BRIEF NOTE ON THE GENESIS OF COST ACCOUNTING RECORDS & COST AUDIT

Executive Summary

Sections 209(1)(d) and 233B of the Companies Act, 1956, incorporated in 1965, are the backbone of cost accounting and cost audit in the Indian corporate sector. Since then, the framework put into practice inculcated cost consciousness amongst the industry and also served the requirements of regulatory authorities, government agencies, tariff/price fixation bodies, research organisations etc.

The business and economic scenario in the country was fast changing and the need for convergence/synchronization of global accounting practices required a change in the performance management systems including the cost management and reporting framework being practised by the Industry. Therefore, it was considered necessary to review and realign with cost management perspectives, the then existing framework of cost accounting and cost audit and to make it more beneficial for the businesses in terms of being competitive, reduce costs and strive for growth. This review was also needed to help various regulators, government departments/bodies to protect the interest of consumers and investors and to protect the industry from unfair trade practices (like anti-dumping, subsidies & counter-veiling measure, cartels, etc.) under WTO agreements.

In order to address these issues, Ministry of Corporate Affairs vide their Order dated 21st January 2008 constituted an Expert Group comprising members drawn from the government, industry associations and professional bodies. The terms of reference for the group was to review the existing 44 Cost Accounting Record Rules and their relevance, Cost Audit Report Rules to make them relevant to the needs of different stakeholders, review existing system to address the concerns of industry with regard to confidentiality of information and cost of compliance and review and suggest redrafting of Cost Accounting Standards to align them with international cost accounting standards, in the Indian context. The Expert Group had extensive deliberations with all stakeholders and through a questionnaire collected views from different interest groups/stakeholders. Majority of the respondents broadly agreed to the revised framework as proposed by Expert group and these included the Industry associations like CII, FICCI, ASSOCHAM, PHDCCI, etc.

Expert Group made 39 recommendations grouped in six categories which included:

- **Maintenance of Cost Accounting Records by all the companies as an integral part of books of accounts based on Cost Accounting Standards & Generally Accepted Cost Accounting Principles** and do away with the format based maintenance of cost records.

- Class of companies to be considered at Company Level and not at Product Level.
- Shift maintenance of cost records from Rule based mechanism to a Principle based mechanism having universal application.
- **Audit of cost accounting records needed to change the existing structure and formats prescribed needed to be simplified.**
- Not applicable to micro and small units and to be exempted from this mechanism.
- Concept of filing unit wise and product wise cost audit report to be dispensed with and file only abridged product group wise cost statements. All other cost details, statements, schedules etc. duly certified by the Cost Auditor to remain with the company, thereby ensuring that the sensitive business information is not shared with the public at large.
- The Cost Auditors to be appointed by the Board of Directors and the provisions under CARO certifying maintenance of cost records to be discontinued.
- Extension of cost accounting & audit framework to all infrastructure sector, government projects/schemes, railways, services and other social sectors such as healthcare, education, banking and insurance, transportation, information technology, public utilities etc.

The Expert Group submitted its Report to MCA in December, 2008 and a Task Force was constituted in November, 2009 to suggest modalities for implementation of the recommendations and the same submitted its report in the month of February, 2010.

Based on the recommendations/suggestions made by the Expert Group/Task Force, suggestions made by the regulators and user departments and other stakeholders and the subsequent examination/discussions held in MCA, revised rules/orders were issued from June 2011 till November 2012. These revised rules/orders were made effective in stages, from the financial year beginning 1.4.2011, 1.4.2012 and 1.1.2013. By virtue of these changes, major reforms were instituted in the existing structure/framework of cost accounting records and cost audit that existed since 1965.

The new structure/framework was widely applauded by all stakeholders, especially by the industry. Since June 2011, more than 200 programmes were held throughout the country in association with the industry and other stakeholders wherein these reform steps taken by the MCA were highly appreciated. In fact, a few companies even wrote to MCA on this, appreciating the change and thanking the Government.

Detailed Note:

Framework of Cost Accounting & Cost Audit existing till 2010

In India, the methods and techniques of cost accounting and audit of cost accounts can be traced back to pre-independence era. This trend continued on a large scale that led to the recognition of cost as a distinct concept not only in India but also in the industrial economies of the world and the phenomenon of cost consciousness started taking shape.

