सत्यमेव जयते

Report of the Committee to review the existing framework of Cost Accounting Records & Cost Audit and to improve the usefulness of the Cost Audit Reports

Main Report

January, 2024

सत्यमेव जयते

Report of the Committee to review the existing framework of Cost Accounting Records & Cost Audit and to improve the usefulness of the Cost Audit Reports

This report contains Main Report & Annexures (Vol-I to III)

January, 2024

ASHU MATHUR
Chief Adviser (Cost)
Tel. No. : 011-24698522
E-mail : ashu.mathur@gov.in

सत्यमेव जयते

भारत सरकार
वित्त मंत्रालय, व्यय विभाग,
मुख्य सलाहकार लागत का कार्यालय
द्वितीय तल, 'सी' विंग,
लोकनायक भवन, नई दिल्ली-110 003
GOVERNMENT OF INDIA
Ministry of Finance, Department of Expenditure
Office of the Chief Adviser Cost
2nd Floor, 'C' Wing,
Lok Nayak Bhawan, New Delhi-110 003

PREFACE

The role of cost and price is important in every sphere of life. The cost-benefit analysis is basic for any decision making for Government as well as private sector. Therefore, maintenance of Cost records and Cost Audit framework has been in existence in India since 1965 under the provisions of Companies Act 1956. Under the Companies Act 2013, the Companies (Cost Records and Audit) Rules 2014 were notified and subsequently amended from time to time.

In order to review the existing framework of Cost Accounting Records and Cost Audit and to improve the usefulness of the Cost Audit Reports in various sectors of economy, a Committee consisting of members from different user departments has been constituted with the approval of Hon'ble Minister of Finance and Corporate Affairs.

Every year huge public expenditure is incurred by the Government for welfare of the citizens. For FY 2023-24, the Budget Estimates for Central Government expenditure amounts to about Rs. 45 lakh crores, while for States Governments and UTs it is Rs. 53 lakh crores. Even if the funds transferred from Central to States are adjusted, a substantial portion of expenditure is spent on different projects/schemes and products/services by the Governments. The budgeted Capital expenditure for FY 2023-24 of Central and State Governments are about Rs. 10 lakh crores and 9 lakh crores respectively.

Therefore, there is a need for efficient, transparent and accountable governance in public spending. For this purpose, cost database for key products and services may be helpful in decision making where Government incurs major expenditure. GFR (Rule 47) also requires that each Ministry/ Departments to ensure while fixing the rates of 'User Charges' that the user charges recover the current cost of providing services with reasonable return on capital investment. Further, these rates are to be reviewed at least every three years. Any deviation from these principles should be specifically recorded with reasons justifying the setting of user charges lower than the cost recovery norms, if any. As Revenue authorities – CBIC and CBDT have shifted towards faceless assessments, better inter- firm comparison, sector-wise input-output analysis based on cost data may be useful in checking the revenue leakages. Authentic and reliable activity-wise Cost data, duly audited by independent professionals, will be supportive in these activities.

The recommendations of the Committee have been worked out after considering the views of all stakeholders including the comments/suggestions received from the various Ministries/ Departments, Regulatory Bodies, major Industry Associations and The Institute of Cost Accountants of India. Further, the recommendations of the Committee are not only limited to the Companies covered under Companies Act, but also these are extended to other organizations like co-operatives, trusts, autonomous Bodies etc. working in the specified sectors as the Terms of Reference for the Committee, inter-alia, refers to the public finances of Central and State Governments.

The Committee also highlighted the role of maintenance of cost records for examination of the time and cost overrun in high value Government projects and contracts. The availability of reliable and authentic cost data is important for decision making & dispute redressal in public finances and to ensure accountability in planning for the future Government projects and schemes. The recommendations of the Committee will facilitate in ease of doing business and will augment the usefulness of the Cost Audit Reports.

I express my gratitude to the members of Committee for their valuable insights, subject expertise and experience to make this report meaningful. This task has been completed with the help of a dedicated team of the officers of Cost Audit Branch, MCA which provided relevant data analysis and secretarial support to the Committee and being instrumental in drafting of this report.

I am sure that the recommendations of this Committee will be implemented in letter and spirit so as to enhance the usefulness of Cost Records and Cost Audit Reports in government functioning and lead to savings / benefits to the economy as envisaged in the report.

Amathur

(Ashu Mathur)

Chief Adviser Cost
Department of Expenditure
Ministry of Finance
(Chairman of the Committee)

Place: New Delhi

Date: 30th January 2024

MAIN REPORT

INDEX OF CHAPTERS AND APPENDIX

INDEX OF TABLES

ANNEXURE TO THE REPORT

Volume-I to III

INDEX OF ANNEXURES

MEMBERS OF THE COMMITTEE

(i) Shri. Ashu Mathur, Chief Adviser (Cost), Department of Expenditure, Ministry of Finance - Chairman

(ii) Shri. Manoj Pandey, Additional Secretary (Policy), Ministry of Corporate Affairs

(iii) Shri. Manmohan Sachdeva, Principal Adviser (Cost), Department of Food and Public Distribution

(iv) Shri. A. K. Khurana, Principal Adviser (Cost), Department of Defence (Production)

(v) Shri. A. K. Pal, Principal Adviser (Cost), Department of Defence (Finance)

(vi) Smt. Prathibha A., Economic Adviser, Department of Fertilizers

(vii) Smt. Vinod Kotwal, Member Secretary, NPPA, Department of Pharmaceutical

(viii) Shri. V. M. Jain, Commissioner (Investigation), Central Board of Indirect Taxes and Customs

(ix) Shri. Raman Chopra, Joint Secretary, Central Board of Direct Taxes

(x) Shri. G. S. Sahu, Adviser (Cost), Directorate General of Trade Remedies (xi)

Shri. Manish Goswami, Adviser (Cost), Ministry of Corporate Affairs

ACKNOWLEDGEMENTS

I am very happy to acknowledge the valuable contributions of the following officerswho worked tirelessly with the committee in analysing the issues and instrumental in the preparation of report.

O/o Chief Adviser Cost, D/o Expenditure, M/o Finance

1. Shri. Pawan Kumar, Additional Chief Adviser
2. Dr. G.Venkatesh, Adviser
3. Shri Lalit Wadhwa, Director
4. Shri Bhushan Murlidhar Nirpase, Deputy Director

Cost Audit Branch, Ministry of Corporate Affairs

5. Shri Chunilal Ghosh, Director
6. Shri. Shubham Aggarwal, Assistant Director

(Ashu Mathur)
Chief Adviser Cost
Department of Expenditure
Ministry of Finance
(Chairman of the Committee)

Executive Summary

1. Introduction (Chapter – 1):

1.1 Provisions for Maintenance of Cost Records and Cost Audit are provided in the Section 148 of the Companies Act, 2013. The Ministry of Corporate Affairs, Government of India (MCA) notified the Companies (Cost Records and Audit) Rules, 2014 (CCRA Rules 2014) which was subsequently amended from time to time.

1.2 In order to review the existing framework of Cost Accounting Records and Cost Audit and to improve the usefulness of the Cost Audit Reports in various sectors of the economy, a Committee has been constituted with the approval of Hon'ble Minister of Finance and Corporate Affairs vide OM dated 4th October, 2023 and 12th January, 2024.

1.3 The Committee was constituted under the Chairmanship of Chief Adviser (Cost), Department of Expenditure, Ministry of Finance and comprises of ten other members from different Departments/ Ministries. Secretaries/ Head of the organisations were requested to nominate their officers, not below the rank of Joint Secretaries, from their Organisation/ Department/ Ministry, as members of this Committee.

1.4 Terms of Reference of the Committee, inter alia, includes-

(i) To make recommendations about the usefulness of the Cost Records and Cost Audit Reports in various sectors of the economy; in particular, to make recommendations about the sectors for which the requirement of maintenance of Cost records and conducting cost Audit may be no longer necessary, and, about the new sectors where maintenance of such records/conduct of such audit may be considered.

(ii) To Review the implementation of CCRA Rules 2014; in particular, to review the Manufacturing and Service Sectors/Areas covered under CCRA Rules 2014 for

Maintenance of Cost records and Cost Audit and identify the Codes for the same.

(iii) To review Existing formats and procedures for Cost Records and Cost Audit

(iv) To make recommendation on principles for selecting sectors for review of Cost Audit Reports on a periodic basis.

(v) Any other matter related to or incidental to the above which the Committee may decide to consider.

1.5 The Committee invited comments/ suggestions from the Institute of Cost Accountants of India, five major Industry Associations [Confederation of Indian Industry (CII), Federation of Indian Chambers of Commerce & Industry (FICCI), Associated Chambers of Commerce and Industry of India (ASSOCHAM), PHD Chamber of Commerce and Industry (PHDCCI) and Standing Conference of Public Enterprises (SCOPE)] and various Central Government Ministries/ Departments and Regulatory Bodies. After analyzing written comments/ suggestions from the stakeholders and other relevant aspect/ data in detail, the Committee arrived at its recommendations which are included in this report.

1.6 The Committee deliberated that the suggestions of this Committee may not be limited to the purview of the Companies Act only, as its terms of reference refer to recommendations related to the Public Finances of Central and State Governments and any other matter related to or incidental to the above which the Committee may decide to consider. Therefore, the Committee is of the view that the recommendations of the Committee may involve a holistic perspective, keeping in mind the nation's interests. Accordingly, it was decided to deliberate whether Cost Audit may be extended to other entities like trusts, cooperatives, autonomous bodies etc.

1.7 The Committee decided to examine the role of Cost Audit for Government's long term infrastructure projects especially when a large number of the ongoing projects are facing time and cost overruns and how a regular Cost Audit or any other similar overseeing mechanism may help in high value projects, schemes and Govt. procurements which may give a multi-fold advantage to all the stakeholders including Government.

1.8 Relevant data was obtained from the MCA in order to have a detailed analysis of industry coverage for maintenance of cost accounting records and cost audit. Extensive Data was analyzed as available in public domain related to allocation of budgetary allocation to revenue and capital expenditures to various sectors, allocation to large infrastructure projects and orders placed by the government for major contracts, services and procurements of goods etc.

1.9 The Committee, after holding seven meetings during its tenure, finalized the report analyzing the representations/ comments/ suggestions of the Institute of Cost Accountants of India (ICMAI), All India Cost and Management Associations, Industry Associations and various Government Department/ Ministry/ Regulatory Bodies.

2. Economic Scenario and need for Cost Accounting and Cost Audit framework (Chapter-2):

2.1 India's economic landscape has witnessed a profound transformation over the years, shaped by a series of policy reforms, globalization, technological advancements, and changing market dynamics. To sustain the growth momentum, the Indian government is proactively investing in capital spending on infrastructure and assetbuilding projects. The Production Linked Incentive (PLI) Scheme for different sectors exemplifies a strategic initiative aimed at enhancing India's manufacturing capabilities.

2.2 This evolution has not only propelled India onto the global stage but has also posed challenges and opportunities for businesses operating in the country. Against this backdrop, to remain competitive in the global market, the need for effective cost management and transparency has become increasingly critical.

2.3 After independence, India adopted a socialist economic model with a focus on central planning. The government played a significant role in various sectors, and there was an emphasis on public sector enterprises. Government of India followed an industrial policy, which was based on control and licensing of industries.

2.4 Companies Act, 1956 was amended in 1965 to incorporate the provisions relating to the maintenance of cost accounting records to ensure that in respect of Companies engaged in production, processing, manufacturing or mining activities, proper records relating to utilisation of material and labour are available which would make the efficiency audit possible.

2.5 India was the first country to prescribe cost accounting record rules in respect of industries/class of companies and their audit by independent cost auditors appointed with the prior approval of the Government in the context of frauds committed by the Dalmia Jain Group of Companies and Enquiry Report submitted by the Vivian Bose Commission of Enquiry (1963). The main reason for introduction of Cost Audit by statute was to increase the effectiveness of the existing financial audit with a view to detect and deal with the cases of dishonesty and frauds.

2.6 Presently the Government's thrust on Capital expenditure, particularly in the infrastructure-intensive sectors like roads and highways, railways, and housing and urban affairs, has long-term implications for growth. To push for enhancing Capex from all directions, the Centre announced several incentives to boost states' capital expenditure in the form of long-term interest-free loans and capex-linked additional borrowing provisions.

2.7 It has been observed that there is huge budget outlay for major schemes and projects of the Central and State Governments. The committee deliberated the magnitude of the budget outlays for public expenditure by Central and State Governments and existing monitoring mechanism of these projects.

2.8 Apart from huge expenditure incurred for infrastructure projects, Defence procurements, Government is providing huge subsidies in Fertilizers, Food and

Petroleum Sector. Further, substantial expenditure is being spend in PLI schemes to boosts manufacturing of some indigenous products.

2.9 In addition to Central Government, all State Governments also incur large amount of public funds. A substantial amount is incurred on different social sectors like Education, health, water supply, urban development by State Governments.

2.10 Very large amount of public funds is being used by both Central and State Governments for different projects and schemes every year. These amounts are collected through different taxes and duties from the public. Therefore, effective and efficient utilisation of public funds is very important.

2.11 Data of Ministry of Statistics and Programme Implementation (MOSPI) show that there is 26.53% cost overrun in 848 delayed projects as on 01st January 2024. The costing framework is required to help the Government sector to use cost data for better decision making and monitoring of various ongoing projects.

2.12 During the deliberations in the committee meetings, it was felt that there is a need to develop the cost database based on cost accounting records and cost audit provisions for major sectors of economy for the benefit of different Government Departments, regulatory authorities and other bodies. This would result in greater accountability of government expenditure. This would improve transparency and uniformity across sectors. Cost database need to be developed gradually. This must be done in a systematic manner so that the data is used effectively for various policy decisions.

2.13 Based on cost database, benchmark cost of major products and services may be developed. Operating ratio of major services need to be decided. This database will help in cost-benefit analysis of future activities.

2.14 In an environment of increasing foreign trade under WTO regime, dumping of products at very low prices have become a serious issue in the international trade. This dumping of products, often well below the cost price, if not properly countered may harm the indigenous industry. The cost records and the cost audit report play a very critical role in defense of local industry to substantiate their fair approach against any allegation of dumping. Similarly, when dumping allegations are levied against the exports by the Indian companies to any foreign company, the Cost Audit Reports can provide the valuable feedback to protect the interest of Indian companies.

2.15 The practice of selling below cost to ward off competition attracts the penal provisions of the Competition Law. This necessitates the availability of authentic cost details of the products marketed by industry and business houses to determine normative pricing or fair pricing. In fact, Competition Law to be effective against any anti-competition activity presupposes the availability of reliable and authentic cost data.

2.16 The transfer pricing issue has gained considerable momentum in international scenario. The fundamentals of transfer pricing are based on "arm's length" throughout the world. The cost details form the very basis of determining arm's length transfer pricing policy of any country. An audited cost records and the resultant Cost Audit Report becomes a major source of information, which can be effectively used by both Indirect and Direct Tax Authorities.

2.17 There is a need to build cost consciousness within the Government in the Sectors where major expenditure are incurred by the Government. Cost Audit of the products/ services where Government is the major buyer directly or indirectly (like Cement, Steel etc that are used in infrastructure projects) will help in cost reduction and control of Government expenditure. Further, there is also needs to cost control in the sectors where subsidies are provided by the Government.

2.18 The Committee is of the view that from the Corporate Governance angle, maintenance of Cost Records and Cost Audit plays an important role. Costcompetitiveness being a key to success in a global market, one can hardly do away with maintenance of cost records and their cost audit as it is an important tool for healthy growth of economy in general and individual companies in particular. Further, Cost Audit plays a pivotal role in promoting transparency and accountability in the financial management of businesses as it ensures that costs are accurately recorded, allocated, and reported. This process aids in identifying inefficiencies, improving cost control measures, and enhancing overall operational effectiveness.

3. History of Cost Accounting and Cost Audit Framework in India (Chapter-3):

3.1 In India, the framework of cost audit was initially introduced in 1965 when Companies Act, 1956 was amended to incorporate the provisions relating to the maintenance of cost accounting records and cost audit vide the Companies (Amendment) Act, 1965.

3.2 Section 209(1)(d) was implemented by the Government in stages by notifying Cost Accounting Records Rules (CARRs) in the 44 industries. The companies engaged in the production, processing, manufacturing or mining activities in respect of industries or products specified were required to keep cost accounting records.

3.3 Vested with the powers under section 233B, Government ordered for audit of cost accounting records in large number of companies falling within the scope of these 44 industries. To regulate the operation of section 233B, Government also notified Cost Accounting Report Rules in 1968. These rules were later amended in 1996, 2001 and 2006.

3.4 To review & rationalize the cost accounting and cost audit mechanism, MCA constituted an Expert Group in 2008. Based on the recommendations made by the Expert Group, the Central Government, in supersession of all the then existing 44 records rules & one report rules, notified the 6 industry-specific Cost Accounting Records Rules 2011, common Cost Accounting Records Rules 2011 for other Sectors and Common Cost Audit Report Rules 2011.

3.5 Further, the provisions relating to cost accounting & audit were combined in a single section 148 in the Companies Act, 2013 and were made operational through notification of the CCRA Rules, 2014.

3.6 Empowered under section 148 of the Companies Act 2013, and in supersession of all the then existing 2011 Rules, the Central Government through the Ministry of

Corporate Affairs (MCA) notified the Companies (Cost Records and Audit) Rules, 2014 vide GSR 425(E) dated June 30, 2014.

3.7 Based on the recommendations made by a Committee constituted by the MCA, these rules were substantially modified vide notification dated December 31, 2014. Subsequently, amendments were made on 12.06.2015, 14.07.2016, 07.12.2017, 20.12.2017, 03.12.2018, and 15.10.2019.

3.8 The Committee feels that to improve the utility of cost data to all stakeholders, there is a need to make necessary changes in the Cost Audit Report structure by including industry specific reporting relating to few sectors to align with the overall policy of those sectors. The report may include Key Performance Parameters for the Audit Committee & Board, especially for the Independent Directors, to evaluate product/ activity-level & business vertical-wise performance to take effective business decisions. Finally, there should be an additional focus to strengthen corporate governance & sustainability.

4. International practices of Cost Accounting and Cost Audit (Chapter-4)

4.1 In each country (including the USA, UK, Germany, Canada, Japan, Australia, China, France, South Korea, Poland, South East Asia, etc.) there exists a distinct mechanism for gathering cost data and information, a process that must undergo certification or audit by external agencies or auditors.

4.2 Global practices allow either a single institute (in countries with only one professional accounting body) or multiple professional institutes to interchangeably certify or audit cost data, financial data, or secretarial data without specific restrictions. India (like some other SAARC countries) have a unique model for professional bodies, comprising three entities – The Institute of Chartered Accountants of India (ICAI), The Institute of Cost Accountants of India (ICAICMA), and The Institute of Company Secretaries of India (ICSI). Since their inception, each institution has been given a well-defined role. Also, these Institutes have been allowed to undertake financial audits, cost audits and secretarial audits respectively, in accordance with their designated functions as defined by the Acts passed in the Parliament.

4.3 The Committee has noted a brief synopsis of the practices followed in few developed & developing economies with respect to the cost accounting policies, cost records, cost accounting standards, cost audit/examination, regulatory practices & requirements, and filing of cost information.

4.4 The Committee noted that IFAC published an international public sector study titled, "Perspectives on Cost Accounting for Government". This study provides a description of how cost accounting can be used to assist and satisfy government information objectives and the related cost accounting processes. Cost accounting system and cost reports is useful tool for the public authorities to gauge efficient deployment of public resources, monitor the outputs & outcomes of various public policies, schemes & programs. Cost audit is of immense assistance to governments in helping for tax optimization, dealing with transfer pricing matters, valuation of inventories and segmental reporting.

4.5 The Committee observed that Cost Accounting practices in different countries are guided by each country's development level, prevalence of cost maturity models, regulatory practices & requirements, taxation policies, and policies of protectionism & competition.

4.6 The Committee noted that cost accounting framework exists in almost all economies in its varied content & application. Generally, public procurement contracts follow the country's laid down costing principles and the business entities are required to share their cost details with the procuring authorities on demand.

4.7 A large number of regulatory bodies seek cost information; the prime being the tax authorities, trade commissions, anti-trust bodies and competition commissions. Similarly, regulators dealing with public services such as energy/ electricity, communication, postal services, water, civil aviation, railways, etc. seek cost details from the participants.

4.8 The Committee further noted that the practice of cost audit also exists, albeit, in limited form. A few countries have also issued Cost Accounting Standards. It was observed that Governments of various countries have traditionally played a major role in the evolution of cost accounting practices.

4.9 The Committee observed that in India, mandatory provisions in the Companies Act 1956 & 2013 along with the Companies (Cost Records & Audit) Rules 2014 created cost culture across industries and companies. The Committee is of the view that the transitory phase through which India is passing, having moved from being underdeveloped to a fast-developing economy and gradually heading towards the developed economy, it still requires suitable legal framework for Cost Records maintenance and Cost Audit.

5. Stakeholder Consultations (Chapter-5)

5.1 The Committee made consultations with various stakeholders to arrive at decisions on the issues relating to the Terms of Reference of the Committee. Comments/ Suggestions/ Representations were received from The Institute of Cost Accountants of India, five major Industry Associations [Confederation of Indian Industry (CII), Federation of Indian Chambers of Commerce & Industry (FICCI), Associated Chambers of Commerce and Industry of India (ASSOCHAM), PHD Chamber of Commerce and Industry (PHDCCI) and Standing Conference of Public Enterprises (SCOPE)], All India Cost & Management Accountants Association and various Central Government Ministries/ Departments and Regulatory Bodies.

5.2 The Committee noted the views/suggestions made by different Central Government Ministries/Departments and Regulatory Authorities. The Committee also noted the views/suggestions made by Industry Associations, Institute of Cost Accountants of India and All India Cost & Management Accountants Association. The Committee deliberated in detail and has taken appropriate views on each issue which are reflected in the relevant Chapters of this Report.

6. Coverage of Companies under Maintenance of Cost Records and Cost Audit framework (Chapter – 6)

6.1 This chapter mainly covers the committee's deliberation and recommendations on the following issues as per Terms of Reference of the Committee –

- To review the existing sectors and to make recommendations about the sectors for which the requirement of maintenance of Cost records and conducting cost Audit may be no longer necessary, and, about the new sectors where maintenance of such records/conduct of such audit may be considered.
- To Review the implementation of Companies (Cost Records and Audit) Rules, 2014 (CCRA Rules 2014);

6.2 On the classification of industries/sectors into regulated and non-regulated Sector under CCRA Rules 2014, the Committee recommends abolishing the classification of sectors into regulated and non-regulated. Instead, a single table/list of industries/sectors/products/services may be covered under the CCRA Rules 2014.

6.3 The Committee in addition to the factors laid down in the Terms of Reference of the Committee, laid out certain parameters for selection of any sector for Cost Accounting Records and Cost Audit framework. The Committee recommends, out of 39 sectors presently covered under CCRA Rules 2014, to retain 35 sectors and 4 sectors to be removed. Some Additional sectors were also recommended by the Committee to be included within the purview of Cost record maintenance and Cost Audit framework.

6.4 The Committee also decided to accept the report of the separate Committee constituted to identify Service codes and recommends adopting the same under the CCRA Rules.

6.5 The Committee recommends the revised list of sectors/industries/ products/ services along-with the CTA/Service codes (based on NPCS) is given below:

Sl. No.	Industry/ Sector/ Product/ Service	Customs Tariff Act Heading (wherever applicable)
1.	Telecommunication Telecommunication services made available to users by means of any transmission or reception of signs, signals, writing, images and sounds or intelligence of any nature and regulated by the Telecom Regulatory Authority of India under the Telecom Regulatory Authority of India Act, 1997 (24 of 1997); including activities that requires authorization or license issued by the Department of Telecommunications, Government of India under Indian Telegraph Act, 1885 (13 of 1885);	Refer Appendix-2
2.	Electricity Generation, transmission, distribution and supply of electricity regulated by the relevant regulatory body or authority under the Electricity Act, 2003 (36 of 2003);	Generation- 2716; Other Activity- Refer Appendix-2
3.	Petroleum and Natural Gas Petroleum products; including activities regulated by the Petroleum and Natural Gas Regulatory Board under the	2709 to 2715; Other Activity-

	Petroleum and Natural Gas Regulatory Board Act, 2006 (19 of 2006);	Refer Appendix-2
4.	Health and Pharmaceutical	
	(a) Drugs and pharmaceuticals;	2901 to 2942; 3001 to 3006.

	(b) Production, import and supply or trading of following medical devices, namely:- (i) Cardiac stents; (ii) Drug eluting stents; (iii) Catheters; (iv) Intra ocular lenses; (v) Bone cements; (vi) Heart valves; (vii) Orthopedic implants; (viii) Internal prosthetic replacements; (ix) Scalp vein set; (x) Deep brain stimulator; (xi) Ventricular peripheral shud; (xii) Spinal implants; (xiii) Automatic impalpable cardiac defibrillators; (xiv) Pacemaker (temporary and permanent); (xv) Patent ductus arteriosus, atrial septal defect and ventricular septal defect closure device; (xvi) Cardiac re-synchronise therapy;	9018 to 9022
	(xvii) Urethra spinicture devices; (xviii) Sling male or female; (xix) Prostate occlusion device; and (xx) Urethral stents:	

	(c) Health services, namely functioning as or running hospitals, diagnostic centres, clinical centres or test laboratories;	Refer Appendix-2
5.	Fertilisers;	3102 to 3105.
6.	Food and Public Distribution	
	(a) Sugar and industrial alcohol;	1701; 1703; 2207.
	(b) Edible Oil;	1507 to 1518
	(c) Storage for Agro-products covered under PDS	Refer Appendix – 2
7.	Defence (a) Machinery and mechanical appliances used in defence, space and atomic energy sectors excluding any ancillary item or items; Explanation. - For the purposes of this sub-clause, any company which is engaged in any item or items supplied exclusively for use under this clause, shall be deemed to be covered under these rules	8401; 8801 to 8805;8807; 8901 to 8908.
	(b) Turbo jets and turbo propellers;	8411
	(c) Arms, ammunitions and Explosives;	3601 to 3603; 9301 to 9306.
	(d) Propellant powders; prepared explosives (other than	3601 to 3603

	propellant powders); safety fuses; detonating fuses; percussion or detonating caps; igniters; electric detonators;	
	(e) Radar apparatus, radio navigational aid apparatus and radio remote control apparatus;	8526
	(f) Tanks and other armoured fighting vehicles, motorised, whether or not fitted with weapons and parts of such vehicles, that are funded (investment made in the company) to the extent of ninety per cent or more by the Government or Government agencies; (g) Specialized vehicles for defence forces, Police forces, paramilitary forces, space and atomic energy procured by Govt. (h) Unmanned Aircraft	8710 NA 8806
8.	Port Services Port services of stevedoring, pilotage, hauling, mooring, re-mooring, hooking, measuring, loading and unloading services rendered for a Port in relation to a vessel or goods.	Refer Appendix-2
9.	Aeronautical services Aeronautical services of air traffic management, aircraft operations, ground safety services, ground handling, cargo facilities and supplying fuel rendered at the airports and regulated at the Airports Economic Regulatory Authority under the Airports Economic Regulatory Authority of India Act, 2008 (27 of 2008);	Refer Appendix-2

10.	Iron and Steel;	7201 to 7229; 7301 to 7326

11.	Construction Services relating to following infrastructure projects where Govt. expenditure is involved: (a) Roads, national highways, state highways, major district roads, other district roads and village roads, toll roads, bridges, highways and other road related services. (b) Industrial, commercial and social development relating to real estate development, including an industrial park or special economic zone (c) Irrigation, dams, and flood control waterworks	Refer Appendix-2
	(d) Urban and Rural housing including public/mass housing up to carpet area 60 sq mtr.	NA
12.	Railways	
	(a) Railway or tramway locomotives, rolling stock, railway or tramway fixtures and fittings, mechanical (including electro mechanical) traffic signalling equipment's of all kind;	8601 to 8609
	(b) Construction Services relating to railway infrastructure projects- Rail systems, Metro rail and other railway related services	Refer Appendix-2
13.	Cement;	2523; 6811 to 6812

14.	Mining and Mineral	
	(a) Ores and Mineral products;	2502 to 2522; 2524 to 2526; 2528 to 2530; 2601 to 2617
	(b) Mineral fuels (other than Petroleum), mineral oils etc.;	2701 to 2708
	(c) Base metals;	7401 to 7403; 7405 to 7413; 7419; 7501 to 7508; 7601 to 7614; 7801 to 7802; 7804; 7806; 7901 to 7905; 7907; 8001; 8003; 8007; 8101 to 8113.
	(d) Inorganic chemicals, organic or inorganic compounds of precious metals, rare-earth metals of radioactive elements or isotopes, and organic chemicals;	2801 to 2853; 2901 to 2942; 3801 to 3807; 3402 to 3403; 3809 to 3824 and 3827
15.	Jute and Jute Products;	5303, 5307, 5310

16.	Education services Education services, other than such similar services falling under philanthropy or as part of social spend which do not form part of any business;	Refer Appendix-2
17.	Plastics and polymers;	3901 to 3914; 3916 to 3921; 3925
18.	Electricals and Machinery	
	(a) Other machinery and Mechanical Appliances;	8402 to 8487
	(b) Electricals or electronic machinery;	8501 to 8507; 8511
		to 8512; 8514 to 8515; 8517; 8525 to 8536; 8538 to 8547.
19.	Pulp and Paper	4701 to 4704; 4801, 4802, 4804 and 4808
20.	Tyres and Tubes	4011 to 4013
21.	Insecticides	3808

22.	Textiles	5004 to 5007; 5106 to 5113; 5205 to 5212; 5303; 5307; 5310; 5401 to 5408; 5501 to 5516
23.	Gems and Jewellery	NA*
24.	Films, Media and Entertainment	NA*
25.	Waste Management	NA*
26.	Hospitality (Hotels etc.)	NA*
27.	IT Services	NA*
28.	Companies involved in Food Processing	NA*
29.	Quarrying	NA*
30.	Paints and Varnishes	3208 to 3209
31.	Online Information and Data Retrieval	SAC – 99843
32.	Sheets for Veneering	4408
33.	Particle Board, Fibre Board, Plywood	4410 to 4412
34.	Tiles and Marble	6802
35.	Ceramic Items	6910

<u>* Note:</u> Wherever in the above tables 'NA' is mentioned against the CTA Headings, MCA may identify the code as Committee could not identify the same due to paucity of time. These sectors have been recommended on the basis of inputs received from the Central Board of Direct Taxes, Department of Revenue, Ministry of Finance on the Cost Audit

Reports with the approval of Chairman, CBDT vide CBDT OM No. 370149/168/2023-TPL, dated 25.1.2024.

6.6 A view was also expressed during deliberations that cost is an important criteria to measure the performance of a particular entity or a project. Government as a shareholder in a company or as provider of funds or moneys for infrastructure projects or subsidy would be interested in ascertaining the cost being incurred by an entity (company) where it is a shareholder or is in management or in a project/scheme where it is providing subsidy, incurring expenditure. In a company where Government has no stakes, revenue leakages could be one concern to ascertain the correctness of costs recorded in the books of a company. At the same time, management of a company (in case of a non-govt. company, where Govt. is neither a shareholder nor in management) would also be interested in having adequate cost controls to ensure that there is a no cost overrun or leakage lest its profitability should get impacted. Corporates have to be competitive to survive in market and not to yield share of market to the rival companies. In any market structure, profit maximisation or loss minimization would be the aim of a corporates. In order to remain competitive, companies have to adopt various strategies including reduction in their cost.

6.7 Keeping in view these discussions and deliberations, the Committee felt that the report may be placed in public domain for wider consultations including with industry and user departments within the Government to get views on the recommendations of the Committee for addition or removal of sectors within the framework of cost audit and maintenance of cost records.

6.8 On the Criteria for maintenance of cost records and cost audit, the Committee felt that a single turnover criteria for cost records maintenance and as well as for cost audit may be more appropriate. Further, the committee also felt that aggregate turnover of the products and services covered under CCRA Rules is relevant for coverage of companies under cost records maintenance and cost audit whereas total turnover may not be relevant in deciding the coverage for cost records maintenance and cost audit. After detailed deliberations, the Committee decided that a single aggregate turnover of Rs. 75 crore of the products and services covered under CCRA Rules may be fixed as a criteria for coverage of the Companies for cost records maintenance as well as for cost audit.

6.9 The Committee is of the view that in order to avoid the year-to-year fluctuations in turnover limit and to keep a consistency in the maintenance of cost records and cost audit, it would be appropriate to consider the aggregate turnover of the individual product or products or service or services of any one of the immediately preceding three years as a criteria for applicability of maintenance of cost records and conduct of cost audit in the current financial year.

6.10 Therefore, the Committee recommended that the class of companies engaged in the production of the goods or providing services, as specified in the CCRA Rules, having an aggregate turnover of the product or products or service or services of rupees seventy five crore or more during any one of the immediately three preceding financial years, shall maintain cost records and conduct cost audit for such products or services.

6.11 Committee also recommended to continue the present five exemptions and it shall be applicable to maintenance of cost records as well as cost audit.

6.12 The Committee recommended to continue the existing exemption provision in the CCRA Rules with respect to the micro and small enterprises as per MSME Development Act 2006. The Committee further noted that in line with the Government's policy to extend ease of doing business, recommendation of fixing turnover limit at Rs.75 crore, will also exempt the medium enterprises having turnover from Rs.50 crore to Rs.75 crore from the maintenance of Cost Records and Cost Audit.

7. Formats and procedures for Cost Records and Cost Audit (Chapter 7)

7.1 Regarding the formats of the Cost Audit Report, the Committee noted the existing provisions with respect to maintenance of Cost Records and Cost Audit in CCRA Rules 2014. After considering all the recommendations made by stakeholders, the

Committee recommended to amend the existing formats. Some of the major decisions of the Committee regarding the formats are as follows:

a. The Unit of Measurement (UoM) for each Customs Tariff Act Heading, wherever applicable, shall be the same as provided for in the Customs Tariff Act, 1975 (51 of 1975) corresponding to that particular Customs Tariff Act Heading.

b. Cost Records may be maintained and Cost Audit Reports may be reported for every major saleable product/service of a particular CTA Code (For instance in Pharmaceuticals - under a particular CTA Code Losartan (300490073), products are 12.5 mg tablet, 25mg tablet, 50 mg tablet, 100 mg tablet etc.) Major saleable product under a particular CTA Code shall mean a product which is contributing at least 5% turnover of total turnover of all product/service covered under a particular CTA code.

c. In the present complex business environment where companies are engaged in multiple products and services, there is no need to prescribe formats for maintenance of Cost Records for each industry as this will curtail the flexibility presently given to the Companies to maintain cost records as per their need. The Committee is of the view that the principles mentioned in CRA-1 are adequate guide for maintenance of Cost Records.

d. Considering the suggestions of stakeholders, the Committee feels that separate Cost Audit formats may be required for few sectors like Health Care, Telecom, and Infrastructure etc. Thus, the Committee recommends that MCA may develop separate Cost Audit formats for these sectors in consultation with ICMAI and

   the respective industries/stakeholders, keeping in view that there is no additional compliance burden on the companies.

e. Based on the suggestions received from the stakeholders, the Committee revised the existing Form CRA-3 and recommends that same may be notified by MCA in consultation with ICMAI. Revised proposed format for CRA-3 is placed at Appendix-3.

f. The Committee recommends that while filing Form CRA-4 with the Central Government, the company has to mandatorily attach a copy of the Form CRA-3 (duly signed by the Cost Auditor).

7.2 On the Procedures for Cost Records and Cost Audit, the Committee recommended to amend certain provisions of the CCRA Rules 2014 and Companies Act based on the suggestions/ comments from the stakeholders. The details of the recommendations of the Committee are in Chapter – 7. However, some of the recommendations of the Committee are given below:

(i) Reports in addition to the Cost Audit Report to be furnished by the Cost Auditor to the Board/Audit Committee (Para7.4.2): The Committee is of the view that there is no justification for reintroduction performance appraisal report or Report on Internal Cost Controls & Economic Utilization of Resources or a report on Limited Cost review Reports. However, the Committee in principally agreed that some Key Performance Parameters may be placed in the Board and Audit Committee. Accordingly, the Committee has recommended to include Key Performance Parameters which is given under observations and suggestions of Form CRA-3 attached in Appendix-3. The Committee further recommends that a statement covering these Key Performance Parameters based on unaudited data may be placed before the Board and Audit Committee by the Company on a quarterly/half-yearly basis.

(ii) Disclosure in Board report (Para7.4.4): Board report may be modified, interalia, include provision relating to cost audit as given below:

a) Whether maintenance of cost records and cost audit is applicable on the company or not;

b) If yes, then whether such accounts and records have been so made and maintained and whether cost auditor has been appointed or not.

Further, the Committee recommends that CARO certificate in respect of Section 148 (1) of Companies Act, 2013 is infructuous and amounts to duplication that is adding to the cost of compliance. Therefore, the Committee recommends deletion of this clause from the CARO report. Ministry of Corporate Affairs may examine it keeping in view the provisions of the Companies Act, 2013, after wider consultations.

(iii) Examination and review of the cost statements and cost auditor's report to be included in the functions of Audit Committee under Section 177 of the Companies Act, 2013 (Para7.4.5): Cost audit report is an important document which should be discussed and deliberated by the Audit Committee. This will also strengthen the corporate governance framework. The Committee noted that this would require amendment in the Act. Therefore, Ministry of Corporate Affairs may examine the Committee's recommendation for inclusion of Cost Audit Report in the list of documents to be examined by the Audit Committee under Section 177 of the Companies Act 2013 after wider consultations.

(iv) Appointment and Rotation of Cost Auditor and Submission of Cost Audit Report (Para7.4.7):

a) Committee is of the view that appointment, removal, rotation of cost auditors and fixing a cap on maximum number of Cost Audits by the Cost Auditor may be done in line with the statutory auditors. Since this would require amendments in the Companies Act, Ministry of Corporate Affairs may decide the issue after wider consultation.

b) The method of appointment of Cost Auditors in Government companies may be examined by MCA in consultation with Department of Expenditure.

(v) Provisions relating to Remuneration of Cost Auditor (Para7.4.8): The Committee noted that there is some difference in provision relating to remuneration of the Cost Auditor in the Companies Act and in Companies (Audit and Auditors) Rules, 2014. As per Section 148 of the Companies Act 2013, remuneration of cost auditor is to be determined (and not ratified as mentioned in Companies (Audit and Auditors) Rules, 2014) by the members. Therefore, in order to avoid any ambiguity, the Committee recommends to suitably amend Companies (Audit and Auditors) Rules, 2014 and include all provisions relating to the appointment including remuneration of Cost Auditor in the CCRA Rules.

(vi) Disclosures in Annual report (Para7.4.14): Keeping in view the significance and utility of this information to the stakeholders, the Committee recommends that information relating to significant performance parameters and key cost trends may be included in the Annual Report.

(vii) Cost Accounting Standards (Para7.4.15): In order to bring uniformity in reporting of the items of cost in the Cost Records and in Cost Audit Reports, the Committee is of the view that the issue of Cost Accounting standards may be examined by the Ministry of Corporate Affairs, keeping in view the acceptance of same internationally and provisions of the Companies Act.

(viii) Confidentiality of Cost Audit Report (Para7.4.19): MCA may ensure proper data encryption, limited data access & audit trail in the system to ensure confidentiality of cost audit reports submitted by the companies.

8. Cost Accounting Records and Cost Audit in Cooperatives, Trusts, Autonomous Bodies and other Authorities (Chapter – 8)

8.1 The Committee noted that presently, maintenance of Cost Accounting Records and Cost Audit are guided by Companies Act 2013 and CCRA Rules 2014 which are applicable on the companies only. As a result, Cooperatives, Trusts, Autonomous Bodies and other Authorities remains out of the purview of the mandatory Maintenance of Cost Accounting Records and Cost Audit even though they are commercially operating in the same sectors.

8.2 The Committee noted that there are 486[1] number of Autonomous Bodies (AB) set up by Government of India for a specific purpose in the field of education, health, finance, or public service etc. These AB play a crucial role in the implementation of government policies, delivery of services, and the promotion of specific activities in various sectors. AB charge user fees or charges for the services they provide which vary depending on the nature of the services offered by each AB. The dependence on government budgetary support by AB suggest that the cost of providing services is not fully covered by user charges or fees. Further, it indicates under-recovery of cost, where the revenue generated from users is insufficient to cover the total cost of delivering the services.

8.3 The Committee noted that the government budget support is essential for the functioning and development of autonomous bodies and therefore it is essential to ensure that, during the fixation of user charges, individuals with the financial means to pay are not subjected to unfairly low, subsidized rates.

8.4 Regarding cooperative sector also, the Committee noted that the provisions of Cost Audit already exist in various state cooperative acts which provides for the Cost and Performance audit of the cooperative societies by a Cost Accountant. The Committee also recommended to provide for a mandatory Cost Audit of the Cost Records of multi-state cooperative societies.

8.5 The Committee recommends that the principles and practices of maintenance of Cost Accounting Records and Cost Audit may be extended to the co-operative

[1] https://igod.gov.in/ug/E051/organizations

societies, trusts, autonomous bodies, other authorities such as public transport service providers including rail, metro and State Road Transport etc. in the Fertilizer, Sugar, Education, Health, Transport and Port services Sectors and all such sectors which are either in receipt of subsidy/incentives/grant from the Government or engaged in the activities covered under CCRA rules. This may be subject to certain thresholds in terms of quantum of subsidy or expenditure.

8.6 The Committee felt that since CCRA Rules as per Companies Act, 2013 cover only companies, Department of Expenditure, Ministry of Finance and other concerned

---

Ministries/Departments may examine the recommendation of the Committee and decide whether these could be mandated through administrative instructions or some statutory changes.

8.7 Threshold criteria may be decided by the respective ministry/Department concerned in consultation with the Department of Expenditure, Ministry of Finance, if required.

9. Cost audit in infrastructure projects of Government (Chapter 9)

9.1 The Committee noted the status of on-going projects as on 1st January 2024 from the details made available by the Ministry of Statistics & Program Implementation (MoSPI). The time overrun and costs overrun of these projects were also noted by the Committee in detail.

9.2 The Committee recommended the following:

(i) Proper time & cost records should be maintained in all Government infrastructure projects of value of Rs.100 Crore and above (Refer Rule 141 of GFR).

(ii) Quarterly/half-yearly submission of a comprehensive report to the concerned ministry, Department, or public authority, covering activity-wise, milestonewise and element-wise examination & analysis of time and cost by an independent professional cost accountant.

(iii) The concerned ministry, Department, or public authority, if feels it necessary, may insert a suitable clause in the tender document for future projects. Accordingly, Ministry of Finance, Department of Expenditure may include it in its guidelines/instructions regarding appraisal and approval of public funded projects/ schemes.

(iv) Draft formats of reporting are placed at Appendix-4.

10. Cost Audit of Products/Services/Schemes where Government provides incentives through Production linked Incentives (PLI) (Chapter 10)

10.1 The Committee noted that PLI schemes have been implemented in 14 key specific sectors to make Indian manufacturers globally competitive, attract investment in the areas of core competency and cutting-edge technology; ensure efficiencies; create economies of scale; enhance exports and make India an integral part of the global supply chain. The impact of the PLI on the Indian economy was also discussed by the Committee.

10.2 The Committee after detailed deliberations, noted that most of the sectors presently covered under PLI are already under the ambit of Cost Audit.

10.3 Further, some of the PLI notifications also require applicants to submit a domestic value addition (DVA) certificate duly cost audited by an external auditor (Cost or Chartered Accountant). The Committee noted that such provision is already a part of PLI Application process. Further, different PLI notifications provides for different mechanisms to calculate such value addition.

