholder value. IFAC further said that costing methodologies applied in organizations, measures the consumption of economic resources and support the accountability of business performance. Cost audits help to ascertain whether an organization's cost accounting records are so maintained as to give a true and fair view of the cost of production, processing, manufacturing, and mining of a product. Therefore, cost audits can be used to the benefit of management, consumers and shareholders by (a) helping to identify weaknesses in cost accounting systems, and (b) to help drive down costs by detecting wastage and inefficiencies. Cost audits are also of assistance to governments in helping to formulate tariff and taxation policies.

- In view of above, the Expert Group strongly endorses the Working Group's recommendation that:

**There is need to continue the cost audit mechanism. However, to save costs, to ensure complete confidentiality of company's sensitive cost data and to avoid any possible misuse, present structure of cost audit report need to be modified and the formats prescribed therein needs to be simplified.**

- The Group noted that in the existing framework, there is no mechanism to capture data/information with respect to all such companies that are covered by the provisions of section 209(1)(d) of the Companies Act, 1956 and the Rules notified there under. The Group further noted that in the absence of such data/information, Government finds it difficult to decide as to which companies should be covered under the cost audit under section 233B of the Act. Hence, the Group noted that selective coverage

of companies for cost audit not only leads to adopting total ad hoc & arbitrary approach but also results in a sense of discrimination and heart burn among companies belonging to the same industry. The Group further noted that selective coverage within a particular industry does not give any major advantage even to the Government for carrying out anti-dumping studies, tariff related studies, pricing studies, anti-competitive studies, subsidy related studies, sectoral studies or economic analysis, etc. for the simple reason that fully representative data of the industry is not available. In this regard, the Expert Group also noted that the then Hon'ble Finance Minister of India, Shri T.T. Krishnamachari, in 1965, had very clearly supported the view that when we would have sufficient number of cost accountants in the country (presently there are nearly 45,000 cost accountants in India), every producing/manufacturing company shall be covered by the mechanism of cost accounting records and cost audit. Keeping the aforesaid in view, the Group recommends that:

- (a) The existing practice of a company covered under section 209(1)(d) of the Companies Act, 1956 and not covered under section 233B (except medium size companies that would be required to maintain cost accounting records but have been recommended for exemption from cost audit) should be discontinued;**
- (b) All companies should be asked to furnish information, either in Form 23AC (relating to e-filing of Balance Sheet) or in Form 23ACA (relating to e-filing of Profit & Loss Account), whether the company is covered under section 209(1)(d) of the Companies Act, 1956 relating to maintenance of cost accounting records;**
- (c) Cost audit orders under section 233B of the Companies**

**Act, 1956 should be issued on all such companies that are not specifically exempted; and**

**(d) MCA-21 data should be used to identify such companies.**

**The Group has already recommended that all micro, small and medium size companies, engaged in the production, processing, manufacturing or mining activities, having investment in plant & machinery up to Rs.10 crore and annual turnover up to Rs.50 crore in the immediately preceding accounting year, subject to certain conditions, should be exempted from the provisions of cost audit under section 233B of the Companies Act, 1956.**

**In addition, the Group recommends that other special categories such as section-25 companies, companies limited by guarantee and companies/ associations not for profit, except those where any part of surplus income is allowed for distribution among the shareholders, companies having their total operations outside India, etc. should also be exempted from the ambit of cost audit.**

- As regards existing structure/contents/formats of the cost audit report, as prescribed in the Cost Audit Report Rules, 2001 (amended in 2006), the Group concluded that the structure of existing cost audit report requires complete modification. The Expert Group further noted that all respondents, who participated in the country-wide survey, have unanimously supported the view that while there is strong need to continue with the cost audit mechanism, especially for large size companies, the existing formats need to be simplified. The respondents suggested a three tier system viz. (i) a short report giving assurance to the

stakeholders that organization has satisfactory Cost Management practices, (ii) a more detailed report may be sent to Government, and (iii) a very exhaustive report could be given to the company. Keeping these issues in mind, the Group recommends as under:

- (a) Existing concept of filing unit-wise and product-wise cost audit report, introduced in 2001, should be dispensed forthwith. Filing of minute cost details for each factory/unit, within a factory/unit for each product, and within a product for each type/variety/description separately and all complexities in reporting have to be avoided. The revised structure should do away with providing detailed cost statements of individual products since the same compromises with the confidentiality and competitive edge of individual companies;**
- (b) Existing Cost Audit Report Rules, 2001, as amended in 2006, containing very detailed and complex reporting formats should be replaced with the new Cost Audit Report Rules, 2008;**
- (c) Only abridged statement containing product group-wise cost statements along with cost auditor's report should be filed with the Government. All other cost details, statements, schedules, etc. should remain with the company; and**
- (d) Cost auditor should submit detailed unit-wise and product-wise cost statements, duly certified by him, to the company, which may be called for by any Government agency and/or regulator depending upon the need.**

**(e) A sample copy of modified Cost Audit Report Rules, containing modified Form-I & other formats is enclosed as Annexure-XVIII [Page 620 of the Expert Group Report].**

- Having recommended submission of product group-wise cost statements (instead of unit-wise, within a unit for each product, and within a product for each type/variety/description separately), the Expert Group felt necessity to define the term “product group” that can be universally understood and used by all industries/companies and cost auditors, without any ambiguity. Accordingly, the Groups recommends as under:

**(a) Product Group means a group of homogenous and alike products, produced from same raw materials & by using similar or same production process, having similar physical/chemical characteristics & common unit of measurement, and having same or similar usage/application;**

**(b) Product Group can be considered as an alternate to “product family”. However, it cannot be considered as an alternate to the term “business segment” or “geographical segment” or “reportable segment” as defined in the Accounting Standard 17 for the purposes of reporting segment-wise financial results;**

**(c) ICWAI should issue a Guidance Note on the subject within a period of three months, in consultation with national level industry associations; and**

**(d) For the time being, the companies may be left free to**

**correctly interpret the term “product group”, in consultation with the cost auditor, as best suited to their product range.**

- The Expert Group noted that the requirements of cost data/information by various regulators, user ministries/departments, financial institutions & Banks and other government authorities differ depending upon their purpose. Presently, they seek such details from the cost audit reports filed with MCA. In addition, few regulators have also prescribed their own formats seeking requisite cost details from the concerned companies. The Group feels that meeting with the need & requirements of all such organisations from the same cost audit report would make it too complex and unwieldy and also all companies would be unnecessarily forced to give such data/information. Therefore, as opined by all stakeholders/interest groups and recommended by Working Group-III, the Expert Group recommends that:

**Apart from using the data/information available in the (modified) cost audit reports e-filed with MCA, all Regulators, user Ministries/ Departments, Financial Institutions/Banks and other Government Authorities may be left free to directly seek such additional cost details from the concerned companies, as may be required by them based on legal/quasi legal requirement as mandated under their respective statutes.**

- The Expert Group noted that, as per existing provision of CARO, the [statutory] auditor(s) of the company appointed under section 224 of the Act, are required to include a statement in their Audit Report whether requisite cost accounts and records, as prescribed by the Central Government, have been made and maintained. In this regard, the Group observed that (a) it is not correct to seek

such a statement from the financial auditor(s) of the company who, as per the Chartered Accountants Act, 1949, are not practicing in the field of cost accountancy; (b) the auditor(s) in their statement further add “We have not made any detailed examination of these records with respect to their accuracy and completeness”, thus, such a certificate does not serve any meaningful purpose; (c) in many cases, the certificate provided by the auditor(s) is not correct and there is no mechanism in the Government to verify its correctness; and (d) in the changed principle based mechanism, adherence to CAS can be ensured by members of ICWAI. Ministry of Corporate Affairs, in their internal Policy Guidelines framed in 2006, also said that the existing system of compliance by Statutory Auditors under CARO should be reviewed periodically. In view of above, the Working Group recommended that:

**The existing provision of a Statutory (Financial) Auditor’s certificate under CARO certifying maintenance of cost records by the company should be discontinued. The Expert Group endorses this and recommends for immediate implementation.**

- On the issue of appointment of cost auditors, the Expert Group noted the Irani Committee’s recommendation that “Government approval for appointment of Cost Auditor for carrying out such Cost Audit was also not considered necessary”. Further, in the survey done, there was no consensus among the respondents. Among the important ones, SEBI, CCI, CERC, ICSI, Chief Adviser Cost, and ICWAI Council, all are in favour of appointment of cost auditors by the shareholders in AGM. Contrary to this, the CII has said that the Board of Directors of a company without seeking any prior approval from the Central Government (i.e. MCA) and the same be reported in the Directors’

Report to the shareholders. The Expert Group has deliberated upon this issue and opines that:

**Transparency, accountability as well as independence of the cost auditor are very important determinants of good enterprise governance, and therefore, shareholders should be given the right to appoint cost auditors and have the cost auditor's report for better evaluation of the company's performance & risk management. However, until such time, it is decided to share any part of the cost audit report with the shareholders, the appointment of cost auditors by the shareholders is not practicable and hence the Expert Group suggests that this issue may be examined separately.**

**However, to begin with, the shareholders must know that their company is covered by the cost audit mechanism. Therefore, the Expert Group endorses the recommendation of the Working Group that the cost auditors should be appointed by the Board of Directors of a company without seeking any prior approval from the Central Government (i.e. MCA) and reports the same to the shareholders in the Board of Directors' Report.**

- The Working Group-III, in its report, recommended that in order to ensure transparency, efficiency, and credibility of the systems followed by the company and also to ensure better compliance, companies should be encouraged to rotate cost auditors after every 3-5 years. In this regard, the Expert Group noted that such a provision for rotation of auditors neither exist in the Indian laws nor found in any other country. However, a voluntary & healthy practice of rotating the lead auditors does prevail in many large size multinational companies. Therefore, the Expert Group recommends that:

**Indian companies should also follow this healthy practice of voluntarily rotating the cost auditors after every 3-5 years.**

- The Expert Group noted that as per provisions of section 233B of the Companies Act, 1956, only Cost Accountants within the meaning of the Cost & Works Accountants Act, 1959 can be appointed as cost auditors. However, in the proviso to sub-section (1) of section 233B, even Chartered Accountants possessing the prescribed qualifications may also be appointed to conduct the audit of the cost accounts of companies. The Group noted that the number of qualified cost accountants has touched nearly 45,000. Hence, continuation of this proviso in the present circumstances is not relevant. Therefore, the Group recommends that:

**The existing proviso under sub-section (1) of section 233B of the Companies Act, 1956 may be deleted.**

- Regarding periodicity of cost audit, the Expert Group noted that the majority opinion is in favour of annual audit only. Few companies and regulators have suggested half-yearly or quarterly audit or limited review may be in case of listed companies. The Group further noted that on this issue, SEBI has said that in case of listed companies, it may be quarterly linked with the corporate governance and segmental reporting in line with requirement of quarterly reporting of financial results and in case of unlisted companies, it may be yearly. The ICWAI Council in their reply has said that the real assessment of the improvement in performance or otherwise can be judged only when there is a trend analysis over the quarterly reporting system is done. However, Cost Audit should be conducted annually irrespective

of whether it is a listed company or not. A limited review of key parameters that appear in the cost audit report should be considered by the Audit Committee on a quarterly basis for listed companies. In view of this, the Expert Group recommends that:

**As at present, periodicity of cost audit should remain on annual basis. In addition, the Group recommends quarterly internal audit of cost records.**

