



RESEARCH ARTICLE

MANDATORY APPLICABILITY OF COST AUDIT RULES, 2013

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ABSTRACT

Cost Audit represents the verification of cost accounts and check on the adherence to cost accounting plan. This article focuses on various provisions regarding applicability of cost audit rules to various companies, how cost auditor is appointed, how remuneration of cost auditor is determined etc. Cost Audit ascertain the accuracy of cost accounting records to ensure that they are in conformity with Cost Accounting principles, plans, procedures and objective. These Rules shall apply to every company covered under the Companies (Cost Accounting Records) Rules, 2013 under Sub-Section (1) of Section 148 and which have such amount of net worth or the value of the turnover made by the company from sale or supply of all products or activities during the immediately preceding financial year. Every company as specified in Rule 3 above shall, within one hundred and eighty days of the commencement of every financial year, appoints a cost auditor

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INTRODUCTION

Cost Audit represents the verification of cost accounts and check on the adherence to cost accounting plan. Cost Audit ascertain the accuracy of cost accounting records to ensure that they are in conformity with Cost Accounting principles, plans, procedures and objective. Cost Audit comprises following;

- Verification of the cost accounting records such as the accuracy of the cost accounts, cost reports, cost statements, cost data and costing technique and
- Examination of these records to ensure that they adhere to the cost accounting principles, plans, procedures and objective.

“Cost Auditor” means a cost accountant in practice and includes a firm of cost accountants or a limited liability partnership firm appointed to conduct an audit of cost records, under sub-section (2) of section 148 of the Act;

“Product” means any tangible or intangible good, material, substance, article, idea, know-how, method, information, object, service, etc. that is the result of human, mechanical, industrial, chemical, or natural act, process, procedure,

function, operation, technique, or treatment and is intended for use, consumption, sale, transport, store, delivery or disposal; “Product Group” in relation to tangible products means a group of homogenous and alike products, produced from same raw materials and by using similar or same production process, having similar physical or chemical characteristics and common unit of measurement, and having same or similar usage or application; and in relation to intangible products means a group of homogenous and alike products or services, produced by using similar or same process or inputs, having similar characteristics and common unit of measurement, and having same or similar usage or application;

“Production” means bringing in to existence new goods, a thing that result from any action, process or effort, a product of human activity or effort and includes manufacture. Explanation- : ‘Manufacture’ includes any process incidental or ancillary to the completion of manufactured goods and includes deemed manufacture’.

“Production of Goods” means production, making, manufacturing, processing, mining, growing or transformation of tangible or intangible and intermediates, , semi-finished or finished products by using resources, raw materials, components, intermediates, semi-finished goods, sub-assemblies, process, method, factors, ideas, information know-how or other inputs;

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“Providing Services” means providing, rendering or allowing use of tangible or intangible products or services of any nature, type, kind or variety and includes all types of job work or processing operations;

A applicability of Rules

These Rules shall apply to every company covered under the Companies (Cost Accounting Records) Rules, 2013 under Sub-Section (1) of Section 148 and which have such amount of net worth or the value of the turnover made by the company from sale or supply of all products or activities during the immediately preceding financial year.

- **Companies engaged in Strategic Sectors:** Wherein the net worth as on the last date of the immediately preceding financial year exceeds rupees five crore; or the turnover made by the company during the immediately preceding financial year exceeds rupees one hundred crore.
- **Companies engaged in an industry regulated by a Sectoral Regulator or a Ministry, or Department of Central Government:** Wherein the net worth as on the last date of the immediately preceding financial year exceeds rupees five crore; or the turnover made by the company during the immediately preceding financial year exceeds rupees twenty crore.
- **Other Companies** Wherein the net worth as on the last date of the immediately preceding financial year exceeds rupees five crore; or the turnover made by the company during the immediately preceding financial year exceeds rupees one hundred crore.
- **Companies engaged in providing services** Wherein the net worth as on the last date of the immediately preceding financial year exceeds rupees five crore; or the turnover made by the company during the immediately preceding financial year exceeds rupees twenty crore..

Appointment of Cost Auditor

- Every company as specified in Rule 3 above shall, within one hundred and eighty days of the commencement of every financial year, appoints a cost auditor.
- In respect of cost auditor, the Board of Directors of the company shall be responsible for, -
- appointment, re-appointment, remuneration and terms of appointment of the cost auditor of the company.
- rotation of cost auditor.
- satisfying itself with the eligibility, qualifications, and disqualifications of cost auditor.

Where a company is required to constitute an Audit Committee, all appointments, including the filling of a casual vacancy of a cost auditor, shall be made after taking in to account the recommendations of such committee. Every cost auditor appointed shall hold office till one hundred and eighty days from the close of the company’s financial year or till he submits the cost audit report, for the financial year for which

he has been appointed.. The cost auditor shall continue to hold office if he has been reappointed for the succeeding year in accordance with Rule 4.