10.4 The Committee is of the view that the Cost Audit reports may help in determining the figure of "actual value addition" by the beneficiary which is essentially a prerequisite for the disbursement of cash subsidy/incentives under the PLI

Schemes. The Committee further noted that in some of the official notifications of PLI as released by the respective ministries/Departments, already have a provision of cost audit/ certificate by an external auditor (Cost or Chartered Accountant) appointed by that ministry and expenses of which will be met within the allocation of the scheme.

10.5 The Committee recommends that every PLI scheme may include a provision of an independent "Audit Clause" requiring Audit by an independent Auditor (Cost Accountant or Chartered Accountant) appointed by that ministry and expenses of which will be met within the allocation of the scheme.

10.6 The Committee felt that since CCRA Rules as per Companies Act, 2013 cover only companies, Department of Expenditure, Ministry of Finance and other concerned Ministries/Departments may consider the recommendation of the Committee.

11. Usefulness of cost audit reports (Chapter 11)

11.1 The Committee noted that the utility of Cost Records and Cost Audit has been well examined by various expert committees earlier also. The Committee observed and deliberated upon the suggestions of The Institute of Cost Accountants of India ('ICMAI'), the Industry Associations, All India Cost & Management Accountants Associations and Views of Ministries/Administrators/Regulatory Bodies on Usefulness of Cost Records and Cost Audit.

11.2 The Committee noted that to improve the utility of cost data to all stakeholders, there is a need to make necessary changes in the Cost Audit Report formats, details of which are discussed separately under Chapter 7 - Formats and Procedures. The Committee is of the view that Cost audit reports are an important tool to check malpractices in inventory valuations.

11.3 To increase the usefulness of Cost Audit Reports, the Committee recommended the following:

(i) A nodal officer (Not below the rank of Joint Secretary) may be nominated by each administrative Departments/Ministry, Department of Expenditure and Regulatory Bodies to whom access (through user ID and Password) to the Cost Audit Reports relating to respective Sectors may be given by MCA. The nodal officer may analyze the Cost Audit reports of the sector related to the concerned Department/ministry and report valuable insights to the Department/ministry for policy-formulation and informed decision making.

(ii) An IT software enabling user friendly Dashboard may be developed in consultation with Cost Audit Branch of MCA to build benchmark costs of each major product(s)/service(s) per unit which may enable inter-firm comparison and better decision-making.

(iii) A proactive approach involving regular advocacy efforts tailored to the specific needs and concerns of user departments.

(iv) MCA in consultation with the Department of Expenditure may conduct a tailored training programme among the Financial Adviser of the Government of India about the usefulness of the cost audit reports.

11.4 Further, the Committee is of the view that the Committees' recommendations in Chapters 6 to 10 of this report, on Simplification/ rationalization of the procedure, improvement in the Cost Audit Reporting formats, implementation of Cost Audit in the high value infrastructure projects, PLI and extension of the principles of cost accounting and audit to the Cooperative, Trusts and other Authorities will protect the interest of the Government in its investments and increase the usefulness of the Cost Audit Reports to the Government Departments/ Ministries/ Regulators.

12. Principles for selecting sectors for review of Cost Audit Reports on a periodic basis (Chapter 12)

The Committee is of the view that utilization of the Cost Audit Reports can be improved if some sectoral studies are conducted yearly based on Cost Audit Reports. Random review/ examination of some Cost Audit Reports will improve the quality of the reports as Cost Auditors will do more diligence in preparing Cost Audit Report if such oversight mechanism exists.

12.1 On sectoral review, Committee recommends the following broad principles for selecting sectors for review of Cost Audit Reports: -

(a) The Committee recommends that Sectoral Review may be done by the respective Administrative Ministry in consultation with Cost Audit Branch of MCA. Alternatively, in case the Administrative Ministry does not have the expertise to carry out such study, it can be a done by Cost Audit Branch, MCA in consultation with the Administrative Ministry.

(b) Every year 2-3 sectors may be taken up for review.

(c) Sectors should be taken up by rotation i.e., if a sector has been selected for review in year, then it should not be again taken up for next 2-3 years unless it is required to be taken up in public interest.

(d) While selecting a sector, following may be considered:

(i) Administrative ministry/ regulatory body for the sector concerned, may be consulted for finalizing the terms of reference of the sectoral review. (ii) Following sectors may be given preference for sectoral review:

- Sectors which are prone to cartelization or having larger public interest or facing financial difficulties i.e. high number of insolvencies or sectors which are having complaints of financial irregularities.
- Sectors which have seen high rise in products/service prices in short period of time or reduced availability of products/services against the demand or witnessed high imports.

12.2 On periodic review, the Committee recommends that the following factors may be considered while selecting Cost Audit Reports for periodic review: -

(a) Cost Audit reports of a financial year, on sample basis, selected through computerized system, may be taken up for review.

(b) Reports selected may cover at least 1/3rd of sectors covered under Cost Audit.

(c) All the sectors should be taken up for review by rotation.

*****

Chapter – 1

Introduction

1.1 Provisions for Maintenance of Cost Records and Cost Audit are provided in the Section 148 of the Companies Act, 2013. The Ministry of Corporate Affairs, Government of India (MCA) notified the Companies (Cost Records and Audit) Rules, 2014 (the 2014 Rules) under Section 148 of the Companies Act 2013 vide notification No. G.S.R. 425 (E) dated 30.06.2014. Subsequently, amendments were made vide notifications dated 31.12.2014, 12.06.2015, 14.07.2016, 07.12.2017, 20.12.2017, 03.12.2018, and 15.10.2019.

1.2 In order to review the 2014 Rules, and to recommend appropriate changes/modifications in the same, MCA constituted a Committee (the "Committee") vide its office memorandum number F.NO. 52/15/CAB/2023 dated 04/10/2023 and 12/01/2024 with the approval of Hon'ble Minister of Finance and Corporate Affairs [Appendix-I]. The Committee was constituted under the Chairmanship of Chief Adviser (Cost), Department of Expenditure, Ministry of Finance and comprises of ten other members from different Departments/ Ministries. Secretaries/ Head of the organisations were requested to nominate members, not below the rank of Joint Secretaries, from their Organisation/ Department/ Ministry.

1.3 The details of the Chairman and ten other members, as nominated by their respective Organisation/ Department/ Ministry of the Committee are provided below:

(i) Shri. Ashu Mathur, Chief Adviser (Cost), Department of Expenditure, Ministry of Finance, Chairman

(ii) Shri. Manoj Pandey, Additional Secretary (Policy), Ministry of Corporate Affairs

(iii) Shri. Manmohan Sachdeva, Principal Adviser (Cost), Department of Food and Public Distribution

(iv) Shri. A. K. Khurana, Principal Adviser (Cost), Department of Defence (Production)

(v) Shri. A. K. Pal, Principal Adviser (Cost), Department of Defence (Finance)

(vi) Smt. Prathibha A., Economic Adviser, Department of Fertilizers

(vii) Smt. Vinod Kotwal, Member Secretary, NPPA, Department of Pharmaceutical

(viii) Shri. V. M. Jain, Commissioner (Investigation), Central Board of Indirect Taxes and Customs

(ix) Shri. Raman Chopra, Joint Secretary, Central Board of Direct Taxes

(x) Shri. G. S. Sahu, Adviser (Cost), Directorate General of Trade Remedies (xi)

Shri. Manish Goswami, Adviser (Cost), Ministry of Corporate Affairs

1.4 The Terms of Reference (the "TOR") for the Committee are as follows:

(i) To make recommendations about the usefulness of the Cost Records and Cost Audit Reports in various sectors of the economy; in particular, to make recommendations about the sectors for which the requirement of maintenance of Cost records and conducting cost Audit may be no longer necessary, and, about the new sectors where maintenance of such records/conduct of such audit may be considered.

(ii) To Review the implementation of Companies (Cost Records and Audit) Rules, 2014 (CCRA Rules 2014); in particular, to review the Manufacturing and Service Sectors/Areas covered under CCRA Rules 2014 for

Maintenance of Cost records and Cost Audit and identify the Codes for the same. While reviewing the sectors, the Committee will give due consideration to the following factors:

a. Products/Services where subsidy/incentive are provided by the Government,

b. Products/Services where prices are administered by the Government/Public Agencies,

c. Products/Services/Schemes where Government provides incentives through Production linked Incentives (PLI),

d. Areas where license is required for usage of scarce natural resources,

e. Sectors related to national security like Defence, Space, Atomic energy etc.,

f. Products/Services/Sectors where Pricing/Production decisions are under the jurisdiction of Government/regulatory bodies,

g. Issues related to Cost Audit in Infrastructure Sectors,

h. Areas where Cost Records may be useful in public interest,

(iii) To review Existing formats and procedures for Cost Records and Cost Audit

(iv) While making recommendations, the Committee may keep in mind the implication of maintenance of Cost Record/Audit in the notified sectors, for the Public Finances of Central and State Governments.

(v) To make recommendation on principles for selecting sectors for review of Cost Audit Reports on a periodic basis.

(vi) To keep in consideration the cost of compliance, and ease of doing business for the companies for which Cost records/Cost Audit are mandatory.

(vii) Any other matter related to or incidental to the above which the Committee may decide to consider.

1.5 The Committee was asked to complete its task and submit its report within three months. The Tenure of the Committee was extended till 31.01.2024 vide MCA's Office Memorandum dated 12.01.2024. To complete its task, the Committee was empowered to hold stakeholder consultations, if required. Cost Audit Branch, Ministry of Corporate Affairs was assigned the responsibility to act as a secretariat of the Committee.

1.6 The Committee deliberated on various TORs, scope of work and requirement to submit the Committee report within three months. The Committee after deliberations, decided to seek views/ comments/ suggestions from the following stakeholders:

a) All concerned Central Government Ministries/ Departments and Regulatory Bodies.

b) Following major industry associations:

- Confederation of Indian Industry (CII)
- Federation of Indian Chambers of Commerce & Industry (FICCI)
- Associated Chambers of Commerce and Industry of India (ASSOCHAM)
- PHD Chamber of Commerce and Industry (PHDCCI)
- Standing Conference of Public Enterprises (SCOPE).

c) The Institute of Cost Accountants of India

1.7 The stakeholders were requested to give their views/ comments/ suggestions regarding the major products and services where maintenance of cost accounting records and its audit may be useful to all concerned including Government. They were also requested to specify the sectors where such requirements may no longer be necessary or provide suggestions to improve the usefulness of cost audit reports.

1.8 The Committee held detailed discussions on various matters with the representatives of Confederation of Indian Industry (CII), The Associated Chambers of Commerce and Industry of India (ASSOCHAM), Standing Conference of Public Enterprises (SCOPE) and PHD Chamber of Commerce and Industry (PHDCCI), and the Institute of Cost Accountants of India (ICMAI) in its meeting held on 8th November 2023. The Committee noted their views/ suggestions. Federation of Indian Chambers of Commerce & Industry (FICCI) submitted their written submission. The submission of the Industry Associations have been discussed in a separate Chapter on "Consultations with Stakeholders".

1.9 The Committee decided that keeping in view the limited time to complete the entire process, various sub-groups may be formed (within the Committee) to examine certain areas in detail. The allocation of areas was done keeping in line with the area of expertise of the members concerned to the extent possible. After deliberations, some important areas related to the Committee's mandate along with specific sectors covered presently under cost audit were allocated to the subgroups so formed for further examination and making recommendations to the Committee.

1.10 The Committee deliberated that the suggestions of this Committee may not be limited to the purview of the Companies Act only, as its terms of reference refer to recommendations related to the Public Finances of Central and State Governments and any other matter related to or incidental to the above which the Committee may decide to consider. Therefore, the Committee is of the view that the recommendations of the Committee may involve a holistic perspective, keeping in mind the nation's interests. Accordingly, it was decided to deliberate whether Cost

Audit may be extended to other entities like trusts, cooperatives, autonomous bodies etc.

1.11 The Committee decided to examine the role of Cost audit for Government's long term infrastructure projects especially when a large number of the ongoing projects are facing time and cost overruns. As per reports released by Infrastructure and Project Monitoring Division of the Ministry of Statistics and Programme Implementation (MoSPI) from time to time, huge cost and time overruns are involved in large number of infra and other big projects involving sizable amount of public funds. Further, how a regular Cost Audit or any other similar overseeing mechanism may help in high value projects, schemes and Govt. procurements which may give a multi-fold advantage to all the stakeholders including Government.

1.12 Relevant data was obtained from the Ministry of Corporate Affairs in order to have a detailed analysis of industry coverage for maintenance of cost accounting records and cost audit. Extensive Data was analysed as available in public domain related to allocation of budgetary allocation to revenue and capital expenditures to various sectors, allocation to large infrastructure projects and orders placed by the government for major contracts, services and procurements of goods etc.

1.13 In all, the Committee held its seven meetings on the following dates. The Minutes of meetings are enclosed as Annexure-I.

- First Meeting held on 13.10.2023
- Second Meeting held on 26.10.2023
- Third Meeting held on 08.11.2023
- Fourth Meeting held on 22.11.2023
- Fifth Meeting held on 07.12.2023
- Sixth Meeting held on 02.01.2024

- Seventh Meeting held on 25.01.2024

1.14 The Committee’s Report was finalised after analysing representations/ comments/ suggestions of the Institute of Cost Accountants of India (ICMAI), All India Cost and Management Associations, Industry Associations and various Government Department/ Ministry/ Regulatory Bodies and after considering the data available with the Committee.

*****

Chapter – 2

Economic Scenario and need for Cost Accounting and Cost Audit framework

2.1. India's economic landscape has witnessed a profound transformation over the years, shaped by a series of policy reforms, globalization, technological advancements, and changing market dynamics. To sustain the growth momentum, the Indian government is proactively investing in capital spending on infrastructure and asset-building projects. The Production Linked Incentive (PLI) Scheme for different sectors exemplifies a strategic initiative aimed at enhancing India's manufacturing capabilities. The government's future capital spending is expected to be buoyed by factors such as tax buoyancy, a streamlined tax system with low rates, a rationalized tariff structure, and the digitization of tax filing.

2.2. This evolution has not only propelled India onto the global stage but has also posed challenges and opportunities for businesses operating in the country. Against this backdrop, to remain competitive in the global market, the need for effective cost management and transparency has become increasingly critical. Cost audit is a systematic examination of an organisation/company's cost accounting records, ensuring that costs are accurately recorded, allocated, and reported. This process aids in identifying inefficiencies, improving cost control measures, and enhancing overall operational effectiveness.

2.3. After independence, India adopted a socialist economic model with a focus on central planning. The government played a significant role in various sectors, and there was an emphasis on public sector enterprises. Government of India followed an industrial policy, which was based on control and licensing of industries. The Industrial Policy Resolution of 1948 defined the broad contours of the policy delineating the role of the State in industrial development both as an entrepreneur and authority. This was followed by enactment of Industries (Development & Regulation) Act, 1951 (referred

as IDR Act) that provides for the necessary framework for implementing the Industrial Policy and enables the Union Government to direct investment into desired channels of industrial activity inter alia through the mechanism of licensing keeping with national development objectives and goals. The Industrial Policy Resolution, 1956 aimed at establishing a 'socialistic pattern of society' and predominantly relied upon the tenet of State ownership of industries, while private industry was limited to a few sectors and subjected to licensing.

2.4. Companies Act, 1956 was amended in 1965 to incorporate the provisions relating to the maintenance of cost accounting records to ensure that in respect of Companies engaged in production processing manufacturing or mining activities, proper records relating to utilisation of material and labour are available which would make the efficiency audit possible.

2.5. India was the first country to prescribe cost accounting record rules in respect of industries/class of companies and their audit by independent cost auditors appointed with the prior approval of the Government in the context of frauds committed by the Dalmia Jain Group of Companies and Enquiry Report submitted by the Vivian Bose Commission of Enquiry (1963). The main reason for introduction of Cost Audit by statute was to increase the effectiveness of the existing financial audit with a view to detect and deal with the cases of dishonesty and frauds.

2.6. In the initial years, Cost Audit was introduced merely as a tool for 'price control mechanism' for consumer and infrastructure industries in India. The main objective of Cost Audit when statutorily introduced under the provisions of Companies Act, 1956 was to meet the Government requirements for regulating the price mechanism in core industries like Cement, Sugar, Textiles and consumer industries like Vanaspati, Formulations and Automobiles. The objective was to provide an authentic data to the Government to regulate the demand and supply in the country through a price control mechanism.

2.7. Over the years, keeping in view the changing industrial growth in the country, the policy has undergone modifications. Industrial licensing policy and procedures have also been liberalised from time to time. To meet new challenges, from time to time, it was modified through statements in 1973, 1977 and 1980. The Industrial Policy Statement of 1973, inter alia, identified high-priority industries where investment from large industrial houses and foreign companies would be permitted. The Industrial Policy Statement of 1977 laid emphasis on decentralisation and on the role of smallscale, tiny and cottage industries. The Industrial Policy Statement of 1980 focussed attention on the need for promoting competition in the domestic market, technological upgradation and modernisation. These policies created a climate for rapid Industrial growth in the country. However, during this period the primacy of the role of the State was to assume a predominant and direct responsibility for industrial development. Massive investments have been made to build a public sector which has a commanding role in the economy.

2.8. The macroeconomic imbalances of the late 1980s and early 1990s pushed the government towards introducing the structural reforms of 1991. The high combined deficit of the central and state governments, elevated inflationary pressures, and large and unsustainable current account deficit (CAD) led to a balance of payments crisis in the Indian economy. In response to the situation, trade and investments were liberalized in 1991. Import licensing on almost all intermediate inputs and capital goods was done away with, and the entry restrictions for firms were simplified. The new policy encouraged the entry of private sector firms by ending the public sector monopoly in many sectors and initiating the automatic approval policy for FDI up to 51 per cent.

2.9. The Statement on Industrial Policy of 1991 was a major departure from the previous policies, whereby Industrial licensing regime was largely abolished and the restrictions on entry of private sector in many sectors were removed. Subsequently, changes have been carried out in the IDR Act from time to time as well. The Committee noted that the liberalization of the Indian economy in 1991 unleashed competitive markets. It enabled the forces of creative destruction, generating benefits that we still witness today.

2.10. Since liberalization in 1991, India initiated economic reforms, liberalizing its economy and integrating into the global market. The government reduced trade barriers, privatized state-owned enterprises, and encouraged foreign investment. The liberalization measures led to significant economic growth, increased foreign direct investment (FDI), and improvements in various economic indicators. The IT sector experienced substantial growth, contributing to India's economic development. Investments in infrastructure projects, such as highways and airports, aimed at supporting economic growth and development.

2.11. 2014-2023 is an important period in the economic history of India. The economy underwent a gamut of wide-ranging structural and governance reforms that strengthened the economy's fundamentals by enhancing its overall efficiency. With an underlying emphasis on improving the ease of living and doing business, the reforms were based on the broad principles of creating public goods, co-partnering with the private sector for development, and improving agricultural productivity.

2.12. The Government's thrust on Capital expenditure, particularly in the infrastructureintensive sectors like roads and highways, railways, and housing and urban affairs, has longer-term implications for growth. To push for enhancing Capex from all directions, the Centre announced several incentives to boost states' capital expenditure in the form of long-term interest-free loans and capex-linked additional borrowing provisions.

2.13. It has been observed that there is huge budget outlay for major schemes and projects of the Central and State Governments. The Committee deliberated the magnitude of the budget outlays for public expenditure by Central and State Governments and existing monitoring mechanism of these projects. The Budget allocations for both Central and State Governments for last three years are given for reference in Tables below: -

Central Government Budget: -

2.14. The Expenditure of Union government can be broadly bifurcated under Revenue and Capital heads, which are given below:

Table 1 - Central Government Total Budget Allocation – Revenue and Capital Expenditure			
			Rs. in Crore
Particulars	FY-21-22 (Actual)	FY-22-23 (R.E.)	FY-23-24 (B.E.)
Revenue Expenditure	32,00,926	34,58,959	35,02,136
Capital Expenditure	5,92,874	7,28,274	10,00,961
Total Budget Allocation	37,93,801	41,87,232	45,03,097
Source: Union Budget 2023-24 (https://www.indiabudget.gov.in)			

2.15. The Government of India budget provisions for expenditure under major Ministries under Revenue and Capital heads are also given below for reference.

Table 2 - Central Government Revenue Expenditure of Ministries and Departments (Rs.50,000 Crore & above)			
			(Rs. in Crore)
Ministries	Revenue Expenditure		
	FY-21-22 (Actual)	FY-22-23 (R.E.)	FY-23-24 (B.E.)
Agriculture And Farmers Welfare	1,22,823	1,18,862	1,24,983

Chemicals And Fertilisers	1,54,560	2,27,676	1,78,477
Communications	47,331	66,738	60,304
Consumer Affairs, Food and Public Distribution	3,03,922	2,94,467	2,05,586
Defence	3,55,895	4,26,812	4,22,163
Education	80,340	99,863	1,12,886
Health And Family Welfare	81,342	75,563	83,854
Home Affairs	1,57,710	1,79,333	1,78,016
Housing And Urban Affairs	80,894	50,865	50,434
Jal Shakti	83,283	73,734	96,916
Housing And Urban Affairs	80,894	50,865	50,434
Rural Development	1,61,643	1,82,382	1,59,959
Others	14,90,287	16,11,800	17,78,122
Total	32,00,926	34,58,959	35,02,136
Source: Union Budget 2023-24 (https://www.indiabudget.gov.in)			

Table 3 - Central Government Capital Expenditure of Ministries and Departments (Rs.10,000 Crore and above)			
	Rs. in Crore		
Ministries	Capital Expenditure		
	FY-21-22 (Actual)	FY-22-23 (R.E.)	FY-23-24 (B.E.)
Department Of Atomic Energy	15,318	13,141	15,982
Communications	4,213	38,740	63,089

Defence	1,44,786	1,57,979	1,71,375
Health And Family Welfare	3,128	3,582	5,301
Home Affairs	11,081	14,579	18,019
Housing And Urban Affairs	25,946	23,681	25,997
Petroleum And Natural Gas	347	40	35,509
Railways	1,17,271	1,59,100	2,40,000
Road Transport and Highways	1,13,312	2,06,303	2,58,606
Civil Aviation	66,927	86	87
Others	90,544	1,11,043	1,66,998
Total	5,92,874	7,28,274	10,00,961
Source: Union Budget 2023-24 (https://www.indiabudget.gov.in)			

2.16. As may be seen from the above, total estimated budget expenditure both Revenue and Capital for Central Government for FY 2023-24 is Rs.45.03 lakh crore. The estimated budget capital expenditure for FY 2023-24 is Rs.10.01 lakh crore and revenue expenditure is Rs.35.02 lakh crore. Out of the above capital expenditure, top 10 Ministries/Departments having Capital Expenditure budget of more than Rs.10,000 crores contribute around Rs.9.34 lakh crore (93.3% of total capital expenditure budget), sector-wise details are given in above table. The emphasis of Govt on capital expenditure can be seen from the fact that estimated budget on capital expenditure for FY 2023-24 of Rs.10.01 lakh crore is almost 37.5 % higher from revised Estimate of 2022-23 of Rs.7.28 lakh crore

2.17. Apart from huge expenditure incurred for infrastructure projects, Defence procurements, Government is providing huge subsidies in Fertilizers, Food and Petroleum Sector. Further, substantial expenditure is being spend in PLI schemes to boosts manufacturing of some indigenous products.

All State Governments and Union Territories' Expenditure as per their Budget:

2.18. In addition to Central Government, all State Governments also incur large amount of public funds. The revenue and capital expenditure as per Budget documents of State Governments and Union Territories are given below for reference.

Table 4 - Expenditure Pattern of All State Governments and UTs'			
			Rs. in Crore
Particulars	FY-21-22 (Actual)	FY-22-23 (R.E.)	FY-23-24 (B.E.)
A. Revenue Expenditure	33,27,197	40,37,556	43,43,960
of Which:			
Interest Payment	4,27,409	4,72,328	5,19,260
B. Capital Expenditure	5,74,839	8,12,103	9,56,810
of Which:			
Capital Outlay	5,32,297	7,32,497	8,67,674
Total (A+B)	39,02,036	48,49,659	53,00,770
i. Development Expenditure	25,98,950	33,21,990	36,01,622
ii. Non-Development Expenditure	12,04,170	14,12,763	15,71,416
iii. Others	98,916	1,14,906	1,27,733
Total (i+ii+iii)	39,02,036	48,49,659	53,00,770

Source: - RBI: State Finances – A study of Budgets of 2023-24 (December 2023)

2.19. A substantial amount is incurred on different social sectors like Education, health, water supply, urban development is incurred by State Governments in addition to Central Governments, which are given below for reference.

Table 5 - State Governments and UTs' Development Expenditure - Major Heads			
			(Rs. in Crore)
Item	2021-22 (Accounts)	2022-23 (Revised Estimates)	2023-24 (Budget Estimates)
I. Development Expenditure (Revenue and Capital) (A + B)	25,58,508.4	32,45,066.3	35,16,597.7
A. Social Services (1 to 8)	14,77,974.0	18,87,031.1	20,61,784.5
(In %)	(56.9)	(56.8)	(57.2)
1. Education, Sports, Art and Culture	5,89,092.9	7,10,856.9	7,66,840.9

2. Medical and Public Health and Family Welfare	2,50,877.2	3,02,757.5	3,23,903.6

3. Water Supply and Sanitation	89,924.0	1,08,822.7	1,41,255.9
4. Housing	43,170.6	87,849.6	87,125.5
5. Welfare of Scheduled Caste, Scheduled Tribes and Other Backward Classes	1,05,052.2	1,58,000.8	1,81,806.6
6. Social Security and Welfare	1,71,138.6	2,23,485.6	2,57,721.4
7. Urban Development	1,21,457.7	1,81,446.2	1,77,802.9
8. Others	1,07,260.7	1,13,811.7	1,25,327.7
B. Economic Services (1 to 9)	10,80,534.4	13,58,035.2	14,54,813.2
(In %)	(41.6)	(40.9)	(40.4)
1. Agriculture and Allied Activities	2,32,926.9	2,78,620.6	3,05,641.2
2. Rural Development	1,80,158.2	2,49,627.9	2,62,328.8
3. Irrigation and Flood Control	1,26,627.4	1,59,776.0	1,75,044.4
4. Energy	2,26,112.0	2,51,525.1	2,45,271.0
5. Transport and Communications	2,13,646.0	2,73,308.1	2,83,562.2
6. Others	1,01,063.9	1,45,177.4	1,82,965.5
II. Loans and Advances by State Governments for Development Purposes (A+B)	40,441.0	76,923.8	85,023.9
A. Social Services	19,831.0	31,267.7	37,710.5
B. Economic Services	20,610.0	45,656.1	47,313.4

(In %)	(1.5)	(2.3)	(2.4)
III. Total Development Expenditure (I + II)	25,98,949.5	33,21,990.1	36,01,621.6
Source: - RBI: State Finances – A study of Budgets of 2023-24 (December 2023)			

Table 6 - Composition of Social Sector Expenditure by all State Governments & UTs			
			(Rs. in Crore)
Item	2021-22 Actual	2022-23 (RE)	2023-24 (BE)
1. Capital Outlay (i + ii)	1,93,871	2,77,777	3,41,213
(i) Social Services (a to g)	1,54,450	2,25,239	2,81,908
(a) Education, Sports, Art and Culture	19,342	32,544	42,621
(b) Medical and Public Health	25,350	42,883	45,993
(c) Family Welfare	816	3,082	3,855
(d) Water Supply and Sanitation	54,149	62,796	89,483
(e) Housing	10,559	13,156	16,782
(f) Urban Development	32,140	48,259	52,569
(g) Others	12,095	22,519	30,606
(ii) Economic Services (a + b)	39,421	52,538	59,305
(a) Rural Development	28,976	48,472	55,353
(b) Food Storage and Warehousing	10,445	4,067	3,953
2. Revenue Expenditure (i + ii)	15,01,451	18,88,427	20,21,718
(i) Social Services (a to l)	13,23,524	16,61,792	17,79,877

(a) Education, Sports, Art and Culture	5,69,751	6,78,313	7,24,220
(b) Medical and Public Health	1,92,604	2,13,998	2,28,113
(c) Family Welfare	32,107	42,795	45,943
(d) Water Supply and Sanitation	35,775	46,027	51,774
(e) Housing	32,612	74,693	70,344
(f) Urban Development	89,318	1,33,187	1,25,234
(g) Welfare of SCs, STs and OBCs	97,940	1,44,462	1,63,917
(h) Labour and Labour Welfare	15,497	16,327	21,795
(i) Social Security and Welfare	1,68,975	2,19,318	2,52,140
(j) Nutrition	29,494	40,277	41,402
(k) Expenditure on Natural Calamities	51,397	41,311	42,529
(l) Others	8,053	11,085	12,468
(ii) Economic Services (a + b)	1,77,927	2,26,635	2,41,842
(a) Rural Development	1,51,183	2,01,156	2,06,976
(b) Food Storage and Warehousing	26,744	25,478	34,865
Source: - RBI: State Finances – A study of Budgets of 2023-24 (December 2023)			

2.20. From the above, it can be seen that a very large amount of public funds is being used by both Central and State Governments for different projects and schemes every year. These amounts are collected by different taxes and duties from the public. Therefore, effective and efficient utilisation of public funds are very important. As per the present system, the Central Government allocate budget to different Ministries/ Departments in annual Budget exercise. Different Central Ministries and Departments transfer money to different State Governments / agencies / contractors under various projects and schemes.

Guidelines issued by Department of Expenditure, Ministry of Finance

2.21. "Manual for Procurement of Goods[2]" issued by Department of Expenditure, Ministry of Finance (amended in 2022) has mentioned the importance of cost in Procurement. In every procurement, public or private, the basic aim is to achieve just the right balance between costs and requirements concerning the parameters called the Five R's of procurement (Para 1.5). As per "Right Price" parameter, it is not correct to aim at the cheapest materials/ facilities/ Services available. The price should be just

right for the quality, quantity and other factors involved (or should not be abnormally low for a facilities/works/ services which could lead to a situation of non-performance or failure of contract). The concept of price can be refined further to take into account not only the initial price paid for the requirement but also other costs such as maintenance costs, operational costs and disposal costs (Also termed as life cycle costing).

2.22. As per Para 1.6 of Manual, "Refined Concepts of Cost and Value – Value for Money" The concept of price or cost has been further refined into Total Cost of Ownership (TCO) or Life Cycle Cost (LCC) or Whole-of-Life (WOL) to take into account not only the initial acquisition cost but also cost of operation, maintenance and disposal during the lifetime of the external resource procured. Similarly, the concept of quality is linked to the need and is refined into the concept of utility/ value. These two, taken together, are used to develop the concept of Value for Money (VfM, also called Best Value for Money in certain contexts). VfM means the effective, efficient, and economic use of resources, which may involve the evaluation of relevant costs and benefits, along with an assessment of risks, non-price attributes and/or life cycle costs, as appropriate.

2.23. In this connection, Rule 47 of General Financial Rules [2](GFR), 2017 is also very relevant which states that "User Charges is an important component of the non-tax

[2] https://doe.gov.in/sites/default/files/Manual%20for%20Procurement%20of%20Goods_1.pdf

revenues. Each Ministry/Department may undertake an exercise to identify the 'user charges' levied by it and publish the same on its website.

(i) While fixing the rates of user charges, the Ministries/Departments must ensure that the user charges recover the current cost of providing services with reasonable return on capital investment.

(ii) Any deviation from these principles shall be specifically recorded with reasons justifying the setting of user charges lower than the cost recovery norms, if any.

(iii) The rates of user charges should be linked with appropriate price indices and reviewed at least every three years.

[2] https://doe.gov.in/sites/default/files/Compilation%20of%20amendments%20in%20GFRs%2C%202017%20u pto%2031.07.2023_1.pdf

(iv) In order to enable ease of revision of user charges, the rate of user charges shall be fixed, wherever possible through Rules or executive orders and not through a statute."

2.24. Further, Rule 229 (vi) of GFR, which prescribes the General Principles for setting up of Autonomous Organisations (ABs), provides that the "Governing Body of the AB shall review user charges/ sources of internal revenue generation at least once a year and inform the administrative Ministry. This exercise should preferably be completed before the formulation of Union Annual Budget. It further provides vide Rule 229(ix) of GFR that Ministry shall put in place a system of external or internal peer review of autonomous organisations every three or five years depending on the size and nature of activity. Such a review should be the responsibility of the concerned administrative division of the Ministry/Department and should focus, inter alia, on:

(a) the objective for which the autonomous organisation was set up and whether these objectives have been or are being achieved;

……………………….

(f) whether user charges including overhead/ institutional charges/ management fee in respect of sponsored projects, wherever the output or benefit of services are utilised by others, are levied at appropriate rates." …………….

2.25. Also, as per 'Charter for Financial Advisers' [3]issued in 2023 by the Department of Expenditure, Ministry of Finance, the Financial Adviser (FA) of respective Department is required to ensure compliance of provisions of GFR in respect of setting up of AB and release Grant-in-Aid. FA has to ensure that user charges are reviewed every three years and peer reviews are carried out as per provisions.

Guidelines on Costing in USA Government

2.26. In this connection United States Government Accountability Office [4] "Cost Estimating and Assessment Guide - Best Practices for Developing and Managing Program Cost"

issued in March 2020 may also be referred. As per these guidelines, to use public funds effectively, the government must employ effective management practices and processes, including the measurement of government program performance. Developing reliable cost estimates is crucial for realistic program planning, budgeting and management. However, developing reliable cost estimates has been difficult for agencies across the federal government for many years.

2.27. Cost estimates are necessary for government acquisition programs for many reasons:

- To support decisions about funding one program over another,
- To develop annual budget requests,

[3] https://doe.gov.in/sites/default/files/CHARTER%20FOR%20FINANCIAL%20ADVISERS_0.pdf

[4] In USA, The Government Accountability Office, the audit, evaluation, and investigative arm of Congress, exists to support Congress in meeting its constitutional responsibilities and to help improve the performance and accountability of the federal government for the American people. GAO

- To evaluate resource requirements at key decision points, and To develop performance measurement baselines.
- To make inter-unit, inter-region and inter-period data comparison.

2.28. Moreover, having a realistic estimate of projected costs makes for effective resource allocation, and it increases the probability of a program's success. Reliable cost estimate needs to be comprehensive, well documented, accurate, and credible.

2.29. However, cost estimating is challenging. Moreover, credible cost estimates take time to develop. The systematic and rigorous application of cost analysis methods may provide critical support to Government authorities. These methods can improve the allocation of resources and handling of program risks.

2.30. Office of Management and Budget[5], USA's Capital Programming Guide requires agencies to have a disciplined capital programming process that sets priorities between new and existing assets. It also requires agencies to perform risk management and develop cost estimates to improve the accuracy of cost, schedule, and performance

examines the use of public funds; evaluates federal programs and policies; and provides analyses, recommendations, and other assistance to help Congress make informed oversight, policy, and funding decisions.

management. In addition, the Capital Programming Guide requires an agency to develop a baseline assessment for each major program it plans to acquire. As part of this baseline, a full accounting of life cycle cost estimates, including all direct and indirect costs for planning, procurement, operations and maintenance, and disposal, is expected. OMB's Capital Programming Guide helps agencies use funds wisely in achieving their missions and serving the public. The Capital Programming Guide

[5] The Office of Management and Budget (OMB) serves the President of the United States in overseeing the implementation of his or her vision across the Executive Branch. OMB's mission is to assist the President in meeting policy, budget, management, and regulatory objectives and to fulfil the agency's statutory responsibilities.

stresses the need for agencies to develop processes for making investment decisions that deliver the right amount of funds to the right projects. It also highlights the need for agencies to identify risks associated with acquiring capital assets that can lead to cost overruns, schedule delays, and capability shortfalls.

<u>Status of major Central Sector Projects – issue of Time and Cost overruns</u>

2.31. The project implementation report prepared by Infrastructure and Project Monitoring Division (IPMD) of Ministry of Statistics and Programme Implementation (MOSPI) highlight delay in the implementation of several central sector projects resulting in time and cost overrun. For the purpose of monitoring, these projects have been classified into following two categories:

(i) Major Project involving an outlay of Rs.150 crores and above but less than Rs.1000 crore

(ii) Mega Project involving an outlay of Rs.1000 crore and above

2.32. As on 01.01.2024 (FY 2023-24), 1,820 projects with anticipated completion cost of Rs.30,69,596 crore were on the monitor list of the Ministry as shown below:

Table 7 - Implementation Status of Central Sector Projects (as on 1st January 2024)

SN	Category	No. of Projects	Anticipated Cost (Rs. in crore)
1	Mega projects (Rs. 1000 crore and above)	567	25,07,534
2	Major projects (Rs. 150 crore to less than Rs. 1000 crore)	1253	5,62,061
	TOTAL	1820	30,69,595

Source: http://www.cspm.gov.in/english/pio_report/PIO_dec_2023.pdf

2.33. The projects monitored on sectoral and geo-physical basis; the key Current Scenario of Projects is given below: -

- Total 1820 projects are on the monitor of the Ministry
- 56 Projects are ahead of schedule
- 618 Projects are on schedule
- 848 Projects are delayed
- 431 Projects have cost overruns.
- 298 Projects have been reported with inadequate information about commissioning schedule.

2.34. The public funds involved in time and cost overrun in projects and other highlights as on 01.01.2024 are given below.

Table 8 – Public funds involved in time and cost overrun in projects and other highlights

Total number of projects on the monitor	1820
Total Original cost of 1820 projects	Rs. 25,87,066 crore
Total anticipated cost of these projects	Rs. 30,69,596 crore
Cumulative Expenditure till March 2023	Rs. 13,20,974 crore
Expenditure during current Financial Year (up to December 2023)	Rs. 3,05,840 crore
Cumulative Expenditure till December 2023	Rs.16,26,813 crore
Overall percentage cost overrun with respect to original cost	18.65%
Overall percentage cost overrun with respect to latest sanctioned cost	8.65%
Total number of projects showing cost overrun w.r.t original approved cost	431

Total number of projects showing time overrun w.r.t original Schedule	848 (Ranging 1 to 255 months)
Percentage cost overrun in 848 delayed Projects	26.53%

Source: http://www.cspm.gov.in/english/pio_report/PIO_dec_2023.pdf

2.35. The above data of Ministry of Statistics and Programme Implementation (MOSPI) show that there is 26.53% cost overrun in 848 delayed projects. The costing framework is required to help the Government sector to use cost data for better decision making and monitoring of various ongoing projects.

Need for Cost database for Government and Costing framework in Government Organisations and Service Sectors

2.36. Ministry of Finance, Department of Economic Affairs (Infrastructure Policy & Programme Division) has issued an updated Harmonized Master List of Infrastructure Sub-sectors vide Notification F.No. 13/1/2017 dated 24.8.2020. Besides it, Schedule VI of Companies Act 2013 has specified Infrastructural projects and Infrastructural facilities. These are the main sectors of economy where major public funds are incurred or affecting/used by public at large i.e. relevant for public interest.

2.37. During the deliberations in the committee meetings, it was felt that there is a need to develop the cost database based on cost accounting records and cost audit provisions for major sectors of economy for the benefit of different Government Departments, regulatory authorities and other bodies. This would result in greater accountability of government expenditure. This would improve transparency and uniformity across sectors. Cost database need to be developed gradually. This must be done in a systematic manner so that the data is used effectively for various policy decisions.

2.38. Based on cost database, benchmark cost of major products and services may be developed. Operating ratio of major services need to be decided. This database will help in cost-benefit analysis of future activities. This framework should also be extended to various Central and State Government projects/schemes and undertakings, local bodies, government corporations, Departmental undertakings, etc. to infuse a sense of efficiency and effective spending of public money.

2.39. Database for major Government contracts and procurements items should also be developed. Structured cost records and audit thereof may be of immense use in monitoring of timely implementation and achieving completion within the approved cost estimates in respect of major infrastructure sector projects involving sizable amount of public funds. This may prove to be a good tool for cost control and assist in avoiding delays and large time and cost overruns in the Government projects and schemes. Availability of authentic and reliable activity-wise, input-output data will help in elimination of wastage and improve efficiency.

2.40. Cost consciousness is important for all sectors of the economy and even more important in non-competitive public services. All Government/public agencies should determine user charges for utilities and services based on the most efficient costs. There should be some correlation between fees charged and cost incurred for which they should be brought under the ambit of cost accounting principles and cost audit. There is a need to move towards user cost-based pricing. Subsidies meant for the poor may be decided after being fully aware of the opportunity cost, social factors, and the shadow price. Even where cross-subsidization is necessary, it should be transparent and made known to the public at large.

2.41. The main revenue Departments of Government – CBIC and CBDT have shifted towards faceless assessments. Therefore, need for cost database for major products and services have increased substantially for their audit/ investigation/ examination purpose. Cost Accounting is a time-tested system of building input-output relationships.

2.42. For audit in GST Regime, Section 71 of CGST Act, 2017 provides for access to business premises and records of taxpayer for Audit, by the officers. The section also describes the major documents required to be submitted by the taxpayer which include Cost Audit Report, if any, under Section 148 of the Companies Act, 2013 in addition to other documents. As per Desk Review guidelines, Cost Audit Report provides quantitative and financial details regarding related party transaction, valuation of services rendered as per service tax return etc.

2.43. The Central Board of Direct Taxes (CBDT) has notified G.S.R. 697(E) dated 27.9.2023 the Form 6D for furnishing of 'Inventory Valuation Report' under section 142(2A) of the Income Tax Act. The Board has notified Income-tax (Twenty-Second Amendment) Rules, 2023. A new rule, Rule 14A has been inserted which deals with the Forms for a report of audit or inventory valuation.

2.44. Having a regular cost database based on Cost Audit of the major products and services as well as high value projects and schemes may give multi-fold advantage to all the stakeholders including Government, which may be as follows:

i. The cost database may be very useful for appraisal and approval of Public Funded Schemes and Projects. The Institutional framework for appraisal of Schemes and Projects is depending on the level of delegation. The Schemes are appraised by Expenditure Finance Committee (EFC) or the Standing Finance Committee (SFC), while Projects are appraised by the Public Investment Board (PIB) or the Delegated Investment Board (DIB) as per OM No. 24(35)/PF-II/2012 Dated: 05 August, 2016 issued by Department of Expenditure, Ministry of Finance. ii. Government may receive precise actual input cost data with details which can be used in better decision making and to decide the benchmark cost for future Government decisions which would result in huge savings of public funds. This will help in better cost benefit analysis of projects and schemes.

iii. This will help in efficient utilization of scarce resources of the country as precise input cost breakup will be made available. There is an urgent need to improve productivity, build competence and reduce wastages and inefficiencies in utilisation of scarce national resources in order to make available public services at reasonable cost.

iv. The availability of actual per-unit cost data of similar product/services will ensure inter-unit, inter-region and inter-period comparison. Better allocation and apportionment of overheads among different products and services would be possible.

v. Better decision making in dispute redressal or arbitration award cases with availability of cost data.

vi. The periodical comprehensive reporting by independent auditor would offer a transparent view of the precise points at which delays and cost overruns have occurred in the projects, and would enable more effective project management by the Project Authorities. It will also provide requisite input to implement corrective measures for the projects, if required.

vii. Based on the benchmark cost, Ministries/Departments will be in better position to award the future contracts at competitive prices of different products/ services/ works. This database may be developed by the concerned Ministries/Departments or by Department of Expenditure, Ministry of Finance.

2.45. In an environment of increasing foreign trade under WTO regime, dumping of products at very low prices have become a serious issue in the international trade. This dumping of products, often well below the cost price, if not properly countered may harm the indigenous industry. The cost records and the cost audit report play a very critical role in defense of local industry to substantiate their fair approach against any allegation of dumping. Similarly, when dumping allegations are levied against the exports by the Indian companies to any foreign company, the Cost Audit Reports can provide the valuable feedback to protect the interest of Indian companies.

2.46. The practice of selling below cost to ward off competition attracts the penal provisions of the Competition Law. This necessitates the availability of authentic cost details of the products marketed by industry and business houses to determine normative pricing or fair pricing. In fact, Competition Law to be effective against any anti-competition activity presupposes the availability of reliable and authentic cost data.

