Appendix - A

Views of Shri Vinod Jain, Chairman, Committee on Management Accounting, ICAI and Member of the Expert Group set up by Government of India, on the draft report of the Expert Group, expressed during a meeting of the Expert Group held on 13.12.2008 at ICAI, New Delhi.

1. Shri Vinod Jain, while speaking on the issue of applicability of Cost Accounting Record Rules/Cost Accounting Report Rules (CARRs), said that such Rules should be applicable to a class of companies engaged in production, processing, manufacturing or mining activities only when there is involvement of public interest and the Regulators require details of utilisation of material, labour or other items of cost to monitor, regulate, administer the prices and for other purposes as a matter of statutory requirements.

2. There is no need to amend and apply these rules to all classes of companies in view of the fact that these rules were made applicable sometimes in 1965 to administer the prices in post independence India. However, since then sea-change can be noticed in the business environment of the country. There is over all fierce competition in the market and the principle of survival of fittest is now applicable. The companies have already become cost conscious and cost effective themselves and they have already adopted Cost Accounting principles and practices as well as modern technology and latest tools like ERP/SAP to survive in the competitive world. There should be a Self-Regulatory approach rather than imposition in the provision of applicability of CARRs. Hence, it is felt that there should not be any change as far as the case of applicability of CARRs is concerned, from the existing one.

3. The provisions of CARRs should be applicable to those organizations only where there is a question of subsidy, anti-dumping, administered prices, requirements of Regulatory bodies or in such industries where in view of public interest the Government consider it appropriate to prescribe compulsory maintenance of cost accounts.

4. With regard to maintenance of Cost accounting records, it is felt that, such records may be maintained as an integral part of financial records whereby, it should be possible to derive all kinds of relevant cost accounting data from integrated records only which should suffice the requirements of all statutory provisions. Usually, a separate set of cost accounting records may not be necessary. However, the management is free to design and adopt various kinds of forms/formats according to their own size, scale, type and the purpose etc., as an internal practice.

5. There should not be any legal mandate on the applicability of Cost Accounting Record/Report Rules (CARRs) i.e., on the maintenance and

the Cost Audit rather the Companies should be educated properly about the importance of costing system so that they voluntarily adopt the same for improving internal efficiency of the management. The burden of compliance audit should not jeopardize the day-to-day management function. The management should be left free to concentrate more on operational aspects rather than on compliance formalities.

6. With regard to confidentiality of cost data, we are of the opinion that the nature of cost data is very sensitive and the confidentiality of cost data is to be ensured. The cost auditor may submit a small report to the Government – MCA and a detailed report to the company Management. The cost auditor’s report may contain a report as well as findings for the information of management. There should be detailed guidelines/formats as to how to prepare the Cost auditor’s report in a structured form for the use by the management of the company. No part of Cost auditor’s report be disclosed to public at large. However, if the Board of Directors feels appropriate, they may disclose some indicators of Cost as part of their annual report.

7. The provisions of CARRs should be applied based on a multiple criteria on the basis of investment in Fixed Assets and the annual turnover. All those companies in whose cases the investment in fixed assets is upto the limits as prescribed for small and medium enterprises should be exempted from the purview of applicability of CARRs.

8. It is worth mentioning that ICAI would like to be closely associated with ICWAI in the matter of formulation of Cost Accounting Standards to make them fully convergent with IFRS and ensure smooth transition to new Costing system in tune with future accounting scenario in India. ICAI technical competence and resources are available for use by the Government and society. It is very important to use ICAI resources as financial accounting concept have undergone a comprehensive change and its impact on cost accounting and cost Audit will be significant.

9. It is also felt necessary that instead of applicability of CARRs, the companies should follow Cost Accounting Standards. Rather than applicability of Rules, there should be provision and applicability of principles of accounting as far as the case of maintenance of Cost Accounting records is concerned. Such Cost Accounting Standards should be formulated keeping in view:

    (a) GAAP – Indian as well as International;
    (b) IFRS;
    (c) International Accounting Standards;
    (d) Indian Accounting Standards; and
    (e) Best International Practices as adopted by PAIB.

10. There should not be any conflict/contradiction between the Cost Accounting and Financial Accounting Standards. Just like ICAI has issued Accounting Standards and Auditing Assurance Standards, there

is urgent need to formulate not only Cost Accounting Standards but at the same time, there should be formulation of Cost Auditing and Assurance Standards also. This will ensure both uniformity and standardization of principles and practices in the sphere of Cost Accounting and the Cost Audit.

11. The CASB of ICWAI along with ICAI should issue:

    (a) Guidance Notes
    (b) Monographs
    (c) Research Reports/Study
    (d) Statements
    (e) Standards

12. The Guidance Notes issued by CASB of ICWAI in association with ICAI should be mandatory in nature.

13. At the initial stage the Cost Accounting Standards may be recommendatory in nature and later on they should be graduated to become mandatory.

14. There should be more emphasis on the maintenance of integrated accounting system to facilitate easy compilation of cost information and reduce cost of compliance.

15. The appointment of Cost auditor should be made by Board of Directors without seeking prior approval from the Central Government. The Cost Auditor should be rotated after 3 – 5 years. It is not necessary that the Cost Auditor should be appointed in Annual General Body meeting of shareholders. It is worth mentioning that the report of Cost Auditor will be used by the internal management in strategic decision making.

(Vinod Jain)