In the mid-fifties, few corporate frauds resulted in the Government appointing various Commissions/Committees. These Commissions/ Committees observed inadequacies in the then existing system of financial accounting and audit and also in the then existing system of corporate disclosures. They recommended an effective system of cost accounting and cost audit, to supplement the financial accounting and auditing practices.

The real beginning of Cost Audit however started in 1965 when the Companies Act, 1956 was amended to incorporate the provision relating to maintenance of Cost Accounting Records and Cost Audit. Such amendments were made on the basis of recommendations received from Vivian Bose Commission, Dutta Commission and Shastry Committee.

These provisions empowered the Central Government to mandate maintenance of cost accounting records and audit thereof in certain class of companies. The broad objectives were to inculcate a culture of cost consciousness among industries; to improve resource management; to make efficiency audit possible; and to make cost data available with the Government.

The justification for mandatory Cost Accounting and Cost Audit has been well documented in the Parliamentary debate that led to adoption of Companies Amendment Bill 1965 incorporating Sections 209 (1) (d) and 233B. During the relevant Rajya Sabha debate, Smt. Tara Ramachandra Sathe (MP from Maharashtra) stated as under:

The cost audit is quite different from financial audit. It is to see whether the labor is efficient or not, whether labor provided is less than what is required, whether every material and machinery is used to the optimum. Since we are short of material, it has to be imported leading to outgo of foreign exchange. It is therefore very essential that there should be Cost Audit in almost all the Industries. (Proceedings of Rajya Sabha, 14th September 1965, columns 3944 and 3945).

In his reply, the then Hon'ble Finance Minister Shri TT Krishnamachari, while highlighting the absolute necessity of Cost Accounting and Cost Audit stated that "while we have made it obligatory or rather semi-obligatory to employ cost accountants, it is our intention to ask certain industry, to have a cost accountant's report. We are really making it possible for

Institution of Cost Accountants to grow so as to enable the Government sometime later to make every manufacturing company employ a Cost Accountant and have a cost acountant's report in regard to the cost of product that it produces. (ibid column 3974).

The working group constituted to prepare draft of Companies (Amendment) Bill 1996 recommended that the provisions under section 233B concerning mandatory Cpost Audit at the directives of the Department of Company Affairs, should be removed. However, the requirement to maintain cost records should continue as before.

Under these provisions, from 1966 till 2004, Ministry of Corporate Affairs [MCA] framed and notified separate Cost Accounting Records Rules (CARR) for 44 industries/products. MCA also notified Cost Audit Report Rules, first in 1968, which were later amended in 1996 and again in 2001. SSI units with turnover not exceeding Rs.10 crore were granted exemption. Cost audit orders were issued on individual companies chosen in an ad hoc manner, resulting in discrimination. Multi-product companies were required to comply with multiple Rules. Bulky cost audit reports [running into 500-1500 pages] contained complex details for each unit and each product separately.

The Committee on Subordinate Legislation (14th Lok Sabha) dealt deep into the scope of Statutory Cost Accounting Record Rules and regretted that even 38 years after enactment of the relevant provisions empowering the Government to prescribe the Cost Accounting Record Rules, these have not been framed to cover all major industry /projects. The slow pace of framing rules negates the very purpose of the important provisions of the legislation passed by the Parliament. The committee further mentioned that an authentic cost database to various existing and new regulatory and development authority, RBI, Competition Commission, various states / central government department for fixation of user charges in respect of services provided by them, revenue department, is of paramount importance which would go a long way in fulfilling their respective objectives.

Since 1965, the framework put to practice has inculcated a sense of cost consciousness in large number of industries/companies. This mechanism, to a very large extent, has helped them to face the fierce competitive forces arising out of post-1991 liberalization and globalization. It served well the legal and non-legal requirements of various regulatory authorities, government agencies, tariff/price fixation bodies, research organisations, etc.

<u>Need for Review of the existing system</u>

Cost accounting is an integral part of the management process. It serves as an important tool to the management to face the growing pressures of global competition, technological innovations, volatility in exchange rate and input prices and change in business processes. To ensure that the organisation remains competitive both for sustenance and growth, cost management has moved from a traditional role of product costing to a broader, strategic focus.