2.47. The transfer pricing issue has gained considerable momentum in international scenario. The fundamentals of transfer pricing are based on “arm’s length” throughout the world. The cost details form the very basis of determining arm’s length transfer pricing policy of any country. An audited cost records and the resultant

Cost Audit Report becomes a major source of information, which can be effectively used by both Indirect and Direct Tax Authorities.

2.48. Maintenance of Cost Accounting Records and its Cost Audit in specified sectors may play a pivotal role in developing cost database for the Government. It will help in decision making and promote transparency and accountability in the financial management of Government.

2.49. Therefore, the Committee feels that there is a need to build cost consciousness within the Government in the Sectors where major expenditure are incurred by the Government. Cost Audit of the products/ services where Government is the major buyer directly or indirectly (like Cement, Steel etc that are used in infrastructure projects) will help in cost reduction and control of Government expenditure. Further, there is also needs to cost control in the sectors where subsidies are provided by the Government.

2.50. There is a need to develop cost databank of major products and services for the Government, where large public funds are incurred. This will help the administrative Ministries in better decision making and improving efficiency. If required, pilot project in some sectors may be started.

2.51. For service sectors, per unit average cost and per unit revenue gap (user charges) need to be calculated, so that proper User charges may be considered ensuring financial viability of the sector. This will help in calculation of the Operating Ratio for major government services. Precise actual input cost data with details will be available.

2.52. Further, the Committee is of the view that in the liberalized/ decontrolled economy, need for mandatory cost audit has become more relevant in some sectors which are prone to tax evasions and fraudulent practices.

2.53. At present CBIC and CBDT are working on faceless assessments. Availability of authentic and reliable activity-wise, input-output data will help in better tax assessment.

2.54. The Committee is of the view that from the Corporate Governance angle, maintenance of Cost Records and Cost Audit plays an important role. Cost-competitiveness being a key to success in a global market, one can hardly do away with maintenance of cost records and their cost audit as it is an important tool for healthy growth of economy in general and individual companies in particular. Further, Cost Audit plays a pivotal role in promoting transparency and accountability in the financial management of businesses as it ensures that costs are accurately recorded, allocated, and reported. This process aids in identifying inefficiencies, improving cost control measures, and enhancing overall operational effectiveness.

*****

Chapter – 3

History of Cost Accounting and Cost Audit Framework in India

3.1 In India, the framework of cost audit was initially introduced in 1965 when Companies Act, 1956 was amended to incorporate the provisions relating to the maintenance of cost accounting records and cost audit vide the Companies (Amendment) Act, 1965.

3.2 Sections 209(1)(d) and 233B were inserted in the Companies Act, 1956, by the Companies (Amendment) Act, 1965 (31 of 1965). These provisions relate to maintenance of cost accounting records and audit of cost records. Sections 209(1) and 233B read as under:

Section 209(1): Every company shall keep at its registered office proper books of account with respect to –

(a) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure take place;

(b) all sales and purchases of goods by the company;

(c) the assets and liabilities of the company; and

(d) in the case of a company pertaining to any class of companies engaged in production, processing, manufacturing or mining activities, such particulars relating to utilization of material or labour or to other items of cost as may be prescribed, if such class of companies is required by the Central Government to include such particular in the books of account.

Whereas clauses (a), (b) and (c) of sub-section (1) of Section 209 deals with maintenance of financial books of account, clause (d) deal with the maintenance of cost accounting records.

Section 233B: Where in the opinion of the Central Government 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 within the meaning of the Cost and Works Accountants Act, 1959.

3.3 Pursuant to these provisions, Central Government notified Cost Accounting Records Rules for maintenance of cost accounting records and Cost Audit Report Rules for conducting cost audit.

Pre-2011 Rules

3.4 Section 209(1)(d) was implemented by the Government in stages by notifying Cost Accounting Records Rules (CARRs) in the following 44 industries. The companies engaged in the production, processing, manufacturing or mining activities in respect of industries or products specified above were required to keep cost accounting records. However, these provisions were not applicable to small scale industrial undertakings.

Table 9 - List of Industries/Products covered under section 209(1)(d) of the Companies Act, 1956

SL. No.	Industry	SL. No.	Industry
1	Cement	23	Dry Batteries
2	Cycles, components of cycles	24	Steel and Pipes
3	Tyres and Tubes	25	Engineering
4	Air Conditioners	26	Electric Cables & Conductors
5	Refrigerators	27	Bearings
6	Batteries other than Dry Cell Batteries	28	Milk Food
7	Electric Lamps	29	Chemicals
8	Electric Fans	30	Formulations
9	Electric Motors	31	Steel Plant
10	Motor Vehicles	32	Insecticides
11	Aluminum	33	Fertilizers
12	Vanaspati	34	Soaps & Detergents
SL. No.	Industry	SL. No.	Industry
13	Bulk Drugs	35	Cosmetic Toiletries
14	Sugar	36	Footwear
15	Industrial Alcohol	37	Shaving Systems

16	Jute Goods	38	Industrial Gases
17	Paper	39	Mining & Metallurgy
18	Rayon	40	Electronic Products
19	Dyes	41	Electricity
20	Polyester	42	Plantation
21	Nylon	43	Petroleum
22	Textiles	44	Telecommunication

3.5 Vested with the powers under section 233B, Government ordered for audit of cost accounting records in large number of companies falling within the scope of these 44 industries. To regulate the operation of section 233B, Government also notified Cost Accounting Report Rules in 1968. These rules were later amended in 1996, 2001 and 2006.

2011 Rules

3.6 To review & rationalize the cost accounting and cost audit mechanism, Ministry of Corporate Affairs vide their Order no. 2/1/2008-CL.V dated 21st January 2008 constituted an Expert Group. Based on the recommendations made by the Expert Group, the Central Government, in supersession of all the then existing 44 records rules & one report rules, notified the following Rules:

Industry specific Cost Accounting Records Rules

- The Cost Accounting Records (Electricity Industry) Rules, 2011
- The Cost Accounting Records (Petroleum Industry) Rules, 2011
- The Cost Accounting Records (Telecommunication Industry) Rules, 2011
- The Cost Accounting Records (Fertilizer Industry) Rules, 2011
- The Cost Accounting Records (Pharmaceutical Industry) Rules, 2011

- The Cost Accounting Records (Sugar Industry) Rules, 2011

Common Cost Accounting Records Rules

- The Companies (Cost Accounting Records) Rules, 2011 – applicable to all other non-regulated industries.

Common Cost Audit Report Rules

- The Companies (Cost Audit Report) Rules, 2011 – applicable to all companies in the regulated & non-regulated sectors.

3.7 Significant features of these rules are as under:

- There was a strategic shift from rule/format-based mechanism to principle-based mechanism having universal application.
- Applicable to every company engaged in the production, processing, manufacturing or mining activities and having a net worth of Rs. 5 crore or aggregate turnover of Rs.20 crore, or where the company's equity or debt instruments were either listed or were in the process of listing on any stock exchange in India or abroad.
- Companies were required to maintain cost records in compliance with the Cost Accounting Standards & Generally Accepted Cost Accounting Principles issued by the Institute of Cost Accountants of India and file a Compliance Report in the prescribed XBRL format, duly certified by a Cost Accountant.
- Following companies were required to get their cost records audited by a Cost Accountant in practice and file cost audit report in the prescribed XBRL format:

  o Companies belonging to the six regulated industries and having a net worth of Rs. 5 crore or aggregate turnover of Rs.20 crore, or o Companies belonging to the non-regulated industries and having aggregate turnover of Rs.100 crore, or o All companies where its equity or debt instruments were either listed or were in the process of listing on any stock exchange in India or abroad.

- Cost audit report formats were modified and a 'product or activity group' concept was introduced.

- Cost Auditor was mandated to also submit Performance Appraisal Report (PAR) to the Audit Committee/Board of Directors of the company. PAR was not required to be filed with the government.
- MCA also notified the Costing Taxonomy & related Business Rules and Validation Tools to enable filing of Compliance Report and Cost Audit Report in XBRL mode.

Legislative Provisions in CA 2013

3.8 Provisions relating to cost accounting & audit were combined in a single section 148 in the Companies Act, 2013. salient features are highlighted below:

- Central Government may prescribe maintenance of cost records by specified class of companies engaged in the production of goods or providing services.
- Central Government may, by order, direct the audit of cost records that shall be conducted by a Cost Accountant in practice.
- Cost Auditor shall be appointed by the Board on such remuneration as may be determined by the members.
- Cost Auditor shall comply with the cost auditing standards issued by the Institute of Cost Accountants of India with the approval of Central Government.
- Cost audit report shall be submitted to the Board of Directors. The company shall file it with the Central Government along with full information and explanation on every reservation or qualification contained therein.
- Defaults are punishable as per the provisions of section 147.

3.9 The aforesaid provisions contained in section 148 of CA 2013 were made operational through notification of the Companies (Cost Records and Audit) Rules, 2014.

2014 Rules

3.10 Empowered under section 148 of the Companies Act 2013, and in supersession of all the then existing 2011 Rules, the Central Government through the Ministry of Corporate Affairs (MCA) notified the Companies (Cost Records and Audit) Rules, 2014 vide GSR 425(E) dated June 30, 2014.

3.11 Based on the recommendations made by a Committee constituted by the MCA, these rules were substantially modified vide notification dated December 31, 2014. Subsequently, amendments were made on 12.06.2015, 14.07.2016, 07.12.2017, 20.12.2017, 03.12.2018, and 15.10.2019.

3.12 Salient features of these rules are as under:

- Every company, including a foreign company, engaged in the production of goods or providing services, specified in the Tables A & B (as given in the rules), having an overall turnover of Rs.35 crore or more during the immediately preceding FY is required to maintain cost accounting records. Following were granted exemption:
    - o In respect of serial number 33, foreign companies having only liaison offices.
    - o A company classified as a micro or small enterprise under sub-section (9) of section 7 of the Micro, Small and Medium Enterprises Development Act, 2006 (27 of 2006).
- Following class of companies were required to get its cost records audited:
    - o For regulated industries specified in Table A – company having overall annual turnover of Rs.50 crore or more during the immediately preceding FY and aggregate turnover of Rs.25 crore or more from the products or services for which cost records are required to be maintained.
    - o For non-regulated industries specified in Table B – company having overall annual turnover of Rs.100 crore or more during the immediately preceding FY and aggregate turnover of Rs.35 crore or more from the products or services for which cost records are required to be maintained.
- Following companies were exempted from the requirement of cost audit:
    - o whose revenue from exports, in foreign exchange, exceeds seventy five per cent of its total revenue; or o which is operating from a special economic zone; or

   - o which is engaged in generation of electricity for captive consumption through Captive Generating Plant. For this purpose, the term "Captive Generating Plant" shall have the same meaning as assigned in rule 3 of the Electricity Rules, 2005".

- Principles governing maintenance of cost records were included in the rules under CRA-1 and cost audit report formats included in CRA-3 were once again modified.

3.13 The Committee observed that the cost accounting & audit framework introduced since 1965 was aimed at making the corporate sector more efficient by improving its resource utilization across various sectors of economy. The legal dictum created a template which resulted in manifesting cost culture across industries and companies. It enabled the companies to adopt a structured framework of cost accounting and reporting to help all stakeholders. The system resulted in many companies structuring an effective costing framework for internal reporting enabling managements to evaluate performance for taking strategic business decisions.

3.14 The Committee further observed that there was a coverage of following industries/ sectors/ products/ services:

- Products used in sectors related to national security like defence, space & atomic energy and strategic products like railway locomotives & rolling stock.
- Agriculture-related inputs & products viz. fertilizers, insecticides, coffee, tea, jute, edible oils, etc.
- Infrastructure/ basic & regulated industries viz. petroleum, cement, steel, metals & minerals, telecommunications, electricity, airport & port services, and construction services.
- Healthcare related products viz. drugs & pharmaceuticals, and medical devices; and healthcare services.
- Mass consumption products & services viz. sugar, milk powder, paper, textiles, education services, etc.

- Other industrial products viz. industrial alcohol, chemicals, plastics & polymers, tyres & tubers, glass, rubber products, etc.

3.15 The Committee feels that to improve the utility of cost data to all stakeholders, there is a need to make necessary changes in the Cost Audit Report structure by including industry specific reporting relating to few sectors to align with the overall policy of those sectors. The report may include Key Performance Parameters for the Audit Committee & Board, especially to the Independent Directors, to evaluate product/ activity-level & business vertical-wise performance to take effective business decisions. Finally, there should be an additional focus to strengthen corporate governance & sustainability.

*****

Chapter – 4

International practices of Cost Accounting and Cost Audit

4.1 In each country (including the USA, UK, Germany, Canada, Japan, Australia, China, France, South Korea, Poland, South East Asia, etc.) there exists a distinct mechanism for gathering cost data and information, a process that must undergo certification or audit by external agencies or auditors.

4.2 Global practices allow either a single institute (in countries with only one professional accounting body) or multiple professional institutes to interchangeably certify or audit cost data, financial data, or secretarial data without specific restrictions. India and the SAARC countries have a unique model for professional bodies, comprising three entities – The Institute of Chartered Accountants of India (ICAI), The Institute of Cost Accountants of India (ICAI-CMA), and The Institute of Company Secretaries of India (ICSI). Since their inception, each institution has been given a well-defined role. Also, these Institutes have been allowed to undertake financial audits, cost audits and secretarial audits respectively, in accordance with their designated functions as defined by the Acts passed in the Parliament.

4.3 ICMAI vide letter dated 13th November, 2023 has submitted a note on Global Cost Accounting Practices to the Committee. Further, earlier also ICMAI vide D.O letter dated 20th September, 2023 submitted a comprehensive note on Global Cost Accounting Practices to MCA which was submitted before this committee by MCA. The Committee further noted that as per Terms of Reference, the Committee is not required to do a detailed examine/study of the International practices of Cost Accounting and Cost Audit. Thus, the Committee has noted the following brief synopsis of the practices followed in few developed & developing economies with respect to the cost accounting policies, cost records, cost accounting standards, cost audit/examination, regulatory practices & requirements, and filing of cost information mainly as submitted by ICMAI:

United Nations (UN)

4.4 Firstly, apart from the practices adopted in various countries as outlined below, the United Nations also propagated the concept of cost accounting and cost audit. For example, the Audit Committee of the Program & Budget Committee of United Nations, in its report on the World Intellectual Property Organisation's new construction project recommended Cost Audit of the estimated budget of the project and suggested that such task could be assigned to an independent party.

United States of America (USA)

4.5 In USA, the most positive effect of WWII was engendering greater cost awareness, particularly among companies that served as military contractors. The importance of cost accounting as being central to the formation of government policies provided the foundation of the rapid growth of the profession. The beginning of a mere exercise in estimating the cost later developed into a movement for efficiency and optimum utilization of scarce resources.

4.6 The U. S. Government Accountability Office (GAO) has specified that in order to conduct oversight of the federal government, including agencies' stewardship of public funds, reliable cost information is required. GAO has developed a Guidelines6 to establish a consistent methodology based on best practices that can be used across the federal government for developing, managing, and evaluating program cost estimates. The Cost Estimating and Assessment Guide presents the best practices associated with developing a reliable, high-quality cost estimate and the best practices associated with effective management of program costs using earned value management (EVM).

4.7 The Cost Accounting Standards Board (the Board) is generally meeting recent legislative requirements and has taken initial steps to assess the extent to which the government's Cost Accounting Standards (CAS) can be conformed to a set of 12 commercial financial reporting principles known as Generally Accepted Accounting Principles (GAAP). When contracting for goods and services, the government uses Cost Accounting Standards to help ensure contractors accurately represent their costs and make contract cost information more comparable.

[6] h ps://www.gao.gov/assets/gao-20-266.pdf

4.8 Section 820 (b) (1) of the National Defence Authorization Act (NDAA) authorizes defence contractors to present commercial auditors' findings concerning indirect costs to the DCAA, which must accept them without performing additional audits so long as the commercial auditor used "relevant commercial accounting standards (such as Generally Accepted Accounting Principles [(GAAP)]) and relevant commercial auditing standards established by the commercial auditing industry for the relevant accounting period."

4.9 Federal Acquisition Regulation 7, Department of Defence (under Para 52.216-7 (Allowable Cost and Payment. (g) Audit) mention that at any time or times before final payment, the Contracting Officer may have the Contractor's invoices or vouchers and statements of cost audited.

4.10 Various public utility regulation entities, the Federal Trade Commission, and the U.S. Department of Justice are interested in accessing the cost information of any business entity. The US Federal Government had constituted a Cost Accounting Standards Board. The Board has so far issued 19 Cost Accounting Standards. These standards are mandatory for use by all organizations entering into contract with the Government more than US $5 million. In addition, several federal regulations require financial reporting with cost linkages.

4.11 The Securities & Exchange Commission (SEC) of USA has prescribed various formats for disclosures by the corporate America which will need the adoption of standard cost accounting practices. In the annual (Form 10-K) /quarterly (Form 10Q) returns sent to the US-SEC, the companies are required to include information relating to quantitative & qualitative disclosures, related party transactions, results of operations explaining the reasons for any increase in costs of labour or materials or price increases or inventory adjustments, etc. Explanations of material changes should include changes in the unit sales volume, prices charged and paid, production levels, production cost variances, and labour costs etc.

4.12 The Federal Anti-Trust bodies of US rely on cost accounting information on deciding cases relating to predatory pricing and have driven the thinking to apply concepts such as activity based costing to predatory pricing cases.

[7] https://www.acquisition.gov/sites/default/files/current/far/pdf/FAR.pdf

4.13 Further, in USA, one of the Treasury Department's order said that the state auditor shall annually make a cost-audit examination of the books and records of the county road engineer and make a written report thereon to the county legislative authority. Similarly, in another order, it was said that any company in the aerospace, telecommunications, electronics or engineering fields (or any other field where provided for in the contract), which is classed as a mandatory supplier under a government contract, can be liable to a post factum cost price review. Thus, maintenance of cost accounting records and cost examination/audit has become an accepted practice in the USA.

United Kingdom (UK)

4.14 Cost accounting in UK became integrated into the main body of accounting knowledge after the outbreak of the First World War. In the United Kingdom, Government warrants use of Full Economic Costing to determine the viability & sustainability of an activity or a project. It is required to be followed by all government Departments, and other public/ private sector & non-for-profit organizations.

4.15 In some regulated industries, regulators seek accounts, business plans, cost details or operating expenditure calculations from the participants. These are used to compile an overall picture of the sector, for general monitoring, and sometimes to set pricecaps and other price controls. There would be penalties for the submission of false or inaccurate information, and the regulator may conduct selective checks (audits) on a proportion of the information it receives. Examples of regulated industries in the UK are Airports, Communications, Education, Energy, Food standards, Pensions, Postal services, Railways, Health care, Social care and Water.

4.16 Transparent Approach to Costing (TRAC) for higher education institutions (HEIs) across the United Kingdom is the standard method used to answer the all-important question of 'how much does it cost?' for UK HEIs. The National Health Service (NHS) uses cost information for deciding the tariffs.

Germany

4.17 In Germany, many regulatory bodies are interested in accessing the cost information of a business entity. All public procurement contracts are awarded on Cost Plus basis

and the costs are monitored continuously. Article 14 of the European Commission regulations has mandated the adoption of uniform cost accounting practices across Europe by amending their legal framework.

4.18 Cost accounting and cost management have played a major role in the German competitive edge in high technology manufacturing. Thus, in Germany, all companies have distinct cost & management accounting Departments and cost accounting is traditionally the "heart" of German management accounting. Cost accounting principles have been standardised. Under the Handelsgesetzbuch (German Commercial Code), Section 255, subsection 2 and paragraph 2 lay down the cost elements which are includible and not includible for arriving at the inventory value.

Canada

4.19 In Canada, the Tax authorities seek cost information from all assessees and they look for objective evidence of whether the cost information provided by the company is correct and computed by way of an arm's length transaction. The Accountability Act requires assurance of certain management accounting information submitted to Parliament.

4.20 In Canada, usually the Public supply contract specifies the components and the methodology of cost accumulation. Cost plus contract is generally used in awarding contracts. It is the responsibility of the purchasing entity to certify whether the costs reflect the content of the contractual agreement. Each contract or series of similar contracts would contain guidelines as to the nature and quantum of allowable costs. The Supply Manual of the Public Works and Government Services of Canada lays down the Guidelines relating to Cost and Profit.

4.21 The healthcare sector of Canada has adopted Transitional Hospital Cost Accounting System. In addition, Canada's Competition Commission extensively deal with cost data for judging on predatory pricing. Besides, the Securities Commission and Auditor General are also interested in seeking cost information. Hence, all companies are required to maintain cost records and cost information.

Japan

4.22 Cost competitiveness has been at the heart of the Japanese success. Japanese brought the application of cost accounting and its interface with operational cost management to such micro levels that they reached the zenith of manufacturing competitiveness beating the other economies hollow.

4.23 In Japan, the Ministry of Finance has issued 10 Cost Accounting Standards. The three key aspects are:

- Nature and basic structure of the cost accounting standard
- The application of the cost accounting standard
- The framework of the Cost Accounting Standard

These standards indicated that cost accounting has the following purposes:

- Price setting;
- Preparing financial statements;
- Cost management;
- Budgeting and budgetary control; and
- Setting basic plans and making decisions.

4.24 These standards are followed by all business entities. In addition, the preventive maintenance business entities in the civil segment were subject to the cost accounting standards prescribed in the manual of the Building Department of the

Ministry of Construction. Besides, the Japanese cost accounting, e.g. target costing, continuous cost reduction etc. is also used in smaller companies (SME's).

Australia

4.25 In Australia, the Cost and Management Accounting mechanism exist in all business entities as per the insistence of regulatory authorities. Other than Tax Office who is interested in accessing the cost information of any business entity, some regulators also access the cost information. The Regulatory Board calls for Cost and Management Accounting information assured by the company managements.

4.26 The Australian Competition and Consumer Commission is the antitrust body which depends on costing data for regulation of monopolistic trade practices. The Government gathers information on cost while formulating policies on Free Trade agreements/Restricted Trade Agreements.

4.27 In Australia, cost data is the most detailed and comprehensive set of information on higher education costs. The Local Government Act 1999 mandates providing costing information to make decisions about the functions, activities and services provided by the Council.

China

4.28 In China, Ministry of Commerce and Ministry of Finance are two Regulatory Bodies interested in accessing the cost information of any business entity. The State Asset Administration is also interested in the cost information of state-owned enterprises. Further, the Rules on Cost Accounting of Power Transmission and Distribution specify the cost target and cost items.

4.29 The 2006 Accounting System for Business Enterprises (ASBE) issued by the Chinese Government prescribes that every enterprise should determine the cost centres, cost items and cost calculation methods according to the characteristics of the production and operating process. Any changes made should be approved in a shareholders' meeting and disclosed in the notes to the accounting statements. It further prescribes that an industrial enterprise must clearly identify the costs of each product. It must clearly identity the costs of work-in-progress and the costs of finished goods and must not overstate or understate such costs.

France

4.30 In France, Government had played a major role in the evolution of the cost and management accounting domain. French government has issued single version of cost analysis and product costing, applicable to all industrial and trade sectors, both for profit and not for profit.

4.31 The following Regulators/Government agencies routinely refer to the costs in line with the above standards as a sort of cost audit in respect of dealing with private parties on Government contracts:

- Telecommunication
- Aerospace
- Aviation
- Electronics
- Defence

South Korea

4.32 South Korea issued thirty cost accounting standards for adoption by the manufacturing companies. Later, these standards were also made applicable to nonmanufacturing companies and banks and financial institutions. Korea's Cost Accounting Standards have covered all key aspects in three major sections, viz.

- General Provisions;
- Actual Cost Accounting System; and
- Standard Cost Accounting System.

4.33 The Korea's Standards require publication of a separate schedule of manufacturing cost (form no. 23) and schedule of cost of sales (form no. 25). As per regulations, the auditors have access & verify the cost accounting information generated by the business entities.

Poland

4.34 In Poland, use of cost accounting in medical entities is governed by the law. The Minister of Health issued the Regulation that provides methods for the identification and collection of costs actually incurred and for the calculation of the cost of healthcare services. Cost accounting is the main tool for generating cost information for pricing health services in hospitals and is also used to analyse and control medical activity costs.

4.35 The Committee also examined the documents shared by the ICMAI relating to The International Federation of Accountants (IFAC) which is a global organization for the accountancy profession founded in 1977. IFAC works with its 180 professional accountancy organizations (PAOs) in 135 countries. The Institute of Cost Accountants of India and the Institute of Chartered Accountants of India are founder members of IFAC.

4.36 IFAC published an international public sector study titled, "Perspectives on Cost Accounting for Government". This study provides a description of how cost accounting can be used to assist and satisfy government information objectives and the related cost accounting processes. Cost accounting system and cost reports is useful tool for the public authorities to gauge efficient deployment of public resources, monitor the outputs & outcomes of various public policies, schemes & programs. Cost audit is of immense assistance to governments in helping for tax optimization, dealing with transfer pricing matters, valuation of inventories and segmental reporting.

4.37 IFAC issued document on "Evaluating and Improving Governance in Organizations". This report prescribes that the creation and optimization of sustainable stakeholder value should be the objective of governance and the performance of governance is important to optimize shareholder value. Costing is an important tool in assessing organizational performance in terms of shareholder and stakeholder value. It informs how profits and value are created, and how efficiently and effectively operational processes transform input into output. It includes product, process, and resource-related information covering the organization and its value chain.

4.38 IFAC issued another document titled, "Evaluating and Improving Costing in Organizations". Cost accounting provides detailed information about individual products, activities, divisions, plants, operations etc. and helps Board & Independent Directors to make effective business decisions as it measures the consumption of economic resources and support the accountability of business performance. Cost audits can be used to the benefit of management, consumers and shareholders by helping to identify weaknesses in cost accounting systems, and to help drive down costs by detecting wastage and inefficiencies.

Committee's Observations

4.39 From the aforesaid cross-country cost accounting practices submitted by ICMAI, the Committee observed that Cost Accounting practices in different countries are guided by each country's development level, prevalence of cost maturity models, regulatory practices & requirements, taxation policies, and policies of protectionism & competition.

4.40 It was observed that cost accounting framework exists in almost all economies in its varied content & application. Generally, public procurement contracts follow the country's laid down costing principles and the business entities are required to share their cost details with the procuring authorities on demand.

4.41 The Committee further noted that globally, a large number of regulatory bodies seek cost information; the prime being the tax authorities, trade commissions, anti-trust bodies and competition commissions. Similarly, regulators dealing with public services such as energy/ electricity, communication, postal services, water, civil aviation, railways, etc. seek cost details from the participants. There are penalties for submission of false or inaccurate information. In China, Ministry of Commerce and Ministry of Finance are empowered to access cost information of any business entity. Similarly in USA, all listed companies are required to maintain cost information and share relevant details with the regulator. Application of cost accounting in social sectors viz. healthcare and education, has been mandated in different countries.

4.42 Practice of cost audit also exists, albeit, in limited form. For example, the Audit Committee of the Program & Budget Committee of United Nations recommended Cost Audit of a new construction project. In the USA, the Treasury Department's orders have mandated annual cost-audit examination of the books and records of the companies dealing with the government contracts. In many cases, the regulator(s) conduct selective checks/ audits of the information it receives. In Pakistan "The Companies (Audit of Cost Accounts) Rules, 1998", under the Companies Ordinance, 1984, require cost audits for certain companies. In Bangladesh "The Companies Act of 1994" mandates cost audits for specific categories of companies based on their turnover, nature of business, and other criteria.

4.43 A few countries have also issued Cost Accounting Standards. For example, the Cost Accounting Standards Board constituted by the US Federal Government has issued 19 Standards. In Japan, the Ministry of Finance has issued 10 Cost Accounting Standards. South Korea issued thirty cost accounting standards for adoption by the manufacturing & non-manufacturing companies and banks and financial institutions.

4.44 It was observed that Governments of various countries have traditionally played a major role in the evolution of cost accounting practices. Policy intervention, administered pricing, social pricing, funding plans and tax resolutions were the prime reasons for giving an effective push to the adoption of best cost & management accounting principles and practices. As a result, they have put forward detailed requirements on cost accounting in judicial or even a quasi-judicial form.

4.45 The Committee observed that in India, mandatory provisions in the Companies Act 1956 & 2013 along with the Companies (Cost Records & Audit) Rules created cost culture across industries and companies. It was deliberated and discussed in the Committee whether similar statutory provisions like that of India exist in the Companies Act or allied rule in other countries. However, there was no clear specific answer to this question. The Committee, however, is of the view that the transitory phase through which India is passing, from being a fast-developing economy and gradually heading towards the developed economy, it still requires suitable legal framework for Cost Records maintenance and Cost Audit.

*****

Chapter – 5

Stakeholders' Consultations

5.1 The Committee made consultations with various stakeholders to arrive at decisions on the issues relating to the terms of reference of the Committee. The Committee in its meeting held on 08.11.2023 invited The Institute of Cost Accountants of India ('ICMAI') and five industry associations (PHDCCI, FICCI, SCOPE, CII and ASSOCHAM) to present their comments, suggestions, and views to review the existing framework of Cost Accounting Records and Cost Audit and to improve the usefulness of the Cost Audit Reports in various sectors of the economy as per the terms of reference of the Committee. Further, comments, suggestions and views were also invited from 54 administrative Ministries/ Departments/ Regulators.

5.2 The stakeholders made detailed representations and sought number of amendments, inclusion of new clauses and revision of the formats prescribed in the Companies (Cost Records and Audit) Rules 2014 ('CCRA Rules'). Such representations were examined in detail by the Committee which are discussed in the subsequent paragraphs.

5.3 Submissions by The Institute of Cost Accountants of India ('ICMAI')

5.3.1 ICMAI made several submissions on different issues time to time. Their submissions dated 01.09.2023, 18.09.2023, 20.09.2023, 04.10.2023 before the constitution of the Committee were also referred to the Committee by the Ministry of Corporate Affairs ('MCA'). Further, ICMAI has made a detailed presentation before the Committee on 08.11.2023. Thereafter, they have made their written submissions on 13.11.2023 and 22.11.2023. All such submissions of ICMAI are placed at <u>(Annexure-II).</u>

5.3.2 ICMAI has made following submissions which are adequately addressed at appropriate places in the Report.

(a) A detailed note regarding their suggestions for coverage of Industries in CCRA rules, 2014 which has been described in detail in Chapter-6 of this Report.

(b) They have suggested changes in the Companies (Cost Records & Audit) Rules, 2014, Companies (Audit and Auditors) Rules, 2014, the Companies Act, 2013, Form CRA-3 -Cost Audit Report along with certain changes in the Annexures (Para D-4, B-2 & C-2) and Revised Standards on Cost Auditing (SCAs) which are discussed in Chapter-7 of this Report in detail.

(c) They have also submitted a Comprehensive Note on the Global Cost Accounting practices and documents relating to The International Federation of Accountants (IFAC) on "Evaluating the Costing Journey: A Costing levels continuum Maturity Model.", Evaluating and Improving Costing in Organizations, Evaluating and Improving Governance in organizations, "Evaluating the Costing Journey: A Costing levels continuum Maturity Framework 2.0", A Definition of the Public Interest and Perspectives on Cost Accounting for Government. Committee has gone through these documents and discussed the same in Chapter-4 of this Report.

(d) Apart from the above documents, they have also submitted note on need & Significance of Regular Cost Audit, Public Interest, Concept Paper on Detecting & Preventing Cartelization and Industry Regulation Difference between Cost Accounting and Financial Accounting, note on Ease of Doing Business and Role of Cost Records & Cost Audit, note on DPIIT measuring the Cost of Regulation in India, Utility of Cost Data & Cost Audit Report to Independent Directors, note on the usage of Cost Audit Report and Cost Data by the Registrar of Companies (ROC) for investigation into possible areas of Fraud, Siphoning of Funds and Evasion of Profits/Taxes, Utility of Cost Data/ Information to the Government, Utility of Cost Accounting System, Cost Reporting Framework and Cost Data / Information to the Organization and

Management, Utility of Cost Records to Income Tax, Regulatory Bodies – Need & Usage of Cost Data, Banks' Credit Appraisal & Monitoring Framework and Technical Guide on Performance Audit. The Committee has gone through these documents and noted the suggestions contained in these documents.

5.4 Submissions of the Cost Accountants' Associations:

5.4.1 The All-India Cost & Management Accountants Association gave its suggestions (placed at Annexure-III) to improve the framework of cost accounting records and cost audit. Its views are summarized as under:

i. They have elaborated on the usefulness of cost audit across different industry sectors viz. Manufacturing, Construction, Pharmaceutical, Retail, Oil & Gas, Telecommunication, Healthcare, Automotive, Agriculture, Banking & Finance Industry.

ii. They have suggested inclusion of a few new sectors/ industry/ services viz. Healthcare, education, housing, Agriculture, food processing, Banking, financial & insurance services and PPP projects in the CCRA Rules. They have also suggested to exclude small & micro enterprises, IT & ITES, and not-for-profit organizations from the coverage of Cost Records maintenance and Cost Audit.

iii. On maintenance of Cost Records, they have suggested to develop industryspecific guidelines or templates to ensure that cost accounting records are tailored to the specific requirements of different sectors. They also suggested to mandate cost records compliance certificate for all manufacturing, construction, healthcare and education companies having turnover of less than Rs.100 crore and to making cost accounting records publicly available with appropriate confidentiality safeguards for stakeholders, including shareholders, investors and government agencies.

iv. Regarding intimation of appointment of Cost Auditor to the Central Government, they suggested that CRA-2 Format may be modified to include Fee details of Cost Auditor (Previous and Current) and if the current year fee is below the previous year's fee, comments should be provided.

v. On Cost Audit format, they suggested that it must include a performance report of a company that provides a comprehensive overview of its financial, operational and strategic performance. Performance assessment report may include Key Performance indicators (KPIs) and their trends, Key Financial indicators (KFIs), Key Operational metrics (KOMs) and trends, Key efficiency metrics (KEMs) and trends, Environmental, social and governance (ESG) performance and Overview of strategic goals and

initiatives for the reporting period and progress made on strategic objectives vi. The also suggested changes in the Annexure of the Cost Audit Report (CRA-3). In Annexure C2 'Abridged Cost Statement' it was suggested to include Industry benchmarking of the company's cost performance. It was suggested that Annexure D4 'Financial Position and Ratio Analysis' may be replaced by Performance Analysis (KPIs, KFIs, KOMs, KEMs). It was suggested that the Annexure D5 'Related Party Transactions' may be improved by including the related party transaction impact analysis on cost of products or services. It was suggested to replace Annexure D6 'Reconciliation of Indirect Taxes' by Turnover reconciliation (Income tax vs GST). They also suggested to include a new Annexure: Inventory Reconciliation – Tax Audit vs Cost Audit.

vii. On review of procedures of Cost Accounting Records and Cost Audit, they suggested mandatory rotation of cost auditors every 3 years, fixing a cap on the maximum number of cost audits per partner (let say 15 audits per partner), to remove Cost audit report from the confidential documents category and make it a part of the annual report of the company and to extend CARR provisions to LLPs subject to some modifications.

viii. The have also submitted their comments on the implication of the Cost Audit on the Public Finances of the State and Central Governments. It was stated that there is need to strike a balance between regulatory oversight and ease of doing business.

ix. On review of the Cost Audit Reports they suggested that the selection criteria may include, Industry Significance, Size and Complexity of business, Financial Risk Factors, Volume of transactions, Complaints or concerns, High-Impact projects and Public Interest.

5.5 Four Industry associations (PHDCCI, SCOPE, CII and ASSOCHAM) also made their detailed presentations before the Committee on 08.12.2023. However, FICCI informed the Committee that their representatives would not be able to attend the meeting in person on account of prior commitments but would submit the comments in writing. Thereafter, all five industry associations (including FICCI)

have made their written submissions which were placed before the Committee for detailed deliberations. All written submissions of the industry associations are
placed at (Annexure - IV).

5.5.1 Submissions of CII:

CII in their submission stated the following:

a. As far as maintenance of cost accounting records is concerned, the existing framework is quite flexible wherein no fixed formats have been prescribed. Rather, companies have been given full freedom to maintain cost records as per their requirements, and commensurate with their business process, size, scale & type of operations. In fact, cost records are an in-built part of the company's books of account. Thus, maintenance of cost records does not entail any additional effort or cost.

b. Regarding Production Linked Incentives (PLI), it was suggested that if the Government feels it necessary to obtain cost details in respect of products covered by PLI, then the same may be part of the PLI application form; there is no need to include such products under the ongoing cost audit process.

c. Regarding Products / Services where subsidy/incentive are provided by the Governments it was stated that Subsidy / incentives that are linked to cost of production like Fertilizers, Pharmaceuticals etc. are already covered under the regulated sector for Cost Audit. Other than this, principal criteria of providing such subsidy / incentive towards an industry is based on sale or investment rather than cost of production as per the cost audit report. Therefore, the CCRA Rules adequately covers the industry / sector / product which are subject to maintenance of cost records and cost audit.

d. Regarding review existing formats and procedures for cost records and Cost Audit [3 (iii) of Terms of Reference of the Committee] following were suggested:

i. The disclosure of Related Party Transactions (Part D-5) and Reconciliation of Indirect Taxes (Part D-6) may be done away with since it adds to the costs of compliance and deviates from the principle for ease of doing business and thus not relevant.

ii. To review the taxonomy for periodic updation to expedite the XBRL filing process.

iii. Challenges faced by Construction Contractors in fitting into some of the requirements of Cost Audit was highlighted. It was suggested that Cost records could be maintained based on LOBs as identified by the management. This can be based on the concept of Segment definition for financial account. Defining installed capacity, capacity utilization in this sector as stated above has limited relevance and hence can be avoided. Applicability of unit rate for various elements of cost even within single LOB/CTA does not provide any meaningful outcome for decision making. This may not be considered for reporting. Construction industry may be reported under Services Sector category only, including the shops within the entity serving the EPC sector.

e. CII has also highlighted some concerns which are given below:

i. Too many audits, financial audits, secretarial audits, internal audits, cost audits, etc. are adding to the cost of compliance for the companies.

ii. The cost data of a company is highly confidential. Therefore, there is a serious need to protect its confidentiality.

iii. There may be a need to examine how & where data may be made useful by the Government as well as by the industry. There is an urgent need to restructure the existing cost audit report formats so as to make them useful to the Government, Industry, and other stakeholders.

5.5.2 Submissions of ASSOCHAM:

Submissions of ASSOCHAM are summarized below:

a. General Suggestions

i. As far as maintenance of cost accounting records is concerned, the existing framework is quite flexible wherein no fixed formats have been prescribed. Rather, companies have been given full freedom to maintain cost records

as per their requirements, and commensurate with their business process, size, scale & type of operations. In fact, cost records are an in-built part of the company's books of account. Thus, maintenance of cost records does not entail any additional effort or cost.

ii. Today, a significant amount of public funds is invested in all the listed companies. These are through equity, loans & deposits. Hence, maintenance of cost data/records should be mandated for all listed companies, except the micro or small enterprises.

iii. Based on the present classification of micro or small enterprises as per the Micro, Small and Medium Enterprises Development Act, 2006, the overall turnover limit may be raised from Rs.35 crore to Rs.50 crore.

iv. Every company mandated to maintain cost records should also be covered under the cost audit else a small management confirmation report showing HSN Code level summarized costing/profitability may be uploaded on MCA Portal.

v. The cost records/audit mechanism need to be implemented not only on manufacturing but on supplies of products/services as capturing HSN code level data for policy decision making remains incomplete as the trading data is not getting captured normally through cost records/audit mechanism.

vi. The present classification of industries/sectors/products under the regulated and non-regulated categories may be removed and a uniform threshold limit for all industries should be recommended for cost audit.

vii. Like the appointment of financial auditors, the cost auditor's appointment should also be made through AGM.

viii. Minimum fees must be prescribed under the regulations. It will certainly help in enhancing the quality of the cost audits. Organization must disclose the cost audit fees on the face of the financials on the line of the financial audit fees.

b. Usefulness of Cost Data

i. Government should also use this data for the benefit of the industry and economy by periodically undertaking benchmarking and competitiveness studies; and share the outcomes with the industry to enable it to focus on improving cost competitiveness.

ii. To improve effective utilization of public resources, cost of all public procurements, and of all public projects & schemes should be very intensively monitored

c. Coverage of Industries/Sectors

i. This mechanism should be available for public utilities, public services, infrastructure, national security like defense, space, atomic energy, etc. ii. This mechanism should be extended to areas where subsidy or incentives are given by the government, areas which are under a regulatory regime, and where licence is required for usage of scarce natural resources. iii. Include all such areas where cost data is useful in the public interest. It should include industries prone to evasion of taxes or unfair trade practices, public utilities & services, public projects & schemes, and companies where Government resources are invested.

d. Reporting Framework

i. Existing Product-wise reporting framework should be modified to enable industry analysis and benchmarking ii. Reintroduce Performance Appraisal Report iii. Significant Performance Parameters and Key Cost Trends & Yield Analysis should be published in the company's Annual Report.

e. Other suggestions

i. Compilation and Release of data collected through cost audit reports annually for public usage for benchmarking.

ii. The listed companies and companies having loans exceeding a specific amount must be brought under cost records mechanism.

iii. Designing of formats of costing in such a way that data could be extracted for BRSR reporting in line with NGRBC.

iv. Detailed quarterly Internal Audit System of Cost Records only wherein product level profitability, wastages, effective/efficient utilisation of resources are reported to management from a Cost Accountant's perspective.

v. The reporting of the Quarterly Costing information for the listed entities at HSN code level in line with limited review audit Reports may have positive impact on investors and will increase the confidence as part of transparency.

vi. The Cost Audit formats must contain product level information for the use of Promoters/Directors.

vii. Reporting of top ten Loss making/profit making products can be reported to the board in each of the quarterly meetings.

viii. GST data availability through D6, however it needs modification to show opening closing balances of ITC which will help industry in case of any queries from the GST Department.

ix. Reporting of summarized data in Annual Report and Director's report will certainly help all the stakeholders from the other organisation of same industries.

x. The Act needs provision to include the supply word as presently the indirect tax (GST) applicability has been shifted to the Supply from Production xi. Presently, the name of the signing authorities of report are not mentioned in XBRL, the same should be incorporated.

xii. Names of the CFO or other financial heads have not been mandated to sign on the cost audit report, the signing by CFOs will add responsibility factor for the more authenticity of the data being reported.

xiii. Scope of Cost Audit should be broadened to the next level beyond traditionally included entities and it should be irrespective to the type of entities.

xiv. Cost Accounting and Cost Audit in Healthcare and Education Sector should be holistically reviewed and revisited and the regulation with enforcement of the same may be followed. xv. Industry should be allowed to file the UOM as per their trade practice for which they are issuing invoices to the Consumers.

f. ASSOCHAM has also highlighted some concerns which are given below:

i. Too many audits, financial audit, secretarial audit, internal audit, cost audit, etc. are adding to the cost of compliance for the companies. All the companies must display the percentage of different audit fees on total revenues as part of annual report.

ii. Cost data of a company at product level is highly confidential. Therefore, there is a serious need to protect its confidentiality. There is a need to examine how & where it should be made useful by the Government and by the industry.

iii. To keep the confidentiality as primary responsibility by MCA, the data at HSN code level should only be asked for and the product level data reporting should be made only in case where sectoral regulators require the same.

5.5.3 Submissions of FICCI:

FICCI in its submission stated the following:

(i) Cost audit was introduced at the time of independence to ensure transparency, price control/check for certain key industrial sectors. Given the competitiveness in various sectors, excessive pricing is not possible. Companies maintain cost records voluntarily, as they are required to continuously analyse cost and revenue data for managing costs, in order to

retain and enhance competitiveness in the face of competition from competing firms or competing substitutes. Mandatory cost audit should therefore not be applicable as reporting of cost statements could lead to a competitive disadvantage in such industries. Wherever there is no administered prices / subsidy, FICCI submit that the cost audit requirement should be waived off.