**The Group further recommends that the possibility of introducing quarterly limited review of cost details, in case of listed companies, may be examined in consultation with SEBI.**

- On the issue of sharing any part of cost management trends/information/data with the shareholders, the Expert Group noted that there was no consensus among the different stakeholders/interest groups. On this issue, CII has said that the cost management trends may form part of the “Management Discussion & Analysis” part of the Annual Report as currently also done by many companies. The ICWAI Council has said that as part of good corporate governance practice, data should be shared with the shareholders. However the data once shared, becomes public information and cost data is sensitive in the competitive environment and therefore, it is proposed that key-performance indicators may be shared with the shareholders in the Annual Report. SEBI said that the possibility of circulation of cost auditor’s report along with important efficiency parameters and also the suggestions made to the shareholders may be explored. Like this, varied suggestions were made, which were evaluated by the Working Group. After evaluating the pros & cons, the Working Group-III recommended that:

**Circulation of selected information to the shareholders of the company, containing cost trends, key performance indicators, risk assessment or key risk indicators, CSR details, trends or factors like external economic conditions and internal efficiency, etc., as part of the management analysis section of the annual report to meet with the overall objectives of good corporate governance, should be left to the discretion of the management.**

**ICWAI should work out a model format in consultation with SEBI. This would align with the findings of IFAC survey on external financial reporting. The Expert Group endorses this.**

**The Expert Group also recommends that in line with the earlier issue of appointment of cost auditors in the AGM, this issue may also be re-examined separately.**

### **COST ACCOUNTING STANDARDS**

- In order to promote uniformity & consistency in the preparation and presentation of cost statements under different statutes and under WTO, there is an urgent need to integrate, harmonize and standardize the cost accounting principles and practices. Further, the Expert Group has recommended complete shift for maintenance of cost accounting records by the corporate sector from the existing rule/format based mechanism (that is backed by Cost Accounting Records Rules notified by the Government for each industry separately) to a principle based mechanism (that should be backed by the cost accounting standards and generally accepted cost accounting principles & practices). Hence, the Group recommends:

**Issue of Cost Accounting Standards based on the generally accepted cost accounting principles & practices presently followed by the industries in India.**

**All the Cost Accounting Standards (CAS) issued/to be issued should be aligned with the following key objectives:**

- › **To provide a structured approach to measurement of costs in manufacturing, process or service industry;**
- › **To integrate, harmonise and standardize cost accounting principles and practices;**
- › **To provide guidance to the users to achieve uniformity and consistency in classification, measurement, assignment and allocation of costs to products and services;**
- › **To arrive at the basis of computing the cost of product, activity or service where required by legal or regulatory bodies;**
- › **To enable practicing member to make use of Cost Accounting Standards in the matter of attestation of General Purpose Cost statements; and**
- › **To assist in clear and uniform understanding of all the related issues by various user organisations, government bodies, regulators, research agencies, academic institutions, etc.**

- In the area of Cost Accounting Standards, all other recommendations made by the Expert Group are as under:

- › **All the existing Cost Accounting Standards may also be restructured as per this revised framework and re-issued.**
- › **The revision of existing CAS as per the revised framework should be done in consultation with the concerned legal and/or statutory authority in the government so that the adoptability of use of these revised standards by such organisations is not disturbed.**
- › **Within the revised framework of CAS, ICWAI should issue Application Guidance Note for each Cost Accounting Standard. The application guidance note should provide the explanatory notes and interpretations of various terminologies and methodologies referred to in the cost accounting standards with suitable illustrations and formats for presentation of cost statements.**
- › **ICWAI should assign utmost priority for issue of all the CAS already identified.**
- › **CAS may also be issued for all those areas (excluding the common areas already included in the list of 39) that are of use by the infrastructure or service sector companies.**
- › **Cost Accounting Standards Board and the Council of ICWAI should also follow the same process and issue the Cost Accounting Standards in consultation with all stakeholders viz. industry associations, companies, government organisations, regulatory authorities, user agencies, professional bodies, professional accountants in public practice, professional accountants in business, etc.**