But the fast changing business and economic scenario, both internal and external challenges, and the need for convergence/synchronization of global accounting practices required a change in the performance management systems including the cost management and reporting framework. Towards this end, it was considered necessary to review the then existing provisions of cost accounting and cost audit under the Companies Act, 1956 and to make it more beneficial to various regulators, government departments/bodies to protect the interest of consumers and investors and to protect the industry from unfair trade practices (like anti-dumping, subsidies & counter-veiling measure, cartels, etc.) under WTO agreements. In the above background, the redefined objectives were required to be synchronized with the cost based strategies. The proposed framework should allow the corporate sector to build their competitiveness by choosing the appropriate cost management practices.

Cost audit methodology as structured originally under Section 233B needed realignment with the current cost management perspectives. What needed was to redefine the audit objectives without losing the legal backup and the mandatory force it gives for compliance. Instead of the attestation perspective, the efficiency review aspect was required to be blown in full force to align with cost management and enable better enterprise governance so as to make the entire mechanism a value adding framework in today's context of challenges of competitiveness.

In view of large number of shortcomings/deficiencies observed in implementation of the existing mechanism/framework of cost accounting and audit in the corporate sector, Government felt the need to review the existing rules, procedures and formats and also the existing reporting mechanism so as to make the cost data more relevant to the needs of different stakeholders including company management, shareholders, regulators etc; to establish its linkage to the national objective of corporate governance, competitiveness and regulatory framework; to address issues of cost of compliance and confidentiality; to introduce cost accounting standards as a national discipline; and to enable the Government to effectively play its regulatory role in the corporate functioning.

<u>Framework of the Expert Group</u>

With the aforesaid objectives in mind, Ministry of Corporate Affairs vide their Order dated 21st January 2008 constituted an Expert Group comprising members drawn from the Government, Industry Associations and Professional bodies. The Group was asked to undertake the following tasks:

(i) Review the Cost Accounting Record Rules and their continued relevance in the contemporary competitive environment as per the presently prescribed structure / format, and make recommendations for requisite modifications and / or alternative structures;

(ii) Review the existing Cost Audit Report Rules and formats prescribed therein, and recommend appropriate modifications to make them more relevant to the needs of different stakeholders including company management, shareholders, regulators, etc;

(iii) Review the existing system with a view to make suggestions for addressing the concerns of the industry with regard to confidentiality of company cost data and cost of compliance; and

(iv) Review and, if required, give suggestions for redrafting the existing Cost Accounting Standards in the Indian context in light of international best practices, and to align them with the international cost accounting standards issued by International Federation of Accountants (IFAC).

Methodology followed by the Expert Group

The Group followed complete participatory & transparent approach like,

- Besides much wider participation from all stakeholders & its members drawn from MCA, CII, FICCI, ASSOCHAM, PHDCCI, ICAI and ICWAI, the Group co-opted/associated host of eminent experts representing different stakeholders, CEOs/CFOs of top public/private sector companies, academicians, management consultants, representatives of regulatory bodies, accounting standards & IFRS experts, CII-TCM working group member, user ministries, financial institution directors, company law experts, etc.
- It had detailed deliberations with large number of public and private sector companies, regulatory bodies, user departments, academicians, etc.
- The Group studied the relevant practices prevailing in many developed & developing countries and international organisations, such as, United Nations, United Kingdom, Germany, United States of America, Canada, Japan, Australia, New Zealand, China, France, South Korea, Malaysia, Spain, Argentina, Brazil, Italy, Eastern European Countries, Hong Kong, Pakistan, Sri Lanka, Bangladesh, and India.
- It studied the relevant documents issued by the International Federation of Accountants (IFAC); and cost accounting practices followed by various Governments.
- Through a questionnaire, the Group collected views from a large number of stakeholders/interest groups. **Majority of all the respondents broadly agreed with the revised framework as proposed by the Expert Group.** These include:

- ✓ Major industry associations like CII, FICCI, ASSOCHAM, IBA, PHDCCI, CCFI, etc;
- ✓ Various regulatory bodies & user departments/agencies such as SEBI, CCI, NPPA, FICC, CERC, PNGRB, Chief Adviser Cost, Tariff Commission, Tea Board, DG-Anti Dumping, etc;
- ✓ Navratna/Miniratna PSUs including ONGC, IOC, BPCL, HPCL, GAIL, NTPC, NHPC, CIL, NLC, SAIL, RINL, BHEL, BEL, CEL, BEML, MTNL, NALCO, NMDC, NFL, NTC, PGCIL, GACL, etc;
- ✓ Major private sector industrial conglomerates/companies viz. Tatas, Birlas, Reliance, ITC, Mahindra, Bajaj, Jindal, Mallaya, Muthiah, TVS, Maruti Suzuki, Dabur, HUL, Ashok Leyland, Asian Paints, BPL Mobile, Cadila, Finolex, Ford, HML, Kirloskar, Nestle, NDPL, Subros, Sundaram, Swaraj, W.S. Industries, etc;
- ✓ Leading academic institutes like IIMs, and ISB, Hyderabad;
- ✓ Professional institutes viz. ICAI, ICSI, and ICAI-CMA; and
- ✓ Leading management consultants.

Observations of the Expert Group

The Group noted that globally, the cost accounting system was never invented for administered pricing. The domain of cost accounting has enhanced and enriched for driving the performance amidst global competition. This requires comprehensive & strategic cost management to ensure emergence of competitiveness. In the post-liberalization era, there is need to enhance and retool the mechanism of cost audit to enable performance management as a part of the governance framework. Such an alignment is possible only by way of statutory support. Even with liberalisation and globalization, certain level of regulation of the economy is essential for sustainable economic development.

The Group further noted that in the WTO regime, the country needs to build up appropriate cost database to detect or fight all anti-dumping cases. Similarly, cases relating to transfer pricing or arm’s length price cannot be decided judiciously in the absence of reliable cost data. Such a reliable, standardized and industry-wide database is possible only by way of statutory cost accounting and reporting framework. This would ensure maintenance of structured cost records system in each company and cost audit would provide requisite assurance on the authenticity of cost data to all stakeholders. This mechanism would lead to better governance, improved competitiveness and smooth functioning of regulatory agencies.

Group's observations on utility & effectiveness of cost accounting framework

The Group noted that the Confederation of Indian Industries (CII), through its Total Cost management (TCM) Division, had studied the cost management practices in different companies, both in the manufacturing and services sector. Its findings were, lack of standardized approach; hindsight development of cost & management accounting system in most companies; low level of awareness on latest cost & management accounting tools etc. The study evolved cost management maturity levels, suggested mechanism of certification, and proposed structured reporting to improve performance oversight mechanism and governance at the Board level.

International Federation of Accountants (IFAC), in its various documents, observed that costing methodologies applied in organizations, measures the consumption of economic resources, supports accountability of business performance, is valuable for performance improvement, value creation, "what if" analysis, and the effective and efficient application of an enterprise's resources and processes. As per IFAC, cost audits can be used to the benefit of management, consumers and shareholders by helping to identify weaknesses in cost accounting systems, valuation of inventories, segmental reporting, and to help drive down costs by detecting wastage and inefficiencies. This mechanism is of immense assistance to governments, and regulatory bodies in tariff determination, tax optimization, dealing with transfer pricing matters, and for pricing in rate regulated entities.

Well-structured cost accounting and reporting system helps the companies to undertake efficiency analysis in respect of capacity utilization, productivity, utilities/energy, key-costs & contribution, product/service & market/customer & segment profitability, working capital & inventory management, manpower efficiency, inputs price volatility, price-sensitivity, risk mapping, environmental, and sustainability, corporate social responsibility, and to measure impact of IFRS on the cost structure, cash-flows and profitability. Product/activity-wise and cost centre wise cost data gives enormous benefits to the company in terms of good corporate governance, efficiency improvement, cost control/reduction, cost competitiveness, value creation, resource utilization, product pricing, strategic planning, risk management, etc.