(ii) Regarding PLI and other incentive schemes it was stated that the Respective Ministry seeks detailed independent certifications from Statutory Auditors on each of these parameters relevant for the purpose of claims for Fiscal incentives or under Production Linked Incentives. Additionally, there is detailed correspondence with the Ministry as well as verification of all documents, invoices, records, etc. along with redressal of queries which adequately ensure that the claims being filed are genuine, correct and complete on all grounds. Hence, FICCI do not recommend extending the requirement of Cost Audit to products manufactured under the PLI schemes.

(iii) Statutory Auditors already provide assurance on the financial systems of an organization. Hence valuation of inventory, segment margins and other relevant information is already audited and available. The Statutory Auditors also comment on maintenance of books of accounts. Adding an additional requirement of mandatory Cost Audit would lead to duplication of effort and increase in costs which is contrary to the objective of improving ease of doing business in India. Additionally, such a practice does not exist in most developed markets either.

5.5.4 Submissions of PHDCCI:

PHDCCI in their submission stated the following:

a. General Suggestions

i. As far as maintenance of cost accounting records is concerned, the existing framework is quite flexible wherein no fixed formats have been prescribed. Rather, companies have been given full freedom to maintain cost records as per their requirements, and commensurate with their business process,

size, scale & type of operations. In fact, cost records are an in-built part of the company's books of account. Thus, maintenance of cost records does not entail any additional effort or cost.

ii. Today, a significant amount of public funds is invested in all the listed companies. These are through equity, loans & deposits. Hence, maintenance of cost data/records should be mandated for all listed companies, except the micro or small enterprises.

iii. Every company mandated to maintain cost records should also be covered under the Cost Audit.

iv. The present classification of industries/sectors/products under the regulated and non-regulated categories may be removed and a uniform threshold limit for all industries should be recommended for cost audit.

v. Like the appointment of financial auditors, the cost auditor's appointment should also be made through AGM.

b. Usefulness of Cost Data

i. Government should also use this data for the benefit of the industry and economy by periodically undertaking benchmarking and competitiveness studies; and share the outcomes with the industry to enable it to focus on improving cost competitiveness.

ii. To improve effective utilization of public resources, cost of all public procurements, and of all public projects & schemes should be very intensively monitored

c. Coverage of Industries/Sectors

i. This mechanism should be available for public utilities, public services, infrastructure, national security like defense, space, atomic energy, etc. ii. This mechanism should be extended to areas where subsidy or incentives are given by the government, areas which are under a regulatory regime, and where licence is required for usage of scarce natural resources. iii. Include all such areas where cost data is useful in the public interest. It should include industries prone to evasion of taxes or unfair trade practices, public utilities & services, public projects & schemes, and companies where Government resources are invested.

iv. Keeping in view of the public interest, Cost Accounting and Cost Audit framework should be mandated to all corporates and non-corporate entities providing education and health services.

v. Presently, only a limited number of medical devices are covered under the Rules. PHDCCI suggest enhancing this number to include all.

vi. PHDCCI suggest that based on the cost data, Governments should fix range of rates for various medical procedures & services. This will help the industry to negotiate most competitive rates for the services covered under CGHS/PMJAY. Equally, a comprehensive costing system for the healthcare industry would enable the large corporate hospitals to improve decision making with an aim to reap the benefits of economy, efficiency, profitability, and sustainability.

d. Suggestions on the Reporting Framework

i. Existing Product-wise reporting framework should be modified to enable industry analysis and benchmarking ii. Reintroduce Performance Appraisal Report iii. Significant Performance Parameters and Key Cost Trends & Yield Analysis should be published in the company's Annual Report.

e. PHDCCI has also highlighted some concerns which are given below:

i. Too many audits, financial audit, secretarial audit, internal audit, cost audit, etc. are adding to the cost of compliance for the companies.

ii. Cost data of a company at product level is highly confidential. Therefore, there is a serious need to protect its confidentiality.

iii. There is a need to examine how & where it should be made useful by the Government and by the industry.

5.5.5 Submissions of SCOPE: -

1. Submissions of GAIL (India) Limited (Representative of SCOPE):

   i. Clear guidelines / Exhaustive list of products / Services should be defined in the Rules to remove the ambiguities regarding applicability on Product/Services.

   ii. Unit of Measurement (UoM) should be maintained strictly as per CTA.

   iii. Detailed industry specific formats may be incorporated in place of Para D3, D-4, D-5 & D-6, which is more relevant and useful to the government in formulating policy, benchmarking etc. Existing format / paras may be reviewed / modified based on industry requirement. iv. Inclusion of Performance Appraisal Report (PAR).

2. Submissions of NBCC (Representative of SCOPE):

   i. The cost audit should be conducted on a quarterly basis instead of a yearly basis.

   ii. An industry specific annexure containing industry relevant information should be introduced. iii. Specific guidelines need to be frame for quantitative details specific to the service industry.

   iv. There should be clarity on the basis/method used for allocation and absorption. Further, the allocation and absorption method should be uniform for the specific industry.

   v. Ratios related to the costing and variance analysis should be incorporated in the cost audit report.

   vi. Installed capacity should be given at Plant level. vii. The UoM should be uniform and user friendly.

viii. Performance Appraisal Report need to be reintroduced.

5.6 Letters were also written to various administrative Ministries/ Departments/ Regulators inviting their comments in relation to the terms of reference of the committee. List of such administrative Ministries/ Departments/ Regulators

are given in Annexure-V. Views of such Ministries/Departments/regulators are placed at Annexure – VI.

5.6.1 Ministry of Consumer Affairs, Food and Public Distribution, Department of Consumer Affairs:

Department of Consumer Affairs proposed that Cost Accounting records relevant to eight commodities (Pulses namely Gram dal, Tur/Arhar dal, Urad dal, Moong dal, Masoor dal, and horticulture crops likes Potato, Onion and Tomato as per the Essential Commodities Act, 1955), milling cost of said pulses and storage cost of said eight commodities may be considered in accordance with the Companies (Cost Records and Audit) Rules, 2014.

5.5.6 Ministry of Finance, Department of Economic Affairs (Budget Division): Department of Economic Affairs suggested the following:

i. All activities, schemes, projects which fall under economic or commercial activity from which specific returns are expected, are expected to qualify for Cost Accounting and Audit. Subsectors like Communication, transport, energy, science & technology, industry and minerals etc. in which cost accounting and auditing enables the Government pricing certain commodities and services like spectrum charges, railway fares, royalties etc. Thus, such sectors qualify for Cost Accounting/Audit.

ii. The element of costing may not be relevant in sectors in which government schemes/services cover human development indices like health, education, welfare of SC/ST, poverty alleviation etc. because development indices are measured differently in these sectors.

iii. Element of Social/Universal Service Obligation prevalent in sectors like transport, communication etc. may be identified, assessed and quantified separately and may require exclusion from Costing of such social/universal services.

5.6.2 Ministry of Commerce and Industry, Department of Commerce, Directorate General of Trade Remedies (DGTR): Suggestions given by DGTR on different issues are given below:

a. Food Subsidy:

i. Maintenance of cost records and audit of the sectors connected with the chain of activities in the food subsidy will certainly help to determine correctness and appropriateness of expenditure on account of food subsidy.

ii. Following sectors should be subject to maintenance of cost records and cost audit:

- Milling operation of food grains
- Jute Industry producing jute bags for packing food grains.
- Warehousing and Storage service of food grain
- Transport Service (road, sea, etc.) engaged for food grain movement

b. Sugar Industry :_The MSP of sugar is ultimately borne by the public at large. Sugar being an essential commodity, the price of sugar affects every citizen of the country. Hence, it essential to fix the correct and reasonable MSP so that it will not pinch the pocket of particularly the poorest section of the people in the country. Further, GoI is also bearing a substantial amount of sugar subsidy for distribution of sugar to the poorest of the poor section of the society i.e. AAY families. Maintenance of cost records and audit there of the sugar industry will certainly help the Government to take appropriate policy decision from time to time in the interest of public at large.

c. It was stated that Cost Audit Reports are useful in calculation of Non-Injurious Price (NIP) - The details of the costing formats (as notified by DGTR in antidumping via Trade Notice No.: 05/2021) where cost audit report plays an important role was submitted by DGTR and for Anti-Dumping Duty Investigations. Summary of Sector wise findings issued by DGTR since 201920 onwards where cost related data has been used by DGTR for recommendation of Antidumping and Allied Duties was also submitted.

d. Further, it was stated that DGTR has been extensively using cost audit reports in its anti dumping / CVD investigation work. In fact, cost audit report (wherever applicable) is a mandatory prerequisite document in the application for antidumping / CVD investigation filed by domestic industry. Further, as per Antidumping rules, detailed examinations of cost records maintained by the domestic industries are required to be carried out and factored for determining cost of production and non-injurious price of the product under consideration manufactured by the domestic industry. During last four years, DGTR has completed investigations of more than 200 cases involving more than 7000 companies where cost audit reports (wherever applicable) were used. Removal of cost records maintenance provision in the sectors like Textiles, Tyres & Tubes and Chemicals (where frequent anti-dumping investigation cases are filed by domestic industry) will create hindrance to the investigation work and also will restrict the use of anti-dumping rules

e. To improve the usefulness of the Cost Audit following were suggested:

   (i) Cost Audit may be carried for the product instead of clubbing different products falling under a CTA code wise

   (ii) The coverage of the industry may be widened by decreasing the turnover limit for mandatory Cost Audit.

   (iii) Basis of Transfer pricing of the captive inputs should be clearly provided in the CAR

(iv) A schedule of Related party transactions should be incorporated in the CAR along with the Arm's length price.

(v) A comparative statement of the actual raw material and utilities qty and standard qty per unit of finished goods may be incorporated along with the reasons for deviations in the actual consumption vis-a-vis standard consumption

(vi) DGTR also submitted a suggestive formats for cost sheet.

f. It was also suggested that on existing Cost Audit Format, following additional information may be incorporated:

i. Plant wise information of the company
ii. Brief information about the manufacturing process of the products.
iii. Process wise/stage wise quantitative information pertaining to raw materials and utilities usage in order to identify and compare the process loss which will help in material balancing. (Reconciliation of input-output norms).
iv. Proposed future capacity expansion of the plant or any diversification from the existing products manufactured. This will help in assessment of increase in production, if any.

g. Other Suggestions:

i. Cost Audit Report should be either a part of Annual Accounts Report or in the public domain like Annual Accounts Report. Cost Audit Report would be an additional document to the shareholders and public also to assess the Plant wise performance.
ii. Regarding Confidentiality of Cost data, DGTR submitted that Cost Audit Report also gives product wise cost which may not be construed as confidential. Cost Audit Report does not disclose the methods of cost control or cost containment of the factory. So, there is no question of violation of confidentiality.

iii. Cost Auditor should also be appointed in the same way as Statutory Auditor is appointed. Moreover, a statutory clause / section for regular rotation of Cost Auditor may be inserted in the Act.

iv. Utility of Cost Audit Report in other Departments was also highlighted by DGTR:

- Cost Audit Report suggests the preventive measures that may be used for future planning like cost overrun, time overrun of the various big projects of the Govt.
- In case Govt. goes for monitoring of fixation of Maximum Retail Price (MRP) of the products in future, the Cost Audit Report will prove a great tool for ensuring fairness of cost of the product.
- Cost Audit Report is prepared plant wise. It may be useful for Banks also while granting loans to a particular plant considering its performance.
- Manufacturing industry may use it for cost comparison and implement the cost cutting measures.

5.6.3 Ministry of Ports, Shipping and Waterways:

(i) Ministry of Ports, Shipping and Waterways vide letter dated 30th November 2023 stated that the Major ports are autonomous agencies functioning under the purview of the Major Ports Act,2021 and are not companies as defined under the Companies Act,1956/2013. Under the Ports Act Major ports have been granted autonomy to determine tariffs based on the market conditions. Hence the Cost Audit provisions of Companies (Cost Records and Audit) Rules, 2014 do not apply to the Major Port Authorities.

(ii) In its subsequent communication vide letter 25th January 2024 Ministry of Ports, Shipping and Waterways stated that with the Major Port Authorities

(MPA) Act 2021 having come into force with effect from 3rd November 2021, TAMP is not empowered to regulate tariff for services provided by the Major Ports or PPP Concessionaries operating in Major Ports.

As mentioned in para 2 of OM No. 52/24/CAB/2023 dated 05.01.2024 regarding companies which are engaged in following services required to maintain cost records and cost audit as per the turnover limits mentioned under the CCRA Rules 2014 as amended vide Notification No. F.S.R. 1157 dated 3rd December 2018.

"Port services of stevedoring, pilotage, hauling, mooring, re-mooring, hooking, measuring, loading and unloading services rendered for a Port in relation to a vessel or goods regulated by the Tariff Authority for Major Ports under the Major Port Trusts Act, 1963 (38 of 1963)".

It is suggested that the words "~~regulated by the Tariff Authority for Major Ports under the Major Port Trusts Act, 1963 (38 of 1963)~~" may be deleted from above.

As the Major Ports Authorities do not fall within the definition of companies as defined in the Companies Act 1956/2013. Hence the provisions relating to maintenance of cost account records and conduct of cost audit under CCRA Rules 2014 are not applicable to Major Port Authorities.

However, all the Companies under the Companies Act who provide the above listed port services for a port and meet the threshold limit of turnover may fall under the ambit of CCRA rules including non-major ports, stevedoring companies, shipping lines, etc., who at present do not fall under the ambit of any regulatory regime.

Port Services is one of the infrastructure Sector. Hence, it is suggested that all companies under the Companies Act 1956/2013 rendering port services to cargo or vessel in a port may be brought under CCRA Rules, 2014. This could bring parity in applicability of CCRA Rules uniformly to all companies under the Companies Act who provide port services.

Hence, it requested that the Committee constituted in this regard may first have wider consultations with the concerned stakeholders on the said matter before arriving at any final decision in this regard.

Further, it is suggested that the forms in the CCRA Rules may be simplified to make it easy for companies to use and to provide value added inputs to the Ministry of Corporate Affairs (MoCA).

5.6.4 Tariff Authority for Major Ports:

(i) Tariff Authority for Major Ports vide letter dated dated 30th November 2023 stated that with reference to the provision at Rule 3(B)(i) of the Companies (Cost Records and Audit) Rules, 2014 above, it stated that the Major Port Authorities (MPA) Act, 2021 has been published in the Gazette on 18 February 2021 and has come into force with effect from 3 November 2021. As per Section 75(1) of the said Major Port Authorities Act, 2021, the erstwhile Major Port Trust Act, 1963 stands repealed. The powers bestowed on Tariff Authority for Major Ports under the erstwhile MPT Act, 1963, to regulate tariff for services provided by the Major Ports and for the port properties stands withdrawn w.e.f. 3 November 2021. The said Act, [under Section 27(1)] empowers the Major Ports to fix the tariff for services rendered by them or made available by them and for port properties. For PPP projects after commencement of the Act, Concessionaires are empowered to fix tariff based on market conditions.

Therefore, it was suggested to delete the words from Rule 3B(i) of the CCAR Rules as given below:

"Port services of stevedoring, pilotage, hauling, mooring, re-mooring, hooking, measuring, loading and unloading services rendered by a port in relation to a vessel or goods, ~~regulated by the Tariff Authority for Major Ports under section 111 of the Major Ports Trusts Act, 1963~~".

As per the provisions prescribed in the Companies (Cost Records and Audit) Rules, 2014 and the Companies Act, 2013, the maintenance of cost records and cost audit of cost records are applicable to the Companies which are incorporated under the Companies Act. The term "Company" is defined under Companies Act, 2013 whereby it means a company incorporated under Companies Act, 2013 or under any previous company law.

Major Port Authorities are constituted under Section 4 of the Major Port Trusts Act, 1963 which is replaced with the Major Port Authorities Act, 2021. Hence, the said provisions of maintaining cost account records and conduct of cost audit are not statutorily applicable to Major Port Authorities as confirmed by the Major Port Authorities.

Only Kamarajar Port Limited (KPL) is governed by the Companies Act, 2013 but it does not fall under regulatory regime of Central Government or any Department of the Government or Sectoral regulator and hence are not mandated to maintain cost account records or its audit at present.

The Major Ports uniformly follow the common framework for financial reporting for Major Ports (Billimoria Report of Accounting system). The Accounting code system followed by the Major Ports capture cost centre of income and the expenditure while accounting and reporting. Thus, an internal mechanism is in place at major ports for capturing the items cost centre wise which are used for their internal review and reporting purposes.

(ii) In its subsequent communication vide letter dated 11th January 2024 Tariff Authority for Major Ports reiterated that with the Major Port Authorities (MPA) Act, 2021 having come into force with effect from 3 November 2021, TAMP is not empowered to regulate tariff for services provided by the Major Ports or PPP Concessionaires operating in Major Ports. Under the said Act, the Major

Ports have been empowered to fix their own tariff for the services rendered by them to cargo and vessels. For PPP projects after commencement of the Act, the PPP Concessionaires are empowered to fix tariff based on market conditions. In respect of existing PPP Concessionaires, for one category, the base tariff to be levied by them is already fixed for the entire concession period. And, in respect of another category of existing PPP Concessionaires, the concerned Major Ports have been empowered to fix the tariff, as a stop gap arrangement.

TAMP does not regulate tariff for Major Ports and PPP Concessionaires operating in Major Ports from 3 November 2021. TAMP is presently discharging the functions of an Adjudicatory Board viz., adjudicating disputes between Major Ports/ PPP Concessionaires/ users, review of stressed PPP projects, looking into complaints of port users etc., till the constitution of an Adjudicatory Board by the Central Government, as envisaged in the said Act. The TAMP shall cease to exist immediately on constitution of the Adjudicatory Board.

5.6.5 Cochin Shipyard Limited:

Cochin Shipyard Limited vide letter dated 04th December 2023 stated that Major product of CSL, Shipbuilding is already covered under cost audit. Proper cost accounting records are already maintained and is made available to Government. Hence CSL, at present is not having any comments/suggestions. In its subsequent communication vide letter dated 11th January 2024, Cochin Shipyard Ltd stated that it is not providing any services mentioned in the letter referred

5.6.6 Mumbai Port Authority:

It was stated by the Mumbai Port Authority that Presently the Major Port Authorities Act, 2021 does not mandate specifically; maintenance of Cost

Accounting records and Cost Audit. Further, the Mumbai Port already have its internal mechanism of service costing which is being monitored regularly. Ministry of Ports, Shipping and waterways (MOPSW) has issued Tariff Policy 2021 dated 03 November 2021 to Major Port Authorities. Sr No. 2 of Tariff Policy specifically deals with determination of Scale of Rates, Annual Revenue Requirement (ARR) expenditure including Return on Capital Employed (ROCE) etc to arrive at Scale of Rates for services rendered by Port. In view of the above, there is no specific suggestion in the matter and the existing provision in CCRA Rules 2014 may be continued.

5.6.7 Vishakhapatnam Port Authority:

Vishakhapatnam Port Authority stated that they are not in a position to confirm or deny the experience. However, since Port Sector is competitive and there is an aim to reduce overall logistics cost in India, the cost audit scrutiny will help monitor cost competitiveness at national level for India as a global player.

5.6.8 Serious Fraud Investigation Office (SFIO), Ministry of Corporate Affairs:

SFIO suggested that part D of the Cost Audit Report may be modified to include the stock analysis/ inventory analysis and related party transactions format may be suitably modified to capture information like Debtors and Creditors, Loans and Advances, Investments specifically mentioning the amount written off, the percentage of the said transaction with respect to total transaction etc. It was also suggested that a suitable separate Performa in the cost report may be considered for long term borrowings and share capital, including the amount taken from the banks and other creditors, purpose for which it has been utilized, failure of the company to return the same, assets against which it has been taken etc.

5.6.9 Airport Economic Regulatory Authority of India:

Airport Economic Regulatory Authority of India stated that their comments/ suggestions may be considered as Nil.

5.6.10 Central Electricity Regulatory Commission:

It was stated that Central Electricity Regulatory Commission, as the principal regulator, has been entrusted with the responsibility of catalysing the regulatory reforms process in the power sector. The Commission has been vested with the responsibility of regulation of tariff of generating companies owned or controlled by the Central Government. generating companies having composite scheme for generation and sale of electricity in more than one state as also interState transmission systems. The Commission also provides the principles for the determination of tariff for inter-state generation and transmission of electricity. The principles of tariff determination specified by the Central Commission may also act as guiding principles for the State Commissions. The Commission has been playing a pro-active role in judiciously balancing the interests of the consumers as well as investors.

For the purpose of tariff determination under Section 62 of the Electricity Act, 2003 (the Act). the Commission takes into account several factors and components, and determines tariffs for specified control periods. The provisions of Section 61 of the Act, the National Electricity Policy and the Tariff Policy mandates the Commission to specify the terms and conditions of tariff in respect of the generating companies covered under clauses (a) and (b) of sub-section (1) of section 79 of the Act and inter-State transmission of electricity.

While notifying the Tariff Regulations for the 2014-19 and 2019-24 Tariff Control period, the Commission has already taken into cognizance the usefulness of Cost Audit Report and maintenance of cost accounting records and had made the necessary provisions in the respective Tariff Regulations for providing cost audit report and cost accounting records by the generating company and transmission licensee at the time of filing of tariff petitions.

Accordingly, CERC is of the view that the requirement of maintenance of cost accounting records and its audit by the power sector companies are in the interest of the electricity consumer and such provision should remain applicable to the electricity sector

5.6.11 Competition Commission of India:

CCI stated that they have no comments to offer.

5.6.12 Ministry of Coal

Ministry of Coal stated that they have no comments to offer.

5.6.13 National Mission on Clean Ganga (NMCG)

NMCG stated that under Namami Ganga Programme, Grants in Aid mainly released for construction of sewerage treatment plants. Cost Audit of few projects, on sample basis on project completion may be useful in framing of norms and cost estimation for future projects.

5.6.14 Securities Exchange Board of India (SEBI)

SEBI stated that they have no comments to offer in the matter.

5.6.15 Office of the Controller General of Accounts, Ministry of Finance:

Office of Controller General of Accounts stated that they do not deal with Maintenance of Cost Accounting Records and Audit.

5.6.16 Central Board of Indirect taxes and Customs (CBIC):

Comments given by CBIC on different issues are summarized below:

i. Usefulness of Cost Audit in CBIC

It was stated that Cost audit helps companies comply with the provisions of the GST Act by ensuring accurate cost reporting, which is essential for calculating input tax credits and determining the value of supply. The ITC claimed aligns with the actual costs incurred, reducing the risk of non-compliance and potential penalties. Quantitative details in Cost Audit report contain details of total available quantity of goods, samples/quantity captively consumed and outward supply with break-up of Export and domestic clearance. It can help audit officers to reconcile the data with GST return and major variation (if noticed) should be looked into. Audit officers may utilize Cost Statement/ Cost of Production Statement in Cost Audit Report for valuation aspect to compute taxable value of the final goods under Cost Construction Method under CGST Act, 2017 (specifically under Rule 30 of CGST Rules, 2017, where the value of a supply of goods or services or both is not determinable by any of the preceding rules).

ii. CBIC proposed a list of New Sectors/ Items for coverage under the Cost Audit with rationale behind it.

Table 10 - list of New Sectors/ Items for coverage under the Cost Audit suggested by CBIC

S. No.	Proposed Sector/Item	Suggestion
1	Online Information and Data Retrieval (OIDAR) (SAC - 99843)	OIDAR Services may be considered to be included in the unregulated sector due to emerging new sector. It may also include e-commerce/e-retailers/ aggregators platform services.
2	Paints and Varnishes (CTH - 3208 & 3209)	Paints and Varnishes may be considered to be included in unregulated sector as the sector is highly evasion prone.

3	Sheets for Veneering (CTH-4408)	Sheets for Veneering may be considered to be included in unregulated sector as the market for the said item is big though unorganised and is prone to tax evasion.
4	Particle Board (CTH4410) Fibre Board (CTH-4411) Plywood (CTH-4412)	May be considered to be included in unregulated sector on account of contribution to the economy. The said item is prone to tax evasion including on account of under valuation.
5	Uncoated Kraft Paper and Paperboard (CTH-4804)	May be considered to be included in unregulated sector on account of contribution to the economy.
	Corrugated Paper and Paperboard (CTH-4808)	The said item is prone to tax evasion including on account of under valuation.
6	Tiles and Marble (CTH-6802)	May be considered to be included in unregulated sector on account of contribution to the economy. The said item is prone to tax evasion including on account of under valuation.
7	Ceramic Items (CTH-6910)	May be considered to be included in unregulated sector on account of contribution to the economy. The said item is prone to tax evasion including on account of under valuation.

iii. HSN System vis-à-vis CTA Coding - It was clarified by CBIC that the Custom Tariff in most of the countries of the world is based on the Harmonized Commodity Description and Coding System (HS). It is an internationally standardized system of names and numbers for classifying traded products. It has been developed and maintained by the World Customs Organization (WCO).

CTH in India also largely based on HSN. Moreover, as per Notification No.1/2017-Central Tax (Rate) dated 28.06.2017, in the GST law also, the classification of goods continues to be based on Customs Tariff Act, which is based on the HSN.

iv. CBIC also submitted clarification on amendments in CTA 2022 vis-à-vis CTA 2021.

5.6.17 Central Board of Direct Taxes (CBDT):

Comments of the CBDT on different issues are summarized below:

a. Sectors that may be included under the ambit of Cost Audit:

i. Cost Audit Reports should be mandatory for those sectors producing products/services where subsidy/incentive including through PLI scheme are provided by Government and where prices are administered by the Government/public agencies.

ii. Products/services which are regulated by the Government and where license is required for use of scarce natural resources/issues involving national security could be considered iii. Areas where already substantial oversight is present e.g. banking (through RBI) and finance (through SEBI) should be kept out of the purview of Cost Audit.

iv. A separate form for roads and infrastructure projects (tolls etc.) for this sector can be considered detailing cost parameters.

v. Following new Sectors were suggested by CBDT for inclusion under the ambit of Cost Audit:

vi. Items of Expenditure to be considered for inclusion in Cost Audit Report format:

a. Cash vs non-cash component of receipts/expenditure

b. Selling and distribution overheads

c. Repairs and Maintenance

d. Royalty and technical know-how

e. Advertisement costs

f. Training expenses

g. Intangibles such as goodwill

h. Pre-operative expenses vii. It was also suggested that inputs may be taken for guidance for the reformulation of the cost audit formats from Form No. 6D which is the inventory valuation report by a Cost Accountant.

5.6.18 Department of Defence:

Comments submitted by Department of Defence is summarized below:

(i) Relevance of Cost Accounting Records and Cost Audit Report in various sectors

a) Defense sector: used to determine reasonable price of various defense related capital equipment and in Defence related cost studies the CAR provide relevant information about profitability, production nos, and other related details of a particular item.

b) Infrastructure sector: ascertain the cost of various infrastructure projects and whether cost of the project is properly worked out by allocating project related cost or a project cost has been escalated by allocating non-operational and common cost to the infrastructure project which is otherwise not wholly or substantially allocatable to the project

c) In anti-dumping investigations, drug pricing, norms fixation, process loss studies and energy consumption etc.

d) Fertilizer Sector: Fertilizers are essential commodities under the essential commodity act, 1955 and government pays subsidy on fertilizers. Price of some of the fertilizers are controlled by the government and made available to farmers at subsidized price which is below the cost of production in case of urea. Subsidy is amount paid to producers of fertilizers if their sale price is less than their cost of production/cost of sales. In the absence of cost accounting record rules and cost audit, cost of fertilizers cannot be determined on the uniform basis. As a result government will find it difficult to determine subsidy payable to various stakeholders.

e) For determination of pipeline tariff for natural gas it becomes essential to maintain cost records so that while approving rates

f) For public procurement purpose of any product or services on cost plus basis and on perpetual basis it can be used by applying cost inflation index for future period.

g) Health sector: Various schemes for the benefit of citizens like Aayushman Bharat Health Scheme etc. are run by Govt., where costs of healthcare procedures are reimbursed to the private hospital.

(ii) List of New Industries/Businesses where Maintenance of Cost Records may be prescribed

a) Emphasis should be laid on to collect information from Department of revenues to provide information about top 20 industries contributing to government revenue and such industries must be covered for maintenance of cost accounts and cost audit.

b) Other sectors to be prescribed for maintenance of cost records:

- Crude oil exploration
- Airport services
- Diagnostic labs
- Warehousing services
- City Gas Distribution and Bulk gas Distribution
- Metro rail services
- Road Transport Services

- Telecoms Tower services
- Electricity Generation and Distribution services.

(iii) Suggestion on Format of Cost Audit Report: More detailed data pertaining to stage wise consumption, production, process loss, consumption of utilities, joint products, by products are prescribed in the rules for more meaningful analysis and comparison with other entities. Such details will be helpful for year-on-year efficiency analysis.

5.6.19 Department of Defence Production:

Department of Defence Production stated that Defense production PSUs are exempted from segment-wise reporting in their balance sheet, the Cost Audit Reports are being used as Secondary source of indicative information to validate their claims as regards to their cost efficiency and productivity. The Cost Audit Reports of the Companies (private as well) in the related sectors may be used by the Department for deciding a benchmark level for PSUs under administrative control of DDP in order to improve their cost efficiency as well as productivity.

5.6.20 Telecom Regulatory Authority of India (TRAI)

TRAI stated that the existing proformae/ formats of the CCRA Rules 2014 prescribe common proformae for all industries/ sectors/ products/ services.

However, in the Cost Accounting Records (Telecommunication Industry) Rules, 2011 notified by the Ministry of Corporate proformae / services specific to the telecom sector were prescribed.

It was suggested that separate proformae/ formats may be included in the new framework for telecom sector, as were prescribed in Cost Accounting Records (Telecommunication Industry) Rules, 2011. This detailed and segregated telecom information will help the Government to analyse costs, revenues for various telecom service providers and across different services; analyse capital employed in major areas of a telecom operator's business; measure financial performance of telecom service providers and profitability of various products and services.

In order to capture telecom sector related information, specific proforma/formats have been suggested by TRAI.

5.6.21 Department of Agriculture & Farmer's Welfare (DA&FW)

DA &FW suggested that Cost Accounting Records with respect to the following commodities may be maintained in accordance with the CCRA Rules 2014:

a. Following commodities which are under the control of DA&FW and are essential as per the Essential Commodities Act 1955:
    - Fertilizers, whether inorganic, organic or mixed
    - Foodstuff, foodgrains, pulses, oilseeds and other agricultural commodities (Rice, wheat, atta (wheat), gram dal, Tur/Arhar dal, Urad Dal, Moong Dal, Masoor Dal, Groundnut Oil, Mustard Oil, Soya Oil, Sunflower Oil, Palm Oil, Potato, Onion, Tomato
    - Seeds of food crops, fruits and vegetables
    - Seeds of cattle fodder
    - Jute seeds
    - Cotton seeds
b. 22 crops, for which MSP is fixed by the DA&FW on the recommendations of the Commission for Agricultural Costs and Prices (CACP), like Paddy, Jower, Bajra, Maize, Ragi, Arhar, Moong, Urad, Groundnut in shell, Soyabean, Sunflower, Seasmum, Niger seeds, Cotton, Wheat, barley, Gram, Masoor (lentil), Rapeseeds/Mustard seeds, Safflower, Jute and Copra.

Further, it was stated that in the present Cost Audit ambit, the commodities like sugar, rubber, coffee, tea and jute are included but its various outcomes based on processing like joint products/bye-products/allied products etc. and different intermediaries are currently not covered. Similarly, in respect of oilseeds, in addition to the above, the different categories are also not specifically mentioned. Accordingly, it is proposed that this aspect may also be looked into.

It was also stated that the Maintenance of Cost Accounts and conduct of cost audit may be introduced in the non-corporate bodies, subject to certain criteria, so as to enable them to make judicious use of funds. It would also help in preventing leakage of public money.

5.6.22 NITI Aayog

Niti Aayog stated that there exist a lot of potential to improve the reliability and responsibility of research and documentation capabilities about costs, production, taxes, and other relevant topics. NITI Aayog therefore is in opinion to constitute public accessible internet data portal for research purposes on the Cost Accounting Records. By building a consolidated data gateway, it will support a creative and cooperative research atmosphere.

Launching the online data portal, in our opinion, will be entirely consistent with our dedication to promoting an environment of exceptional research and stimulating economic innovation. This includes the potential to boost production and enhance research capacities, which in turn raise productivity to bolster our standing as a leading country and ultimately raise the GDP as a whole.

5.7 The Committee noted the views/suggestions made by different Central Government Ministries/Departments and Regulatory Authorities. The Committee also noted the views/suggestions made by Industry Associations including a view that where there is no administered prices/subsidies cost audit requirement should be waived off, Institute of Cost Accountants of India and All India Cost & Management Accountants Association. The Committee deliberated in detail and has taken appropriate views on each issue which are reflected in the relevant Chapters of this Report.

*****

Chapter - 6

Coverage of Companies under Maintenance of Cost Records and Cost Audit framework

6.1 This chapter mainly covers the Committee's deliberation and recommendations on the following issues as per Terms of Reference of the Committee:

(i) To make recommendations about the sectors for which the requirement of maintenance of Cost records and conducting cost Audit may be no longer necessary, and, about the new sectors where maintenance of such records/conduct of such audit may be considered.

(ii) To review the implementation of Companies (Cost Records and Audit) Rules, 2014 (CCRA Rules 2014); in particular, to review the Manufacturing and Service Sectors/Areas covered under CCRA Rules 2014 for Maintenance of Cost records and Cost Audit and identify the Codes for the same. While reviewing the sectors, the Committee will give due consideration to the following factors:

(a) Products/Services where subsidy/incentive are provided by the Government,

(b) Products/Services where prices are administered by the Government/Public Agencies,

(c) Products/Services/Schemes where Government provides incentives through Production linked Incentives (PLI),

(d) Areas where license is required for usage of scarce natural resources,

(e) Sectors related to national security like Defence, Space, Atomic energy etc.,

(f) Products/Services/Sectors where Pricing/Production decisions are under the jurisdiction of Government/regulatory bodies,

(g) Issues related to Cost Audit in Infrastructure Sectors,

(h) Areas where Cost Records may be useful in public interest, 6.2 While deciding on the above issues, the Committee made extensive consultations with Institute of Cost Accountants of India ('ICMAI'), five industry associations (PHDCCI, FICCI, SCOPE, CII and ASSOCHAM), various Ministries/Departments/regulatory authorities and other Cost and Management Accountants Associations. Their representations and views have been duly considered while making recommendations.

6.3 Classification of industries/sectors into regulated and non-regulated Sector under CCRA Rules

6.3.1 Existing Provisions in the CCRA Rules: Presently industries are classified into Regulated and Non-Regulated Sector under CCRA Rules 2014. In Regulated sector 6 industries are covered and in Non-Regulated sector 33 industries are covered. Though threshold limit of turnover for coverage for Maintenance of Cost Records are same for Regulated Sector and Non-Regulated Sector but threshold limits for turnover for coverage for Cost Audit is different for Regulated and Non-Regulated Sector.

6.3.2 Views/ Suggestions of the stakeholders:

(i) Suggestions of ICMAI – Existing system of classifying all industries/sectors under the regulated and non-regulated categories should be dispensed with and only a single table/list of industries/sectors/products/services proposed to be covered under the CCRA Rules should be given.

(ii) Suggestions of Industry Associations –

(a) ASSOCHAM and PHDCCI - Present classification under the regulated and non-regulated is not correct as many industries shown under the nonregulated category have certain regulatory mechanism in place. Thus, this classification may be removed and a uniform threshold limit for all industries may be recommended for cost audit.

6.3.3 Views/Recommendations of the Committee:

(a) The Committee noted that presently, industries/sectors/products/ services covered under the CCRA Rules, 2014 have been divided into two categories that are shown in the form of Tables. Table-A is categorized as regulated industries which includes 6 industries and Table-B is categorized as nonregulated industries which includes 33 industries. The Committee noted that many industries shown under the non-regulated category also have certain regulatory mechanism in place. Examples are port services, aeronautical services, mining activities and industries engaged in tea, coffee, rubber, jute, coir, etc.

(b) In view of the above, the Committee recommends abolishing the classification of sectors into regulated and non-regulated. Instead, a single table/list of industries/sectors/products/services may be covered under the CCRA Rules 2014.

6.4 Manufacturing and Service Sectors to be Retained or Deleted or Added under CCRA Rules for Maintenance of Cost Records and Conducting Cost Audit:

6.4.1 Existing Provisions in the CCRA Rules 2014:

Presently, Companies (Cost Records and Audit) Rules 2014, includes the following industries/sectors/products/services:

Table 11 – Industry/ Sector/ Product/ Service covered under CCRA Rules 2014

I. Regulated Sectors Table-A

Sl. No.	Industry/ Sector/ Product/ Service	Customs Tariff Act Heading (wherever applicable)

1.	Telecommunication services made available to users by means of any transmission or reception of signs, signals, writing, images and sounds or intelligence of any nature and regulated by the Telecom Regulatory Authority of India under the Telecom Regulatory Authority of India Act, 1997 (24 of 1997); including activities that requires authorization or license issued by the Department of Telecommunications, Government of India under Indian Telegraph Act, 1885 (13 of 1885);	Not applicable.
2.	Generation, transmission, distribution and supply of electricity regulated by the relevant regulatory body or authority under the Electricity Act, 2003 (36 of 2003);	Generation- 2716; Other Activity-
		Not Applicable
3.	Petroleum products; including activities regulated by the Petroleum and Natural Gas Regulatory Board under the Petroleum and Natural Gas Regulatory Board Act, 2006 (19 of 2006);	2709 to 2715; Other Activity- Not Applicable
4.	Drugs and pharmaceuticals;	2901 to 2942; 3001 to 3006.
5.	Fertilisers;	3102 to 3105.
6.	Sugar and industrial alcohol;	1701; 1703; 2207.

II. Non-Regulated Sectors Table-B

Sl. No.	Industry/ Sector/ Product/ Service	Customs Tariff Act Heading (wherever applicable)
1.	Machinery and mechanical appliances used in defence, space and atomic energy sectors excluding any ancillary item or items; Explanation. - For the purposes of this sub-clause, any company which is engaged in any item or items supplied exclusively for use under this clause, shall be deemed to be covered under these rules	8401; 8801 to 8805; 8901 to 8908.
2.	Turbo jets and turbo propellers;	8411
3.	Arms, ammunitions and Explosives;	3601 to 3603; 9301 to 9306.
4.	Propellant powders; prepared explosives (other than propellant powders); safety fuses; detonating fuses; percussion or detonating caps; igniters; electric detonators;	3601 to 3603
5.	Radar apparatus, radio navigational aid apparatus and radio remote control apparatus;	8526
6.	Tanks and other armoured fighting vehicles, motorised, whether or not fitted with weapons and parts of such vehicles, that are funded (investment made in the company) to the extent of ninety per cent or more by the Government or Government agencies;	8710

7.	Port services of stevedoring, pilotage, hauling, mooring, re-mooring, hooking, measuring, loading and unloading services rendered for a Port in relation to a vessel or goods regulated by the Tariff Authority for Major Ports under the Major Port Trusts Act, 1963 (38 of1963)”,	Not applicable.
8.	Aeronautical services of air traffic management, aircraft operations, ground safety services, ground handling, cargo facilities and supplying fuel rendered at the airports and regulated by the Airports Economic Regulatory Authority under the Airports Economic Regulatory Authority of India Act, 2008 (27 of 2008);	Not applicable
9.	Iron and Steel;	7201 to 7229; 7301 to 7326
10.	Roads and other infrastructure projects corresponding to para No. (1) (a) as specified in Schedule VI of the Companies Act, 2013 (18 of 2013);	Not applicable.
11.	Rubber and allied products; including products regulated by the Rubber Board constituted under the Rubber Act, 1947 (XXIV of 1947);	4001 to 4017
12.	Coffee and tea;	0901 to 0902
13.	Railway or tramway locomotives, rolling stock, railway or tramway fixtures and fittings, mechanical (including electro mechanical) traffic signaling equipment’s of all kind;	8601 to 8609

14.	Cement;	2523; 6811 to 6812
15.	Ores and Mineral products;	2502 to 2522; 2524 to 2526; 2528 to 2530; 2601 to 2617
16.	Mineral fuels (other than Petroleum), mineral oils etc.;	2701 to 2708
17.	Base metals;	7401 to 7403; 7405 to 7413; 7419; 7501 to 7508; 7601 to 7614; 7801 to 7802; 7804; 7806; 7901 to 7905; 7907; 8001; 8003; 8007; 8101 to 8113.
18.	Inorganic chemicals, organic or inorganic compounds of precious metals, rare-earth metals of radioactive elements or isotopes, and organic chemicals;	2801 to 2853; 2901 to 2942; 3801 to 3807; 3402 to 3403; 3809 to 3824
19.	Jute and Jute Products;	5303, 5307, 5310
20.	Edible Oil;	1507 to 1518
21.	Construction Industry as per para No. (5) (a) as specified in Schedule VI of the Companies Act, 2013 (18 of 2013);	Not applicable.

22.	Health services, namely functioning as or running hospitals, diagnostic centres, clinical centres or test laboratories;	Not applicable.
23.	Education services, other than such similar services falling under philanthropy or as part of social spend which do not form part of any business;	Not applicable.
24.	Milk powder;	0402
25.	Insecticides;	3808
26.	Plastics and polymers;	3901 to 3914; 3916 to 3921; 3925
27.	Tyres and tubes;	4011 to 4013
28.	Pulp and Paper	4701 to 4704; 4801 to 4802.
29.	Textiles;	5004 to 5007; 5106 to 5113; 5205 to 5212; 5303; 5307; 5310; 5401 to 5408; 5501 to 5516
30.	Glass;	7003 to 7008; 7011; 7016
31.	Other machinery and Mechanical Appliances;	8402 to 8487

32.	Electricals or electronic machinery;	8501 to 8507; 8511 to 8512; 8514 to 8515; 8517; 8525 to 8536; 8538 to 8547.

33.	Production, import and supply or trading of following medical devices, namely: (i) Cardiac stents; (ii) Drug eluting stents; (iii) Catheters; (iv) Intra ocular lenses; (v) Bone cements; (vi) Heart valves; (vii) Orthopaedic implants; (viii) Internal prosthetic replacements; (ix) Scalp vein set; (x) Deep brain stimulator; (xi) Ventricular peripheral shud; (xii) Spinal implants; (xiii) Automatic impalpable cardiac defibrillators; (xiv) Pacemaker (temporary and permanent); (xv) Patent ductus arteriosus, atrial septal defect and ventricular septal defect closure device; (xvi) Cardiac re-synchronise therapy; (xvii) Urethra spinicture devices; (xviii) Sling male or female;	9018 to 9022
	(xix) Prostate occlusion device; and (xx) Urethral stents:	

6.4.2 Views/ Suggestions of the stakeholders:

(i) Suggestion of ICMAI:

a) ICMAI suggested that in addition to the principles listed in the Terms of Reference of the Committee, following principles should also be kept in consideration while recommending coverage of various industries or sectors for maintenance of cost records and cost audit:

- All activities that support various tasks of the Government
- Areas where cost data is useful in the public interest
- Protecting Government revenue & evasion of Direct & Indirect Taxes
- Protecting Bank loans from becoming NPAs
- Public Utilities & Public Services - determine cost-based User charges
- Organizations & Companies engaged in implementing public projects & schemes to ensure cost effective deliverables & outcomes
- Infrastructure Sectors - to monitor cost efficiency
- Companies & organizations where Government resources are invested
- Industries/sectors prone to unfair trade practices or cartelization or consumer exploitation
- Build & strengthen Public confidence

b) Further, to support the industry, following principles should also be considered:

- Multi-unit and multi-product companies to get costs, revenue, and profitability for each unit, product, service, function and activity separately.
- Companies prone to global competition to build & enhance their cost competitiveness and strengthen sustainability.
- To enable companies to undertake detailed analytical studies to
- Improve resource utilization & operational efficiencies

- Find potential areas for cost control & cost optimization
- Identify areas for optimizing value to customers
- Undertake strategic planning
- Address risk management

c) Based on the abovementioned principles and the related industries/products/services included under each principle, final list of industries/sectors/products/services that need to be included in the Companies (Cost Records and Audit) Rules, 2014 is given below:

Common Category

- All Central & State Public Sector Enterprises, irrespective of their size or nature of operations.
- All Central & State infrastructure projects.
- All Centre & State level Public Utilities & Public Services.
- Banking, NBFCs & Insurance Companies, incl. Cooperative Banks.
- All listed companies whose equity or debt instruments are listed in a recognized stock exchange, irrespective of their size or nature of operations.
- All unlisted companies, cooperative societies, trusts & societies engaged in the production of goods or rendering of services, as per list below, subject to the following exemptions:
    - Companies classified as micro or small enterprises as per the Micro, Small and Medium Enterprises Development Act, 2006. o Companies having net worth of less than Rs.10 crore.
    - Companies having total turnover of less than Rs.50 crore & listed products/services turnover of less than Rs.25 crore.
    - Companies having outstanding loans or borrowings from banks or public financial institutions of less than Rs.50 crore.

