

SCOPE/F&A/2016/

May 25, 2016

Dear *Dir (Finance)*

A reference has been received from the Institute of Cost Accountants of India on the subject of "**Criteria for selection of Cost Auditors in PSE's.**" You may like to examine the enclosed letter and in case this issue merits your attention, you may give suitable consideration in your organization as deemed fit.

With *regards*

Yours *[Signature]*
[Signature]

(Dr. U.D. Choubey)

TO: DIR (F) OF MEMBER PSE'S

CMA P. V. Bhattad
President



THE INSTITUTE OF COST ACCOUNTANTS OF INDIA
(Statutory body under an Act of Parliament)

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G:142:05:2016

20th May 2016

Dr. U.D. Choubey
Director General,
Standing Conference of Public Enterprises (SCOPE)
1st Floor, Core - 8,
SCOPE Complex, 7, Lodi Road,
New Delhi - 110003

Subject: Criterion for selection of Cost Auditors in PSUs
Reference: Letter number G:142:03:2016, dated 30th March 2016

Dear Sir,

Greetings.

Please refer to the above mentioned letter and also the meeting of the undersigned with your kind self on 5th May 2016 in your office in the presence of Shri BB Goyal, Former Addl. Chief Advisor (Cost) Ministry of Finance. We are thankful to you for extending cordial reception to us.

As discussed and decided in the meeting, we are attaching herewith a communication from the Chief Vigilance Commissioner (CVC) which refers to the 'Manual of Policies and Procedure of Employment of Consultants', published by the Department of Expenditure, Ministry of Finance, Government of India, which includes the selection criteria for appointment of consultants (which includes Auditors also) by the Government departments. The above said manual is also attached herewith for your kind perusal.

We request you to kindly forward the same to all the Public Sector Enterprises with an advisory to follow the laid down criteria for appointment of auditors, to appoint Cost Accountants / firms of Cost Accountants as cost auditors to get valuable services for improving the company's efficiency, productivity, cost competitiveness, profitability, and sustainability.

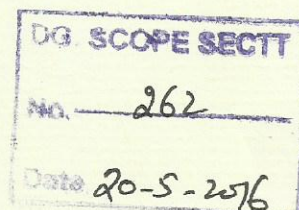
Thanking you

Yours faithfully,

P. V. Bhattad

(CMA P.V. Bhattad)

Encl.: Letter from CVC and Manual as mentioned above



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President



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G:142:03:2016

*Recd
30/3/16*
Dr. U.D.Choubey

Director General,

Standing Conference of Public Enterprises,

1st Floor, Core - 8,

SCOPE Complex, 7 Lodi Road,

New Delhi- 110 003

9/C March 30, 2016

Subject: Criterion for selection of Cost Auditors in PSUs

Dear Sir,

The Institute of Cost Accountants of India was established by an Act of Parliament, namely, Cost and Works Accountants Act, 1959 as a statutory body for regulating the profession of cost and management accountancy in India. Since then it has been continuously contributing to the growth of the industrial and economic climate of the country. The main mission of the Institute is to drive the enterprises globally by creating value to stakeholders in the socio-economic context through competencies drawn from the integration of strategy, management and accounting.

Section 148 of the Companies Act, 2013 provides that the Central Government may, by order, in respect of certain class of companies engaged in the production of goods or providing of services prescribe maintenance of cost accounting records and audit thereof. In exercise of the powers vested under section 148, Ministry of Corporate Affairs has notified the Companies (Cost Records and Audit) Rules, 2014. A copy of full text of section 148 and the Rules made thereunder is enclosed.

As provided in these rules, cost records are required to be maintained in such manner as to facilitate calculation of per unit cost of production or cost of operations, cost of sales and margin for each product and activity for every financial year on monthly or quarterly or half-yearly or annual basis. Further, the cost records need to be maintained in such manner so as to enable the company to exercise, as far as possible, control over the various operations and costs to achieve optimum economies in utilisation of resources.

As is evident, the real objective of aforesaid provisions is to help all stakeholders. Product/activity-wise cost data gives enormous benefits to the company to take correct business decisions, reduce costs, and improve efficiency, productivity, cost competitiveness, profitability, and sustainability. Cost Accounting & Assurance mechanism aims to provide requisite data analytics that helps the management in other strategic areas such as value creation, resource utilization, product pricing, strategic planning, risk management, etc. It finally results in strengthening the corporate governance framework.