Besides usage to the company management, it is of immense use to the regulators and various agencies of Government in areas like, subsidy determination; administered pricing; detection of tax evasion cases; determination of goods for inclusion under FTAs; transfer pricing cases; predatory pricing; to check cases of unfair trade practices such as price-rigging, cartelization, over-charging, discriminatory pricing, profiteering; valuation of goods for anti-dumping, & for captive consumption under the Excise Act; valuation of imports, assets etc. Cost data is very useful for defence contacts where large potential exists. Similarly, it is used by for determination of user charges for public utilities & services. It is also used by banks & financial institutions to make performance analysis, inter-firm comparison and monitoring.

The Group noted that any business, irrespective of nature, size/scale, type, etc. has involvement of public funds, whether in equity or through loans. Therefore, in the inefficient running of any company and its' eventual closure, the nation suffers loss of public funds; loss of funds by small investors; loss of production in the country; loss of potential revenue inflow to the government; and loss of employment.

Expert Group Recommendations

The Expert Group made 39 recommendations; grouped in six categories. Highlights of these recommendations are given in the Appendix.

Follow-up Action by MCA

The Group submitted its Report to MCA in December, 2008 that was fully endorsed & signed by all the 15 members representing different stakeholders. The only dissent was from Shri Vinod Jain, representative of the Institute of Chartered Accountants of India. However the Expert Group noted that majority of the views expressed by Shri Vinod Jain are in complete consonance with the Observations and Recommendations made by the Expert Group in its report. MCA put this report on its website in March 2009 and received number of views/suggestions. These were examined. To suggest modalities for implementation of the recommendations made by the Expert Group, MCA constituted a Task Force in November 2009 and its' report was received in February, 2010.

Based on the recommendations/suggestions made by the Expert Group/Task Force, suggestions made by regulators & user departments and other stakeholders and the subsequent examination/discussions held in MCA, revised rules/orders were issued from June 2011 till November 2012. These revised rules/orders were made effective in stages, from the financial year beginning 1.4.2011, 1.4.2012 and 1.1.2013. By virtue of these changes, major reforms were instituted in the existing structure/framework of cost accounting records and cost audit that existed since 1965.

These reform steps taken by the Government were intended to (a) give a regulatory push to the Indian companies to attain highest level of cost management and cost competitiveness; and strengthen the corporate governance mechanism; (b) fulfil various demands of industry with regard to simplification of rules, procedures, structure, & formats with due emphasis on cost and efficiency parameters; removal of discrimination; addressing the confidentiality of cost data; and reducing cost of compliance; (c) recognize cost accounting standards issued by the Institute to bring uniformity and standardization in cost statements; and (d) fulfil requirements of various Government authorities and regulatory bodies for availability of certified cost data of all companies for their purpose and improve the quality of cost information for better decision making so as to in-turn help the industry and the economy.

The new structure/framework was widely applauded by all stakeholders, especially by the industry. Since June 2011, more than 200 programmes were held throughout the country in association with the industry and other stakeholders wherein these reform steps taken by the MCA were highly appreciated. In fact, a few companies even wrote to MCA on this, appreciating the change and thanking the Government.

Gist of the revised structure/framework

Maintenance of Cost Records

- All the existing Cost Accounting Records Rules prescribed for 36 industries [out of a total of 44] were repealed. In place, simplified common Records Rules were notified in June 2011. In addition, for the regulated sectors, viz. telecom, petroleum, electricity, sugar, fertilizers, & pharmaceuticals, revised rules were notified in December 2011, in consultation with the concerned regulatory authority.
- All these rules were applicable for all companies engaged in the specified activities and having net worth of Rs.5 crore or turnover of Rs.20 crore or listed.
- All formats and cost element-wise instructions earlier prescribed as part of the Rules for maintenance of cost records were withdrawn.
- Companies were given full freedom to maintain cost records as per the Cost Accounting System internally embedded into their books so as to follow the cost management method as may be suited to their requirements, and commensurate with their business process, size, scale & type of operations.
- To ensure uniformity, companies were asked to ensure that the Cost Accounting System they have, follow the cost accounting standards and generally accepted cost accounting principles issued by ICAI, to the extent these are found to be relevant and applicable.
- Simple one-page compliance report mainly containing the product or activity group-wise turnover data and a reconciliation statement between profit as per cost accounts and that as per financial accounts was prescribed. Filing of compliance report in XBRL mode was mandated by the Ministry of Corporate Affairs (MCA).
- An employee cost accountant of the company was also authorized to certify the compliance report, thereby resulting in zero cost of compliance.