- If the company's aggregate turnover from exports, in foreign exchange, from the prescribed products or services exceeds seventy-five per cent of its total turnover from such products or services.
- If the company or any of its unit is operating from a special economic zone in respect of the prescribed products or services.
- If the company is engaged in generation of electricity for captive consumption through Captive Generating Plant as defined in rule 3 of the Electricity Rules, 2005,

- Banking, NBFCs & Insurance Companies, incl. Cooperative Banks

<u>Production/Processing/Manufacturing/Mining</u>

- All items related to production or use of Defence, including arms, ammunitions & explosives, defence machinery, equipments, mechanical appliances, vehicles, etc.
- All items related to production or use of Atomic Energy
- All items related to production or use of Space
- Advance Chemistry Cells (ACC)
- Agri Seeds & Plants
- Agriculture & Irrigation Equipments
- All Medical Devices (production, import and supply or trading)
- Animal Feed
- Asbestos and asbestos-based products
- Automobiles & Auto components
- Base Metals
- Biotechnology Products

-
-
- Bottled Water & Alcoholic beverages
  Bulk Drugs & Pharmaceuticals
  Capital goods
- Cement
- Ceramic Products
- Chips
- Cigars and cigarettes of tobacco or of tobacco substitute
- Coal & Lignite
- Coir & Coir Products
- Distillation and brewing of alcoholic drinks
- Drones
- Edible oils & oil seeds, incl. animal fats and oils
- Electric Vehicles & its parts
- Electricals or electronic machinery
- Electronic Aerospace and Defence Equipment
- Energy Storage Systems
- Entertainment Electronics
- Exploration, Production, Processing & Transportation of Crude Oil, Gases, and Petroleum Products
- Fertilizers
- Food Processing & Packaged Food Products

- Generation of New and Renewable Energy
- Glass & Glass Products
- Green Energy
- Hydrogen

  Hydrogen Vehicles and its parts

  Infrastructure for the Electric Vehicles like Charging Stations

  Insecticides & Pesticides
- Iron & Steel & Steel Products
- Jute and Jute Products
- Leather and Footwear
- Lifesaving Instruments
- Milk and Milk Products
- Milling of Pulses - Gram dal, Tur/Arhar dal, Urad dal, Moong dal, and

  Masoor dal
- Mineral fuels (other than Petroleum), mineral oils etc
- Optical and Photographic Equipments
- Ores and Mineral Products
- Organic, Inorganic & Hazardous Chemicals
- Other machinery and Mechanical Appliances
- Paints and varnishes
- Plastics, Polymers, & Plastic Products

- Processing, storage & preservation of Agro Products
- Pulp, Paper, Newsprint and Paperboard
- Railway Equipments & Rolling Stock
- Rubber & Rubber Products
- Shipbuilding & Submarines
- Solar Modules
- Solar Panels & Cells
- Storage Batteries
- Sugar(s) and Industrial Alcohol
- Tea & Coffee
- Textiles and Apparels
- Tobacco Products
- Tractors
- Tyres and Tubes
- White Goods

Services

- Aeronautical & Civil Aviation Services
- Telecommunication & Broadcasting Services
- Electricity Generation, Transmission & Distribution Services
- Healthcare Services
- Educational Services

□

□

□

- Port, Shipyard & Shipping Services
- Railway incl. Metrorail Services
- Storage of Gram dal, Tur/Arhar dal, Urad dal, Moong dal, Masoor dal, Potato, Onion and Tomato.
- Manufacturing Services
- Construction & related Engineering Services o Public/mass Housing o Roads, Highways & Bridges o Storage & Warehouses o Real Estate Development o Industrial Park or Special Economic Zone
- Water treatment, supply & distribution Services
- Sanitation, Sewerage & Waste Management Services

- Bulk Material Transportation Services
- Storage, incl. Cold Storage & Warehousing Services
- Data Centres for storage & processing of digital data
- Cyber Security Services
- Tourism & Hospitality Services
- Transport and Logistics Services
- Inland Waterways Services
- Environmental Services

d) Major Ports Trusts Act, 1963 (38 of 1963) has been replaced with the Major Port Authorities Act, 2021 (1 of 2021) and the Tariff Authority for Major Ports has been replaced with the Adjudicatory Board. Therefore, SI. No. 7 of Table B under Rule 3 is proposed to be amended as –

"Port services of stevedoring, pilotage, hauling, mooring, re-mooring, hooking, measuring, loading and unloading services rendered for a Port in relation to a vessel or goods regulated by the Adjudicatory Board constituted under The Major Port Authorities Act, 2021 (1 of 2021)"

(ii) Suggestions of All India Cost & Management Accountants Association:

a) Following sectors may be included in the CCRA Rules:

- Healthcare,
- Education and Housing Agriculture and Food processing Banking,
- Financial and
- Insurance services & PPP Projects

b) Following three sectors were suggested to be excluded from CCRA Rules 2014:

- Small and Micro Enterprises (other than healthcare, education and infrastructure)

- Information technology and Information technology enabled services (IT & ITeS)
- Not for Profit organizations

(iii) Suggestions of CII: CCRA Rules 2014 adequately covers the industry / sector / product, in the area where subsidy/incentive are provided by the Government, which are subject to maintenance of cost records and cost audit.

(iv) Suggestions of PHDCCI and ASSOCHAM:

a) Mechanism of product wise cost records and statements should also be extended to areas where subsidy or incentives are given by the government.

b) Mechanism of product wise cost records and statements should also be extended to areas where license in required for usage of scarce natural resources.

c) Include all such areas where cost data is useful in the public interest. It should include industries prone to evasion of taxes or unfair trade practices, public utilities & services, public projects and scheme, and companies where Government resources are invested.

d) The mechanism should be available for public utilities, public services, infrastructure, national security like Defence, space, atomic energy etc.

e) On healthcare and Education sectors:

- Presently, only a limited number of medical devices are covered under the rules. It is suggested to enhance this number to include all.
- Government should fix range of rates for various medical procedures and services. This will help the industry to negotiate most competitive rates for the services covered under CGHS/PMJAY. A comprehensive costing system for healthcare industry would enable large corporate hospitals to improve decision making.

- All these issues are equally relevant to education sector, especially higher and technical education. Present very high cost of education requires rationalization based on cost-based studies.
- Further, ASSOCHAM also suggested that the Cost Accounting and Cost Audit in healthcare and education sectors should be holistically reviewed and revisited and the regulation with enforcement of the same may be followed.

f) Product-wise cost records and statements would be useful for emerging areas like green energy, solar modules, drones, chips etc.

(v) <u>Federation of Indian Chambers of Commerce & Industry (‘FICCI’)</u>

a) Given the competitiveness in various sectors, excessive pricing is not possible. Companies maintain cost records voluntarily, as they are required to continuously analyse cost and revenue data for managing costs, in order to retain and enhance competitiveness in the face of competition from competing firms or competing substitutes. Mandatory cost audit should therefore not be applicable as reporting of cost statements could lead to a competitive disadvantage in such industries.

b) It was suggested that where there is no administered prices/subsidies, the Cost Audit requirement should be waived off.

c) Statutory Auditors already provide assurance on the financial and systems of an organization and hence valuation of inventory, segment margins and other relevant information is already audited and available. The Statutory Auditors also comment on maintenance of books of accounts. Adding an additional requirement of mandatory Cost Audit would lead to duplication of effort and increase in costs which is contrary to the objective of improving ease of doing business in India. Additionally, such a practice does not exist in most developed markets either.

(vi) Suggestions of Department of Economic Affairs, Ministry of Finance:

(a) Sectors like communication, transport, energy, science and technology, industry, minerals and all other activities, schemes, projects under economic sector require cost accounting and auditing. However, element of 'Social/Universe Service obligation' as prevalent in activities/schemes/projects in these economic sectors like transport, communication etc. as far as service rendered by Government are concerned, may be identified, assessed and quantified separately and may require exclusion from 'costing' of such social/universal services.

(b) Services/schemes/projects/activities under general and social sectors which are for overall development of health, education, poverty alleviation, welfare of scheduled castes/scheduled tribes, art, culture, national/internal security, grants to states & union territory governments, etc. may not exactly come under costing since development indices under these sectors are measured differently.

(vii) Suggestions of the Ministry of Commerce and Industry, Department of Commerce, Directorate General of Trade Remedies: Maintenance of cost records and audit thereof of sugar industry will certainly help the Government to take appropriate policy decision from time to time in public interest.

(viii) Suggestions of the Ministry of Ports, Shipping and Waterways: Major ports are autonomous agencies functioning under the purview of the Major Ports Act 2021 and are not companies as defined under the Companies Act 2013. Under the ports act, major ports have been granted autonomy to determine tariffs based on the market conditions. Hence, cost audit provisions of CCRA Rules 2014 do not apply to the Major Port authorities.

(ix) Tariff Authority for Major Ports

(a) With the notification of Major Port Authorities (MPA) Act, 2021, the erstwhile Major Port Trust Act, 1963 stands repealed. The said Act empowers the Major Ports to fix the tariff for services rendered by them or made available by them and for port properties. For PPP projects, after commencement of the Act, Concessionaires are empowered to fix tariff based on market conditions. In view of this, it suggested deletion of certain words from Rule 3(B)(1) of the Companies (Cost Records and Audit) Rules, 2014 as given below:

"Port services of stevedoring, pilotage, hauling, mooring, re-mooring, hooking, measuring, loading and unloading services rendered by a port in relation to a vessel or goods ~~regulated by the Tariff Authority for Major Porte under section 111of the Major-port Trusts Act, 1963.~~

(b) Major Port Authorities are constituted under Section 4 of the Major Port Trusts Act, 1963 which is replaced with the Major Port Authorities Act, 2021. These are not companies incorporated under the Companies Act, 2013. Hence, the said provisions of maintaining cost account records and conduct of cost audit are not statutorily applicable to Major Port Authorities.

(c) Only Kamarajar Port Limited (KPL) is governed by the Companies Act, 2013 but it does not fall under regulatory regime of Central Government or any Department of the Government or Sectoral regulator and hence are not mandated to maintain cost account records or its audit at present.

(x) Vishakhapatnam Port Authority: Vishakhapatnam Port Authority are not in a position to confirm or deny the experience. However, since Port Sector is competitive and there is an aim to reduce overall logistics cost in India, the cost audit scrutiny will help monitor cost competitiveness at national level for India as a global player.

(xi) Central Electricity Regulatory Commission (CERC): CERC is of the view that the requirement of maintenance of cost accounting records and its audit by the power sector companies are in the interest of the electricity consumer and such provision should remain applicable to the electricity sector.

(xii) Additional Sectors suggested by other Government Departments

Table 12 - Additional Sectors suggested by other Government Departments

S. No.	Sector
CBIC (detailed justifications of adding these sectors are mentioned under Para 5.6.12)	
1.	Paints and Varnishes (CTA Code 3208 to 3209)
2.	Online Information and Data Retrieval (OIDAR) (SAC - 99843)
3.	Sheets for Veneering (CTA-4408)

4.	Particle Board (CTH-4410), Fibre Board (CTH-4411), Plywood (CTH-4412)
5.	Uncoated Kraft Paper and Paperboard (CTH-4804) and Corrugated Paper and Paperboard (CTH-4808)
6.	Tiles and Marble (CTH-6802)
7.	Ceramic Items (CTH-6910)
CBDT	
1.	Gems and Jewellery
2.	Films, Media and Entertainment
3.	Waste Management
4.	Hospitality (Hotels etc.)
5.	IT Services
6.	Companies involved in Food Processing
7.	Quarrying
Department of Food and Public Distribution	

1.	Milling cost and storage costs of 8 commodities (Gram dal, Tur/Arhar dal, Urad dal, Moong dal, Masoor dal, and horticulture crops like potato, onions and tomatoes as per Essential commodities Act 1955)
Department of Agriculture & Farmer's Welfare (DA&FW)	
1.	Cost Accounting Records for the following commodities: Fertilizers, whether inorganic, organic or mixed Foodstuff, foodgrains, pulses, oilseeds and other agricultural commodities (Rice, wheat, atta (wheat), gram dal, Tur/Arhar dal, Urad Dal, Moong Dal, Masoor Dal, Groundnut Oil, Mustard Oil, Soya Oil, Sunflower Oil, Palm Oil, Potato, Onion, Tomato Seeds of food crops, fruits and vegetables Seeds of cattle fodder Jute seeds Cotton seeds 22 crops, for which MSP is fixed by the DA&FW on the recommendations of the Commission for Agricultural Costs and Prices (CACP), like Paddy, Jower, Bajra, Maize, Ragi, Arhar, Moong, Urad, Groundnut in shell, Soyabean, Sunflower, Seasmum, Niger seeds, Cotton, Wheat, barley, Gram, Masoor (lentil), Rapeseeds/Mustard seeds, Safflower, Jute and Copra.

2.	With respect to the Cost Audit, Various outcomes of the commodities like sugar, rubber, coffee, tea and jute based on processing like joint products/bye-products/allied products etc. and different intermediaries. In respect of oilseeds, in addition to the above, the different categories are also not specifically mentioned. Accordingly, it is proposed that this aspect may also be looked into.
Department of Defence	
1.	Crude oil exploration
2.	Airport services
3.	Diagnostic labs
4.	Warehousing services
5.	City Gas Distribution and Bulk gas Distribution
6.	Metro rail services
7.	Road Transport Services
8.	Telecoms Tower services
9.	Electricity Generation and Distribution services.
Directorate General of Trade Remedies, Department of Commerce, by Ministry of Commerce and Industry	
1.	Milling operation of food grains
2.	Jute industry producing jute bags for packing food grains

3.	Warehousing and storage service of food grains
4.	Transport service (road, sea, etc.) engaged for food grain movement

6.4.3 Views/Recommendations of the Committee

(i) After considering the views of the stakeholders, the Committee recommends the following broad parameters, in addition to the factors mentioned in ToR as mentioned in para no. 6.1 above, for selection of any sector for Cost Accounting Records and Cost Audit framework.

a. Sector involving large government expenditure/ public funds;

b. Sectors involving large public interest;

c. Sectors which are important from government revenue angle.

d. Sectors which are regulated or under administrative price mechanism, or are in receipt of subsidy/incentive from the Government, serving the areas related to national security.

e. Sectors which are recommended by any Ministry/Department/Regulator.

(ii) The Committee recommends, out of 39 sectors presently covered under CCRA Rules 2014, to retain 35 sectors and 4 sectors may be removed. Sector-wise decisions taken and justifications for the same are given below:

Table 13 - Sector-wise justifications for retention/deletion of the existing sectors covered under CCRA Rules

S. No.	Name of the Sector	Justification / comments
Sectors to be retained – Sectors related with national security, strategic sectors, infrastructure and regulated sectors, industrial products, agriculture related inputs, healthcare related products and other important services etc.		

1.	Telecommunication services	Industry regulated and recommended by a Sectoral Regulator or a Ministry or Department of Central Government.
2.	Electricity	Industry regulated by a Sectoral Regulator or a Ministry or Department of Central Government.
3.	Petroleum Products	Industry Regulated by a Sectoral Regulator or a Ministry or Department of Central Government. Products and services on which subsidies are provided by the Government.
4.	Drugs and Pharmaceuticals	Products or services which are important for the survival and where Government intends to determine or control prices. Covered under Essential Commodities Act. Industry regulated by a Sectoral Regulator or a Ministry or Department of Central Government.
5.	Fertilizers	Products and services on which subsidies are provided by the Government. Industry regulated by a Sectoral Regulator or a Ministry or Department of Central Government.
6.	Sugar and Industrial Alcohol	Cost data is required by the Regulators/Government Departments. Industry regulated by a Sectoral Regulator or a Ministry or Department of Central Government.

7.	Machinery and mechanical appliances	Companies engaged in the production of specific goods in strategic sectors.
8.	Turbo Jets and Turbo Propellers	Companies engaged in the production of specific goods in strategic sectors.
9.	Arms, Ammunitions and Explosives	Sectors which are exclusively meant for providing goods and services to the Government. Companies engaged in the production of specific goods in strategic sectors.
10.	Propellant powders and explosives	Companies engaged in the production of specific goods in strategic defence sectors.
11.	Radar Apparatus etc.	
12.	Tanks etc.	
13.	Port Services	Industry regulated by a Sectoral Regulator or a Ministry or Department of Central Government.
14.	Aeronautical Services	Industry regulated by a Sectoral Regulator or a Ministry or Department of Central Government.
15.	Iron and Steel	Important for Infrastructure projects. Used in manufacturing of equipment for Strategic sectors.
		Prone to tax evasion hence significant for public finances.

16.	Roads and other infrastructure projects (Para (1)(a) of Schedule VI of Companies Act, 2013)	Government has provided or allocated natural resources and where user charges are levied. Industry regulated by a Sectoral Regulator or a Ministry or Department of Central Government.
17.	Railways	Sectors which are exclusively meant for providing goods and services to the Government.
18.	Cement	Important for Infrastructure projects
19.	Ores and Mineral Products	Input for infrastructure sector Companies operating in areas involving public interest. Areas where licence is required for usage of scarce natural resources.
20.	Mineral Fuels (other than Petroleum), mineral oils etc	
21.	Base Metals	
22.	Chemicals and Metals	Sectors which are making significant contribution to the Government revenue and prone to evasion/ leakage of revenue. Companies operating in areas involving public interest.
23.	Jute and Jute products	Companies operating in areas involving public interest. Covered under Essential Commodities Act.
24.	Edible Oil	Companies operating in areas involving public interest. Covered under Essential Commodities Act.

		Sectors which are making significant contribution to the Government revenue and prone to evasion/ leakage of revenue.
25.	Construction Industry (Real estate development, corresponding to para no. (5) (a) as specified in Schedule VI of the Companies Act, 2013)	Companies operating in areas involving public interest.
26.	Health services	Companies operating in areas involving public interest. Large Public expenditure is incurred.
27.	Education services	Companies operating in areas involving public interest. Large Public expenditure is incurred.
28.	Plastics and Polymers	This sector making significant contribution to the government revenue and prone to evasion/leakage of revenue.
29.	Other machinery and mechanical appliances	Companies operating in areas involving public interest.
30.	Electricals or electronic machinery	Being very important sector for capital goods and machinery for various industries.
31.	Pulp and Paper	This sector making significant contribution to the government revenue and prone to evasion/leakage of revenue.

32.	Production, import and supply or trading of 20 specified medical devices.	Companies operating in areas involving public interest.
		Products or services which are important for the survival and where government intends to determine or control prices.
33.	Tyres and Tubes	Cost Audit Report is a mandatory prerequisite document in the application in Anti-dumping/ CVD investigation. DGTR has been extensively using the Cost Audit Reports in respect of Textiles, Tyres and Tubes and Chemicals in its Anti-dumping/ CVD investigation work. Removal of these Sectors will create hindrance to the investigation work and will also restrict the use of Anti-dumping Rules.
34.	Insecticides	
35.	Textiles	
Sectors may be removed		
1.	Glass	It is proposed to remove these sectors as they do not fulfill the factors for inclusion in CCRA Rules as per mandate of the Committee. However, the Government may take a view in each sector in consultation with the concerned Ministry/Department, as the Committee has not received their views.
2.	Milk Powder	
3.	Rubber	
4.	Coffee and Tea	

(iii) Further, the Committee considered the suggestions made by various stakeholders and after detailed deliberation the Committee recommends including following sectors within the purview of Cost record maintenance and Cost Audit framework:

S. No.	Sector	CTA Code/ SAC
1.	Construction services related to infrastructure projects of the following where Govt. expenditure is involved: i. Rail systems, Metro rail and other railway related services ii. Irrigation, dams, and flood control waterworks iii. Urban and Rural housing including public/mass housing up to carpet area 60 sq mtr.	Refer Appendix-2 NA
2.	Storage for Agro-products covered under PDS	Refer Appendix-2
3.	(a) Specialized vehicles for defence forces, Police forces, paramilitary forces, space and atomic energy being procured by Govt. (b) Unmanned Aircraft	NA 8806

(iv) Committee accepted the suggestions of CBIC and CBDT [as mentioned under Point (a) and (b) of (xii) of Para 6.4.2] regarding addition of new sectors under Cost Audit.

(v) The Committee recommends to accept modification under Port services in CCRA Rules 2014 and therefore delete the words "regulated by the Tariff Authority for Major Ports under the Major Port Trusts Act, 1963 (38 of1963)" since the powers bestowed on Tariff Authority for Major Ports under the erstwhile MPT Act, 1963, to regulate tariff for services provided by the Major Ports and for the port properties stands withdrawn w.e.f. 3 November 2021, as per the suggestions of Ministry of Ports, Shipping and Waterways and Tariff Authority for Major Ports.

6.5 Identifying the CTA Codes and Service Sector Codes for the sectors covered under CCRA Rules 2014.

6.5.1 Existing Provisions in the CCRA Rules 2014:

Companies (Cost Records and Audit) (CCRA) Rules, 2014 have specified the class of companies covered under maintenance of cost records and cost audit in the Table A- Regulated Sectors and Table B- Non-Regulated Sector. The Tables includes both manufacturing and service sectors. In respect to manufacturing sectors, Custom Tariff Act Headings and Codes are mentioned against the products covered. However, no codes for service sector are not mentioned.

Ministry of Corporate Affairs formed a 3-member committee (Two officers from MCA and one member from ICMAI) to identify the Service Sector Codes for the services covered under the CCRA Rules. Committee recommended the Codes for the Service included in the CCRA Rules based on National Product Classification for Services (NPCS). Report of the Committee (Annexure-VII) was submitted before this Committee for Consideration.

6.5.2 Views/ Suggestions of the stakeholders:

(i) Suggestions of ICMAI –

(a) Following necessary changes that are required in various CTA codes w.e.f. 01.01.2022 on account of changes in Customs Tariff Act 2022 vis-à-vis 2021, was suggested:

Table 14 – Changes in various CTA codes w.e.f. 01.01.2022 on account of changes in Customs Tariff Act 2022 vis-à-vis 2021, as suggested by ICMAI

Existing CTA Code	Existing nomenclature	Table serial number in which already included	Revised CTA Code	Revised nomenclature	Table serial number in which already included	Table serial number in which addition of new CTA Code is required
2518	Dolomite ramming mix	B – 15	3816	Dolomite ramming mix	B – 18	NA
3002	Malaria diagnostic test kits	A – 4	3822	Kits for Malaria	B - 18	NA
3824	Mixtures containing halogenated etc.	B – 18	3827	Mixtures containing halogenated etc.	NA	B – 18
8525	Transmission apparatus etc.	B – 32	8806	Unmanned Aircraft	NA	B – 1
8803	Propellers and rotors and parts thereof	B – 1	8807	Propellers and rotors and parts thereof	NA	B – 1

9405	Lamps and lighting fittings etc.	NA	8539	Light – emitting diode (LED) modules	B -32	NA

(b) Further, ICMAI has also suggested the following additional codes to be included in the CCRA Rules:

Table 15 - Additional codes suggested by ICMAI

S. No.	Existing Sector	Proposed CTA Codes
1	Milk Powder	0401, 0403 to 0406
2	Edible Oils	1501 to 1506
3	Ores and Mineral Products	2618 to 2621
4	Chemicals	3825
5	Plastics and Polymers	3915, 3922 to 3924, and 3926
6	Pulp and Paper	4705 to 4707, 4803 to 4814, 4816 and 4818

7	Textiles	5101 to 5105, 5201 to 5203, 5301 to 5302, 5305 to 5309, 5311, 5601 to 5609, 5701 to 5705, 5801 to 5811, 5901 to 5911, 6001 to 6006, 6101 to 6117, 6201 to 6217, 6301 to 6310
8	Glass	7001 to 7002, 7009 to 7010, 7013 to 7015, 7017 to 7020
9	Base metals	7404, 8002
10	Electricals or electronic machinery	8508 to 8510, 8513, 8516, 8518 to 8523, 8537, 8548
11	Arms, Ammunitions and Explosives	9307

(c) It was also suggested to notify the codes of the service sectors presently covered under Table A and B of the CCRA Rules, 2014.

(d) It suggested to include NPCS Code 9988 "Manufacturing services on physical inputs (goods) owned by others" to various class of industries such as petroleum, chemicals, rubber & plastics, mineral products, electronics, automotive components, base metals, weapon & ammunition manufacturing, etc.

(ii) CBIC suggested to include Uncoated Kraft Paper and Paperboard; and Corrugated Paper and Paperboard (4804 and 4808).

6.5.3 Views/recommendations of the Committee –

(i) With respect to the changes in CTA Codes on account of the amendment in Customs Tariff Act 2022 vis-à-vis 2021, the Committee recommends adopting the changes as suggested by ICMAI at para 6.5.2(i)(a) above under the CCRA Rules.

(ii) With respect to the additional codes suggested by ICMAI, the Committee is of the view that proper justification has not been provided by ICMAI for inclusion of the above codes. In view of this, the Committee recommends not to include any additional codes suggested by ICMAI.

(iii) The Committee decided to accept the report of the separate Committee constituted to identify Service codes and recommends adopting the same under the CCRA Rules.

(iv) With respect to the ICMAI's suggestion regarding manufacturing services, the Committee noted that service code 9988 includes the manufacturing services for all products whereas CCRA Rules covers only few products. Further, the Committee constituted for identifying service code recommends service codes at eight-digit level. ICMAI has not suggested product wise list of manufacturing services at eight-digit level which could be considered for inclusion in CCRA Rules. Therefore, in absence of specific suggestions from the ICMAI as to how it would be included under CCRA Rules 2014, ICMAI's suggestion to include Service Code 9988 in CCRA Rules is not recommended.

(v) The Committee recommends to include Uncoated Kraft Paper and Paperboard; and Corrugated Paper and Paperboard (CTA Code- 4804 and 4808) in Pulp and Paper Sector as suggested by CBIC.

(vi) The Committee recommends the revised list of sectors/industries/ products/ services along-with the CTA/Service codes (based on NPCS) is given below:

Table 16 - Revised list of sectors/industries/ products/ services along-with the CTA/Service codes (based on NPCS) recommended by the Committee

Sl. No.	Industry/ Sector/ Product/ Service	Customs Tariff Act Heading (wherever applicable)

1.	Telecommunication Telecommunication services made available to users by means of any transmission or reception of signs, signals, writing, images and sounds or intelligence of any nature and regulated by the Telecom Regulatory Authority of India under the Telecom Regulatory Authority of India Act, 1997 (24 of 1997); including activities that requires authorization or license issued by the Department of Telecommunications, Government of India under Indian Telegraph Act, 1885 (13 of 1885);	Refer Appendix-2
2.	Electricity Generation, transmission, distribution and supply of electricity regulated by the relevant regulatory body or authority under the Electricity Act, 2003 (36 of 2003);	Generation- 2716; Other Activity- Refer Appendix-2
3.	Petroleum and Natural Gas Petroleum products; including activities regulated by the Petroleum and Natural Gas Regulatory Board under the Petroleum and Natural Gas Regulatory Board Act, 2006 (19 of 2006);	2709 to 2715; Other Activity- Refer Appendix-2
4.	Health and Pharmaceutical	
	(a) Drugs and pharmaceuticals;	2901 to 2942; 3001 to 3006.

	(b) Production, import and supply or trading of following medical devices, namely:- (i) Cardiac stents; (ii) Drug eluting stents; (iii) Catheters; (iv) Intra ocular lenses; (v) Bone cements; (vi) Heart valves; (vii) Orthopedic implants; (viii) Internal prosthetic replacements; (ix) Scalp vein set; (x) Deep brain stimulator; (xi) Ventricular peripheral shud; (xii) Spinal implants; (xiii) Automatic impalpable cardiac defibrillators; (xiv) Pacemaker (temporary and permanent); (xv) Patent ductus arteriosus, atrial septal defect and ventricular septal defect closure device; (xvi) Cardiac re-synchronise therapy; (xvii) Urethra spinicture devices; (xviii) Sling male or female; (xix) Prostate occlusion device; and (xx) Urethral stents:	9018 to 9022

	(c) Health services, namely functioning as or running hospitals, diagnostic centres, clinical centres or test laboratories;	Refer Appendix-2
5.	Fertilisers;	3102 to 3105.
6.	Food and Public Distribution	
	(a) Sugar and industrial alcohol;	1701; 1703; 2207.
	(b) Edible Oil;	1507 to 1518
	(c) Storage for Agro-products covered under PDS	Refer Appendix – 2
7.	Defence (a) Machinery and mechanical appliances used in defence, space and atomic energy sectors excluding any ancillary item or items; Explanation. - For the purposes of this sub-clause, any company which is engaged in any item or items supplied exclusively for use under this clause, shall be deemed to be covered under these rules	8401; 8801 to 8805;8807 8901 to 8908.
	(b) Turbo jets and turbo propellers;	8411
	(c) Arms, ammunitions and Explosives;	3601 to 3603; 9301 to 9306.

	(d) Propellant powders; prepared explosives (other than propellant powders); safety fuses; detonating fuses; percussion or detonating caps; igniters; electric detonators;	3601 to 3603
	(e) Radar apparatus, radio navigational aid apparatus and radio remote control apparatus;	8526

	(f) Tanks and other armoured fighting vehicles, motorised,whether or not fitted with weapons and parts of such vehicles, that are funded (investment made in the company) to the extent of ninety per cent or more by the Government or Government agencies; (g) Specialized vehicles for defence forces, Police forces, paramilitary forces, space and atomic energy procured by Govt. (h) Unmanned Aircraft	8710 NA 8806
8.	Port Services Port services of stevedoring, pilotage, hauling, mooring, remooring, hooking, measuring, loading and unloading services rendered for a Port in relation to a vessel or goods.	Refer Appendix-2

9.	Aeronautical services Aeronautical services of air traffic management, aircraft operations, ground safety services, ground handling, cargo facilities and supplying fuel rendered at the airports and regulated at the Airports Economic Regulatory Authority under the Airports Economic Regulatory Authority of India Act, 2008 (27 of 2008);	Refer Appendix-2
10.	Iron and Steel;	7201 to 7229; 7301 to 7326
11.	Construction Services relating to following infrastructure projects where Govt. expenditure is involved: (a) Roads, national highways, state highways, major district roads, other district roads and village roads, toll roads, bridges, highways and other road related services.	Refer Appendix-2
	(b) Industrial, commercial and social development relating to real estate development, including an industrial park or special economic zone (c) Irrigation, dams, and flood control waterworks (d) Urban and Rural housing including public/mass housing up to carpet area 60 sq mtr.	NA
12.	Railways	
	(a) Railway or tramway locomotives, rolling stock, railway or tramway fixtures and fittings, mechanical (including electro mechanical) traffic signalling equipment's of all kind;	8601 to 8609

	(b) Construction Services relating to railway infrastructure projects- Rail systems, Metro rail and other railway related services	Refer Appendix-2
13.	Cement;	2523; 6811 to 6812
14.	Mining and Mineral	
	(a) Ores and Mineral products;	2502 to 2522; 2524 to 2526; 2528 to 2530; 2601 to 2617
	(b) Mineral fuels (other than Petroleum), mineral oils etc.;	2701 to 2708
	(c) Base metals;	7401 to 7403; 7405 to 7413; 7419; 7501 to 7508; 7601 to 7614; 7801 to 7802; 7804; 7806; 7901 to 7905; 7907; 8001; 8003; 8007; 8101 to 8113.
	(d) Inorganic chemicals, organic or inorganic compounds of precious metals, rare-earth metals of radioactive elements or isotopes, and organic chemicals;	2801 to 2853; 2901 to 2942; 3801 to 3807; 3402 to 3403; 3809 to 3824 and 3827

15.	Jute and Jute Products;	5303, 5307, 5310
16.	Education services Education services, other than such similar services falling under philanthropy or as part of social spend which do not form part of any business;	Refer Appendix-2
17.	Plastics and polymers;	3901 to 3914; 3916 to 3921; 3925
18.	Electricals and Machinery	
	(a) Other machinery and Mechanical Appliances;	8402 to 8487
	(b) Electricals or electronic machinery;	8501 to 8507; 8511 to 8512; 8514 to 8515; 8517; 8525 to 8536; 8538 to 8547.
19.	Pulp and Paper	4701 to 4704; 4801, 4802, 4804 and 4808
20.	Tyres and Tubes	4011 to 4013
21.	Insecticides	3808

22.	Textiles	5004 to 5007; 5106 to 5113; 5205 to 5212; 5303; 5307; 5310; 5401 to 5408; 5501 to 5516
23.	Gems and Jewellery	NA*
24.	Films, Media and Entertainment	NA*
25.	Waste Management	NA*
26.	Hospitality (Hotels etc.)	NA*
27.	IT Services	NA*
28.	Companies involved in Food Processing	NA*
29.	Quarrying	NA*
30.	Paints and Varnishes	3208 to 3209
31.	Online Information and Data Retrieval	SAC – 99843
32.	Sheets for Veneering	4408
33.	Particle Board, Fibre Board, Plywood	4410 to 4412
34.	Tiles and Marble	6802
35.	Ceramic Items	6910

*Note: Wherever in the above tables 'NA' is mentioned against the CTA Headings, MCA may identify the code as Committee could not identify the same due to paucity of time. These sectors have been recommended on the basis of inputs received from the Central Board of Direct Taxes, Department of Revenue, Ministry of Finance on the Cost Audit Reports with the approval of Chairman, CBDT vide CBDT OM No. 370149/168/2023-TPL, dated 25.1.2024.

(vii) A view was also expressed during deliberations that cost is an important criteria to measure the performance of a particular entity or a project. Government as a shareholder in a company or as provider of funds or moneys for infrastructure projects or subsidy would be interested in ascertaining the cost being incurred by an entity (company) where it is a shareholder or is in management or in a project/scheme where it is providing subsidy, incurring expenditure. In a company where Government has no stakes, revenue leakages could be one concern to ascertain the correctness of costs recorded in the books of a company. At the same time, management of a company (in case of a non-govt. company, where Govt. is neither a shareholder nor in management) would also be interested in having adequate cost controls to ensure that there is a no cost overrun or leakage lest its profitability should get impacted. Corporates have to be competitive to survive in market and not to yield share of market to the rival companies. In any market structure, profit maximisation or loss minimization would be the aim of a corporates. In order to remain competitive, companies have to adopt various strategies including reduction in their cost.

(viii) Keeping in view these discussions and deliberations, the Committee felt that the report may be placed in public domain for wider consultations including with industry and user departments within the Government to get views on the recommendations of the Committee for addition or removal of sectors within the framework of cost audit and maintenance of cost records. 6.6 Criteria for maintenance of cost records and cost audit

6.6.1 Existing Provisions in the CCRA Rules 2014: The

relevant provisions of CCRA Rules are as following:-

(i) Rule-3 Application of cost records- The class of companies engaged in the production of the goods or providing services, as specified in the Table A- Regulated Sectors and Table B- Non-Regulated Sector, having an overall turnover from all its products and services of rupees thirty-five crore or more during the immediately preceding financial year, shall include cost records for such products or services in their books of accounts.

(ii) Rule- 4 Applicability for Cost Audit-

(1) Every company specified in item (A) [Regulated Sector] of rule 3 shall get its cost records audited in accordance with these rules if the overall annual turnover of the company from all its products and services during the immediately preceding financial year is rupees fifty crore or more and the aggregate turnover of the individual product or products or service or services for which cost records are required to be maintained under rule 3 is rupees twenty five crore or more.

(2) Every company specified in item (B) [Non-Regulated Sector] of rule 3 shall get its cost records audited in accordance with these rules if the overall annual turnover

of the company from all its products and services during the immediately preceding financial year is rupees one hundred crore or more and the aggregate turnover of the individual product or products or service or services for which cost records are required to be maintained under rule 3 is rupees thirty five crore or more.

6.6.2 Views/ Suggestions of the stakeholders: I.

Maintenance of Cost records

(i) Suggestions of ICMAI:

a) All companies that fall under the covered list of industries/sectors/products/services should maintain cost records for all its products or services and not restricted to only the products or services covered in the Tables given in the Rules, irrespective of the turnover limit, as an integral part of their books of accounts. However, the present exemption granted to foreign companies having only liaison offices in respect of items in serial number 33 and to all companies classified as micro or small enterprises as per the Micro, Small and Medium Enterprises Development Act, 2006 may be continued. There appears no need to prescribe any minimum turnover limit but a minimum net worth limit as provided in section 148(2) should be prescribed to ensure universal coverage of companies except micro or small enterprises.

b) The company should continue to maintain cost records in respect of each of its financial year irrespective of any increase or decrease in overall turnover or change in its nature of the business in subsequent financial years.

(ii) Suggestions of Industry Associations (CII, PHDCCI and ASSOCHAM): Since cost records are in-built part of the company's books of accounts, maintenance of cost records does not entail any additional effort or cost. Further PHDCCI also suggested that maintenance of cost data/records should be mandated for all companies and ASSOCHAM suggested that maintenance of cost data/records should be mandated for all listed companies, except the micro or small enterprises. Further, ASSOCHAM suggested that based on the present classification of micro or small enterprises as per the Micro, Small and Medium Enterprises Development Act, 2006, the overall turnover limit may be raised from Rs.35 crores to Rs.50 crores.

(iii) Suggestions of All India Cost & Management Accountants

Associations – Ensure that all businesses, especially the manufacturing industry, strictly adhere to cost accounting record rules (CARR) irrespective of their turnover.

II. Applicability of Cost Audit

(i) Suggestions of ICMAI –

It suggested that all companies covered for maintenance of cost records should also be covered for cost audit. However, a company may be granted exemption from cost audit under the following circumstances:

a) When the company's aggregate turnover of the products or services for which cost records are required to be maintained is less than Rs.25 crore; b) When the company's aggregate turnover from exports, in foreign exchange, from the products or services for which cost records are required to be maintained exceeds seventy-five per cent of its total turnover from such products or services;

c) When the company or any of its unit is operating from a special economic zone in respect of the products or services for which cost records are required to be maintained;

d) When the company is engaged in generation of electricity for captive consumption through Captive Generating Plant as defined in rule 3 of the Electricity Rules, 2005.

(ii) Suggestions of Industry Associations –

a) PHDCCI and ASSOCHAM suggested that every company mandated to maintain cost records should also be covered under the cost audit mechanism.

b) FICCI suggested that mandatory cost audit should not be applicable as reporting of cost statements could lead to a competitive disadvantage in various industries. Adding an additional requirement of mandatory Cost Audit would lead to duplication of effort and increase in costs which is contrary to the objective of improving ease of doing business in India. Additionally, such a practice does not exist in most developed markets either.

(iii) Ministry of Commerce and Industry, Department of Commerce, Directorate General of Trade Remedies: The coverage of the industry may be widened by decreasing the turnover limit for mandatory cost audit.

III. Periodicity of maintenance of Cost Records and Cost Audit -

(i) Suggestions of ICMAI –

a) It suggested that the company should continue to maintain cost records in respect of each of its financial year irrespective of any increase or decrease in overall turnover or change in its nature of the business in subsequent financial years.

b) It was also suggested to insert the following proviso below sub-rule (2) of Rule 4 of the CCRA Rules, 2014:

"Provided that the cost audit, once applicable under sub-rule (1) and sub-rule (2), shall be continued for every financial year thereafter."

6.6.3 <u>Views/Recommendations of the Committee –</u>

(a) The Committee noted that presently in the CCRA Rules 2014, coverage of the Companies is made on the basis of the turnover criteria. For maintenance of Cost Records, a single total turnover limit is prescribed for both Regulated Sector as well as Non-Regulated Sectors. However, for coverage of Cost Audit, aggregate turnover of the products and services covered and also total turnover is prescribed. Further, different turnover limit for Regulated Sector and Non-Regulated Sectors is prescribed.

(b) The Committee further noted that ICMAI and Industry Associations (CII & PHDCII) suggested that every company mandated to maintain cost records should also be covered under Cost Audit and distinction between Regulated and NonRegulated Sectors may be removed.

(c) In view of the above, the Committee felt that a single turnover criteria for cost records maintenance and as well as for cost audit may be more appropriate. Further, the committee also felt that aggregate turnover of the products and services covered under CCRA Rules is relevant for coverage of companies under cost records maintenance and cost audit whereas total turnover may not be relevant in deciding the coverage for cost records maintenance and cost audit. After detailed deliberations, the Committee decided that a single aggregate turnover of the products and services covered under CCRA Rules may be fixed as a criteria for coverage of the Companies for cost records maintenance and as well as for cost audit.

(d) The Committee noted that threshold turnover limit in the CCRA Rules were fixed in 2014. Further, CCRA Rules, if revised now, will be applicable from the financial year 2024-25. Therefore, the Committee is of the view that growth rate of the turnover of the companies covered under CCRA Rules and growth rate of relevant indices in FY 2023-24 over FY 2013-14 needs to be considered for arriving at the revised threshold limit of turnover. The Committee considered the following analysis:

Analysis of relevant Indexes: The Committee noted that out of the 4 indices considered for analysis, growth rates up to FY 2022-23 is available for 3 indices (IIP, 8 Core industries & WPI) and growth rate up to FY 2021-22 is available for one index (CPI). Therefore, average growth rate for the years for which data is available has been calculated and the same growth rate has been applied to arrive at the projected indices for FY 2023-24. Accordingly, growth rates of indices in FY 2023-24 over FY 2013-14 has been calculated as shown below:

Table 17 - Growth rates of indices in FY 2023-24 over FY 2013-14

SL.	Indices	2013-14	2022-23	Growth in 202223 over 2013-14 (%)	Growth in 2023-24 over 2013-14 (Based on Extrapolation) (%)
(1)	(2)	(3)	(4)	(5)	(6)=column (5)*10/9

1.	Index of Industrial Production (Base: 2011-12)	106.7	138.4	29.62%	32.91%
2.	Index of 8 Core Industries (Base: 2011-12=100)	106.5	146.6	37.75%	41.94%
3.	Wholesale Price Index (Base: 2011-12)	112.5	152.5	35.55%	39.50%
4.	CPI (Combined) (BASE: 2011-12=100)	120.3	175.6 (for FY 2021-22)	45.97% (Growth in 202122 over 2013-14)	57.46% (45.97*10/8)
	Simple Average %				42.95%

Analysis of Growth of Turnover: The Committee noted that Turnover for the year FY 2022-23 is not available for all the companies. Therefore, the latest turnover available in the database for the FY 2021-22 has been considered for analysis. The average growth rate per year from 2013-14 to 2021-22 has been considered to extrapolate the projected growth rate in 2023-24 over FY 2013-14 as shown below:

Table 18 - Growth of turnover of the Companies covered under Cost Audit

Sector	No. of Companies	Turnover 13-14 (in Cr.)	Turnover 21-22 (in Cr.)	% Growth in turnover
Regulated	1272	32,77,609	51,85,461	58.21%

Non-Regulated	4117	22,68,601	41,73,354	83.96%
Total	5389	55,46,210	93,58,816	68.74%

Average growth rate per year from 2013-14 to 2021-22 = 68.74%/8= 8.59% p.a. Accordingly, extrapolating the growth rate 8.59% p.a. increase in FY 2023-24 over 2013-14 is = 68.74/8*10 = 85.93%

(e) The Committee noted that estimated average growth rate in different indices (viz. IIP, 8 core industries, WPI, and CPI) in FY 2023-24 over FY 2013-14 comes to 43%. Further, estimated growth in the turnover of the companies covered under Cost Audit (5389 companies) in FY 2023-24 over FY 2013-14 comes out to be 86%.