- › **There should be complete alignment, synergy & harmonization between the Cost Accounting Standards and Financial Accounting Standards.**
- › **The Cost Accounting Standards Board of ICWAI, in consultation with the Accounting Standards Board of ICAI, should prepare a list of such items which need harmonization in two sets of standards i.e. Accounting Standards and Cost Accounting Standards and update the list periodically.**
- › **On specific cost related issues which require different treatment based on cost accounting principles, the Group recommends that any divergence should be disclosed as reconciliation between the Costing Profit & Loss Statement and Financial Profit & Loss Statement.**
- › **All the Cost Accounting Standards will also have to be reviewed and aligned with the relevant issues in IFRS.**
- › **Without sacrificing the basic objectives, the CAS should incorporate the best practices enshrined in the Cost Accounting Standards issued by different countries.**
- › **CAS should also follow, wherever applicable, the principles enshrined in the current International Good Practice Guidance and the Management Accounting Guidelines issued earlier by International Federation of Accountants (IFAC).**
- › **Either the existing mandate of NACAS may be modified or a similar body be set up advising the Central Government on the formulation and laying down of cost accounting policies**

**and standards for adoption by companies or class of companies under the Act. The Group further recommends that till such time, the cost accounting standards issued by ICWAI may be recognised as that prescribed by the Central Government.**

### **CONFIDENTIALITY OF COST DATA & COST OF COMPLIANCE**

- On the twin issues of “confidentiality of company cost data” and “cost of compliance”, Expert Group has noted the following key observation made by the Working Group-IV:

*“The Expert Group in its initial proposal has suggested many radical changes in the existing mechanism. These measures, if finally recommended and implemented, would go a long way in meeting with the concerns of the companies/industry associations on confidentiality of cost data and considerably reduce the cost of compliance.”*

- Keeping in view (a) the concerns expressed in the past by various companies and industry associations on these twin issues; (b) the observations/suggestions/recommendations made by the Working Group-IV; and (c) the opinions expressed by various stakeholders & interest groups in the replies sent to the questionnaire and those expressed in various open-house consultative meetings; the Expert Group opines/recommends that:

**After implementation of various recommendations made by the Expert Group for revised mechanism/framework of cost accounting records, cost audit and reporting in the corporate sector, no further steps are required to ensure complete**

**confidentiality of company cost data and there would be substantial reduction in the cost of compliance to the companies.**

**GOVERNMENT ORGANISATIONS**  
**AND SERVICE SECTORS**

- The Expert Group noted that after liberalization, the services sector has grown steadily and is accounting for 55% of the GDP compared to 27% of the industrial sector, out of which only 17% is by the manufacturing sector, which has relatively shown less growth. This has assumed greater importance after WTO has replaced the concept of GATT to GATIS encompassing vital service activities like Finance, Energy, Health, Education, etc. It is imperative that at this stage itself, a system of cost consciousness is created in these sectors so as to maintain efficiency, performance and propriety in their operations to be competitive with larger players entering these sectors from developed countries with greater resources and better efficiency of operations.
- The Expert Group further noted that given the enormous amount of resources required for the economic development and the fact that there is hard pressure on the availability of resources, it is very essential that the cost of resources used in all economics units are subjected to systematic accounting procedures and subjected to professional accreditation. The relationship between the input and output, in any economic activity, is traditionally upheld to develop Benchmarks for performance measurement and this input-output relationship has to be examined in all economic activities. This has to be done in a systematic manner so that the data is used for various policy decisions. Cost Accounting is one time-tested system of building input-output relationships.