Audit of Cost Records

- Existing Cost Audit Report Rules, 2001 containing very detailed and complex formats were repealed. The existing formats contained 28 Paras with detailed product cost details and most of this information was a duplication of financial accounts. In place, simplified Report Rules containing abridged product group-wise cost details were notified in June 2011. Filing of cost audit report in XBRL mode was mandated by the Ministry of Corporate Affairs (MCA).

- Product-group structure, covering all the manufacturing, producing, services, and trading activities duly linked with the Central Excise Tariff Codes was notified in August, 2012.

- Cost audit was made applicable for the companies operating under regulated sectors and having net worth of Rs.5 crore or turnover of Rs.20 crore or listed. In case of the non-regulated sectors, it was applicable for all companies [excluding certain non-strategic product-groups] having turnover of Rs.100 crore or listed.

- The existing practice of issuing company-by-company cost audit orders was dispensed with. Instead, cost audit orders for the aforesaid class [size] of companies operating in the same segment identified by their operations in terms of Central Excise Tariff Codes were issued. This made interpretation of the applicability much simpler and universal.

- Procedure for appointment of cost auditors requiring prior approval of the Central Government was simplified whereby it was made an automatic process with every application getting deemed approval after a period of 30 days from the date of filing. In line with the statutory auditors, cost auditors were also required to file their acceptance with the government.

- Filing of cost audit reports for each unit and each product separately was dispensed with thereby fully protecting the confidentiality of cost details of the companies. Data/information earlier being sought as part of the cost audit report was greatly reduced; thereby resulting in reduction in the size of the report from 200-1500 pages to mere 10-15 pages.

*****

Appendix

Expert Group Recommendations

Maintenance of Cost Accounting Records

- The Expert Group concluded that maintenance of cost records by all the companies, as an integral part of books of account, based on the generally accepted cost accounting principles enshrined in the cost accounting standards, is absolutely essential.
- The term "class of companies" under the existing section 209(1)(d) of the Companies Act, 1956, should be considered at the company level rather than at the product level.
- To shift maintenance of cost records from existing Rule-based mechanism to a Principle-based mechanism having universal application. In order to promote uniformity and consistency in the preparation and presentation of cost statements under different statutes and under WTO, such cost accounting records should adhere to the cost accounting standards issued by ICWAI.
- To repeal & replace all the existing 44 Cost Accounting Records Rules and Cost Audit Report Rules with one common consolidated Rules.
- Government not to prescribe any Formats for record maintenance. Companies to be left free to choose appropriate cost management framework suited to its size, scale & type of operations and the corporate objectives.
- In line with the existing provisions, revised Rules to apply to companies engaged in the *production, processing, manufacturing and mining* activities. Later, the scope to be modified in the new Companies Act to include *infrastructure, utilities, services & social* activities.
- Existing limit of exemption for the micro and small scale companies should be enhanced to investment in plant & machinery not exceeding Rs.5 crore and annual turnover not exceeding Rs.20 crore.

Audit of Cost Accounting Records

- In view of vast utility of cost data to various stakeholders, there is need to continue the cost audit mechanism. However, present structure of cost audit report need to be modified and the formats prescribed therein needs to be simplified.

- All micro and small size companies should be exempted from the provisions of cost audit under section 233B of the Companies Act, 1956. In addition, other special categories such as section-25 companies, companies limited by guarantee, not-for-profit companies, companies having their total operations outside India, etc. should also be exempted from the ambit of cost audit.

- All medium size companies having investment upto Rs.10 crores and turnover upto Rs.50 crores should also be exempted from cost audit [not from cost records] and file a simple compliance report with the Government.

- Cost audit orders under section 233B of the Companies Act, 1956 should be issued on all companies that are not specifically exempted, without any discrimination.

- Existing concept of filing unit-wise and product-wise cost audit report, introduced in 2001, should be dispensed forthwith. All companies covered under audit will file only abridged product group-wise cost statements along with cost auditor's report with the Government. All other cost details, statements, schedules, etc. duly certified by the cost auditor should remain with the company.