- Any casual vacancy in the office of cost auditor arising out of death or resignation or removal shall be filled by the Board of Directors within thirty days and the newly appointed cost auditor shall hold the office for the balance period for the financial year for which he is appointed.
- Every company as specified in sub-Rule (1) shall inform the cost auditor concerned of his or its appointment and also file a notice of such appointment with the Central Government within thirty days of the Board meeting in which the cost auditor is appointed or within one hundred and eighty days of the commencement of the financial year, whichever is earlier, through electronic mode, in the prescribed form, along with such fees or additional fees as prescribed.
- Every company appointing more than one cost auditor shall appoint or designate one of the cost auditors as the Lead Auditor of the Company.

Removal of Cost Auditor

A cost auditor appointed may be removed from his office before the expiry of his term only by a resolution of the Board, after obtaining the previous approval of the Central Government in that behalf in the prescribed form, along with such fees or additional fees as prescribed. But before taking any action under this rule, the cost auditor concerned shall be given a reasonable opportunity of being heard.

Remuneration of Cost Auditor

Every company appointing a cost auditor shall determine his or its remuneration in accordance with Rule 10.11 prescribed under Chapter X of the Companies Act, 2013.

Cost Auditor to sign the cost audit reports, etc

A person or where a firm of cost accountants or limited liability partnership firm is appointed as a cost auditor of the company under the cost auditor’s report or any other document or cost statements of the company shall be signed by such person or by any of the partners of the firm responsible for the conduct of cost audit in his own hand along with his membership number, for and on behalf of the firm. In any case the report should not be signed by merely affixing the firm’s name. A company where more than one cost auditor is appointed, the cost auditor’s report or any other document or cost statements pertaining to its area of audit shall be signed by such person or by any of the partners of the firm responsible for the conduct of cost audit in his own hand along with his membership number, for and on behalf of the firm. In any case the report should not be signed by merely affixing the firm’s name.

Form of the Report

Every cost auditor, who conducts an audit of the cost records of the company shall, within one hundred and eighty days from the close of the company’s financial year to which the report

relates, submit the cost audit report along with auditor's observations and suggestions, and Annexure to the Board of Directors of the company in the prescribed form. 6 The cost auditor shall, within thirty days of submission of his report to the Board, inform the same to the Central Government, in the prescribed form, along with such fees or additional fees as prescribed. Every company shall, keep and maintain cost details, statements, schedules, etc., for each unit and each product or activity, duly authenticated by at least two Directors of the company and the cost auditors. Every cost auditor, who submits a report under sub-Rule (1), shall also furnish performance appraisal report in Form III, duly authenticated by the cost auditor, to the Board of the company.

The cost details, statements, schedules, etc. of every company, relating to a period of not less than eight financial years immediately preceding a financial year, or where the company had been in existence for a period less than eight years, in respect of all the preceding years shall be kept in good order;

Cost Auditor to be furnished with the cost accounting records etc

The cost auditor s and every officer thereof, shall make available to the cost auditor, such cost accounting records, cost statements, other books and documents, and Annexure to the Report, duly completed, as would be required for conducting the cost audit, and shall render necessary assistance to the cost auditor so as to enable him to complete the cost audit and submit his report within the time limit specified.

Filing of cost audit report with the Central Government

Every company shall, within thirty days from the date of receipt of a copy of the cost audit report furnish the Central Government with such report along with full information and explanation on every reservation or qualification contained therein, in the prescribed form, along with such fees or additional fees as prescribed. In case of a company having more than one cost auditor, the company shall furnish the Central Government with the consolidated report of the company as prepared by the lead cost auditor duly signed by the Company Secretary and at least one Director on behalf of the company and the lead cost auditor. In the absence of Company Secretary in the company, the same shall be signed by at least two Directors.

Conclusion

We can conclude that every company covered under the Companies (Cost Accounting Records) Rules, 2013 under Sub-Section (1) of Section 148 and which have such amount of net worth or the value of the turnover made by the company from sale or supply of all products or activities during the immediately preceding financial year have to comply with Cost Audit Rules. Every cost auditor, who conducts an audit of the cost records of the company shall, within one hundred and eighty days from the close of the company's financial year to which the report relates, submit the cost audit report along with auditor's observations and suggestions, and Annexure to the Board of Directors of the company in the prescribed form.

Every company shall, within thirty days from the date of receipt of a copy of the cost audit report furnish the Central Government with such report along with full information and explanation on every reservation or qualification contained therein, in the prescribed form, along with such fees or additional fees as prescribed. A cost auditor appointed may be removed from his office before the expiry of his term only by a resolution of the Board, after obtaining the previous approval of the Central Government in that behalf in the prescribed form, along with such fees or additional fees as prescribed.

Disclaimer

This paper has been compiled based upon documents and information available in public domain. Anybody wishing to act on the basis of this paper should do so only after cross checking with original document. We do not present any opinion on any matter whatsoever and matters expressed herein should not be taken as directive or opinion for any reason. We have tried to highlight the significant changes.

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