(f) The Committee is of the view that estimated growth rate in turnover of the companies includes estimated growth in the indices. Therefore, 86% growth rate may be applied for working out the revised turnover threshold.

(g) Applying the estimated growth rate of 86% to the present turnover limit for maintenance of Cost records and Cost Audit, worked out as follows:

Table 19 – Estimated turnover limit for maintenance of Cost records and Cost Audit after applying 86% growth rate

Sector	Existing Turnover	Existing Turnover Limits for Cost Audit		Worked out Turnover	Worked out Turnover Limits for Cost Audit	
	Limit for Maintenance of Cost Records (in Cr.)	Aggregate turnover of products covered (in Cr.)	Overall turnover (in Cr.)	Limit for Maintenance of Cost Records (in Cr.)	Aggregate turnover limits for products covered (in Cr.)	Overall turnover limits (in Cr.)
Regulated	35	25	50	65	47	93
Non-Regulated		35	100		65	186

(h) The Committee is of the view that since the decision has been taken to fix a single aggregate turnover of the products and services covered under CCRA Rules as a criteria for coverage of the Companies for cost records maintenance and as well as for cost audit, revised limit should be more than the estimated aggregate turnover calculated in the above table as the total turnover criteria is proposed to be done away with and some companies which were earlier not covered due to overall turnover limit, may now get covered.

(i) In view of the above, the Committee recommends to fix aggregate turnover limit of Rs.75 crore of the products and services covered under CCRA Rules for cost records maintenance and as well as for cost audit.

(j) Periodicity for maintenance of Cost Records and Cost Audit –The Committee noted that at present, applicability of maintenance of Cost records and Cost Audit is on year-to-year basis based on the turnover of previous year. The Committee further noted that ICMAI has suggested Cost Audit once applicable shall become applicable till the time the company is covered under Maintenance of Cost Records. Further, Industry Associations CII & PHDCII also stated that maintenance of cost records does not entail any additional effort or cost and every company mandated to maintain cost records should also be covered under Cost Audit. The Committee is of the view that in order to avoid the year-to-year fluctuations in turnover limit and to keep a consistency in the maintenance of cost records and cost audit, it would be appropriate to consider the aggregate turnover of the individual product or products or service or services of any one of the immediately preceding three years as a criteria for applicability of maintenance of cost records and conduct of cost audit in the current financial year.

(k) Therefore, the Committee recommends that the class of companies engaged in the production of the goods or providing services, as specified in the CCRA Rules, having an aggregate turnover of the product or products or service or services of rupees <u>seventy five crore or more during any one of the immediately</u>

three preceding financial years, shall maintain cost records and conduct cost audit for such products or services.

6.7 Exemptions in CCRA Rules:

6.7.1 Existing Provisions: The Committee noted that following exemptions are available in the CCRA Rules:

Maintenance of Cost Records:

i. In case of medical devices, the provisions shall not apply to foreign companies having only liaison offices.

ii. The provisions shall not apply to a company which is classified as a micro enterprise or a small enterprise, as defined under MSME Development Act, 2006.

Cost Audit:

i. Revenue from exports, in foreign exchange, exceeds 75% of its total revenue; or ii. Operating from a Special Economic Zone.

iii. Generation of Electricity for Captive Consumption as defined in the Electricity Rules, 2005.

6.7.2 Suggestions of ICMAI:

(a) ICMAI suggested that the requirement for cost audit under these rules shall not apply to a company which is covered in rule 3, whose revenue from exports, in foreign exchange, exceeds seventy-five per cent of its total revenue from the items covered under rule 3.

(b) ICMAI gave the justification that as per the intent of law, a company is exempted from cost audit only if it is primarily engaged in export activities. But the said exemption should be granted only when the company's revenue from exports, in foreign exchange, exceeds seventy-five per cent of its total revenue from the items covered under rule 3, not otherwise. It means if a company is engaged in export activities of only those products that are not covered under rule 3, or its revenue from export of products or services covered under rule 3 does not exceed seventyfive per cent of its total revenue, then it should not be granted exemption from cost audit under rule 4.

6.7.3 Views/Recommendations of the Committee -

(i) After considering the suggestions of the stakeholders, the Committee recommends that the existing five exemptions may be applicable to both maintenance of cost records as well as cost audit.

(ii) The Committee further noted that as the aggregate turnover limit of Rs. 75 crore of the products and services covered under CCRA Rules is recommended as the criteria for the maintenance of cost records and cost audit, the micro and small enterprises will automatically be excluded. However, keeping in mind any change in turnover limit in future for micro and small enterprises in the MSME Development Act 2006, the Committee recommended to continue the existing exemption provision in the CCRA Rules with respect to the micro and small enterprises as per MSME Development Act 2006.

(iii) The Committee further noted that in line with the Government's policy to extend ease of doing business, recommendation of fixing turnover limit at Rs.75 crore, will also exempt the Medium enterprises having turnover from Rs.50 crore to Rs.75 crore from the maintenance of Cost Records and Cost Audit.

*****

Chapter - 7

Formats and procedures for Cost Records and Cost Audit

7.1 This chapter mainly covers the committee's deliberation and recommendations on the Terms of Reference of the Committee to review Existing formats and procedures for Cost Records and Cost Audit.

7.2 While reviewing the Existing formats and procedures for Cost Records and Cost Audit, the Committee considered the existing provisions in the Companies Act, 2013/ CCRA Rules 2014 (as amended till date) and views of the stakeholders. Various representations and views of the stakeholders have been duly considered while making recommendations.

7.3 <u>Formats for maintenance of Cost Records and Cost Audit Report</u>

7.3.1 Existing Provisions in the CCRA Rules 2014:

(i) Rule- 5 Maintenance of records- Every company under these rules shall, maintain cost records in accordance with CRA-1.

(ii) Rule-6 Cost audit- The relevant Sub-rule of Rule 6 are given below:-

(a) Sub-rule (1) provides that the category of companies specified in rule 3 and the thresholds limits laid down in rule 4, shall within one hundred and eighty days of the commencement of every financial year, appoint a cost auditor.

(b) Sub-rule (2) provides that every company referred to in sub-rule (1) shall file a notice of such appointment with the Central Government within a period of thirty days of the Board meeting in which such appointment is made or within a period of one hundred and eighty days of the commencement of the financial year, whichever is earlier, through electronic mode, in Form CRA-2.

(c) Sub-rule (4) provides that every cost auditor, who conducts an audit of the cost records of a company, shall submit the cost audit report along with his or its reservations or qualifications or observations or suggestions, if any, in form CRA-3.

(d) Sub-rule (5) provides that every cost auditor shall forward his duly signed report to the Board of Directors of the company within a period of one hundred and eighty days from the closure of the financial year to which the report relates.

(e) Sub-rule (6) provides that every company covered under these rules shall, within a period of thirty days from the date of receipt of a copy of the cost audit report, furnish the Central Government with such report in Form CRA-4.

(iii) Forms mentioned in CCRA Rules:

a) CRA-1- This form describes the Particulars relating to the Items of Costs to be included in the Books of Accounts. It includes the principles to be followed by the Companies in maintenance of the records relating to each component of Cost. There is no provision to submit any form to Central Government relating to maintenance of records.

b) CRA-2- It is a e-Form submitted by the Companies for Intimation of appointment of Cost Auditor to the Central Government.

c) CRA-3- This is the format for Cost Audit Report. Following information are provided in Cost Audit Report:-

PART-A

1. General Information

2. General Details of Cost Auditor

3. Cost Accounting Policy

4. Product or Service details for the company as a whole

Part-B

1. Quantitative Information of manufactured product

2. Abridged Cost Statement of manufactured product

2A. Abridged Cost Statement- Details of material consumed

2B. Abridged Cost Statement- Details of Utilities

2C. Abridged Cost Statement- Details of Specific Operating Expenses

Part-C

1. Quantitative Information of each Service

2. Abridged Cost Statement of each service

2A. Abridged Cost Statement- Details of material consumed

2B. Abridged Cost Statement- Details of Utilities

2C. Abridged Cost Statement- Details of Specific Operating Expenses

Part-D

1. Product and Service profitability statement of audited manufactured product or service
2. Profit Reconciliation for the company
3. Value Addition and Distribution of earning for the company
4. Financial Position and ration Analysis for the Company
5. Related Party transactions of the company
6. Reconciliation of Indirect taxes for the company

d) CRA-4- It is a e-Form for submission of Cost Audit Report (CRA-3) to the Central Government. Cost Audit Report (in CRA-3 format) is submitted by the Companies along with e-Form CRA-4.

7.3.2 Views/ Suggestions of the stakeholders:

I. Suggestions from ICMAI –

a) In line with the responsibilities of management and cost auditor as prescribed in Companies (Cost Records and Audit) Rules, 2014; and as per the requirements specified in Cost Auditing Standards, there is need to amend the Cost Auditor's Report. A revised version of the Cost Auditor's Report was submitted by ICMAI.

b) All formats attached to the Cost Auditor's Report need revision so as to make the cost data more useful to the Government, Regulators and Management. While undertaking their revision, requirements of Government/Regulators and the Management need to be separated. While the former may contain abridged cost details for each product/service; the latter may be more detailed to enable the management to take effective business decisions. A revised version of CRA-3 format was submitted by ICMAI.

c) Create a place in the Form CRA-4 XBRL to include the UDIN number as given by the Cost Auditor in Form CRA-3 submitted by him/her to the company.

d) Considering the sensitivity of the Cost Information, it is a prudent step that the Cost Auditor of the Company signs the XBRL form, CRA-4 using his digital signature. Form CRA-4 for filing Cost Audit Report with the Central Government should be suitably modified to include the Digital Signature of the Cost Auditor.

II. All India Cost & Management Accountants Association:

a) On CRA-1 Format:

i. Suggested developing industry-specific guidelines or templates to ensure that cost accounting records are tailored to the specific requirements of different sectors.

ii. To mandate cost records compliance certificate for all manufacturing, construction, healthcare and education companies having turnover of less than Rs.100 crore to report on their cost accounting practices in a standardized format.

iii. Making cost accounting records publicly available with appropriate confidentiality safeguards for stakeholders, including shareholders, investors and government agencies.

b) On CRA-2 Format:

i. Fee details of Cost Auditor (Previous and Current) should be included in Form CRA-2. If the current year fee is below the previous year's fee, comments should be provided.

c) On CRA-3 Format:

i. The cost audit report must include a performance report of a company that provides a comprehensive overview of its financial, operational and strategic performance. Common areas to be covered in a performance assessment report were also suggested by the Association:

1. Key Performance indicators (KPIs) and their trends, Key Financial indicators (KFIs)
2. Key Operational metrics (KOMs) and trends, Key efficiency metrics (KEMs) and trends
3. Environmental, social and governance (ESG) performance
4. Overview of strategic goals and initiatives for the reporting period and progress made on strategic objectives ii. Annexure C2 'Abridged Cost Statement' must include Industry benchmarking of the company's cost performance.

iii. Annexure D4 'Financial Position and Ratio Analysis' has to be replaced by Performance Analysis (KPIs, KFIs, KOMs, KEMs) . iv. Annexure D5 'Related Party Transactions' has to be improved by including quantifying the related party transaction impact analysis on cost of products or services

v. Annexure D6 'Reconciliation of Indirect Taxes' to be replaced by Turnover reconciliation (Income tax vs GST) vi. New Annexure:

Inventory Reconciliation – Tax Audit vs Cost Audit

III. Suggestions from Industry Associations:

a) ASSOCHAM:

i. There is an urgent need to restructure the existing cost audit report formats to make it useful to the Government, Industry and other stakeholders.

ii. Designing of formats of costing in such a way that data could be extracted for BRSR reporting in line with NGRBC.

iii. The cost records/audit mechanism need to be implemented not only on manufacturing but on supplies of products/services as capturing HSN code level data for policy decision making remains incomplete

as the trading data is not getting captured normally through cost records/audit mechanism. iv. The Cost Audit formats must contain product level information for the use of Promoters/Directors.

v. Reporting of top ten Loss making/profit making products can be reported to the board in each of the quarterly meetings.

vi. GST data availability through D6, however it needs modification to show opening closing balances of ITC which will help industry in case of any queries from the GST Department.

vii. The industry is facing much problem in reporting the data at UOM mentioned in HSN codes in CTA. Industry should be allowed to file the UOM as per their trade practice for which they are issuing invoices to the consumers.

viii. ASSOCHAM suggested that the name of the signing authorities should be incorporated in cost audit reports in XBRL.

ix. Names of the CFO or other financial heads have not been mandated to sign on the cost audit report, the signing by CFOs will add responsibility factor for the more authenticity of the data being reported.

b) CII:

i. The Companies (Cost Records and Audit) Rules, 2014 mandates disclosure of Related Party Transactions [Part D-5] and Reconciliation of Indirect Taxes [Part D-6] as part of the Cost Audit Report. In the recent years, subsequent to amendments in the Companies Act, 2013 and SEBI-LODR, disclosures for Related Party Transactions have gained sufficient importance and momentum. Further, post introduction of GST and series of amendments in laws relating to indirect taxes in terms of various returns on a periodic [monthly, quarterly] basis including online reconciliations etc. In view of the above, Additional disclosure in Cost Audit report adds to the cost of compliance and deviates from the principle for ease of doing business and thus not relevant.

ii. Value Addition and Distribution is basically from financial accounts. Similar information is covered under Integrated Report as well.

iii. With respect to the construction contractors, it made the following suggestions:

- Cost records could be maintained based on LOBs as identified by the management. This can be based on the concept of Segment definition for financial account.
- Defining installed capacity, capacity utilization in this sector as stated above has limited relevance and hence can be avoided.
- Applicability of unit rate for various elements of cost even within single LOB/CTA does not provide any meaningful outcome for decision making. This may not be considered for reporting.
- Construction industry may be reported under Services Sector category only, including the shops within the entity serving the EPC sector.

c) CII, PHDCCI and ASSOCHAM – The existing product-wise reporting framework (which is CTA-based) may be modified to enable industry analysis and benchmarking. This may substantially enhance the acceptability of the company's brand in public eye, and in turn, enhance the company's valuation.

d) SCOPE–

i. Many companies follow different Unit of measurement (UoM) for reporting, despite making it mandatory to follow UoM as per CTA. Maintenance of uniform UoM strictly as per CTA, will lead to comparison of different companies at industry level easier.

ii. In Companies (Cost Records and Audit) Rules, 2014, Annexure to the Cost Audit Report format is single across all the companies. Those detailed industry specific formats may be incorporated in place of Para

D-3, D-4, D-5 & D-6, which is more relevant and useful to the government in formulating policy, benchmarking etc.

iii. Specific guidelines need to be frame for quantitative details specific in-service industry as in most cases it becomes difficult to compute the quantitative details of services received and rendered.

iv. There should be clarity on the basis/method used for allocation and absorption. Further, the allocation and absorption method should be uniform for the specific industry. Currently, the basis/method used is open for the company as per best economical feasible manner.

v. The cost ratios like price volume ratio, various expense/overheads to sales ratio and variance analysis like price variance, material variance etc. should be incorporated in the cost audit report (Annexure-D4

Financial position and ratio analysis.) vi. Installed capacity should be given at Plant level. Presently it is needed to be given for each of the product.

vii. The UoM should be uniform and user friendly.

IV. Ministry of Commerce and Industry, Department of Commerce, Directorate General of Trade Remedies –

a) Cost sheets should be prepared product wise and not HSN code wise as the HSN code sometimes is a group of many products which makes it difficult for DGTR to compare the costs.

b) Basis of Transfer pricing of the captive inputs should be clearly provided in the CAR

c) A schedule of Related party transactions should be incorporated in the CAR along with the Arm's length price.

d) A comparative statement of the actual raw material and utilities qty and standard qty per unit of finished goods may be incorporated along with the reasons for deviations in the actual consumption vis-a-vis standard consumption

e) Proposed formats for cost sheet along-with the statement of raw materials and details of materials consumed are also submitted

f) Further information that may be incorporated in Cost Audit Format may include:

i. Plant wise information of the company ii. Brief information about the manufacturing process of the products.

iii. Process wise/stage wise quantitative information pertaining to raw materials and utilities usage in order to identify and compare the process loss which will help in material balancing. (Reconciliation of inputoutput norms).

iv. Proposed future capacity expansion of the plant or any diversification from the existing products manufactured. This will help in assessment of increase in production, if any.

V. Serious Fraud Investigation Office (SFIO):

a) A separate suitable proforma containing the stock analysis/ inventory analysis forming part D may kindly be considered.

b) Part D para (5) be suitable modified to capture information like debtors and creditors, loans and advances, investments made in the related party transactions wherein specifically, mentioning the amount written off, the percentage of said transaction with respect to the total transaction.

c) A suitable separate proforma may be considered for long-term borrowings and share capital, indicating the amount taken from the banks and other creditors, purpose for which it has been utilized, failure of the company to return the same, assets against which it has been taken etc.

VI. Telecom Regulatory Authority of India (TRAI): TRAI suggested that separate proformae/ formats may be included in the new framework for telecom sector, as were prescribed in Cost Accounting Records (Telecommunication Industry) Rules, 2011.

VII. Central Board of Direct Taxes:

a) A separate form for roads and infrastructure projects (tolls etc.) for this sector can be considered detailing cost parameters.

b) Further inputs may be taken for guidance for the reformulation of the cost audit formats from Form No. 6D which is the inventory valuation report by a Cost Accountant.

c) Other parameters to be considered for inclusion in Cost Audit Report:

i. Cash vs non-cash component of

receipts/expenditure ii. Selling and distribution overheads iii. Repairs and Maintenance iv.

Royalty and technical know-how

v. Advertisement costs vi.

Training expenses vii.

Intangibles such as

goodwill viii. Pre-operative

expenses

VIII. Department of Defence: More detailed data pertaining to stage wise consumption, production, process loss, consumption of utilities, joint products, by products are prescribed in the rules for more meaningful analysis and comparison with other entities. Such details will be helpful for year-on-year efficiency analysis.

7.3.3 Views/recommendations of the Committee –

(i) The Committee noted that as per CCRA Amendment Rules, 2018, the Unit of Measurement (UoM) for each Customs Tariff Act Heading, wherever applicable, shall be the same as provided for in the Customs Tariff Act, 1975 (51 of 1975) corresponding to that particular Customs Tariff Act Heading. The Committee discussed whether any changes in this provision is required or not. The Committee is of the view that giving flexibility in reporting to different companies in different unit of measurements may have no purpose for the Govt. as in such case, inter-firm comparison may not be possible. Therefore, the Committee recommends that this provision may be retained as it allows inter-firm comparison.

(ii) The Committee noted that at present, Cost Audit reports are prepared at CTA Code 8-digit level instead of the saleable products/Store keeping units. As a result, cost of the product at its MRP are not comparable. Thus, it serves limited purpose. Therefore, the Committee recommended that Cost Records may be maintained and Cost Audit Reports may be reported for every major saleable product/service of a particular CTA Code (For instance in Pharmaceuticals - under a particular CTA Code Losartan (300490073), products are 12.5 mg tablet, 25mg tablet, 50 mg tablet, 100 mg tablet etc.) Major saleable product under a particular CTA Code shall mean a product which is contributing at least 5% turnover of total turnover of all product(s)/service(s) covered under a particular CTA code.

(iii) The Committee received a suggestive format from Telecom Regulatory Authority of India (TRAI) for maintenance of Records. The Committee noted that for maintenance of records specific formats were prescribed in the earlier Rules prior to CCRA Rules 2014. The Committee also noted that after extensive deliberations and consultations with Industry Associations, in CCRA Rules 2014, principles for maintenance of each element of costs were prescribed in CRA-1 in place of separate formats for each Industry. Therefore, the Committee is of the view that in the present complex business environment where companies are engaged in multiple products and services, there is no need to prescribe formats for each industry as this will curtail the flexibility presently given to the Companies to maintain cost records as per their need. The Committee is of the view that the principles mentioned in CRA-1 are adequate guide for maintenance of Cost Records.

(iv) Regarding modification in CRA-2 to include fee details of Cost Auditor (Previous and Current), the Committee is of the view that such issues of professional ethics among the Cost Accountants to be regulated by the ICMAI and there is no need to modify CRA 2 to include fees of the auditor.

(v) Regarding modification in CRA-3 views/ recommendations of the Committee are given below:

(a) The Committee noted that Industry Associations suggested to remove the related party transactions annexure and reconciliation of Indirect taxes annexure from the cost audit report. However, it was also noted that SFIO found the related party transaction annexure useful and even suggested some modifications in that annexure. In view of this, the Committee recommended to retain the related party transaction annexure and to modify the same in line with the suggestions made by SFIO. Further, the Committee noted that CBIC found the reconciliation of Indirect taxes annexure useful. Thus, the Committee decided to retain this annexure also.

(b) Considering the suggestions of stakeholders, the Committee feels that separate Cost Audit formats may be required for few sectors like Health Care, Telecom, and Infrastructure etc. Thus, the Committee recommends that MCA may develop separate Cost Audit formats for these sectors in consultation with ICMAI and the respective industries/stakeholders, keeping in view that there should be no substantial compliance burden.

(c) Based on the suggestions received from the stakeholders, the Committee revised the existing Form CRA-3 and recommends that same may be notified by MCA in consultation with ICMAI. Revised proposed format for Form CRA-3 is placed at Appendix-3.

(d) Regarding modification of CRA-4 to include Cost Auditor's signature, the Committee noted that in case of Annual Accounts filing through AoC-4, the provision for third party verification is available through digital signature. Thus, the Committee recommends that while filing Form CRA-4 with the Central Government, the company should mandatorily attach a copy of the Form CRA-3 (duly signed by the Cost Auditor).

7.4 Procedures for Cost Records and Cost Audit

7.4.1 Definitions –

(i) Suggestion of ICMAI - ICMAI suggested that in order to avoid any ambiguity, the Rules should include following definitions:

(a) "Cost Accounting Policy" - Cost Accounting Policy means the policy adopted by the company for treatment of individual cost components in cost determination for drawing its cost statements.

(b) "Turnover" - Turnover means gross turnover made by the company from the sale or supply of all products or services during the financial year. It includes other operational income from Job work, loan licence operations, scrap sale, trading turnover, export benefits, etc. but excludes duties & taxes and other income.

(ii) Views/Recommendations of the Committee –

(a) The Committee noted that Rule 2(h) – ('Definitions') of CCRA Rules 2014 states that "all other words and expressions used in these rules but not defined, and defined in the Act or in the Companies (Specification of Definition Details) Rules, 2014 shall have the same meanings as assigned to them in the Act or in the said rules."

(b) The Committee further noted that definition of 'Turnover' is already defined under section 2(91) of the Companies Act, 2013. However, 'Cost Accounting Policy' has not been defined neither in CCRA Rules 2014 nor in Companies Act, 2013 or in the Companies (Specification of Definition Details) Rules, 2014.

(c) Therefore, the Committee is of the view that there is no need to define turnover in the CCRA Rules as it has already been defined in the Companies Act, 2013. Regarding 'Cost Accounting Policy', the Committee is of the view that each and every Company cannot adopt different policies for treatment of individual cost components as Form

CRA-1 has been prescribed to for uniform treatment of each element of costs.

7.4.2 Reports in addition to the Cost Audit Report to be furnished by the Cost Auditor to the Board/Audit Committee

I. Suggestions of ICMAI

(i) Performance Appraisal Report –

(a) The Performance Appraisal Report (PAR) should be reintroduced as part of the Cost Audit Mechanism.

(b) Amend CCRA Rules 2014 to include Rule 6 (4A) as follows:

"Every Cost Auditor, who conducts an audit of cost records of the company, shall also submit quarterly performance appraisal report, duly authenticated by the Cost Auditor, to the Board/Audit Committee of the company in prescribed form".

(c) The Performance Appraisal Report shall be provided only to the Audit Committee and Board of the company under cost audit. It will not be filed with the Government.

(d) As the outcome of performance analysis would vary from company to company and from area to area, the form of PAR may be kept openended by just mentioning the indicative areas on which report can be given. Some of the indicative areas are mentioned hereunder –

- Business Process Flow as adopted by the Cost Accounting System of the company
- Product Process Flow & Layout analysis
- Market/ Customer profitability analysis
- Product/ Service profitability analysis
- Capacity Utilization analysis
- Productivity/ Efficiency analysis

- Utilities/ Energy Efficiency analysis
- Key Costs & Contribution analysis
- Automation Efficiency analysis
- Manpower analysis
- Application of Management Accounting & IT Tools
- Working Capital & Inventory Management analysis
- Capital Expenditure analysis & addressing time & cost overrun for new projects

(ii) Internal Cost Control and Economic utilization of resources –

(a) Rule 5 (3) provides that the cost records shall 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 utilization of resources and these records shall also provide necessary data which is required to be furnished under these rules. This provision is intended to promote companies to have an internal cost control system so as to achieve optimum utilization of resources.

(b) Therefore, there is need to replace the words 'control' with the words 'internal control'. Further, it should also provide for submission of a Report on Internal Cost Controls & Economic Utilization of Resources, duly certified by the Cost Auditor, to the Audit Committee/Board on quarterly basis.

(c) Accordingly, the Institute recommends amendments in the said provision as under:

"Rule 5 (3) – The cost records shall be maintained in such manner so as to enable the company to exercise, as far as possible, internal control over the various operations and costs to achieve optimum economies in utilisation of resources and these records shall also provide necessary data which is required to be furnished under these rules.

Provided that the company shall submit a Report on Internal Cost Controls & Economic Utilization of Resources, duly certified by the Cost Auditor, to the Audit Committee/Board on quarterly basis."

(iii) Limited Cost review report

(a) Presently, cost audit is conducted after the end of financial year and the Cost Auditor is required to forward his duly signed report to the Board of Directors of the company within a period of one hundred and eighty days from the closure of the financial year to which the report relates.

(b) This gives it a name "Post Mortem Audit". It does not serve the real purpose of cost audit to the company management to take timely effective business decisions.

(c) To meet with the real objectives of cost audit, ICMAI recommends that a Limited Cost Review Report along-with product/service-wise cost & profitability analysis should be submitted by the Cost Auditor to the Audit Committee/Board within forty-five days of the closure of each quarter of the financial year for which he is appointed. This Report shall not be filed with the Government.

II. Suggestions of All India Cost & Management Accountants Associations –

(a) The Cost Audit report must include a performance report of a company that provides a comprehensive overview of its financial, operational, and strategic performance. Here are some common areas to be covered in a performance assessment report:

- Key Performance Indicators (KPIs) and their trends and Key Financial Indicators (KFIs) and their trends;

- Key operational metrics (KOMs) and their trends and Key Efficiency metrics (KEMs) and their trends;
- Environmental, social, and governance (ESG) performance;
- Overview of strategic goals and initiatives for the reporting period and progress made on strategic objectives.

(b) Financial Position and Ratio Analysis has to be replaced by Performance Analysis (KPIs, KFIs, KOMs, KEMs).

III. Suggestions of Industry Associations

(i) Performance Appraisal Report -

(a) GAIL (India) Limited and NBCC (Representatives of SCOPE) suggested to reintroduce PAR as it will help management to understand its operating efficiency and this will also help identify the areas that need to be improved by the company on real time basis.

(b) PHDCCI and ASSOCHAM also suggested to reintroduce PAR as it was a very useful document which gives value addition to the company management.

(ii) Limited Cost review report –

ASSOCHAM suggested the following with respect to limited Cost review report-

(a) Costing information should be provided quarterly or half yearly to the independent directors and other interested parties internally to facilitate required comparisons and timely decision making by the management.

(b) Quarterly or half yearly data on the same lines of internal audit reporting would enable reviews and management decisions based on the actual results derived from cost records wherein product level profitability, wastages, effective utilization of resources are reported to management from a cost accountant’s perspective.

(c) Reporting of quarterly costing information for the listed entities at HSN code level in line with limited review audit reports may have positive impact on investors and will increase the confidence as part of transparency.

IV. Views/Recommendations of the Committee -

(a) The Committee noted that performance appraisal report was earlier introduced via The Companies (Cost Audit Report) Rules, 2011. The same was required to be submitted by the Cost Auditor to the Board/Audit Committee as per the prescribed form. However, the provisions for performance appraisal report were done away with in CCRA Rules 2014. Therefore, the Committee is of the view that there is no justification for reintroduction performance appraisal report or Report on Internal Cost Controls & Economic Utilization of Resources or a report on Limited Cost review Reports.

(b) However, the Committee in principally agreed that some Key Performance Parameters may be placed in the Board and Audit Committee. Accordingly, the Committee has recommended to include Key Performance Parameters which is given under observations and suggestions of Form CRA-3 attached in Appendix-3.

(c) The Committee further recommends that a statement covering these Key Performance Parameters based on unaudited data may be placed before the Board and Audit Committee by the Company on a quarterly/half-yearly basis.

7.4.3 Maintenance of Cost records

(i) Suggestions of ICMAI – It suggested that Rule 5(2) should be modified and substituted as – "The cost records referred to in sub-rule (1) shall be maintained on regular basis in such manner as to facilitate calculation of per unit cost of production or cost of operations, cost of sales and margin for each of its products and activities for every financial year on quarterly and annual basis".

(ii) Views/Recommendations of the Committee -

(a) The Committee noted that Rule 5(2) of CCRA Rules 2014 states that "The cost records referred to in sub-rule (1) shall be maintained on regular basis in such manner as to facilitate calculation of per unit cost of production or cost of operations, cost of sales and margin for each of its products and activities for every financial year on monthly or quarterly or half-yearly or annual basis".

(b) The present rule gives flexibility to the companies to maintain cost records on monthly or quarterly or half-yearly or annual basis. Thus, the existing provision may be continued.

7.4.4 Disclosure in Board report

(i) Suggestions of ICMAI

(a) ICMAI suggested that presently, if a company is covered for maintenance of cost records, then it is mandatory that the Board of Directors in their Report shall include a disclosure as to whether maintenance of cost records as specified by the Central Government under sub-section (1) of section 148 of the Companies Act, 2013 is required by the company and accordingly such accounts and records are made and maintained. In order to ensure that the company has actually made & maintained necessary cost records as prescribed under the Companies (Cost Records and Audit) Rules 2014, ICMAI recommends that the disclosure in the Board Report should be supported by a certificate from a Cost Accountant in practice. Further, if the company is also covered for cost audit, then the Board should state so in their report to the shareholders.

(b) Presently, if a company is covered for maintenance of cost records, then the Companies (Auditor's Report) Order, 2020 provides that the (statutory) auditor's report on the accounts of a company shall include a statement on whether maintenance of cost records has been specified by the Central Government under sub-section (1) of section 148 of the Companies Act, 2013 and whether such accounts and records have been so made and maintained. ICMAI recommends that such disclosures under CARO from the financial auditor must be deleted as the Chartered Accountants are not legally empowered to verify & certify maintenance of cost accounting records & cost statements. Apart from this, it has been observed that the Chartered Accountants give wrong certificate in CARO Report saying that the company is not covered for maintenance of cost records. Similarly, they also make false declarations in the Tax Audit Report saying that the company is not covered for cost audit.

(ii) Views/Recommendations of the Committee

(a) In Chapter-6 of this Report, the Committee recommended same criteria for maintenance of cost records and cost audit. Thus, the Committee recommends that the Board report may be modified, inter-alia, include provision relating to cost audit as given below:

- Whether maintenance of cost records and cost audit is applicable on the company or not;
- If yes, then whether such accounts and records have been so made and maintained and whether cost auditor has been appointed or not.

(b) Regarding the disclosure in Board report to be supported by a certificate from a Cost Accountant in practice, the Committee noted that there are around 14 lakh active companies. Therefore, mandating all Board report to be supported by a certificate from a Cost Accountant in practice will increase cost of compliance of the Companies. Further, the Committee has already recommended that all companies covered for maintenance for cost records will also be covered for cost audit. Thus, ICMAI's suggestion that Board report to be supported by a certificate from a Cost Accountant in practice is not recommended.

(c) Regarding the deletion of provisions relating to Section 148 (1) of Companies Act, 2013 from CARO, the Committee noted that cost audit is applicable only on few companies whereas CARO is covered on large number of companies. However, as mentioned above, it is already mandatory to include a disclosure in the Board's Report and companies covered for maintenance of cost records are also to be covered for cost audit, therefore, the Committee recommends that CARO certificate in respect of the same is infructuous and amounts to duplication that is adding to the cost of compliance. Therefore, the Committee recommends deletion of this clause from the CARO report. Ministry of Corporate Affairs may examine it keeping in view the provisions of the Companies Act, 2013, after wider consultations.

7.4.5 Examination and review of the cost statements and cost auditor's report to be included in the functions of Audit Committee under Section 177 of the Companies Act, 2013

(i) Suggestions of ICMAI – It suggested that in order to ensure that the Audit Committee discuss & deliberate upon the findings of the cost auditor, Section 177 which provides for the functions of Audit Committee, may be amended by suitably including examination & review of the cost statements and cost auditor's report thereon.

(ii) <u>Views/Recommendations of the Committee</u> – The Cost Audit Report is an important document which should be discussed and deliberated by the Audit Committee. This will also strengthen the corporate governance framework. The Committee noted that this would require amendment in the Companies Act 2013. Therefore, Ministry of Corporate Affairs may examine the Committee's recommendation for inclusion of Cost Audit Report in the list of documents to be examined by the Audit Committee under Section 177 of the Companies Act 2013.

7.4.6 Approval of cost statements and appointment of Cost Auditor to be done by Board Resolutions

(i) Suggestions of ICMAI –

(a) Section 179 of the Companies Act 2013 provides for powers of the Board. Subsection (3) has given a list of certain powers that shall be exercised only by means of resolutions passed at meetings of the Board. Among others, it includes approval of financial statements and appointment of internal auditors & secretarial auditors. As approval of cost statements & appointment of cost auditors is not listed therein, these are presently approved by circulation in most of the companies. By virtue of this process, no discussions/deliberations take place in the Board on such an important document(s).

(b) Therefore, to give due credence to the cost audit framework, ICMAI recommends that section 179 may be amended to include approval of cost statements and appointment of cost auditors only by means of resolutions passed at meetings of the Board.

(ii) <u>Views/Recommendations of the Committee</u> – The Committee is of the view that presently Cost Auditor is appointed by the Board of Directors and Cost Auditor submits its Report to the Board of Directors. Further, as per Subsection (6) of Section 148 of the Companies Act, 2013 the company shall within thirty days from the date of receipt of a copy of the cost audit report furnish the Central Government with such report along with full information and explanation on every reservation or qualification contained therein. Therefore, the Committee does not accept the justification given by the ICMAI that no discussions/deliberations take place in the Board on Cost Audit Report as furnishing full information and explanation on every reservation or qualification contained in Cost Audit Report without discussion in the Board is not possible.

7.4.7 Appointment of Cost Auditor and Submission of Cost Audit Report

(i) Suggestions of ICMAI – Appointment of Cost Auditor to be done by shareholders in AGM and removal of cost auditor to be akin to financial auditor

(a) Akin to the appointment of statutory (financial) auditors, ICMAI requests that the Committee should recommend suitable amendment in section 148 of the Companies Act 2013 providing for appointment of the cost auditor by the shareholders in AGM. Similarly, the cost auditor's removal provisions should also be made akin to the removal of financial auditors.

(b) Under the existing provisions of the Companies Act 2013, statutory (financial) auditors in all Government companies are appointed by the Comptroller and Auditor-General of India (C&AG). ICMAI suggested that in case of cost auditors, the appointment of cost auditors in Government companies should also be made by the C&AG.

(c) Cost Auditor's (New Rule proposed) – It suggested where a firm including Limited liability partnership (LLP) or Multi-disciplinary partnership (MDP) is appointed as cost auditor, majority of the partners of the firm shall be practicing Cost Accountants. Further, it suggested only the partners who are practicing Cost Accountants shall be authorized to act and sign on behalf of the firm. Therefore, a new rule 6(1B) is proposed as follows:

"The cost auditor to be appointed under sub-rule (1) –

(a) Shall be a Cost Accountant holding valid Certificate of Practice issued by The Institute of Cost Accountants of India.

(b) Where a firm including limited liability partnership and multidisciplinary partnership is appointed as Cost Auditor by its firm name, majority of the partners of the firm shall be practicing Cost Accountants.

(c) Where a firm including limited liability partnership and multidisciplinary partnership is appointed as Cost Auditor of a company, only the partners who are practicing cost accountants shall be authorized to act and sign on behalf of the firm."

(ii) Suggestions of Industry Associations – PHDCCI and ASSOCHAM suggested that like the appointment of financial auditors, the cost auditor's appointment should also be made through AGM.

(iii) Suggestions of Ministry of Commerce and Industry, Department of Commerce, Directorate General of Trade Remedies – Cost Auditor should be appointed in the same way as statutory auditor is appointed, Moreover, a statutory clause/section for regular rotation of cost auditor may be inserted in Companies Act 2013.

(iv) Suggestions of All India Cost & Management Accountants Association

(a) Mandatory rotation of cost auditor every 3 years

(b) Fixing a cap on maximum number of cost audits (say 15 audits per partner)

(v) Views/Recommendations of committee

(a) The Committee noted that Section 148(5) of Companies Act, 2013 states that the qualifications, disqualifications, rights, duties and obligations applicable to statutory auditors, are also applicable to the cost auditors. Further, as per section 148(8)(b), read with section 147 (2) of Companies Act 2013, also provides the similar punishment of fines for both statutory and cost auditors.

(b) Committee is of the view that appointment, removal, rotation of cost auditors and fixing a cap on maximum number of cost Audit by the Cost Auditor may be done in line with the statutory auditors. Since this would require amendments in the Companies Act, Ministry of Corporate Affairs may decide the issue after wider consultation.

(c) Regarding the suggestion of the appointment of Cost Auditors in Government companies by the C&AG, the Committee recommends the appointment of Cost Auditors in Government companies may be examined by MCA in consultation with Department of Expenditure.

(d) Regarding the appointment of Limited liability partnership (LLP) or Multi-disciplinary partnership (MDP) as Cost Auditor and the suggestion that only the partners who are practicing Cost Accountants should be authorized to act and sign on behalf of the firm, the Committee noted that the Rule 6(5) of the CCRA Rules 2014, inter-alia, provides that every cost auditor shall forward his duly signed report to the Board of Directors. Therefore, only the Cost Auditor can sign the Cost Audit report and no one else. Therefore, the Committee recommends to retain the existing provision as it is.

7.4.8 Provisions relating to Remuneration of Cost Auditor

(i) Suggestions of ICMAI

(a) Presently, provisions relating to the appointment of cost auditors have been made in the CCRA Rules 2014. However, provisions relating to Remuneration of the cost auditor have been included in the Rule 14 of the Companies (Audit and Auditors) Rules, 2014.

(b) ICMAI suggested that all provisions relating to the appointment of cost auditors presently included in the Companies (Audit and Auditors) Rules 2014 should be made part of the CCRA Rules 2014.

(c) As per Rule 14 of the of the Companies (Audit and Auditors) Rules, 2014 remuneration of the cost auditor is to be ratified by the shareholders, which is in contravention to Section 148 (3) of the Companies Act 2013 which, inter-alia, provides that the remuneration may be determined by the members in such manner as may be prescribed.

(d) Therefore, a new rule is proposed to be added under CCRA Rules, 2014 as

Rule 6(1B) –

“For the purpose of sub-section (3) of section 148,-

(a) in the case of companies which are required to constitute an audit committee-

(i) the Board shall appoint an individual, who is a cost accountant or a firm of cost accountants in practice, as cost auditor on the recommendations of the Audit committee, which shall also recommend remuneration for such cost auditor;

(ii) the remuneration recommends by the Audit Committee under (i) shall be considered and recommends by the Board of Directors and approved by the shareholders;

(b) in the case of other companies which are not required to constitute an audit committee, the Board shall appoint an individual who is a cost accountant or a firm of cost accountants in practice as cost auditor and the remuneration of such cost auditor shall be recommends by the Board and approved by the shareholders."

(ii) Views/Recommendations of Committee –

The Committee noted that there is some difference in provision relating to remuneration of the Cost Auditor in the Companies Act and in Companies (Audit and Auditors) Rules, 2014. As per Section 148 of the Companies Act 2013, remuneration of cost auditor is to be determined (and not ratified as mentioned in Companies (Audit and Auditors) Rules, 2014) by the members. Therefore, in order to avoid any ambiguity, the Committee recommends to suitably amend Companies (Audit and Auditors) Rules, 2014 and include all provisions relating to the appointment including remuneration of Cost Auditor in the CCRA Rules. However, MCA may examine this issue, keeping in view the provisions of the Companies Act, 2013 Act and Rules, after holding consultations with stakeholders.

7.4.9 Appointment letter of Cost Auditor specifying terms and conditions -

(i) Suggestions of ICMAI – It is observed that many companies do not follow any documented procedure informing the cost auditor concerned of his or its appointment. Hence the words "by issuing an appointment letter specifying the scope and other terms and conditions" needs to be inserted in Rule 6 of CCRA Rules. Keeping in view the requirement for the companies to follow documented procedure informing the cost auditor concerned of his or its appointment, amended draft of Rule 6(2) is placed as under:

"Every company referred to in sub-rule (1) shall inform the cost auditor concerned of his or its appointment as such by issuing an appointment letter specifying the scope and other terms & conditions and file a notice of such appointment with the Central Government within a period of thirty days of the Board meeting in which such appointment is made or within a period of one hundred and eighty days of the commencement of the financial year, whichever is earlier, through electronic mode, in form CRA-2, along with the fee as specified in Companies (Registration Offices and Fees) Rules, 2014".

(ii) <u>Views/Recommendations of the Committee</u> – The Committee is of the view that the existing rule already has a provision for intimation to the auditor about his appointment. Thus, no further modification is required.

7.4.10 Amend Rule 6(3) to delete phrase "till the expiry of one hundred and eighty days from the closure of the financial year or"

(i) Suggestions of ICMAI –

(a) Practically, cost auditor holds office only till he submits the cost audit report as explained below:

- If cost auditor submits report in less than 180 days, he demits office immediately in less than 180 days;

- If cost auditor submits report in 180 days, he demits office on completion of 180 days; and
- If due to time extension granted under Rule 6(5), the cost auditor submits report in more than 180 days, then he would demit office later than 180 days. Therefore, only condition of the cost auditor holding office till he submits the cost audit report for the financial year for which he has been appointed is sufficient requirement.

(b) Accordingly, Rule 6(3) may be amended as under:

"Every cost auditor appointed as such shall continue in such capacity till he submits the cost audit report for the financial year for which he has been appointed."

(ii) <u>Views/Recommendations of the Committee</u> – The Committee noted that the present CCRA rules provide a time limit of 180 days within which the cost auditor has to submit his cost audit report to the Board of Directors of the company. The Committee is of the view that removing such time limit is not desirable.

7.4.11 Amendment in Rule 6(5) – extension of AGM

(i) Suggestions of ICMAI –

(a) Companies in which audit under section 139 of the Companies Act, 2013 is not completed and which gets extension of time of holding Annual General Meeting under section 96 (1) of the Companies Act, 2013, submit their duly approved and signed cost statements, including other statements, to the cost auditor only after one hundred and eighty days from the closure of the financial year.

