<u>COST AUDIT</u> - Section 233 B

Section 209(1)(*d*) states that if the company pertains to any class of companies engaged in production, processing, manufacturing or mining activities and the class of companies is required by the Central Government to include such particulars in the Books of accounts, it shall keep at its registered office proper Books of accounts with respect to utilisation of material or labour or to other items of cost as may be prescribed by the Central Government.

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 is called Cost Audit.

Cost Audit comprises of the following:-

- Verification of cost accounting records.
- Examination of these records to ensure that they adhere to the Cost Accounting Principles, Plans, Procedures and Objective.

Where the Central Government is of the opinion that it is necessary so to do in relation to any company required under clause (*d*) of sub-section (1) of section 209 to include in its books of account the particulars referred to therein, the Central Government may, by order, direct that an audit of cost accounts of the company shall be conducted in such manner as may be specified in the order by an auditor who shall be a cost accountant as defined in clause (b) of sub-section (1) of section 2 of the Cost and Works Accountants Act, 1959 and who holds a valid certificate of practice and includes a firm of cost accountants.

On 11th April, 2011, MCA vide General Circular No. 15/2011 has revised the procedure for appointment of cost auditor.

- *The Audit Committee of the Board shall be the first point of reference regarding the appointment of cost auditors.*
- *The Audit Committee shall ensure that the cost auditor is free from any disqualifications as specified u/s 233B (5) read with section 224 and section 226(3) and 226(4) of the Companies Act, 1956.*
- *While a cost auditor shall have prime responsibility to ensure that he does not violate the limits specified under section 224 (1B) of the Companies Act, 1956, the Audit Committee shall also be responsible for such compliance by the cost auditor.*
- *The Audit committee shall obtain a certificate from the cost auditor certifying his/its independence and arm's length relationship with the company.*
- *The company shall e-file its application with the Central Government on www.mca.gov.in portal, in the prescribed form 23C within 90 days from the date of commencement of each financial year, along with the prescribed fee as per the Companies (Fees on Applications) Rules, 1999 as amended from time-to-time and other documents as per existing practice i.e.*

  (i) certified copy of the Board Resolution proposing appointment of the cost auditor; and

(ii) copy of the certificate obtained from the cost auditor regarding compliance of section 224(1B) of the Companies Act, 1956.

- *On filing the application, the same shall be deemed to be approved by the Central Government, unless contrary is heard within 30 days from the date of filing such application.*
- *If within 30 days from the date of filing such application, the Central Government directs the company to resubmit the said application with such additional information or explanation, as may be specified in that direction, the period of 30 days for deemed approval for the Central Government shall be counted from the date of re-submission by the company.*
- *After expiry of 30 days, as the case may be, the company shall issue formal letter of appointment to the cost auditor, as approved by the Board.*
- *Within 30 days of receipt of formal letter of appointment from the company, the cost auditor shall inform the Central Government in the prescribed form, alongwith a copy of such appointment.*
- *An e-form for the same is being developed and will be notified shortly.*
- *The company shall disclose full particulars of the cost auditor, along with the due date and actual date of filing of the cost audit report by the cost auditor, in its Annual Report for each relevant financial year.*
- *In those companies where constitution of an Audit Committee of the Board is not required by law, the words "Audit Committee" shall stand substituted by the words "Board of Directors".*
- *If a company contravenes any provisions of this circular, the company and every officer thereof who is in default, including the persons referred to in section 209 (6) of the Act, shall be punishable as provided u/s 642(2) read with sub-sections (5) and (7) of section 209 and section 233B.*
- *If default is made by the cost auditor in complying with the aforesaid provisions, he shall be punishable with fine, which may extend to ` 5,000/-.*
- An audit conducted by an auditor under this section shall be in addition to an audit conducted by an auditor appointed u/s 224.
- According to the MCA, Cost Auditor should not also be the Internal Auditor of a Company for the period for which he is conducting the Cost Audit.

Powers and duties of Cost Auditor

Cost auditor shall have the same powers and duties in relation to an audit conducted by him under this section as an auditor of a company has u/s 227(1) and such auditor shall make his report to the Central Government in such form and within such time as may be prescribed and shall also at the same time forward a copy of the Report to the company. At the same time, he has to forward a copy of the Report to the Company.

Note: - Remuneration of Cost Auditor will be fixed by Board of Directors.