

Master Circular No. 2/2011

52/14/CAB-2011  
Government of India  
Ministry of Corporate Affairs  
**Cost Audit Branch**  
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'B-1' Wing, 2<sup>nd</sup> Floor,  
Paryavaran Bhawan,  
CGO Complex, Lodhi Road,  
New Delhi – 110 003

Dated the November 11, 2011

To,

The President,  
Institute of Cost and Works Accountants of India,  
12, Sudder Street,  
Kolkata – 700 016

**Subject: Master Circular on Cost Accounting Records and Cost Audit**

Sir,

Ministry has from time-to-time issued number of circulars with regard to various matters concerning cost accounting records and cost audit in the corporate sector. All these circulars have been reviewed. In supersession of the earlier circulars as mentioned in Appendix, a Master Circular is issued as under:

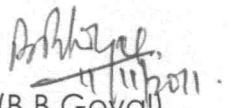
- (a) As per provisions of the Cost Audit Report Rules that are in force from time-to-time, a cost auditor is required to comment on the scope and performance of internal audit of cost records. Hence it would tend to mitigate against the proper and dispassionate discharge of his duties if he was also the internal auditor of the company for the same period for which he is conducting the cost audit. In view of this, the cost auditor cannot also be the internal auditor of a company for the period for which he is conducting the cost audit, irrespective of the fact whether he is conducting cost audit for one or all of the company's products/activities.
- (b) The specified number of companies for the purpose of section 233B (2) read with section 224 (1B) of the Companies Act, 1956 is to be computed for a given financial year with reference to the number of companies wherein he has been appointed as the cost auditor, including those wherein he is proposed to be appointed for which he has given his consent. The number of companies in respect of which cost audit reports have not been submitted and have become overdue shall also be taken into account for the purposes of ceiling under section 224 (1B).

- (c) A cost auditor shall be deemed to have concluded his appointment for the relevant financial year as soon as he renders a report to the Central Government in accordance with the Cost Audit Report Rules, as applicable, with a copy to the Company. His obligation to answer queries from the Ministry of Corporate Affairs arising out of review of cost audit reports should not debar him from accepting another appointment as cost auditor of a company provided the specified number of companies contemplated in section 224 (1B) is not exceeded.
- (d) The duties of the cost accountants appointed to conduct an audit of cost accounts of the company flow directly from the provisions contained under section 233B of the Companies Act, 1956. As such they should, in strict compliance therewith and in compliance with the Cost Audit Report Rules in force, ensure that full and complete details of cost accounts are furnished in their cost audit reports.
- (e) In case where a firm of cost accountants is approved for appointment as cost auditors under Section 233B (2) of the Act, the cost audit report shall be signed by anyone of the partners of the firm responsible for the conduct of cost audit in his own hand alongwith his membership number, for and on behalf of the firm. In any case the report should not be signed by merely affixing the firms' name.
- (f) Cost audit report for a financial year contains corresponding data for the previous year(s) also. If a company is covered under cost audit for the first time, then the cost auditor shall mention the figures for the previous year(s), certifying by means of a note that the figures so stated are on the basis of information furnished by the management, for which he has obtained a certificate from them.
- (g) Sub-section (6) of section 292A of the Companies Act, 1956 states that the Audit Committee should have discussions with the auditors periodically about internal control systems, the scope of audit including the observations of the auditors and review the half yearly and annual financial statements before submission to the Board and also ensure compliance on internal control systems. It has been already clarified in Departmental Circular No. 6/2001 dated 20.08.2001 that the term "auditors" includes cost auditor and hence "scope of audit including observations of the auditors" occurring in the above sub-section includes the scope of cost audit including observations of the cost auditors as well. Therefore, the Audit Committee in its duty to ensure compliance of internal control system shall also discuss the suggestions made in the cost audit report for implementation, wherever cost audit has been directed under section 233B of the Companies Act, 1956. The presence of the

cost auditor in such committees will ensure overall cost management, efficiency in resource utilization, business vertical-wise performance evaluation, proper pricing of inter-unit/inter-company transfers and valuation of inventories. However, the cost auditor, wherever appointed, shall attend and participate at the meetings of the Audit Committee or the Board, as the case may be, but shall neither be a member nor have the right to vote.

2. The Institute is requested to bring this to the general information of all Members in practice, and of the corporate sector.

Yours faithfully,

  
(B.B. Goyal)  
Adviser (Cost)

Copy to:

1. E-Governance Cell, Ministry of Corporate Affairs, Shastri Bhavan, New Delhi with a request to upload this master circular on the MCA's website.
2. All Regional Directors / Registrars of Companies
3. PS to CAM / to MOS
4. PS to Secretary / Addl. Secretary
5. PS to Joint Secretary (A) / Joint Secretary (R) / Joint Secretary (M)
6. PS to DII (DR) / DII (Policy)
7. PS to Economic Adviser



**List of old Circulars on Cost Accounting Records and Cost Audit**

<b>Sno.</b>	<b>Circular No.</b>	<b>Date of Issue</b>	<b>Subject</b>
1.	52/320/80-CAB	January 20, 1982	Following of the format for submission of Cost Audit Report.
2.	52/826/81-CAB	February 15, 1982	Additional information to be furnished along with the Cost Audit Reports.
3.	1/1/1982-C.L.V / 23/44/1979-C.L.-II	January 20, 1983	Appointment of Cost Auditor as an Internal Auditor of a Company.
4.	1/1/83/-C.L.V / 52/318/80-CAB	March 18, 1983	Disclosure of full details in Cost Audit Report.
5.	54/409/80-CAB	November 19, 1983	Appointment of Cost Auditor in Firm's Name
6.	52/409/80-CAB	August 24, 1984	Authentication of Cost Audit Report in cases where a firm of Cost Auditors is approved under U/s 233B (2) of the Companies Act, 1956 for conducting Cost Audit
7.	52/354/CAB-87	August 30, 1988	Clarification relating to sub-section (1B) of Section 224 and sub-section (2) of Section 233B of the Companies Act, 1956 regarding the appointment of Cost Auditor
8.	52/430/88-CAB	January 9, 1990	Authentication of previous year figures in the Cost Audit Report
9.	35/1/90-CL.III	March 2, 1990	Clarification under Section 224 (1) of the Companies Act, 1956.
10.	3/8/89-CL.V	March 5, 1990	Clarification under section 224 (1B) of the Companies Act, 1956 read with section 233 of the Act.
11.	52/11/93-CAB	June 7, 1993	Maintenance of books of cost accounts as per Cost Accounting Records Rules.
12.	52/11/93-CAB	June 8, 1993	Revised Cost Audit Order on annual basis issued to the existing companies.
13.	5/21/2001-C.L.V / 52/03/CAB-2002	March 18, 2002	Cost Audit Report to be discussed in the Audit Committee to be constituted under section 292A of the Companies Act, 1956.
14.	52/22/CAB-2000	November 26, 2002	Submission of the soft copy of the Cost Audit Reports under section 233B of the Companies Act, 1956
15.	5/21/2001-C.L.V / 52/323/CAB-87	January 9, 2003	Participation of Cost Auditor in the meetings of Audit Committee to be constituted under Section 292A of the Companies Act, 1956 - clarification reg.

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