- Cost auditor should submit detailed unit-wise and product-wise cost statements, duly certified by him, to the company, which may be called for by any Government agency and/or regulator depending upon the need.

- To help the company management to improve its performance, productivity, competitiveness and governance mechanism, the Group suggested cost auditor to submit a performance appraisal report to the Board of Directors/Audit Committee of the company. This will not be filed with the Central Government.

- Existing provision of a Statutory Auditor’s certificate under CARO certifying maintenance of cost records by the company should be discontinued.

- Cost auditors should be appointed by the Board of Directors of a company without seeking any prior approval from the Central Government (i.e. MCA) and reports the same to the shareholders in the Board of Directors’ Report.

- Indian companies should follow healthy practice of voluntarily rotating the cost auditors after every 3-5 years.

- As at present, periodicity of cost audit should remain on annual basis. In addition, the Group recommends quarterly internal audit of cost records.

- The Group recommended voluntary circulation of selected information to the shareholders of the company, containing cost trends, key performance indicators, risk assessment or key risk indicators, CSR details, trends or factors like external economic conditions and internal efficiency, etc., as part of the management analysis section of the annual report to meet with the overall objectives of good corporate governance.

Cost Accounting Standards

- ICWAI to assign utmost priority to issue requisite Cost Accounting Standards, Application Guidance Notes and Management Accounting Guidelines for use & application by both the manufacturing and service sector companies.
- All CAS to be issued in consultation with all stakeholders, viz. industry associations, companies, government organisations, regulatory authorities, user agencies, professional bodies, etc. Existing CAS to be restructured as per the revised framework and re-issued.
- There should be complete alignment, synergy & harmonization between the Cost Accounting Standards and the Financial Accounting Standards.
- All CAS to be aligned with the relevant issues in IFRS; should incorporate the best practices enshrined in the CAS issued by different countries; and should also follow the principles enshrined in various documents issued by the International Federation of Accountants (IFAC).
- All CAS to be made mandatory. Either the existing mandate of NACAS is modified or a similar body is set up separately for recommending the CAS to the Central Government. Till such time, CAS issued by ICWAI may be recognised as that prescribed by the Central Government.

Government Organisations and Service Sectors

- Extension of cost accounting & audit framework to all,
    - Infrastructure sector activities which include roads, seaports, airports, railways, telecom, power projects, industrial parks, urban infrastructure, exploration, refining, mining, etc.;
    - Government projects/schemes, departmental undertakings, such as ordnance factories, railway locomotive/coaches manufacturing units, etc.;
    - Government contracts and procurements;

   - Services and other social sectors such as healthcare, education, banking, insurance, financial services, transportation, information technology, etc.; and
   - Public utilities & essential services such as municipalities, electricity, water supply, city transport, etc.

- MCA, Chief Adviser (Cost) & CGCA in the Ministry of Finance, C&AG and ICWAI to jointly play the lead role (a) to spearhead the process of inculcating cost accounting systems in all these organizations/entities; (b) in evolving suitable cost accounting systems; (c) to issue the relevant cost accounting standards & guidance notes; (d) in undertaking training of human resources in such organizations; (e) in modifying the existing budgetary system of the Central/State Governments; (f) in recasting the outcome budgets by correctly evaluating the costs & benefits of each program/activity; and (g) in improving the public information system.

<u>Confidentiality and Cost of Compliance</u>

- After implementation of various recommendations made by the Expert Group relating to the cost accounting records, cost audit and reporting in the corporate sector, the Group concluded that no further steps are required, to ensure complete confidentiality of company cost data; and there would be substantial reduction in the cost of compliance to the companies.
- Hence, the modified framework, when implemented, would fully address the twin concerns of industry relating to these two issues.

<u>Final Phase of Liberalisation</u>

- Future framework of voluntary compliance after achieving the highest level of maturity model in the economy and highest level of maturity model of cost management by the corporate sector.
- It is expected that Indian economy would achieve highest level of maturity in 15-20 years. Various levels of maturity model of cost management for the corporate sector have been suggested by the CII-TCM Division.

*****