(b) In such cases, it becomes imperative to grant automatic extension in time to the cost auditor to submit his duly signed report to the Board of Directors within a period of one hundred and eighty days from the closure of the financial year.

(c) Accordingly, Rule 6(5) may be amended as under:

"Every cost auditor shall forward his duly signed report to the Board of Directors of the company within a period of one hundred and eighty days from the closure of the financial year to which the report relates and the Board of Directors shall consider and examine such report, particularly any reservation or qualification contained therein.

Provided that for the Companies which have got extension of time of holding Annual General Meeting under section 96(1) of the Companies Act, 2013, the Cost Auditor shall submit his duly signed report to the Board of Directors within a period of one hundred and eighty days from the closure of the financial year to which the report relates plus period of extension granted under section 96(1) of the Companies Act, 2013."

(ii) <u>Views/Recommendations of the Committee</u> – The Committee noted that as per CCRA Amendment Rules 2018 companies, which have got extension of time of holding AGM, may file CRA-4 within the resultant extended period of filing financial statements. The Committee noted that the MCA already grants an extension in time via a circular/notification to the Cost Auditor to submit his duly signed report to the Board of Directors within a period of one hundred and eighty days from the closure of the financial year to which the report relates plus such period of extension. Therefore, the Committee is of the view that no change is required under the Companies Act/Rules thereof.

7.4.12 Consent of cost auditor to be a mandatory attachment with Board resolution (i)

Suggestions of ICMAI –

(a) As per Rule 6(1), before appointing a cost auditor, it is mandatory for the company to obtain written consent of the cost auditor to such appointment, and a certificate from him or it, as provided in sub-rule (1A).

(b) Therefore, to ensure that the company has complied with these provisions, it is necessary that the consent of the cost auditor should also be a mandatory attachment along-with copy of Board Resolution, with Form CRA-2.

(ii) Views/Recommendations of the Committee – The Committee noted that presently under CCRA Rules, there is no requirement on the company to submit the consent of the cost auditor along-with Form CRA-2 to the Central Government. The Committee is also of the view that consent of the cost auditor may not be required to be attached with the Form CRA-2.

7.4.13 Chief cost and management officer of the company to be included in the definition of Key managerial personnel

(i) Suggestions of ICMAI –

(a) Section 2(51) defines the term "Key Managerial Personnel". In this regard, it may be noted the officer in-charge of Costing & Management Accounting functions is responsible to provide such vital information/data on cost & performance parameters to the Audit Committee and Board of Directors which enable them to take crucial business decisions affecting the company's planning, growth and sustainability.

(b) Therefore, the "Chief Cost & Management Officer" of the company should also be included in the list of "key managerial personnel"

(ii) Views/Recommendations of the Committee – The Committee is of the view that every company may not have a "Chief Cost & Management Officer" on its payroll. Hence, the Committee did not agree to such recommendation of the ICMAI.

7.4.14 Disclosures in Annual report

(i) Suggestions of ICMAI – ICMAI suggested to include the following information in the company's Annual report: - Cost Auditor's Report

- Significant Performance parameters
- Key Cost trends and yield analysis

(ii) Suggestion of Industry Associations – PHDCCI and ASSOCHAM suggested the cost auditor's report along-with significant performance parameters and key cost trends and yield analysis should be published in company's annual report. This would substantially enhance acceptability of the company's brand in public eye, and in-turn, enhance the company's valuation.

(iii) Suggestions of the Ministry of Commerce and Industry, Department of Commerce, Directorate General of Trade Remedies – The cost audit report should be either a part of the Annual Accounts Report or in the public domain. It would be an additional document for the shareholders and public also to assess the company's performance as the product-wise information will provide better understanding. It will not violate confidentiality.

(iv) Suggestions of All India Cost & Management Accountants Associations –

(a) Promote transparency by making cost accounting records publicly available (with appropriate confidentiality safeguards) for stakeholders, including shareholders, investors and government agencies.

(b) The Cost Audit report has to be removed from the confidential documents category and must be allowed to be part of the annual report of the company.

(v) Views/Recommendations of the Committee –Keeping in view the significance and utility of this information to the stakeholders, the Committee recommends that information relating to significant performance parameters and key cost trends may be included in the Annual Report.

7.4.15 Cost Accounting Standards

(i) Suggestions of ICMAI - To ensure uniformity in preparing accepted cost statements, there is an urgent need for the country to have Cost Accounting Standards based on generally accepted cost accounting principles. And all companies should comply with such cost accounting standards. Therefore, the Committee should recommend amending section 148 to provide for recognition of Cost Accounting Standards issued by ICMAI after approval by the Government. Till then, the Rules should provide that every company shall prepare cost records in compliance with the Cost Accounting Standards issued by ICMAI and approved by the Government.

(ii) Views/Recommendations of the Committee –

(a) The Committee noted that the 2014 Expert committee group recommended that the introduction of the Cost Accounting Standards would first require enabling provisions in the Companies Act 2013 by way of necessary amendments. Therefore, it might not be appropriate to introduce such provisions in the 2014 Rules, which is not currently within the scope of the Companies Act 2013.

(b) In order to bring uniformity in reporting of the items of cost in the Cost Records and in Cost Audit Reports, the Committee is of the view that the issue of Cost Accounting standards may be examined by the Ministry of Corporate Affairs, keeping in view the acceptance of same internationally and provisions of the Companies Act.

7.4.16 Cost Auditing Standards

(i) Suggestions of ICMAI - To ensure uniformity & quality of cost audit, there is an urgent need for the country to have Standards on Cost Auditing. In view of this, the Institute recommends that the Committee should examine & recommend, with or without its suggestions, to the Government to accord its approval to the revised Standards on Cost Auditing at the earliest.

(ii) Views/Recommendations of the Committee – The Committee is of the view that MCA may look into the matter.

7.4.17 A new rule 5(5) - providing for "Compliance certificate of confirmation of maintenance of cost records"

(i) Suggestions of ICMAI – A new rule 5(5) is proposed to be added as follows:

"Every Company to which these rules apply shall submit a "certificate of confirmation of maintenance of cost records" certified by a cost accountant in practice or a cost accountant as defined in the clause (b) of sub section (1) of section 2 of The Cost and Works Accountants Act, 1959 and who is employee of the company, along with the Annexure to the Central Government, in form CRA 6."

(ii) Suggestions of All India Cost & Management Accountants Associations – It suggested to mandate cost records compliance certificate for all manufacturing, construction, health care and education companies that have turnover of less than Rs. 100 crore to report on their cost accounting practices in a standardized format. This can provide regulators with a clear picture of cost structures across specified industries.

(iii) <u>Views/Recommendations of the Committee</u> –

(a) The Committee noted that presently if a company is covered for maintenance of cost records, then the Board report shall include a disclosure on whether maintenance of cost records has been specified by the Central Government under sub-section (1) of section 148 of the Companies Act, 2013 and whether such accounts and records have been so made and maintained.

(b) Further, since this Committee has recommended same criteria for maintenance of cost records and cost audit, therefore, there is no need for any separate compliance report of maintenance of cost records.

7.4.18 Under Rule 6, replace words "One hundred and Eighty days" with 6 months

(i) Suggestions of ICMAI – To amend Rule 6 and replace one hundred and Eighty days with 6 months to facilitate ease of doing business.

(ii) Views/Recommendations of the Committee – The Committee noted that such replacement may not facilitate ease of doing business. Companies Act 2013 contains several provisions mentioning the time-limit in days and replacing it with the time-limit of months may not serve the intended objective.

7.4.19 Confidentiality of Cost Audit Report:

(i) Views/ Suggestions of ICMAI:

ICMAI stated that they are of the view that cost audit reports are fully protected under the present system of online filing in XBRL mode, promoting data encryption, data access & audit trail.

(ii) Views/ Suggestions of Industry Associations: Cost data of a company is highly confidential. Therefore, there is a serious need to protect its confidentiality.

(iii) Views/Recommendations of the Committee: The Committee is of the view that since the Cost Audit reports are submitted on an online platform to the Government, concern of confidentiality raised by the industry associations may not be an issue now. However, the Committee recommends that MCA may ensure proper data encryption, limited data access & audit trail in the system to ensure confidentiality of cost audit reports submitted by the companies.

*****

Chapter - 8

Cost Accounting Records and Cost Audit in Cooperatives, Trusts, Autonomous Bodies and other Authorities

8.1 Presently, Maintenance of Cost Accounting Records and Cost Audit are guided by Companies Act and CCRA Rules 2014 which are applicable on the companies only. As a result Cooperatives, Trusts, Autonomous Bodies and other Authorities remains out of the purview of the mandatory Maintenance of Cost Accounting Records and Cost Audit even though they are commercially operating in the same sectors.

8.2 Views of the Stakeholders:

(i) Suggestion of ICMAI: Maintenance of Cost Accounting Records and Cost Audit should be applicable on all cooperative societies, trusts & societies engaged in the production of goods or rendering of services in the Sectors covered under CCRA Rules.

(ii) Suggestions of PHDCCI – Keeping in view the public interest, the framework of cost accounting and cost audit should be mandated to all corporate and noncorporate entities providing education and health services.

(iii) Suggestions of ASSOCHAM – Scope of cost audit should be broadened to the next level beyond traditionally included entities, and it should be irrespective to the type of entities.

(iv) Suggestions of All India Cost & Management Accountants Association – CARR provisions should be extended to even LLPs subject to some modifications. This would promote consistency and a level playing field in the business environment.

(v) Suggestions of Department of Agriculture and Farmers Welfare – maintenance of Cost Accounts and conduct of cost audit may be introduced in the non-corporate bodies, subject to certain criteria, so as to enable them to make judicious use of funds. It would also help in preventing leakage of public money.

8.3 <u>Views/Recommendations of the Committee</u> –

I. For Autonomous Bodies –

(a) The Committee noted that there are 486[6] number of Autonomous Bodies (AB) set up by Government of India for a specific purpose in the field of education, health, finance, or public service. These AB play a crucial role in the implementation of government policies, delivery of services, and the promotion of specific activities in various sectors. AB charge user fees or charges for the services they provide which vary depending on the nature of the services offered by each AB. The specific fee structure and the services covered vary widely among AB, and they are usually outlined in the policies and guidelines of each institution. Here are a few examples:

i. Educational Institutions (e.g., IITs, IIMs, and Universities): These institutions charge fees for academic programs, examinations, library services, and other facilities. The fee structure can vary based on the course and the level of education.

ii. Research Institutions (e.g., Laboratories): Some research institutions charge fees for access to research facilities, services, or licensing of technologies developed by them.

iii. Healthcare Institutions (e.g., AIIMS): The healthcare institutions charge fees for medical services, diagnostic tests, and other healthcare-related facilities.

iv. Regulatory Authorities (e.g., TRAI, CCI): Regulatory bodies levy fees on the entities they regulate for various services such as licensing, approvals, or compliance-related activities.

(b) The Committee noted that as per the Report on ‘Review of the performance of State Road Transport Undertaking (SRTUs) for April 2016 to March 2017’ issued by the Ministry of Road Transport and Highways in July 2020, covering 56 SRTUs. As per this report, these 56 SRTUs incurred combined loss of

---

[6] https://igod.gov.in/ug/E051/organizations.

Rs.13,957 crore during 2016-17. These SRTUs are categorized as Corporations, Companies, State Government Departments and Municipal Undertakings.

(c) AB often charges lower user charges or fees to fulfil specific government mandates, such as enhancing social inclusion, supporting economic development, or facilitating widespread participation in certain programs. This approach reflects a deliberate effort to prioritize broader societal goals over maximizing revenue through user charges. In order to meet the deficit in the user charges or fees, the Committee noted that the Government provide budgetary support to AB to facilitate their operations, fulfil their missions, and achieve specific objectives aligned with government policies. The budgetary support provided during last 3 years to various AB is given below.

Table 20: Budgetary support to Autonomous Bodies for last 3 years

(Rs. in Crores)

Grant-in-Aid	2023-24(BE)	2022-23(RE)	2021-22(RE)
General	56,602	37,212	30,125
Creation of Capital Assets	27,719	19,595	16,469
Salaries	54,670	47,384	42,462
Total	1,38,992	1,04,191	89,057

Details of the budgetary allocation to various AB during 2023-24 (BE) is enclosed as Annexure-IX.

It can be from the above table that

i. General: The allocation for General expenses showed a significant increase from ₹30,125 in 2021-22 (RE) to ₹37,212 in 2022-23 (RE), representing an increase of approximately 23.5%. In the proposed budget for 2023-24 (BE), there is a substantial further increase to ₹56,602, marking an additional increase of approximately 51.9%.

ii. Creation of Capital Assets: The allocation for the creation of capital assets increased from ₹16,469 in 2021-22 (RE) to ₹19,595 in 2022-23 (RE), indicating an increase of approximately 19.0%. In the 2023-24 (BE) budget,

there is a notable additional increase to ₹27,719, representing a further increase of approximately 41.6%.

iii. Salaries: The allocation for Salaries witnessed a moderate increase from ₹42,462 in 2021-22 (RE) to ₹47,384 in 2022-23 (RE), reflecting an increase of approximately 11.6%. In the proposed budget for 2023-24 (BE), there is a continued increase to ₹54,670, indicating a further growth of approximately

15.3%.

iv. Total grant-in-aid for all categories: There is combined increased from ₹89,057 in 2021-22 (RE) to ₹1,04,191 in 2022-23 (RE), showing an increase of approximately 17.0%. In the proposed budget for 2023-24 (BE), the total allocation further increased to ₹1,38,992, marking an additional growth of approximately 33.4%.

(d) The dependence on government budgetary support by AB suggest that the cost of providing services is not fully covered by user charges or fees. Further, it indicates under-recovery of cost, where the revenue generated from users is insufficient to cover the total cost of delivering the services.

(e) The Committee noted that the government budget support is essential for the functioning and development of autonomous bodies as they provide the financial foundation necessary for these organizations to fulfil their roles, achieve their missions, and contribute to the overall development of the country. However, it is crucial to periodically revise user charges or fees taking into account factors like the users' ability to pay, ensuring that fees are established at levels that are both reasonable and affordable for the targeted user base. As AB are dependent upon the government budgetary support, it is essential to ensure that, during the fixation of user charges, individuals with the financial means to pay are not subjected to unfairly low, subsidized rates.

(f) In this connection, the Committee drew attention to Rule 47 of GFR 2017 which states that "User Charges is an important component of the non-tax revenues. Each Ministry/Department may undertake an exercise to identify the 'user charges' levied by it and publish the same on its website.

i. While fixing the rates of user charges, the Ministries/Departments must ensure that the user charges recover the current cost of providing services with reasonable return on capital investment.

ii. Any deviation from these principles shall be specifically recorded with reasons justifying the setting of user charges lower than the cost recovery norms, if any.

iii. The rates of user charges should be linked with appropriate price indices and reviewed at least every three years.

iv. In order to enable ease of revision of user charges, the rate of user charges shall be fixed, wherever possible through Rules or executive orders and not through a statute."

(g) Further, Rule 229 (vi) of GFR, which prescribes the General Principles for setting up of Autonomous Organisations (ABs), provides that the "Governing Body of the AB shall review user charges/ sources of internal revenue generation at least once a year and inform the administrative Ministry. This exercise should preferably be completed before the formulation of Union Annual Budget. It further provides vide Rule 229(ix) of GFR that Ministry shall put in place a system of external or internal peer review of autonomous organisations every three or five years depending on the size and nature of activity. Such a review should be the responsibility of the concerned administrative division of the Ministry/Department and should focus, inter alia, on:

(a) the objective for which the autonomous organisation was set up and whether these objectives have been or are being achieved;

………

(f) whether user charges including overhead/ institutional charges/ management fee in respect of sponsored projects, wherever the output or benefit of services are utilised by others, are levied at appropriate rates."……………………….

(h) Also, as per 'Charter of Financial Adviser' issued by the Department of Expenditure[7], the Financial Adviser (FA) of respective Department is required to ensure compliance of provisions of GFR in respect of setting up of AB and release Grant-in-Aid. FA has to ensure that user charges are reviewed every three years and peer reviews are carried out as per provisions.

(i) The Committee noted that details of cost of various services provided by AB are not available with FA to perform their chartered duties, as a result they resort to unscientific method of fixing user charges by providing escalation over previous year budget allocation. It may be noted that under-recovery of total cost of services due to lower fixation of user charges results in seeking more budgetary support from the Government. Thus, determining the cost of a service plays a crucial role in fixing user charges and seeking budgetary support to meet any potential deficits. This process allows AB to set user charges at a realistic level, aligned with the actual expenses incurred, contributing to financial sustainability. It also aids in transparent financial practices by clearly demonstrating the correlation between user charges and the

[7] Vide O.M. no.23(3)/E.Coord/2018 dated 13.06.2023

cost of service provision. In cases where user charges alone may not cover all costs, a comprehensive understanding of the cost structure is pivotal when seeking budgetary support. With the help of authentic cost data of various services, AB/FA can present a well-documented case, leveraging cost information to justify the need for additional funding to cover identified deficits. This strategic approach not only assists in avoiding financial shortfalls but also facilitates seeking funds or grants, aligning user charges with necessary budgetary support. Ultimately, cost determination serves as the foundation for informed decisionmaking, long-term financial planning, and maintaining the overall financial health of the organization. The Committee also noted that a reduction of 1% of allocated funds for AB during 2023-24 would result in saving of Rs.1390 crore per year.

(j) The Committee has also noted that Expenditure Management Commission in its report of March 2016, vide para 122 (page 51) recommended that 'all Autonomous Bodies should put in place a system of internal cost reviews at regular intervals and periodic review of user charges based thereon. The Governing Board of the Autonomous Body may ensure the periodic revision of user charges. The Financial Adviser of the nodal ministry may review this while determining the extent of budgetary support.

(k) Therefore, the Committee recommends that a mechanism of capturing cost details for Autonomous Bodies (AB) be set up to develop a cost data base for all major products and services to enable the Government to monitor the amount of budgetary support and user charges. This would help allocation of budgetary funds to individual services within each AB, guided by authentic cost data. The Committee expects that this process may result in substantial savings in the public exchequer ensuring a balance between societal requirements and the accurate determination of user charges or fees. The Committee recommends that the Department of Expenditure may examine this issue to incorporate suitable changes in the GFR and issue necessary administrative direction/guidelines to the concerned Ministries/Departments.

II. For Cooperative Sector

As per the Entry 32 of the “List-II State List” under Article 246 of the Constitution of India, Cooperative Societies is a state subject. However, multi-state cooperative societies with objects not confined to one state, the legislative power would be that of the Union of India. The Committee noted that the provisions of Cost Audit already exist in various state cooperative acts[8] which provides for the Cost and Performance audit of the cooperative societies by a Cost Accountant.

The Committee noted the various stakeholders’ suggestions that principles and practices of Cost Accounting and Cost Audit may also be extended to Co-operative Societies, Trusts, Autonomous Bodies, other authorities etc. The Committee also recommended to provide for a mandatory Cost Audit of the Cost Records of multistate cooperative societies.

(a) The Committee is of the view that huge public funds and public interest are involved in certain sectors like Fertilizer, education, health, Port services etc. wherein a large number of cooperatives, trusts, autonomous bodies, authorities operate and are outside the purview of mandatory maintenance of Cost Accounting Records and Cost Audit.

(b) Therefore, the Committee recommends that the principles and practices of maintenance of Cost Accounting Records and Cost Audit may be extended to the co-operative societies, trusts, autonomous bodies, other authorities such as public transport service providers including rail, metro and State Road Transport etc. in the Fertilizer, Sugar, Education, Health, Transport and Port

[8] Section 97 of the West Bengal Co-operative Societies Act, 2006 and Rule 80(3) of The Delhi Co-operative Societies Rules, 2007

services Sectors and all such sectors which are either in receipt of subsidy/incentives/grant from the Government or engaged in the activities covered under CCRA rules. This may be subject to certain thresholds in terms of quantum of subsidy or expenditure.

(c) The Committee felt that since CCRA Rules as per Companies Act, 2013 cover only companies, Department of Expenditure, Ministry of Finance and other concerned Ministries/Departments may examine the recommendation of the Committee and decide whether these could be mandated through administrative instructions or some statutory changes.

(d) Threshold criteria may be decided by the respective ministry/Department concerned in consultation with the Department of Expenditure, Ministry of Finance if required.

*****

Chapter – 9

Cost audit in infrastructure projects of Government

9.1 One of the Terms of Reference of the Committee requires it to examine issues related to Cost Audit in Infrastructure sectors.

9.2 Infrastructure refers to the physical and economic systems that supports all activities in the society. Infrastructure is very critical for rapid and balanced economic growth and development. It provides access to housing, food, drinking water, energy sanitation and waste management, healthcare, education, transport and communication. In short, it supports entire supply chain and help improve quality of life.

9.3 From the details made available by the Ministry of Statistics & Program Implementation (MoSPI), the Committee noted that as on 1st January 2024, total 1820 public infrastructure projects costing Rs.30.69 lakh crore was under various stages of implementation. These include 567 mega projects [Rs.1000 crore & above] costing Rs.25.07 lakh crore and 1253 major projects [Rs.150 to 1000 crore] costing Rs.5.62 lakh crore. A brief summary & highlights are given below:

Implementation Status of Central Sector Projects (as on 1st January 2024)			
SN	Category	No. of Projects	Anticipated Cost (Rs. in crore)
1	Mega projects (Rs. 1000 crore and above)	567	25,07,534
2	Major projects (Rs. 150 crore to less than Rs. 1000 crore)	1253	5,62,061
	TOTAL	1820	30,69,595
Source: http://www.cspm.gov.in/english/pio_report/PIO_dec_2023.pdf			

Highlights of the on-going Projects as on 1st January 2024		
1	Total number of projects on the monitor	1820
2	Total Original cost of 1820 projects	Rs. 25,87,066 crore
3	Total anticipated cost of these projects	Rs. 30,69,596 crore
4	Cumulative Expenditure till March 2023	Rs. 13,20,974 crore

5	Expenditure during current Financial Year (up to December 2023)	Rs. 3,05,840 crore
6	Cumulative Expenditure till December 2023	Rs.16,26,813 crore
7	Overall percentage cost overrun with respect to original cost	18.65%
8	Overall percentage cost overrun with respect to latest sanctioned cost	8.65%
Source: http://www.cspm.gov.in/english/pio_report/PIO_dec_2023.pdf		

9.4 Sector-wise analysis of the costs-overrun in 1820 projects as on 1st January 2024 is as follows:

Table 21 - Sector-wise analysis of the costs-overrun in 1820 projects as on 01.01.2024

Sector-wise analysis of Cost Overrun in Projects (All costs in Rs. Crore)							
S. No	Sector	Total Projects	Cost Original	Cost Latest	Cost Anticipated	Cost Overrun w.r.t. original	Cost Overrun w.r.t latest
1	ATOMIC ENERGY	5	116,741	132,558	136,736	19,995	4,178
2	CIVIL AVIATION	30	19,385	19,808	21,413	2,028	1,604
3	COAL	124	171,415	175,563	178,726	7,311	3,164
4	DEFENCE PRODUCTION	1	246	200	195	-51	-5
5	DEPARTMENT OF HIGHER EDUCATION	21	9,846	10,359	10,377	531	19
6	DONER	1	151	151	151	-	-
7	DPIIT	2	24,857	24,857	25,458	628	628
8	FINANCE	3	786	786	831	45	45
9	HEALTH AND FAMILY WELFARE	8	6,033	6,195	6,193	160	-2
10	HOME AFFAIRS	5	2,026	2,946	2,959	933	13
11	MINES	8	7,560	9,434	9,789	2,229	355
12	PETROLEUM	157	412,010	465,241	471,086	59,076	5,845
13	POWER	98	263,577	275,581	318,285	54,707	42,703

14	RAILWAYS	250	444,574	560,717	667,271	222,698	106,555
15	RENEWABLE ENERGY	1	272	366	366	94	-
16	ROAD TRANSPORT AND HIGHWAYS	1,021	746,414	776,115	785,992	39,578	9,877
17	SHIPPING AND PORTS	1	5,369	5,362	5,362	-7	-
18	SOCIAL JUSTICE	1	171	171	171	-	-
19	STEEL	9	8,928	9,781	9,781	853	-
20	TELECOMMUNICATION S	6	39,419	39,419	39,485	66	66
21	URBAN DEVELOPMENT	27	283,821	286,057	309,241	25,421	23,184
22	WATER RESOURCES	41	23,466	23,478	69,701	46,235	46,223
	Total	1,820	2,587,06 6	2,825,14 4	3,069,596	482,530	244,452
Source: http://www.cspm.gov.in/english/pio_report/PIO_dec_2023.pdf							

9.5 From a concept note shared by MoSPI, following two important issues have been observed in the existing monitoring system.

(i) The system does not monitor the different milestones, and hence the granularity of cost and time overruns are not reported, and the system does not get alerted till either the cost or time has overshot the approved values or the project proponent updates the system with an anticipated date and cost which is different than what was approved.

(ii) Different ministries have different understanding of the related terms, specifically those related to time and cost overruns calculations.

9.6 On analysis, the Committee noted the following facts related to public infrastructure projects:

- Very large amount of public money is blocked in various on-going infrastructure projects of different Ministries and Departments.
- At present there is no system in the Government to know about the actual cost incurred against the on-going or completed projects in most of the sectors. There is need to know detailed breakup of component-wise/activity-wise actual cost of materials, labour and overheads incurred on the projects. Such detailed element-

wise per unit cost data of various completed/on-going projects may be used as benchmark for future projects.

- Most of the infrastructure projects take long period in completion, normally more than 2-3 years. There is a need to capture & monitor actual cost details on quarterly/ half-yearly basis so that cost overrun is known at every stage of the project.
- The present system of approval of cost overrun has its limitation as the increased cost is normally considered as fait accompli. Actual cost breakup of projects coupled with detailed analysis will help the approving authorities in taking right decisions.
- Each time overrun also adversely affect cost of the project. Hence, factor-wise and stage-wise time overrun together with reasons thereof would provide requisite guide to take corrective actions in the existing as well as future projects.

9.7 Therefore, the Committee feels that there is an urgent need to undertake detailed analysis of time and cost overrun in all public projects, in a consistent and uniform manner to build granularity in data sets and standardize different terms. Through detailed cost examination & analysis of each project, the system would continuously evaluate & assess the performance of all public projects thereby suggesting such measures that would result in avoiding time & cost overrun to a large extent. This would, in turn, result in enhancing effectiveness of project implementation, and achieving huge savings of scarce public resources, including saving in budgetary support from the Central Government.

Global Practice:

9.8 The Committee observed that in most developed and developing economies, generally all public projects follow the country's laid down costing principles and the business entities are required to share their cost details with the concerned project authorities, who conduct selective audit/examination. For example, in the USA, all government contracts and sub-contracts for over US$5 million are mandated to follow various cost accounting standards issued by the federal government. Further, the Treasury

Department's orders have mandated annual cost audit examination of the books and records of the companies dealing with the government contracts.

Views of stakeholders

9.9 Ministry of Finance, Department of Economic Affairs suggested that all activities, schemes, projects under the economic sectors qualify for cost accounting and auditing.

9.10 ASSOCHAM and PHDCCI suggested that mechanism relating to preparation of cost records & statements and cost audit should be made applicable on all public projects & schemes, public utilities, public services and infrastructure sectors.

9.11 In view of above, there is a need to develop a system to get timely information about the activity-wise and milestone-wise changes in time & cost occurring in each public project. For this purpose, a system of maintenance of time & cost records in all public infrastructure projects of high value need to be initiated. The system should facilitate periodic (quarterly/ half-yearly) submission of a comprehensive report on the activitywise, milestone-wise and element-wise examination & analysis of time and cost by an independent professional cost accountant, whether in-service or in public practice. It will give following advantages:

- It will help in identifying actual reasons of time & cost overruns of each project for timely corrective action by the project owners (i.e. the concerned ministry, Department, or public authority) and also by the project implementing organizations.
- This would also enable better cost-benefit analysis and benchmarking for the future projects.
- Availability of authentic and reliable activity-wise, input-output data will help in elimination of wastage and improve efficiency.
- The availability of actual per-unit cost data of similar product/services will ensure inter-unit, inter-region and inter-period comparison.
- Better allocation and apportionment of overheads among different products and services would be possible.

- Project cost details would also be of significance input to the concerned authorities in dispute redressal and resolving all projects related arbitration cases with the contractors.

9.12 The Committee is of the view that in the existing on-going projects, which are at different stages of implementation, it may be difficult to now seek maintenance of proper time & cost records and periodic submission of a comprehensive report on the activity-wise, milestone-wise and element-wise examination & analysis of time and cost by an independent professional cost accountant, whether in-service or in public practice. However, if the concerned ministry, Department, or public authority feels it necessary, it may insert a suitable clause in the tender document for future projects.

9.13 Keeping the aforesaid in view, the Committee recommends as under:

(i) Proper time & cost records should be maintained in all Government infrastructure projects of value of Rs.100 Crore and above.

(ii) Quarterly/half-yearly submission of a comprehensive report to the concerned ministry, Department, or public authority, covering activitywise, milestone-wise and element-wise examination & analysis of time and cost by an independent professional cost accountant.

(iii) The concerned ministry, Department, or public authority, if feels it necessary, may insert a suitable clause in the tender document for future projects. Accordingly, Ministry of Finance, Department of Expenditure may include it in its guidelines/instructions regarding appraisal and approval of public funded projects/ schemes.

(iv) Draft formats of reporting are placed at <u>Appendix-4.</u>

*****

Chapter - 10

Cost Audit of Products/Services/Schemes where Government provides incentives through Production linked Incentives (PLI)

10.1 Production-linked incentive (PLI) schemes have been implemented in 14 key specific sectors to make Indian manufacturers globally competitive, attract investment in the areas of core competency and cutting-edge technology; ensure efficiencies; create economies of scale; enhance exports and make India an integral part of the global supply chain.

10.2 Keeping in view India's vision of becoming 'Aatmanirbhar', Production Linked Incentive (PLI) Schemes for 14 key sectors with an outlay of Rs. 1.97 lakh crore (over US$26 billion) was announced to enhance India's Manufacturing capabilities and Exports. The purpose of the PLI Schemes is to attract investments in key sectors and cutting-edge technology; ensure efficiency and bring economies of size and scale in the manufacturing sector and make Indian companies and manufacturers globally competitive. These schemes have the potential of significantly boosting production, employment and economic growth over the next five years or so.

10.3 PLI Schemes for all 14 Sectors have been notified by the concerned Ministries/ Departments after due approval. These Schemes are in various stages of implementation by the implementing Ministries/ Departments. These 14 sectors are:

i. Mobile Manufacturing and Specified Electronic Components,

ii. Critical Key Starting Materials/Drug Intermediaries & Active

Pharmaceutical Ingredients, iii.

Manufacturing of Medical Devices iv.

Automobiles and Auto Components,

v. Pharmaceuticals Drugs, vi.

Specialty Steel, vii. Telecom &

Networking Products, viii.

Electronic/Technology Products, ix.

White Goods (ACs and LEDs),

x. Food Products, xi. Textile Products: MMF

segment and technical textiles, xii. High efficiency solar

PV modules, xiii. Advanced Chemistry Cell (ACC)

Battery, and xiv. Drones and Drone Components

"Empowering Growth: Analyzing the Impact of Production Linked Incentives (PLI) on the Indian Economy"[9]

10.4 Production Linked Incentive (PLI) Schemes witness over Rs. 1.03 lakh crore of investment till November 2023, which has led to production/ sales of Rs. 8.61 lakh crore and employment generation (direct & indirect) of over 6.78 lakhs. PLI Schemes have witnessed exports surpassing Rs. 3.20 lakh crore, with significant contributions from sectors such as Large-Scale Electronics Manufacturing, Pharmaceuticals, Food Processing, and Telecom & Networking products.

10.5 As on date, 746 applications have been approved in 14 Sectors with expected investment of over Rs. 3 lakh crore. 176 MSMEs are among the PLI beneficiaries in sectors such as Bulk Drugs, Medical Devices, Pharma, Telecom, White Goods, Food Processing, Textiles & Drones. Several MSMEs are serving as investment partners/ contract manufacturers for large Corporates.

[9] Source of Data: https://pib.gov.in/PressReleaseIframePage.aspx?PRID=1996964 dated 17th January 2024

10.6 Incentive amount of around Rs. 4,415 crore disbursed under PLI Schemes for 8 Sectors viz. Large-Scale Electronics Manufacturing (LSEM), IT Hardware, Bulk Drugs, Medical Devices, Pharmaceuticals, Telecom & Networking Products, Food Processing and Drones & Drone Components.

10.7 Manufacturing of various electronic components like battery, chargers, PCBA, PCB, camera modules, passive components and certain mechanics have been localized in the country. Green shoots in the component ecosystem wherein large companies such as TATAs have entered into component manufacturing. PLI beneficiaries account for ~ 20% of the market share only, however, have contributed to ~ 82% mobile phones exports during FY 2022-23. Production of mobile phones increased by more than 125% and export of Mobile Phones increased ~4 times since FY 2020-21. Foreign Direct Investment (FDI) increased by ~254% since the inception of the PLI scheme for LSEM.

10.8 Due to the PLI Scheme, there has been a significant reduction in imports of raw materials in the Pharma sector. Unique intermediate materials and bulk drugs are being manufactured in India including Penicillin-G. Production of 39 Medical Devices have commenced such as CT-Scan, Linear Accelerator (LINAC), Rotational Cobalt Machine, C-Arm, MRI, Cath Lab, Ultrasonography, Dialysis Machine, Heart Valves, Stents, etc.

10.9 Import substitution of 60% has been achieved in the Telecom sector and sales of Telecom & Networking Products by PLI beneficiary companies in FY 2023-24 increased by 370% vis-a-vis Base Year (FY 2019-20). Significant impact on investment in the Drone industry with a CAGR of 90.74%.

10.10 Under the PLI Scheme for Food Processing, sourcing of raw materials from India has seen significant increase which has positively impacted income of Indian farmers and MSMEs. Sales of Organic Products increased and Indian brand visibility enhanced in the international market through Branding & Marketing abroad. The Scheme has also led to increased Millet procurement – from 668 MT (FY 20-21) to 3,703 MT (FY 22-23).

10.11 Views/ suggestions of Stakeholders

(i) Suggestions of CII

(a) The cost of production or margin as per cost audit report has very limited or almost nil linkage to such schemes or PLI applications from the industry, and the measurement criteria for eligibility under these schemes and computational aspects requires certification by qualified Chartered Accountants under such schemes.

(b) If the Government feels it necessary to obtain cost details in respect of products covered by PLI, then the same may be part of the PLI application form; there is no need to include such products under the ongoing cost audit process.

(ii) Suggestion of FICCI

(a) For PLI and other incentive schemes, the Respective Ministry seeks detailed independent certifications from Statutory Auditors on each of these parameters relevant for the purpose of claims for Fiscal incentives or under Production Linked Incentives. Additionally, there is detailed correspondence with the Ministry as well as verification of all documents, invoices, records, etc. along with redressal of queries which adequately ensure that the claims being filed are genuine, correct and complete on all grounds. Further, there is rigour and assurance with regard to the maintenance of books of accounts, investments made and revenue generated. It was suggested not to extend the Cost Audit to products manufactured under the PLI schemes.

10.12 Views/Recommendations of the Committee:

(i) The Committee after detailed deliberations, noted that most of the sectors presently covered under PLI are already under the ambit of Cost Audit.

(ii) The Committee further noted that in some of the official notifications of PLI as released by the respective ministries/Departments, already have a provision of cost audit/ certificate by an external auditor (Cost or Chartered Accountant) appointed by that ministry and expenses of which will be met within the allocation of the scheme.

(iii) Further, some of the PLI notifications also require applicants to submit a domestic value addition (DVA) certificate duly cost audited by an external auditor (Cost or Chartered Accountant). The Committee noted that such provision is already a part of PLI Application process. Some of the PLI Notifications have a monitoring mechanism which provides that the beneficiary firm shall install the required manufacturing facility with the 'minimum value addition' as defined within 'x' years. The Committee noted that different PLI notifications provides for different mechanisms to calculate such value addition. For instance,

a. PLI Notification for Automobile and Auto Component Industry[10] defines the term value addition as:

"The percentage of manufacturing activity being undertaken in that referred part of the supply chain.

[10] Notification released by Ministry of Heavy Industries dated 23rd September 2021

% domestic value addition = [(Ex-factory price of the product (net of GST) – (minus) Import content i.e. sum of FOB value of all imported components or materials in the final product including import duties) / Ex-factory price of the product (net of GST)] x 100.

It will be certified by Testing agency of MHI."

b. PLI Scheme "National Programme on High Efficiency Solar PV Modules[11]", the percentage of local value addition will be calculated as follows:

"[(Sale value of Module as per GST invoice excluding net domestic indirect taxes) – (Value of direct and indirect imported materials and services (including all customs duty) as per Bill of Entry filed in Customs, used in manufacture of module)] / [(Sale value of Module as per GST invoice excluding net domestic indirect taxes] x 100%."

c. Similarly, as per the PLI Scheme for ACC Battery Storage, the "actual value added" may be calculated on the basis of financial records (including turnover reported in GST returns) as per the following formulae:

i. Sale value (net of returns, price adjustments, discounts, etc.) of the said goods, excluding indirect taxes, if any, paid on the goods ii. Less: Cost of raw materials and/or packing materials consumed in the said goods (i.e. in

[11] Guidelines for PLI Scheme "National Programme on High Efficiency Solar PV Modules" released by Ministry of New & Renewable Energy dated 28th April 2021

the final sale price of the goods sold) to be calculated in terms of generally accepted costing principles iii. Less: Cost of Material whose source of origin cannot be ascertained

(beyond the prescribed threshold) iv. Less: Cost of fuel

consumed, if eligible for GST input credit

v. Less: Expenses incurred in foreign currency for royalty or technical know-how as debited in the Income statement vi. Add: "Actual value added by the ancillary units or domestic manufacturers" attributable to sale value (net of returns, price adjustments, discounts, etc.) of said goods

The Committee is of the view that the Audit reports may help in determining the figure of "actual value addition" by the beneficiary which is essentially a

---

pre-requisite for the disbursement of cash subsidy/incentives under the PLI Schemes.

(iv) Therefore, the Committee recommends that in order to bring an uniformity in PLI scheme across all the Ministries, every PLI scheme may include a provision stating that amounts under PLI scheme may be released based on an audit report by a Chartered Accountant or a Cost Auditor and expenses of which will be met within the allocation of the scheme.

(v) The Committee felt that since CCRA Rules as per Companies Act, 2013 cover only companies, Department of Expenditure, Ministry of Finance and other concerned Ministries/Departments may consider the recommendation of the Committee.

*****

Chapter - 11

Usefulness of cost audit reports

11.1 The Companies Act 1956, as amended via Companies (Amendment) Act, 1965 (31 of 1965) for the first time, introduced the mandatory provisions for maintenance of Cost Accounting records and Cost Audit under section 209(1)(d) and 233B respectively. The objects and reasons in the bill of 1965 stated that the primary aim of inserting these sections in Companies Act 1956 is to ensure that efficiency audit is possible in respect of companies engaged in production, processing, manufacturing or mining activities as notified by Central Government. Similar provision was introduced in the Section 148 of the Companies Act, 2013 for maintenance of Cost Accounting Records and Cost Audit.

11.2 Usefulness of the Cost Records and Cost Audit Reports – as examined by previous Expert Committees

The utility of Cost Records and Cost Audit has been well examined by various expert committees earlier also, as discussed below:

(i) The "Expert Committee on New Company law" chaired by JJ Irani set up by the Ministry of Corporate Affairs said that the cost records and cost audit were important instruments that would enable companies make their operations efficient and exist in a competitive environment.

(ii) Committee on Subordinate Legislation (14th Lok Sabha) in its First report also stated:

(a) Authentic cost data base is of paramount importance to various existing and new regulatory bodies, Competition Commission and Government Departments for fixation of user charges in respect of services provided by them and would go a long way in fulfilling their respective objectives.

(b) In the present scenario authentic cost data base is not only essential for the industries to improve upon their performance and face competitive environment but is useful to various Government agencies, revenue authorities, regulatory bodies, banks and financial institutions for meeting their respective objectives.

(c) Service sectors such as banking, insurance, health services, education, hotel, etc. have admittedly attained strategic importance to the economy and the public at large, particularly after opening up of the economy for private/foreign companies.

(iii) Standing Committee on Finance in its report on Companies Bill 2009 emphasized on mandatory maintenance of cost records, coverage of more number of companies, particularly in sectors concerning exploration, mining, processing, manufacturing, infrastructure and utilities under cost audit and appointment of cost auditors by the shareholders in general meeting, as in the case of statutory auditors.

(iv) 2014 Expert Committee on the Companies (Cost Records and Audit) Rules, 2014 also noted that in the initial years after introduction of concept of cost audit, the cost audit was taken a tool for price mechanism for important industries in India. It was an operational and efficiency audit, with an aim of optimum utilization and control over scarce resources of a company without which the cost competitiveness could not come.

The relevant extracts of the recommendations made by the above Committees on the usefulness of cost accounting and audit are placed at Annexure-VIII.

11.3 Views of The Institute of Cost Accountants of India ('ICMAI') on Usefulness of Cost Records and Cost Audit

(i) ICMAI made detailed submissions explaining the usefulness of cost records and cost audit for various stakeholders, brief of which is given below. These submissions were examined by the Committee in detail.

a. Utility of Cost Data to Independent Directors –

Correct reporting of business segments results;

- Object-wise and asset-wise efficient utilization of funds;
- Related party transactions – cost accounting principles are used in calculation of arm's length price;
- Structured cost and performance data in Board meetings;

b. Utility of Cost data to Registrar of Companies -

- For investigations into possible areas of fraud, siphoning of funds and evasion of profits/taxes;

c. Utility of Cost data to Government Organizations and Regulatory Authorities –

- Cases like valuation of goods under Anti-dumping, data under PLI, subsidy determination, cases of predatory pricing etc.
- For CBDT – Areas like related party transactions, inventory valuations, transfer pricing, cost of the long duration projects (for deduction under Section 35 of the Income Tax Act 1961), deductions under PGBP head based on actual costs etc.
- For CBIC – Reconciliation of Indirect taxes clause
- For NPPA – Verification of costs to check extraordinary profit margins and to control exploitation of citizens by the manufacturers.
- For Defense – pricing of equipment

d. Utility of Cost data in Banking and Financial Services Sector –

- To improve the Credit Management System of Banks to get early warning signals & check possible cases of loan becoming NPA at an advanced stage.

e. Utility of Cost data in healthcare sector –

- Operational and financial insights in certain parameters like patient wise costing, doctor-wise costing, lab testing services costs etc.

f. Utility of Cost data in Oil & Gas industry – to

calculate costs in production sharing contracts;

- royalty on crude oil;
- Natural Gas Pipeline Tariff;
- City Gas Distribution;
- Windfall profit tax on crude oil and petroleum products.

g. Utility of Cost Data to Management

- Capacity utilization analysis;
- Productivity and efficiency analysis;
- Utilities and Energy efficiency analysis;
- Product/service profitability analysis;
- Market/ consumer profitability;
- Working capital and Inventory Management Analysis;
- Manpower Analysis;
- Other performance areas.

h. Utility of Cost Data to various other Regulatory bodies like TRAI, CCI, SEBI, RBI etc.

- For fixing the tariff, amount of subsidy, usage charges etc.

11.4 Views of Industry Associations on Usefulness of Cost Records and Cost Audit

(i) Views of PHDCII

a. Cost data is highly valuable and should be properly used by Government like undertaking benchmarking and competitiveness studies;

b. Monitoring of public procurement costs and costs of all public projects and schemes will save substantial public resources which can be gainfully employed in building infrastructure and eradicating poverty.