- The Group noted the observations/recommendations made by the Committee on Subordinate Legislation (Fourteenth Lok Sabha) in its First Report submitted on 2nd December, 2004. The Committee said that service sectors such as Banking, Insurance, Health Services, Education, Hotel, etc. have admittedly “attained strategic importance to the economy and the public at large, particularly after opening up of the economy for private/foreign companies” and an authentic cost data base is of paramount importance to various existing and new regulatory bodies, Competition Commission and Government Departments for fixation of user charges in respect of services provided by them and would go a long way in fulfilling their respective objectives.
- The Group further noted that education & research services, healthcare services, municipal services, social security services, public procurement, defence procurements, public supply contracts, public-private partnership contracts, toll roads/bridges, railways, postal authorities, telecommunication services, electricity generation & distribution, state asset administration, financial services, tourist services, environmental effects’ costing, social pricing of goods, cross-subsidization impacts, pricing of agriculture inputs & outputs, etc. are major governmental and service sectors, across the globe, using cost accounting principles & practices.
- It was noted that as per IFAC, general principles of costing, design of costing systems and the cost information are important drivers of performance information and reporting in public and not-for-profit organizations. Even though cost accounting is today more of a management than an accounting exercise, IFAC believes that government financial officers and accountants have important leadership roles to play. They can provide much of the stimulus

and knowledge needed to develop and implement cost accounting.

- Further, the Expert Group noted that there was a general consensus among all the respondents that cost consciousness is important in all sectors of economy and even more important in non-competitive public services. Similarly, everybody agreed that all Government/public agencies should determine user charges for utilities and services based on most efficient costs. CII said that the cost accounting and cost audit framework must be extended to various government projects wherein the public spending is involved; all public service organisations should determine user charges based on most efficient cost. ICWAI Council said as the service sectors and other social sectors play a huge role in the national economy, these sectors should be mandatorily required to maintain structured cost accounting systems. Further, the infrastructure sector which includes roads, seaports, airports, railways, telecom, power projects, industrial parks, urban infrastructure, exploration, refining, mining, etc. is the backbone of the growth of any country. It is therefore felt that infrastructure sector needs to be included under the provisions of cost accounting and cost audit. Keeping the aforesaid observation in view, the Expert Group recommends as under:

**(a) All the services and other social sectors such as healthcare, education, banking, insurance, financial services, transportation, information technology, public utilities & essential services such as municipalities, electricity, water supply, city transport, etc. should be brought under the mandatory mechanism of cost accounting and cost audit.**

- (b) **The existing principles & practices of cost accounting and cost audit should also be extended to various Government projects/schemes, departmental undertakings, such as ordnance factories, railway locomotive/coaches manufacturing units, etc. and all the Government contracts and procurements should be covered forthwith.**
- (c) **All the infrastructure sector activities which include roads, seaports, airports, railways, telecom, power projects, industrial parks, urban infrastructure, exploration, refining, mining, etc. are backbone of the growth of any country; hence needs to be included under the provisions of cost accounting and cost audit.**
- (d) **All public service organisations should determine user charges based on most efficient costs. Subsidies meant for the poor may be decided after being fully aware of the opportunity cost, social factors and the shadow price. Even where cross-subsidization is necessary, it should be transparent and made known to the public at large.**
- (e) **Most of these sectors, services, functions or activities presently either operate as extension of Government ministries/departments or are governed by various Central/State Government statutes and/or resolutions. These are operated in both the corporate form as well as non-corporate form of organisations. In all the non-corporate and/or not-for-profit organisations, the existing principles & practices of cost accounting and cost audit may be extended by the respective authorities by suitably amending their laws/statutes.**

- (f) Ministry of Corporate Affairs and the Chief Adviser Cost in the Ministry of Finance should take a lead role to spearhead the process of inculcating cost accounting systems in all these organizations/entities.**
- (g) The Institute of Cost and Works Accountants of India should play a supportive role in (a) evolving suitable cost accounting systems; (b) issue of relevant cost accounting standards & guidance notes; and (c) in undertaking training of human resources in such organizations**
- (h) The Controller General of Civil Accounts and the Accountant Generals, in consultation with the Comptroller & Auditor General of India, should take a lead role in (a) modifying the existing budgetary system of the Central/State Governments; (b) recasting the outcome budgets by correctly evaluating the costs & benefits of each program/activity; and (c) improving the public information system.**