In addition, this mechanism provides authentic cost data, quantitative details, input-output ratios, and other non-financial information to various government agencies, regulatory bodies, investigating agencies, and tax authorities. It is of immense assistance to them in formulating correct policies, funding requirements, in providing capital & revenue assistance, subsidy or grant-in-aid and in rate regulation of mass products; thereby protecting the rights of consumers



and public at large. It also helps to check cases of predatory pricing and unfair trade practices such as price-rigging, cartelization, over-charging, discriminatory pricing, profiteering, siphoning of funds, etc.; in detection & prevention of frauds, in tariff determination, tax optimization, and also in the detection of direct & indirect tax evasion cases; and in plugging dubious related party commercial transactions that result in huge loss of revenue to the government.

The laid down framework under section 148 of the Companies Act, 2013 and the Rules made thereunder cover large number of Government companies. Under this system, the cost audit is done by an individual or firm of Cost Accountants in practice. As per the extant provisions, the cost auditor is appointed by the Board of Directors of the concerned company.

Audit is a highly specialized function that provides assurance to all stakeholders on the truth & fairness of the company's account statements. Cost Audit is an independent examination of cost statements, cost records and other related information of an entity, with a view to express an opinion thereon. Cost auditors conduct an independent assessment of the accuracy and reasonableness of company's cost statements, which are prepared by the management.

You may be aware that the appointment of Statutory [financial] Auditors in all Central/ State Government companies is done by the Comptroller & Auditor General of India. For this purpose, C&AG has devised well laid down criteria for the empanelment of firms of Chartered Accountants and their professional fees are fixed depending on the nature and size of the company. However, no such common criteria exist for the firms of Cost Accountants for appointment as cost auditors in all government companies. Hence, each company is following different practice leading to arbitrariness and discrimination.

Generally, Government companies are issuing tenders calling for bids from the eligible cost accountant firms for appointment as cost auditors. After technical evaluation, all eligible firms are placed at par and the firm charging the lowest audit fee is appointed. In certain cases, companies ask only for quotations and appoint the L1 bidder as the cost auditor. This has led to a situation where, many a times, highly competent and experienced firms get eliminated owing their higher than L1 fee bids. Further, under this mechanism, actual fees of cost audit of PSUs are nowhere near the suggested fees of the Institute that is based on the size of the company. This would naturally affect the quality. By incorporating minimum fee criteria in the bid document, the government companies can maintain parity either with the cost audit fee suggested by the Institute or with the financial audit fees already fixed by the C&AG.

It may be noted that on August 31, 2006, Department of Expenditure, Ministry of Finance issued a document titled "Manual of Policies and Procedure of Employment of Consultants". Later, the Secretariat for the Committee on Infrastructure of Planning Commission had issued the Best Practices Guidelines for Selection of Consultants on 14th May, 2009. This was followed by Guidelines issued by the Department of Expenditure, Ministry of Finance vide their O.M. No. 24(23)/PF-II/2008 dated May 21, 2009. Planning Commission issued second version of the Best Practice Guidelines in April, 2014. In these guidelines, it has been clearly mentioned that

"The appointment of consultants should not be treated in the same manner as procurement of goods and other services where the bid is awarded to the lowest financial applicant firm based on pre-determined specifications. This is so because what sets consultancy services apart from other procurements is the advisory and intellectual nature of services which are

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not amenable to precise quantification. For example, selection of lawyers, financial consultants and technical experts cannot be done on the basis of financial offers alone as that would lead to suboptimal outcomes. The expertise, skills and experience of a prospective consultant should carry the dominant weightage in the evaluation process rather than the price determining the selection of the successful applicant firm. The objective is to select the economically most advantageous applicant firm rather than the lowest financial bidder.

For the purpose of arriving at combined scores, appropriate weightages should be determined for the technical and financial bids. The ratio of weightages for technical and financial bids should be established well in advance and incorporated in the Request for Proposal (RFP) document. The RFP document should be precise, transparent and explicit so that the bidders get a very clear idea of the evaluation methodology and process. The respective weightages should normally be 70 per cent for the technical bid and 30 per cent for the financial bid (Refer Clause 3.12.1 of Manual of Policies and Procedures for Selection of Consultants). However, in contracts where quality plays a more critical role and it is important that highly experienced and qualified consultants are appointed, weightage to technical capacity may be enhanced to 80 per cent.

