COST AUDIT

It is an audit process for verifying the cost of manufacture or production of any article, on the basis of
accounts as regards utilization of material or labour or other items of costs, maintained by the company.
According to sub-section (2) of section 233(B), a cost auditor shall be appointed by the Board of Directors of the company in accordance with the provisions of sub-section (1B) of section 224 and with
previous approval of the Central Government. Further it has been provided that before the appointment of any cost auditor is made by the Board a written certificate shall be obtained by the Board from the auditor proposed to be so appointed to the effect that the appointment, if made, will be in accordance with the provisions of sub-section (1B) of section 224.

Such a company is required under clause (*d*) of sub-section (1) of section 209 of the Act to include in its
books of account, the particulars referred to therein. The cost audit is in addition to, and independent of the normal financial audit carried out pursuant to the appointment under section 224 of the Act. The cost auditor shall have the same powers and duties as are prescribed under section 227(1) of the Act for the auditors appointed under section 224.

Qualification of a Cost Auditor **-** Under the provisions of section 233B such an audit is to be conducted by a Cost Accountant within the meaning of the Cost and Works Accountants Act, 1959

Disqualification for a cost auditor **-** These are the following:
(*i*) Disqualifications contained in sections 226(3) and 226(4) of the Act.
(*ii*) Holding appointment as the statutory auditor under section 224 of the Act.
(*iii*) On becoming subject to any of the disqualifications mentioned in (*i*) and (*ii*) and above after being appointed as the cost auditor.

According to sub-section (1) of section 233(B), the auditor appointed under that section is expected to conduct the audit in such manner as may be specified in the order issued by the Central Government.
Further, as required by sub-section (4), the cost auditor must forward his report to the Central Government and to the company which 120 days of the closing of the year to which the audit related.
The report is to be given in the form prescribed for the purpose.

The Central Government has issued Cost Audit (Report) Rules, 1968 specifying the form of the report
and the additional information which should be included therein in the form of annexure. The rules have
also set down the various points on which the auditor should make his observations and give his conclusions. The rules have been superseded by a Cost Audit (Report) Rules, 2001.

The auditor must further report on the adequacy of cost accounting records maintained by the company as prescribed by the Government under section 209(1)(*d*) of the Act to confirm that they give a true and fair view of the cost of production processing, manufacturing, or mining activities, as the case may be. If there is any additional information that auditor would like to furnish, he may include in the annexure to the report. The Government has issued notification under section 209(1) (*d*) for various industries. With each notification a Schedule is attached containing detailed items under which the cost of production must be analyzed to arrive at the total cost. Each industry concerned is expected to complete the schedule within three months from the expiration of the last date of the period to which it relates. It is the duty of the cost auditor to report on the correctness of the figures given in the schedule.

Some of the industries covered by the Cost (Records) Rules, issued under section 209(1)(*d*) are as under :

(*i*) Cement or clinker or both;
(*ii*) Cycles and components thereof;
(*iii*) Caustic soda;
(*iv*) Rubber tyres or tubes or both;
(*v*) Refrigerators;
(*vi*) Storage batteries used in automobiles;
(*vii*) Electric lamps or fluorescent tubes or bulbs;
(*viii*) Room air conditioners.