**COMPANIES BILL, 2008**

- The Expert Group noted that the provisions contained in the proposed Companies Bill, 2008 are not entirely in conformity with the various recommendations made in this Report. The modified structure/framework recommended by the Expert Group, if accepted, would entail restructuring of the proposed provisions. These are briefly enumerated in the ensuing paragraphs.
- The Expert Group has recommended widening the scope of maintenance of cost accounting records and cost audit framework to all companies (except certain exempted categories) in a phased manner. Accordingly, it is not necessary for the Central Government to restrict its enabling powers under sub-section (1) by restricting the same to “class of companies” engaged in only production, processing, manufacturing, mining or infrastructure activities. Therefore, the Expert Group suggests that the provisions under sub-section (1) should not contain the words “engaged in production, processing, manufacturing, mining or infrastructure activities” and under the modified provisions of sub-section (1), the Central Government would be free to decide prescribing maintenance of cost accounting records in any “class of companies” as the situation prevailing in the economy.
- Alternatively, as in the case of maintenance of financial records, the Central Government may seek an enabling power to exempt any company or class of companies from the maintenance of cost accounting records and widen the scope of sub-section (1) to all class of companies.
- The Expert Group has recommended shifting maintenance of cost accounting records from a rule based mechanism to a principle

based mechanism based on the cost accounting standards issued by ICWAI. The proposed provisions of the Bill need suitable modification to incorporate adherence to cost accounting standards by all companies maintaining cost accounting records, either under sub-section (1) or under sub-section (3).

- The Expert Group has recommended that once a company falls within the purview of maintenance of cost accounting records, it should submit either a compliance report (in case of medium sized companies) or submit a cost audit report to the Central Government. Accordingly, the proposed provisions under sub-section (2) would require modifications by making it obligatory for all such companies covered under sub-section (1) to get their cost records audited by a cost accountant and submit the report to the Central Government as specified in sub-section (6). There would be a necessity to add a proviso to sub-section (2) to enable medium sized companies to file only a compliance report in such manner as may be prescribed.
- In line with the recommendations made by the Expert Group, it is necessary to make a suitable provision in the Bill to disclose the particulars of cost auditors in the Board of Directors Report.
- In view of the recommendations made above, the provisions of sub-section (3) would not be required.
- Other modifications in the proposed provisions would be required in line with the analysis made above.

NOTE

*On various recommendations made by the Expert Group, Ministry of Corporate Affairs has sought suggestions/comments from all stakeholders, within 90 days from 24th March, 2009. The Council of the Institute intends to send its views/suggestions on this Report to the Ministry of Corporate Affairs. It would be very much appreciated if members desirous of expressing their views on the Report send their views/suggestions to the Institute. These would be consolidated and after discussion in the Council, sent to the Ministry of Corporate Affairs. Names of the respondent members would also be displayed. You can send your views/suggestions to:*

**Mr. J. P. Singh,**  
*Director (Technical),*

*Institute of Cost and Works Accountants of India  
ICWAI Bhavan,  
3 Institutional Area,  
Lodi Road, New Delhi – 110 003.*

*Or*

*Send email at  
technical.jps@icwai.org, preferably on or before 15th May 2009.)*

**REPORT OF THE EXPERT GROUP TO REVIEW  
THE EXISTING COST ACCOUNTING RECORDS  
RULES, COST AUDIT REPORT RULES  
&  
COST ACCOUNTING STANDARDS – A BRIEF**



**THE INSTITUTE OF COST AND WORKS ACCOUNTANTS OF INDIA**  
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