Generally the successful applicant shall be the applicant having the highest combined score. In the event two or more proposals have the same scores in the final ranking, the proposal with the highest technical score should be ranked first."

In this context, it may also be noted that generally experienced and reputed firms of professional charge higher fee for the better quality of services provided by them. In any audit, quality is of paramount importance; not the cost thereof. Therefore, in order to ensure fair play for all, we are of the view that while the powers to lay down technical criteria for the benchmarking of cost accountant firms may be left to the company itself, the technical criteria should carry a minimum weight of 70% leaving only 30% weight to be assigned to the financial [fee] bids. This combined evaluation basis will enable the PSUs to select better firms as their cost auditors who could provide valuable services for improving the company's efficiency, productivity, cost competitiveness, profitability, and sustainability.

We request you to kindly consider the aforesaid submissions and if deemed fit, the same may be forwarded to all the PSUs for implementation as standard criterion for the purpose. We will be pleased to discuss further in this regard with you at your earliest convenience.

Thanking you

Yours faithfully,

(CMA P.V. Bhattad)

Copy for information to:

1. Shri Tapan Ray, Secretary to Government of India, Ministry of Corporate Affairs, Shastri Bhawan, Rajendra Prasad Road, New Delhi – 110 001

CMA P. V. Bhattad
President

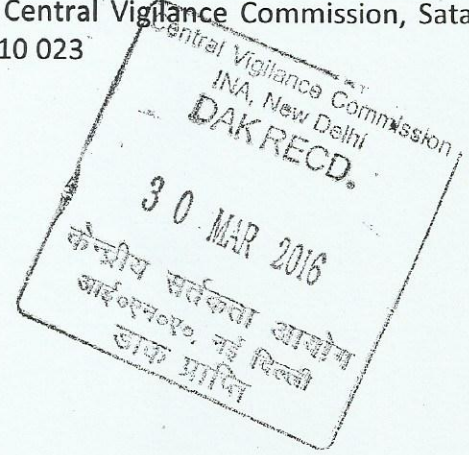
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2. Shri Ameising Luikham, Secretary, Department of Public Enterprises, Public Enterprises Bhavan, 305, Block 14, CGO Complex, Lodi Road, New Delhi - 110003
3. Shri K.V.Chowdary, Chief Vigilance Commissioner, Central Vigilance Commission, Satarkata Bhavan, A-Block, GPO Complex, INA, New Delhi - 110 023





MODEL TENDER EVALUATION METHODOLOGY FOR COST AUDITORS IN PSUs

Scope of Services and Minimum Fee - The Tender document must clearly spell out the scope of services to be provided by the Cost Auditor. It must also state the minimum audit fee as may be fixed by the management for ensuring the highest quality of audit services. It may be based on the following factors:

- Nature of business and size of the company
- Scope of services to be provided by the cost auditor
- Cost audit fee suggested by the Institute of Cost Accountants of India
- Financial audit fee determined by the C&AG

Criteria Notification - Selection Criteria, which will be used in the tender evaluation process, must be included in the Conditions of Tender, together with the weighting to be assigned to each criterion. The tender documents may also require that additional information is to be provided for use in the tender evaluation.

Weighting - When assigning weights, the Company must ensure that:

- all selection criterion to be used are assigned a weight;
- criteria weightings are to be within the range outlined below; and
- the sum of all weights totals 100%.

The weighting range for Selection Criteria could be within the following [*each company may decide their own criteria and weights*]:

Range	Weight	Criteria	Min-Max
Non-Price	60 - 70%	Overall Experience - Firm's Age	5 - 15%
		Relevant Experience - Concerned Industry Audit	0 - 10%
		Past Performance - Firm's Turnover	5 - 10%
		Technical & Audit Skills - No. of Partners	5 - 15%
		Resources - Qualified and Semi-qualified Staff	5 - 10%
		Firm's Proximity to the company/unit	0 - 10%
Price	30 - 40%		

Tender Evaluation

A Tender Evaluation Committee will assess the tender bids in accordance with the procedures noted below.



