

52/5/CAB-2011  
Government of India  
Ministry of Corporate Affairs  
**Cost Audit Branch**  
\*\*\*\*\*

'B-1' Wing, 2<sup>nd</sup> Floor,  
Paryavaran Bhawan,  
CGO Complex, Lodhi Road,  
New Delhi – 110 003

Dated the April 11, 2011

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

**Subject: Appointment of Cost Auditor by Companies**

Sir,

Ministry has reviewed the existing procedure followed by the companies for seeking prior approval of the Central Government for appointment of cost auditor under section 233B (2) of the Companies Act, 1956. In supersession of any earlier order/circular issued in this regard, the revised procedure to be followed by the companies and cost auditor shall be as under:

- (a) The company required to get its cost records audited under section 233B (1) of the Companies Act, 1956 shall appoint a cost auditor who is a cost accountant as defined in clause (b) of sub-section (1) of section 2 of the Cost and Works Accountants Act, 1959 (23 of 1959) and who holds a valid certificate of practice under sub-section (1) of section 6 of that Act and includes a firm of cost accountants.
- (b) The Audit Committee of the Board shall be the first point of reference regarding the appointment of cost auditors.
- (c) The Audit Committee shall ensure that the cost auditor is free from any disqualifications as specified under section 233B (5) read with section 224 and sub-section (3) or sub-section (4) of section 226 of the Companies Act, 1956.
- (d) While a cost auditor shall have prime responsibility to ensure that he does not violate the limits specified under section 224 (1-B) of the Companies Act 1956, the Audit Committee shall also be responsible for such compliance by the cost auditor.
- (e) The Audit Committee shall obtain a certificate from the cost auditor certifying his/its independence and arm's length relationship with the company.
- (f) The company shall e-file its application with the Central Government on [www.mca.gov.in](http://www.mca.gov.in) portal, in the prescribed form 23C within ninety 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 (1-B) of the Companies Act, 1956.

- (g) On filing the application, the same shall be deemed to be approved by the Central Government, unless contrary is heard within thirty days from the date of filing such application.
  - (h) If within thirty days from the date of filing such application, the Central Government directs the company to re-submit the said application with such additional information or explanation, as may be specified in that direction, the period of thirty days for deemed approval of the Central Government shall be counted from the date of re-submission by the company.
  - (i) After expiry of thirty days, as the case may be, the company shall issue formal letter of appointment to the cost auditor, as approved by the Board.
  - (j) Within thirty 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.
  - (k) 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.
  - (l) 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".
2. 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 sub-section (6) of section 209 of the Act, shall be punishable as provided under sub-section (2) of section 642 read with sub-sections (5) and (7) of section 209 and sub-section (11) of section 233B of Companies Act, 1956.
  3. If default is made by the cost auditor in complying with the aforesaid provisions, he shall be punishable with fine, which may extend to five thousand rupees.
  4. The modified procedure contained in this circular shall be effective from the financial year commencing on or after the 1<sup>st</sup> day of April, 2011.
  5. 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. Director (NK), E-Governance Cell, Ministry of Corporate Affairs, Shastri Bhavan, New Delhi with a request to upload this circular on the MCA's website <http://www.mca.gov.in/Ministry/circulars.html>
2. All the Regional Directors and Registrars of Companies (via e-mail)