The tenders are scored according to the information provided. Only that information submitted at the time of close of tender and lodged with the tender bid shall be used in the evaluation.

Scoring "Non-Price" Criteria

The evaluation procedures are as follows:

1. Calculate the individual scores for each non-price criterion. Each criterion is given a point score from minimum to maximum in pre-defined increments of 0.5 or 1.0.
2. Weigh the individual scores for each non-price criteria according to the pre-determined weightings. The weighted score is calculated by multiplying the score by the weight.
3. The sum of non-price scores for each tender is then normalised to 10. Normalising is a transformation applied uniformly to each element in a set of data so that the set has some statistical property.
4. The following formula is applied to normalise the non-price scores:

$$= \frac{\text{Sum of non-price score for each tender} \times 10}{\text{Highest sum of non-price scores}}$$

5. This score is then adjusted for the total weighting of all the non-price criteria to obtain the overall weighted non-price score.

The highest non-price total score is given a score of 10 and the other sums are ranked accordingly in proportion.

Scoring "Price" Criteria

Scores for price are based on the following method: (Note that the lower the price, the higher the score)

$$\text{Normalised price score} = \frac{\text{lowest tender price} \times 10}{\text{tender price}}$$

Total Scores

Total score is the sum of normalized weighted non-price and price scores. The firm scoring the highest total score is appointed as cost auditor(s) of the company. In the event two or more proposals have the same scores in the final ranking, the proposal with the highest non-price [i.e. technical] score should be ranked first.

When the difference between the first and second ranked scores is less than 3%, the lowest price tender of the two is taken as the preferred tender unless there are extraordinary reasons for not doing so.



Example

The example below shows how the normalized score is calculated and then the sum of weighted non-price and price scores is taken to find the total score:

Criteria	Weight	Tender-1		Tender-2		Tender-3	
		Actual Score	Weighted Score	Actual Score	Weighted Score	Actual Score	Weighted Score
Non-Price Criteria							
Firm's Age	15%	15	2.25	10	1.50	8	1.20
Concerned Industry Audit	10%	5	0.50	7	0.70	8	0.80
Firm's Turnover	10%	9	0.90	7	0.70	7	0.70
No. of Partners	15%	12	1.80	8	1.20	6	0.90
Qualified and Semi-qualified Staff	10%	10	1.00	8	0.80	5	0.50
Firm's Proximity to the company/unit	10%	2	0.20	5	0.50	8	0.80
Total Non-Price Criteria	70%	53	6.65	45	5.40	42	4.90
Normalized Non-Price Score			10.00		8.12		7.37
Weighted Non-Price Score			7.00		5.68		5.16
Price Criteria							
Actual Price Bid in Rupees		1,000,000		800,000		500,000	
Normalized Price Score	30%		5.00		6.25		10.00
Weighted Price Score			1.50		1.88		3.00
TOTAL SCORE			8.50		7.56		8.16

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सत्यमेव जयते

केन्द्रीय सतर्कता आयोग
CENTRAL VIGILANCE COMMISSION



सतर्कता भवन, जी.पी.ओ. कॉम्प्लेक्स,
ब्लॉक-ए, आई.एन.ए., नई दिल्ली-11002
Satarkta Bhawan, G.P.O. Complex,
Block A, INA, New Delhi 110023

Date: 27.4.2016

To,

128 APR 2016

✓ CMA P.V. Bhattad,
President,
The Institute of Cost Accountants of India,
CMA Bhawan, 12, Sudder Street,
Kolkata - 700 016.

Sub: - Criterion for selection of Cost Auditors in PSUs.

Ref: - Your letter No. G:142:03:2016 dated 30th March, 2016.

Sir,

Vide above-cited reference you have sought Commission's intervention in promulgating the criteria for selection of Cost Auditors.

2. In this connection, I have been directed to convey that the guidelines on selection criteria for appointment of Consultants (which includes Auditors also) are already covered in detail in the 'Manual of Policies and Procedures of employment of Consultants' dated 31.08.2006 issued by Deptt. of Expenditure, Ministry of Finance. Hence, the necessity for issuing any further guidelines does not arise.

For Chief Technical Examiner,

(Mukesh Saxena)
Technical Examiner
Ph: 24651678