(ii) Views of CII -

a. Cost data is highly valuable and should be properly used by Government like undertaking benchmarking and competitiveness studies;

b. Good practices which are relevant across the sectors in Cost Audit includes segregation of abnormal costs, reconciliation of financial profit with costing profit and helping management to identify areas for improvement.

c. Cost Audit reports are an important source for Govt. to have cost data for comparative purpose. It provides a framework for GST and other laws where valuation etc. are based on cost. This might give deep insights to Govt. about the cost of production of products and may help in policy matters.

(iii) Views of ASSOCHAM –

a. Cost data is highly valuable and should be properly used by Government like undertaking benchmarking and competitiveness studies;

b. Monitoring of public procurement costs and costs of all public projects and schemes will save substantial public resources which can be gainfully employed in building infrastructure and eradicating poverty;

c. Maintenance of cost records and Cost Audit is useful to the industry as it helps in mapping and keeping a track of product-wise or unit-wise cost data and profitability of various respective cost centres;

d. Maintenance of cost records would just be a step ahead as product level information could be derived from the records. Regulators and other financial institutions can gather information based on the product level data available for better decision-making.

11.5 Views of All India Cost & Management Accountants Associations

(i) It was stated that Cost Audit is useful in the following industry:

a. Manufacturing Industry
b. Construction industry
c. Pharmaceutical industry
d. Retail Industry
e. Oil and Gas Industry
f. Telecommunication industry
g. Healthcare industry
h. Automotive industry
i. Agriculture industry
j. Banking and Finance industry

11.6 Views of Ministries/Administrators/Regulatory Bodies on Usefulness of Cost Records and Cost Audit

(i) Views of CBIC –

a. Cost audit helps companies comply with the provisions of the GST Act by ensuring accurate cost reporting, which is essential for calculating input tax credits and determining the value of supply. ITC claimed aligns with the actual costs incurred, reducing the risk of non-compliance and potential penalties.

b. Quantitative details in Cost Audit report contain details of total quantity of goods, samples/quantity captively consumed and outward supply with break-up of export and domestic clearance, which helps GST Audit officers to reconcile the data with GST returns and major variations are looked into.

c. GST Audit officers utilizes costs statements/ Cost of production statements in Cost Audit reports for valuation aspect to compute taxable value of the final goods under Cost Construction Method under CGST Act 2017.

(ii) Views of SFIO –

a. Cost Audit reports are found useful in the investigations regarding manipulation of the financial statements. In this regard, SFIO even suggested certain modifications in Cost Audit report format to make it more useful in investigations.

(iii) Views of Central Electricity Regulatory Commission (CERC)

a. While notifying the Tariff Regulations for the 2014-19 and 2019-24 Tariff Control period, the CERC has already taken into cognizance the usefulness of Cost Audit Report and maintenance of cost accounting records and had made the necessary provisions in the respective Tariff Regulations for providing cost audit report and cost accounting records by the generating company and transmission licensee at the time of filing of tariff petitions.

b. Accordingly, CERC is of the view that the requirement of maintenance of cost accounting records and its audit by the power sector companies are in the interest of the electricity consumer and such provision should remain applicable to the electricity sector.

(iv) Views of DGTR, Dept. of Commerce –

a. DGTR has notified the revised costing formats to be filed by the domestic industry in anti-dumping vide Trade Notice No. 05/2021.

b. Cost Audit report plays a vital role in determination of Non-Injurious Price (NIP) and for this, reference to cost audit report is made to -

i. Verify the raw materials, packing materials, utilities and consumption norms etc; ii. Verify and compare the cost per unit of direct and indirect cost components and overheads; iii. To verify the production and sales quantities of PUC and NPUC with details mentioned in Cost Audit reports; iv. To verify the installed capacity, production quantity and cost per unit of PUC with the details mentioned in Cost Audit report.

c. Cost Audit reports helps in analysis of injury to domestic industry by investigating economic parameters like natural and potential decline in sales quantity, sales volume, profits, return on investments etc;

d. Abridged cost statements under Annexure 2 of Cost Audit reports are used in Anti-dumping duty investigations;

e. Related party transactions are also reviewed by DGTR from Cost Audit reports.

f. Summary of Sector wise findings issued by DGTR since 2019-20 onwards where cost related data has been used by DGTR for recommendation of Antidumping and Allied Duties are given below:

Table 22 - Sector wise segregation of the Final Findings issued by DGTR 2019-20 onwards

S. No.	Sector	Total Final Findings Issued	Total Number of Companies Involved (Approx.)
1	PRODUCTS OF THE CHEMICAL OR ALLIED INDUSTRIES	74	1821

2	BASE METAL & ARTICLES OF BASE METAL	31	1316
3	PLASTICS AND ARTICLES THEREOF, RUBBER AND ARTICLES THEREOF	30	1154
4	TEXTILE & TEXTILE ARTICLES	26	1108
5	ARTICLES OF STONE, PLASTER, CEMENT, ASBESTOS, MICA OR SIMILAR MATERIALS; CERAMIC PRODUCTS; GLASS AND GLASSWARE	21	1193
6	MACHINERY AND MECHANICAL APPLIANCES; ELECTRICAL EQUIPMENT AND PARTS THEREOF; SOUND RECORDERS AND REPRODUCERS, TELEVISION IMAGE AND SOUND RECORDERS AND REPRODUCERS, AND PARTS AND ACCESSORIES OF SUCH	11	218
7	VEHICLES; AIRCRAFT; VESSELS & ASSOCIATED TRANSPORT EQUIPMENT	5	52

8	WOOD AND ARTICLES OF WOOD; WOOD CHARCOAL; CORK AND ARTICLES OF CORK; MANUFACTURES OF STRAW, OF ESPARTO OR OF OTHER PLAITING MATERIALS; BASKETWARE AND WICKERWORK	5	121
9	OPTICAL, PHOTOGRAPHIC, CINEMATOGRAPHIC, MEASURING, CHECKING, PRECISION, MEDICAL OR SURGICAL INSTRUMENTS AND APPARATUS; CLOCKS AND WATCHES; MUSICAL INSTRUMENTS; PARTS AND ACCESSORIES THEREOF	4	132
10	PULP OF WOOD OR OF OTHER FIBROUS CELLULOSIC MATERIAL; RECOVERED (WASTE AND SCRAP) PAPER OR PAPERBOARD; PAPER AND PAPERBOARD & ARTICLES THEREOF	3	69
11	ARTICLES OF STONE, PLASTER, CEMENT, ASBESTOS, MICA OR SIMILAR MATERIALS; CERAMIC PRODUCTS; GLASS AND GLASSWARE	2	34
12	MINERAL PRODUCTS	2	130

13	ANIMAL OR VEGETABLE FATS AND OILS AND THEIR CLEAVAGE PRODUCTS; PREPARED EDIBLE FATS; ANIMAL OR VEGETABLE WAXES	1	3
14	PREPARED FOODSTUFFS, BEVERAGES, SPIRITS AND VINEGAR, TOBACCO AND MANUFACTURED TOBACCO SUBSTITUTES	1	14
		216	7,365

Various other suggestions by DGTR on how to make cost audit reports more useful are adequately discussed and deliberated upon the Committee and included in this report in the relevant paragraphs.

(v) Views of Ministry of Defence –

a. Department of Defence –

i. Cost Audit reports are used to determine the reasonableness of price while procurement of various defense related capital equipment and armaments; ii. Usefulness of Cost Audit reports in other sectors like Fertilizers, Health etc. were also substantiated.

b. Department of Defence Production – The cost efficiency and productivity of 16 Central Public Sector Undertakings are monitored based on their Balance sheet and self-certified costing data. Cost Audit reports are used as a secondary source of indicative information to validate their claims as these PSUs are exempted from segment-wise reporting in their balance sheets.

(vi) National Mission on Clean Ganga (NMCG)

Cost Audit of few projects, on sample basis on project completion may be useful in framing of norms and cost estimation for future projects.

11.7 Views/Recommendations of Committee –

a. The Committee deliberated on all the views/submissions of the above stakeholders on the usefulness of cost records and cost audit. The Committee noted that to improve the utility of cost data to all stakeholders, there is a need to make necessary changes in the Cost Audit Report formats, details of which are discussed separately under Chapter 7 - Formats and Procedures.

b. All the other issues arising from the above discussions have been adequately dealt with in the relevant chapters of the reports respectively.

c. The Committee noted that there exists an argument in the certain quarters that when financial accounts and their statutory audit is prescribed, there should not be any necessity for prescribing Cost Accounting Record Rules and their statutory audit. However, the Committee feels that one has to appreciate that financial accounts are not enough to reveal the full position. Financial accounts depict the net or final results of a business during a period by matching the total income against total expenditure during that period. Such accounts are not product specific. Product costs or margin on each product is not reflected in these accounts. Maintenance of cost records and their audit, on the other hand, seeks to make a close analysis of the sources of income and effectiveness of utilization of resources on different activities or products or lines or processes of the business not at the end but during the period itself. Besides providing analysis or breakup of product cost, cost audit reports provide reconciliation of costs and financial accounts.

d. The Committee noted that the Cost audit reports give product specific costs and besides such accounts distinctly give product-wise quantity and value of closing and opening stocks and also work in process. Whereas in the conventional financial accounts, valuation of inventories is done by the Management. Under the Cost Audit reports, not only this but Cost Auditor is also required to give the method followed for determining cost of work in progress and finished goods in the report. These are prominent areas often resorted to by the managements for window dressing and Sacchar Committee after critically examining the same recommended that in the annual reports, valuation of inventories should be certified by the practicing cost accountants. This recommendation was given effect to by the Finance Act 2023 wherein Section 142(2A) of the Income Tax Act 1961 was amended wherein the Assessing Officer if at any stage of the proceedings before him can direct the assessee to get the inventory valued by a Cost Accountant as nominated by authorities, and to furnish report of such inventory valuation in the prescribed form duly signed and verified by such Cost Accountant.

e. The Committee further noted that an audit of Cost Accounts by an independent auditor gives a sound basis to the revenue authorities and other administrative authorities for drawing valuable conclusions. This also signifies that mandatory Cost Audit provides time tested and effective instrument to the authorities. No doubt, maintenance of cost records has always been regarded as a tool of internal management but unless product costs are maintained on a scientific basis and are audited by independent auditors, they would always lack creditability. Maintenance of cost records, therefore, lends transparency to the system and helps in the maintenance of product costs on a scientific basis; and their audit by independent auditors lends creditability to the system. Therefore, the Committee is of the view that Cost audit reports are an important tool
to check malpractices in inventory valuations.

f. The Committee recommended that a nodal officer may be appointed by each administrative Departments/Ministry to whom access (through user ID and Password) to the Cost Audit Reports relating to respective Sectors may be given by MCA. The nodal officer may analyze the Cost Audit reports of the sector related to the concerned Department/ministry and report valuable insights to the Department/ministry for policy-formulation and informed decision making.

g. The Committee recommends that an IT software enabling user friendly Dashboard may be developed in consultation with Cost Audit Branch of MCA to build benchmark costs of each major product(s)/service(s) per unit which may enable inter-firm comparison and better decision-making.

h. The Committee during interactions with various stakeholders observed that a common challenge where users across departments acknowledge the utility of cost records but face a lack of awareness or familiarity with cost audit reports. To address this, the Committee recommends a proactive approach involving regular advocacy efforts tailored to the specific needs and concerns of user departments. The advocacy strategy involves a systematic process:

- Organize regular training sessions or workshops customized for each department focusing on simplifying the complexities of cost audit reports.
- Team up with accounting professionals within the department to act as mentors during advocacy efforts. Their expertise can provide valuable insights and guidance, fostering a better understanding among users.
- The user department should understand how the cost audit report can streamline processes, enhance decision-making, and align with the unique objectives of each user group.
- Connect the benefits of cost audit reports to the broader objectives of each department, reinforcing their strategic significance.

i. By systematically implementing these advocacy measures, the department/regulator aims to bridge the knowledge gap, ensuring that user departments not only recognize the importance of cost audit reports but also possess the skills to effectively integrate them into their daily operations.

j. It is further recommended that the Ministry of Corporate Affairs in consultation with the Department of Expenditure may conduct a tailored training programme among the Financial Adviser of the Government of India about the usefulness of the cost audit reports.

k. Further, the Committee is of the view that the Committees recommendations in Chapters 6 to 10 of this report, on Simplification/ rationalization of the procedure, improvement in the Cost Audit Reporting format, implementation of Cost Audit in the high value infrastructure projects, PLI and extension of the principles of cost accounting and audit to the Cooperative, Trusts and other Authorities will protect the interest of the Government in its investment and increase the usefulness of the Cost Audit Reports to the Government Departments/ Ministries/ Regulators.

*****

Chapter - 12

Principles for selecting sectors for review of Cost Audit Reports on a periodic basis

12.1 One of the terms of reference of the Committee is to make recommendations on principles for selecting sectors for review of Cost Audit Reports on a periodic basis. Committee is of the view that utilization of the Cost Audit Reports can be improved if some sectoral studies are conducted yearly based on Cost Audit Reports. Further, committee noted that Cost Audit Branch is mandated to perform functions related to Cost Audit as per provision of Companies Act, 2013. Thus, random review/ examination of some Cost Audit Reports will improve the quality of the reports as Cost Auditors will do more diligence in preparing Cost Audit Report if such oversight mechanism exists.

12.2 Sectoral Review:

Cost Audit reports contains useful data related to cost statements and all key financial ratios for the sectors covered under Cost Audit. Data of Cost Audit reports should be analysed for making useful suggestions to Government Departments/ Ministries/ Regulators in the significant sectors of the economy. Analysis of Cost Audit reports can give useful insights for the sectors witnessing financial distress or rapid increase in inputs costs or prices.

I. Views of Stakeholders

a) Views of the All-India Cost & Management Accountants Association – Some common selection criteria for undertaking review of the Cost Audit Reports are suggested as follows:

- Industry Significance
- Size and Complexity of business
- Financial Risk Factors

- Volume of transactions
- Complaints or concerns
- High-Impact projects
- Public Interest

II. View/ Recommendations of the Committee: Accordingly, the Committee recommends the following broad principles for selecting sectors for review of Cost Audit Reports: -

(a) Committee recommends that Sectoral Review may be done by the respective Administrative Ministry in consultation with Cost Audit Branch of MCA. Alternatively, in case Administrative Ministry does not have the expertise to carry out such study, it can be a done by Cost Audit Branch, MCA in consultation with the Administrative Ministry.

(b) Every year 2-3 sectors may be taken up for review.

(c) Sectors should be taken up by rotation i.e., if a sector has been selected for review in year, then it should not be again taken up for next 2-3 years unless it is required to be taken up in public interest.

(d) While selecting a sector, following may be considered:

(i) Administrative ministry/ regulatory body for the sector concerned, may be consulted for finalizing the terms of reference of the sectoral review.

(ii) Following sectors may be given preference for sectoral review:

- Sectors which are prone to cartelization or having larger public interest or facing financial difficulties i.e. high number of insolvencies or sectors which are having complaints of financial irregularities.
- Sectors which have seen high rise in products/service prices in short period of time or reduced availability of

products/services against the demand or witnessed high imports.

12.3 Periodic review:

Periodic review of Cost Audit Reports may be required as per the following legal provisions:

12.3.1 Sub-section (3) of Section 148, inter-alia, provides that Auditor conducting the cost audit shall comply with the Cost Auditing Standards issued by the Institute of Cost Accountants of India, constituted under the Cost and Works Accountants Act. 1959, with the approval of Central Government.

12.3.2 Sub-rule (4) of Rule-6 of Companies (Cost Records and Audit), 2014 provides that Every cost auditor, who conducts an audit of the cost records of a company, shall submit the cost audit report along with his or its reservations or qualifications or observations or suggestions, if any, in Form CRA-3.

12.3.3 Further, sub-section (6) of Section 148, provides that a company shall within thirty days from the date of receipt of a copy of the Cost Audit Report prepared in pursuance of a direction under sub-section (2) furnish the Central Government with such report along with full information and explanation on every reservation or qualification contained therein.

12.3.4 Reference is also invited to sub-section (7) of Section 148 which provides that if, after considering the cost audit report referred to under this section and the information and explanation furnished by the company under sub-section (6), the Central Government is of the opinion that any further information or explanation is necessary, it may call for such further information and explanation and the company shall furnish the same within such time as may be specified by that Government.

12.3.5 Further, reference is invited to Section 143 of the Act which provides for Power and Duties of the Auditors. Section 143(14) provides that the provision of this section shall mutatis mutandis apply to the Cost Accountant conducting Cost Audit under Section 148. Section 143(12) of the Act provides that 'Notwithstanding anything contained in this section, if an Auditor of a company, in the course of the performance of his duties as Auditor, has reasons to believe that an offence involving fraud is being or has been committed against the company by officers or employees of the company, he shall immediately report the matter to the Central Government within such time and in such manner as may be prescribed'. Section 143(15) of the Act provides for punishment to Auditor/Cost Accountant for non-compliance of the provisions of Section 143(12).

12.3.6 Considering the above, the Committee recommends that the following factors may be considered while selecting Cost Audit Reports for periodic review: -

a) Cost Audit reports of a financial year, on sample basis, selected through computerized system, may be taken up for review.
b) Reports selected may cover at least 1/3rd of sectors covered under Cost Audit.
c) All the sectors should be taken up for review by rotation.

****

Chapter - 13

Summary of key Recommendations of the Committee

13.1 The recommendations of the Committee are not only limited to the companies within the purview of the Companies Act only, it extends to other entities like trusts, cooperatives, autonomous bodies etc. Recommendations of the Committee involve a holistic perspective, keeping in mind the nation's interests. As MCA is mandated to cover only companies, MCA may forward the recommendations relating to trusts, cooperatives, autonomous bodies, PLI and on Infrastructure Projects to Department of Expenditure, Ministry of Finance or other concerned Ministries/Departments for their consideration. Though detailed recommendations of the Committee are given in the respective Chapters of this Report, key recommendations of the Committee are summarized below:

13.2 Coverage of Companies under Maintenance of Cost Records and Cost Audit framework (Chapter-6):

13.2.1 Classification of industries/sectors into regulated and non-regulated Sector under CCRA Rules (Para-6.3): Abolishing the classification of sectors into regulated and non-regulated. Instead, a single table/list of industries/sectors/products/services may be covered under the CCRA Rules 2014.

13.2.2 Manufacturing and Service Sectors to be Retained or Deleted or Added under CCRA Rules for Maintenance of Cost Records and Conducting Cost Audit (Para-6.4):

(i) Out of 39 sectors presently covered under CCRA Rules 2014, to retain 35 sectors and 4 sectors to be removed (Para-6.4.3).

(ii) 16 new sectors may be added within the purview of Cost record maintenance and Cost Audit framework (Para-6.4.3):

(iii) The Committee recommends to accept modification under Port services in CCRA Rules 2014 and therefore delete the words "regulated by the Tariff Authority for Major Ports under the Major Port Trusts Act, 1963 (38 of1963)" since the powers bestowed on Tariff Authority for Major Ports under the erstwhile MPT Act, 1963, to regulate tariff for services provided by the Major Ports and for the port properties stands withdrawn w.e.f. 3 November 2021, as per the suggestions of Ministry of Ports, Shipping and Waterways and Tariff Authority for Major Ports.

13.2.3 Identification of the CTA Codes and Service Sector Codes for the sectors covered under CCRA Rules 2014 (Para-6.5):

(i) With respect to the changes in CTA Codes on account of the amendment in Customs Tariff Act 2022 vis-à-vis 2021, the Committee recommends adopting the changes as suggested by ICMAI at para 6.5.2(i)(a) above under the CCRA Rules.

(ii) The Committee decided to accept the report of the Committee constituted to identify Service codes and recommends adopting the same under the CCRA Rules.

(iii) To include Uncoated Kraft Paper and Paperboard; and Corrugated Paper and Paperboard (CTA Code- 4804 and 4808) in Pulp and Paper Sector as suggested by CBIC.

(iv) A revised list of sectors/industries/ products/ services along-with the CTA/Service codes (based on NPCS) is recommended at Para 6.5.3(vi).

(v) The Committee felt that the report may be placed in public domain for wider consultations including with industry and user departments within the Government to get views on the recommendations of the Committee for addition or removal of sectors within the framework of cost audit and maintenance of cost records for the reasons recorded in the report.

13.2.4 Criteria for maintenance of cost records and cost audit (Para-6.6):

(i) To fix aggregate turnover limit of Rs.75 crore of the products and services covered under CCRA Rules for cost records maintenance as well as for cost audit.

(ii) The class of companies engaged in the production of the goods or providing services, as specified in the CCRA Rules, having an aggregate turnover of the product or products or service or services of rupees seventy five crore or more during any one of the immediately three preceding financial years, shall maintain cost records and conduct cost audit for such products or services.

13.2.5 Exemptions in CCRA Rules (Para 6.7):

(i) Existing five exemptions presently mentioned in the CCRA Rules 2014, may be applicable to maintenance of cost records as well as cost audit.

(ii) In line with the Government's policy to extend ease of doing business, recommendation of fixing turnover limit at Rs.75 crore, will also exempt the Medium enterprises having turnover from Rs.50 crore to Rs.75 crore from the maintenance of Cost Records and Cost Audit.

13.3 Formats and procedures for Cost Records and Cost Audit (Chapter-7)

13.3.1 Formats for maintenance of Cost Records and Cost Audit Report (Para-7.3)

i. To retain the provision in CCRA Rules that the Unit of Measurement (UoM) for each Customs Tariff Act Heading, wherever applicable, shall be the same as provided for in the Customs Tariff Act, 1975 (51 of 1975) corresponding to that particular Customs Tariff Act Heading.

ii. Cost Records may be maintained and Cost Audit Reports may be reported for every major saleable product/service of a particular CTA Code. Major saleable product under a particular CTA Code shall mean a product which is contributing at least 5% turnover of total turnover of all product/service covered under a particular CTA code.

iii. In the present complex business environment where companies are engaged in multiple products and services, there is no need to prescribe formats for maintenance of Cost Records for each industry as this will curtail the flexibility presently given to the Companies to maintain cost records as per their need. Committee is of the view that the principles mentioned in CRA-1 are adequate guide for maintenance of Cost Records.

iv. Considering the suggestions of stakeholders, the Committee feels that separate Cost Audit formats may be required for few sectors like Health Care, Telecom, and Infrastructure etc. Thus, the Committee recommends that MCA may develop separate Cost Audit formats for these sectors in consultation with ICMAI and the respective industries/stakeholders, keeping in view that there is no substantial compliance burden on the companies.

v. Based on the suggestions received from the stakeholders Committee revised the existing CRA-3 formats and recommends that same may be notified by MCA in consultation with ICMAI. Revised format for CRA-3 is placed at Appendix-3.

vi. While filing Form CRA-4 with the Central Government, the company has to mandatorily attach a copy of the Form CRA-3 (duly signed by the Cost Auditor).

13.3.2 Procedures for Cost Records and Cost Audit (Para-7.4)

(i) Reports in addition to the Cost Audit Report to be furnished by the Cost Auditor to the Board/Audit Committee (Para7.4.2):

a) Committee in principally agreed that some Key Performance Parameters may be placed in the Board and Audit Committee. Accordingly, the Committee has recommended to include Key

Performance Parameters which is given under observations and suggestions of Form CRA-3 attached in Appendix-3.

b) The Committee further recommends that a statement covering these Key Performance Parameters based on unaudited data may be placed before the Board and Audit Committee by the Company on a quarterly/half-yearly basis.

(ii) Disclosure in Board report (Para7.4.4):

a) Board report may be modified, inter-alia, include provision relating to cost audit as given below:

- Whether maintenance of cost records and cost audit is applicable on the company or not;
- If yes, then whether such accounts and records have been so made and maintained and whether cost auditor has been appointed or not.

b) CARO certificate in respect maintenance of Cost Records under Section 148 of the Companies Act is infructuous and amounts to duplication and adding to the cost of compliance. Therefore, the Committee recommends deletion of this clause from the CARO report. However, Ministry of Corporate Affairs may examine it, keeping in overall provisions of the Companies Act and Rules, after holding wider consultations.

(iii) Examination and review of the cost statements and cost auditor's report to be included in the functions of Audit Committee under Section 177 of the Companies Act, 2013 (Para7.4.5): Cost audit report is an important document which should be discussed and deliberated by the Audit Committee. This will also strengthen the corporate governance framework. The Committee noted that this would require amendment in the Act. Therefore, Ministry of Corporate Affairs may examine the

Committee's recommendation for inclusion of Cost Audit Report in the list of documents to be examined by the Audit Committee under Section 177 of the Companies Act 2013, after wider consultations.

(iv) Appointment of Cost Auditor and Submission of Cost Audit Report (Para7.4.7):

a) Committee is of the view that appointment, removal, rotation of cost auditors and fixing a cap on maximum number of cost Audit by the Cost Auditor may be done in line with the statutory auditors. Since this would require amendments in the Companies Act 2013, Ministry of Corporate Affairs may decide the issue after wider consultation.

b) The method of appointment of Cost Auditors in Government companies may be examined by MCA in consultation with Department of Expenditure.

(v) Provisions relating to Remuneration of Cost Auditor (Para7.4.8):

The Committee noted that there is some difference in provision relating to remuneration of the Cost Auditor in the Companies Act and in Companies (Audit and Auditors) Rules, 2014. As per Section 148 of the Companies Act 2013, remuneration of cost auditor is to be determined (and not ratified as mentioned in Companies (Audit and Auditors) Rules, 2014) by the members. Therefore, in order to avoid any ambiguity, the Committee recommends to suitably amend Companies (Audit and Auditors) Rules, 2014 and include all provisions relating to the appointment including remuneration of Cost Auditor in the CCRA Rules, after wider consultations.

(vi) Disclosures in Annual report (Para7.4.14): Keeping in view the significance and utility of the Cost information to the stakeholders, the Committee recommends that information relating to significant performance parameters and key cost trends may be included in the Annual Report.

(vii) Cost Accounting Standards (Para7.4.15): In order to bring uniformity in reporting of the items of cost in the Cost Records and in Cost Audit Reports, the Committee is of the view that the issue of Cost Accounting standards may be examined by the Ministry of Corporate Affairs, keeping in view the acceptance of same internationally and provisions of the Companies Act after wider consultations.

(viii) Confidentiality of Cost Audit Report (Para7.4.19): MCA may ensure proper data encryption, limited data access & audit trail in the system to ensure confidentiality of cost audit reports submitted by the companies.

13.4 Cost Accounting Records and Cost Audit in Cooperatives, Trusts, Autonomous Bodies and other Authorities (Chapter-8):

(i) Principles and practices of maintenance of Cost Accounting Records and Cost Audit may be extended to the co-operative societies, trusts, autonomous bodies, other authorities such as public transport service providers including rail, metro and State Road Transport etc. and in the Fertilizer, Sugar, Education, Health, Transport and Port services Sectors and all such sectors which are either in receipt of subsidy/incentives/grant from the Government or engaged in the activities covered under CCRA rules. This may be subject to certain thresholds in terms of quantum of subsidy or expenditure.

(ii) The Committee felt that since CCRA Rules as per Companies Act, 2013 cover only companies, Department of Expenditure, Ministry of Finance and other concerned Ministries/Departments may examine the recommendation of the Committee and decide whether these could be mandated through administrative instructions or some statutory changes.

(iii) Threshold criteria may be decided by the respective ministry/Department concerned in consultation with the Department of Expenditure, Ministry of Finance, if required.

13.5 Cost audit in infrastructure projects of Government (Chapter-9):

(i) Proper time & cost records should be maintained in all Government infrastructure projects of value of Rs.100 Crore and above. (Refer Rule 141 of GFR)

(ii) Quarterly/half-yearly submission of a comprehensive report to the concerned ministry, Department, or public authority, covering activity-wise, milestone-wise and element-wise examination & analysis of time and cost overrun by an independent professional cost accountant.

(iii) The concerned ministry, Department, or public authority, if feels it necessary, may insert a suitable clause in the tender document for future projects. Accordingly, Ministry of Finance, Department of Expenditure may include it in its guidelines/instructions regarding appraisal and approval of public funded projects/ schemes.

(iv) Draft formats of reporting are placed at Appendix-4.

13.6 Cost Audit of Products/Services/Schemes where Government provides incentives through Production linked Incentives (PLI) (Chapter-10):

(a) The Committee recommends that every PLI scheme may include a provision of an independent "Audit Clause" requiring Audit by an independent Auditor (Cost Accountant or Chartered Accountant) appointed by that ministry and expenses of which will be met within the allocation of the scheme.

(b) The Committee felt that since CCRA Rules as per Companies Act, 2013 cover only companies, Department of Expenditure, Ministry of Finance and other concerned Ministries/Departments may consider the recommendation of the Committee.

13.7 To improve usefulness of cost audit reports (Chapter-11)

(i) A nodal officer may be appointed by each administrative

Departments/Ministry to whom access (through user ID and Password) to the Cost Audit Reports relating to respective Sectors may be given by MCA. The nodal officer may analyze the Cost Audit reports of the sector related to the concerned Department/ministry and report valuable insights to the

Department/ministry for policy-formulation and informed decision making.

(ii) The Committee recommends that an IT software enabling user friendly Dashboard may be developed in consultation with Cost Audit Branch of MCA to build benchmark costs of each major product(s)/service(s) per unit which may enable inter-firm comparison and better decision-making.

(iii) A proactive approach involving regular advocacy efforts tailored to the specific needs and concerns of user departments.

(iv) MCA in consultation with the Department of Expenditure may conduct a tailored training programme among the Financial Adviser of the Government of India about the usefulness of the cost audit reports.

13.8 Principles for selecting sectors for review of Cost Audit Reports on a periodic basis (Chapter-12):

I. Sectoral Review: Committee is of the view that utilization of the Cost Audit Reports can be improved if some sectoral studies are conducted yearly based on Cost Audit Reports. The following broad principles for selecting sectors for review of Cost Audit Reports:

(i) Sectoral Review may be done by the respective Administrative Ministry in consultation with Cost Audit Branch of MCA. Alternatively, in case Administrative Ministry does not have the expertise to carry out such study, it can be a done by Cost Audit Branch, MCA in consultation with the Administrative Ministry.

(ii) Every year 2-3 sectors may be taken up for review.

(iii) Sectors should be taken up by rotation i.e., if a sector has been selected for review in year, then it should not be again taken up for next 2-3 years unless it is required to be taken up in public interest.

(iv) While selecting a sector, following may be considered:

a. Administrative ministry/ regulatory body for the sector concerned, may be consulted for finalizing the terms of reference of the sectoral review.

b. Following sectors may be given preference for sectoral review:

- Sectors which are prone to cartelization or having larger public interest or facing financial difficulties i.e. high number of insolvencies or sectors which are having complaints of financial irregularities.

- Sectors which have seen high rise in products/service prices in short period of time or reduced availability of products/services against the demand or witnessed high imports.

II. Periodic review: Random review/ examination of some Cost Audit Reports will improve the quality of the Cost Audit reports. The following factors may be considered while selecting Cost Audit Reports for periodic review:

a) Cost Audit reports of a financial year, on sample basis, selected through computerized system, may be taken up for review.
b) Reports selected may cover at least 1/3rd of sectors covered under Cost Audit.
c) All the sectors should be taken up for review by rotation.

Ministry of Corporate Affairs

Directorate General of Trade R
D/o Commerce

(Prathibha A.)
Economic Adviser,
Department of Fertilizers

(Vinod Kotwal)
Member Secretary, NPP
Department of Pharmaceut

(Raman Chopra)
Joint Secretary,
Central Board of Direct Taxes

(V. M. Jain)
Commissioner (Investigation),
Board of Indirect Taxes and C

(A. K. Pal)
Pr. Adviser (Cost),
Department of Defence

(A. K. Khurana)
Pr. Adviser (Cost),
Department of Defence Prod

(Manmohan Sachdeva)
Pr. Adviser (Cost), Department of Food
and Public Distribution

(Manoj Pandey)
Additional Secretary (Poli
Ministry of Corporate Aff

(Ashu Mathur)
Chief Adviser (Cost),
Department of Expenditure, Ministry of Finance,
Chairman of the Committee

*****

Appendix-1

Composition and terms of reference of the Committee - MCA's OM dated 04.10.2023

F. NO. 52/15/CAB/2023
Government of India
Ministry of Corporate Affairs
(Cost Audit Branch)
*****

B-1 Wing, 2nd Floor,
Pt. Deendayal Antyodaya Bhawan,
CGO Complex, New Delhi-110 003
Dated: 04.10.2023

Office Memorandum

Subject: Constitution of a Committee to review the existing framework of Cost Accounting Records and Cost Audit and to improve the usefulness of the Cost Audit Reports in various sectors of the economy -reg.

The undersigned is directed to state that in order to review the existing framework of Cost Accounting Records and Cost Audit and to improve the usefulness of the Cost Audit Reports in various sectors of the economy, a Committee has been constituted with the approval of Hon'ble Minister of Finance and Corporate Affairs.

2. **Composition of the committee is given below:**

S.No.	Members	
1.	Chief Adviser (Cost), Department of Expenditure, Ministry of Finance	Chairperson
2.	Joint Secretary (Policy), Ministry of Corporate Affairs	Member
3.	Adviser (Cost), Ministry of Corporate Affairs	Member
4.	Representative (not below the rank of **Joint Secretary**) of the following departments: (i) Departments of Defence [Defence Finance], (ii) Department of Defence Production, (iii) Department of Fertilizers, (iv) Department of Pharmaceuticals, (v) Department of Food and Public Distribution, (vi) Central Board of Indirect Taxes and Customs, (vii) Central Board of Direct Taxes, (viii) Directorate General of Trade Remedies,	Members
5.	Any other member with the approval of Chairperson	Member

3. **Terms of Reference of the Committee:**

(i) To make recommendations about the usefulness of the Cost Records and Cost Audit Reports in various sectors of the economy; in particular, to make recommendations about the sectors for which the requirement of maintenance of Cost records and conducting cost Audit may be no longer necessary, and, about the new sectors where maintenance of such records/conduct of such audit may be considered.

(ii) To Review the implementation of Companies (Cost Records and Audit) Rules, 2014 (CCRA Rules 2014); in particular, to review the Manufacturing and Service Sectors/Areas covered under CCRA Rules 2014 for Maintenance of Cost records and Cost Audit and identify the Codes for the same. While reviewing the sectors, the Committee will give due consideration to the following factors:

- Products/Services where subsidy/incentive are provided by the Government,
- Products/Services where prices are administered by the Government/Public Agencies,
- Products/Services/Schemes where Government provides incentives through Production linked Incentives (PLI),
- Areas where license is required for usage of scarce natural resources,
- Sectors related to national security like Defence, Space, Atomic energy etc.,
- Products/Services/Sectors where Pricing/Production decisions are under the jurisdiction of Government/regulatory bodies,
- Issues related to Cost Audit in Infrastructure Sectors,
- Areas where Cost Records may be useful in public interest,

(iii) To review Existing formats and procedures for Cost Records and Cost Audit.

(iv) While making recommendations, the Committee may keep in mind the implication of maintenance of Cost Record/Audit in the notified sectors, for the Public Finances of Central and State Governments.

(v) To make recommendation on principles for selecting sectors for review of Cost Audit Reports on a periodic basis.

(vi) To keep in consideration the cost of compliance, and ease of doing business for the companies for which Cost records/Cost Audit are mandatory.

(vii) Any other matter related to or incidental to the above which the Committee may decide to consider.

4. The committee may submit its report within three months. Committee may also hold stakeholder consultations, if required.

5. Cost Audit Branch, Ministry of Corporate Affairs will act as a secretariat of the Committee.

CG 4/10/2023
(Chunilal Ghosh)
Director (Cost)

To,

1. Finance Secretary and Secretary (Expenditure), North Block, New Delhi-110001

2. Chief Adviser (Cost), Department of Expenditure, Ministry of Finance, 'C' Wing, 2nd Floor, Lok Nayak Bhawan, Khan Market, New Delhi-110003.

3. Following Departments are requested to *nominate a representative for the Committee*:

   (i) Secretary, Department of Defence, Ministry of Defence, Room No. 101-A, South Block, New Delhi-110011.

   (ii) Secretary, Department of Defence Production, Ministry of Defence, Room No. 136, South Block, New Delhi-110011.

   (iii) Secretary, Department of Fertilizers, Ministry of Chemicals and Fertilizers, Room No. 217-A, Shastri Bhawan, New Delhi – 110001.

   (iv) Secretary, Department of Pharmaceuticals, Ministry of Chemicals and Fertilizers, Room No. 218-A, Shastri Bhawan, New Delhi – 110001.

   (v) Secretary, Department of Food and Public Distribution, Ministry of Consumer Affairs, Food and Public Distribution, Room No. 170, Krishi Bhawan, New Delhi.

   (vi) Chairman, Central Board of Direct Taxes, Department of Revenue, Ministry of Finance, Room No. 150, North Block, New Delhi-110011.

   (vii) Chairman, Central Board of Indirect Taxes and Customs, Department of Revenue, Ministry of Finance, Room No. 153, North Block, New Delhi-110011.

   (viii) Director General, Directorate General of Trade Remedies, Department of Commerce, Ministry of Commerce and Industry, 4th Floor, Jeevan Tara Building, 5, Parliament Street, Patel Chowk, New Delhi-110001.

Copy to:

1. PPS to Joint Secretary (Policy), Ministry of Corporate Affairs, 5th Floor, 'A' Wing, Shastri Bhawan, Dr. Rajendra Prasad Road, New Delhi-110 001

2. PS to Adviser (Cost), Ministry of Corporate Affairs, B-1 Wing, 2nd Floor, Pt. Deendayal Antodaya Bhawan, CGO Complex, Lodhi Road, New Delhi-110003

Copy for information to:

1. PPS to Secretary, Ministry of Corporate Affairs, 5th Floor, 'A' Wing, Shastri Bhawan, Dr. Rajendra Prasad Road, New Delhi-110 001

2. PPS to Additional Secretary, Ministry of Corporate Affairs, 5th Floor, 'A' Wing, Shastri Bhawan, Dr. Rajendra Prasad Road, New Delhi-110 001

MCA's OM dated 12.01.2024 for Extension of the tenure of the Committee

F. NO. 52/22/CAB/2023
Government of India
Ministry of Corporate Affairs
(Cost Audit Branch)
*****

B-1 Wing, 2nd Floor,
Pt. Deendayal Antyodaya Bhawan,
CGO Complex, New Delhi-110 003
Dated: 12.01.2024

Office Memorandum

Subject: Committee to review the existing framework of Cost Accounting Records and Cost Audit and to improve the usefulness of the Cost Audit Reports in various sectors of the economy -reg.

The undersigned is directed to refer to this office OM dated 4th October 2023 (copy enclosed) on the above mentioned subject and to state that Hon'ble Minster of Finance and Corporate Affairs has approved extension of the tenure of the Committee till 31st January, 2024.

12/1/24
(Chunilal Ghosh)
Director (Cost)

To:

1. Secretary, Department of Defence, Ministry of Defence, Room No. 101-A, South Block, New Delhi-110001.
2. Secretary, Department of Defence Production, Ministry of Defence, Room No. 136, South Block, New Delhi-110001.
3. Secretary, Department of Fertilizers, Ministry of Chemicals and Fertilizers, Room No. 217-A, Shastri Bhawan, New Delhi – 110001.
4. Secretary, Department of Pharmaceuticals, Ministry of Chemicals and Fertilizers, Room No. 218-A, Shastri Bhawan, New Delhi – 110001.
5. Secretary, Department of Food and Public Distribution, Ministry of Consumer Affairs, Food and Public Distribution, Room No. 170, Krishi Bhawan, New Delhi.
6. Chairman, Central Board of Direct Taxes, Department of Revenue, Ministry of Finance, Room No. 150, North Block, New Delhi-110001.

7. Chairman, Central Board of Indirect Taxes and Customs, Department of Revenue, Ministry of Finance, Room No. 153, North Block, New Delhi-110001.

8. Director General, Directorate General of Trade Remedies, Department of Commerce, Ministry of Commerce and Industry, 4th Floor, Jeevan Tara Building, 5, Parliament Street, Patel Chowk, New Delhi-110001.

9. Shri Ashu Mathur, Additional Chief Adviser (Cost), O/o Chief Adviser Cost, Department of Expenditure, Ministry of Finance, 'C' Wing, 2nd Floor, Lok Nayak Bhawan, Khan Market, New Delhi-110003.

10. Shri Manoj Pandey, Additional Secretary (Policy), Ministry of Corporate Affairs, 5th Floor, 'A' Wing, Shastri Bhawan, Dr. Rajendra Prasad Road, New Delhi-110 001

11. Shri. Manmohan Sachdeva, Pr. Adviser (Cost), Department of Food and Public Distribution, Ministry of Consumer Affairs, Food and Public Distribution, Krishi Bhawan, New Delhi.

12. Shri. A. K. Khurana, Pr. Adviser (Cost), Department of Defence Production, Ministry of Defence, South Block, New Delhi-110001.

13. Shri. A. K. Pal, Pr. Adviser (Cost), Department of Defence, Ministry of Defence, South Block, New Delhi-110001.

14. Smt. Vinod Kotwal, Member Secretary, NPPA, Department of Pharmaceutical, YMCA Cultural Centre Building, 1, Jaisingh Road, New Delhi-110001.

15. Shri. Raman Chopra, Joint Secretary, Central Board of Indirect Taxes and Customs, Department of Revenue, Ministry of Finance, North Block, New Delhi-110001.

16. Smt. Prathibha A., Economic Adviser, Department of Fertilizers, Ministry of Chemicals and Fertilizers, Shastri Bhawan, New Delhi – 110001.

17. Shri. V. M. Jain, Commissioner (Investigation), Central Board of Indirect Taxes and Customs.

18. Shri. G. S. Sahu, Adviser (Cost), Directorate General of Trade Remedies, Department of Commerce, Ministry of Commerce and Industry, 4th Floor, Jeevan Tara Building, 5, Parliament Street, Patel Chowk, New Delhi-110001.

19. Shri Manish Goswami, Adviser (Cost), Ministry of Corporate Affairs, B-1 Wing, 2nd Floor, Pt. Deendayal Antodaya Bhawan, CGO Complex, Lodhi Road, New Delhi- 110003.

Copy for information to:

1. PPS to Finance Secretary and Secretary (Expenditure), North Block, New Delhi-110001.
2. PPS to Secretary, Ministry of Corporate Affairs, 5th Floor, 'A' Wing, Shastri Bhawan, Dr. Rajendra Prasad Road, New Delhi-110 001
3. PPS to Additional Secretary, Ministry of Corporate Affairs, 5th Floor, 'A' Wing, Shastri Bhawan, Dr. Rajendra Prasad Road, New Delhi-110 001

Appendix-2

Codes of the Service to be covered under CCRA Rules

Services Codes as per National Product Classification for Services (NPCS)		
S. No.	Name of Industry/Service	NPCS Product 8digit Code
1.	Telecommunication services made available to users by means of any transmission or reception of signs, signals, writing, images and sounds or intelligence of any nature and regulated by the Telecom Regulatory Authority of India under the Telecom Regulatory Authority of India Act, 1997 (24 of 1997); including activities that requires authorisation or license issued by the Department of Telecommunications, Government of India under Indian Telegraph Act, 1885 (13 of 1885).	
	Carrier services	99841100
	Fixed telephony services - access and use	99841210
	Fixed telephony services - calling features	99841220
	Mobile telecommunications services - access and use	99841310
	Mobile telecommunications services - calling features	99841320
	Private network services	99841400
	Data transmission services	99841500

	Fax services	99841901
	Telex services	99841902
	Other telecommunications services n.e.c.	99841909
	Internet backbone services	99842100
	Provision of a direct narrowband connection to the Internet wired	99842211
	Provision of a direct narrowband connection to the Internet wireless.	99842212
	Provision of a direct broadband connection to the Internet wired	99842221
	Provision of a direct broadband connection to the Internet wireless	99842222
	Fax, telephony over the Internet	99842901
	Audio conferencing and video conferencing over the Internet	99842902
	Other Internet telecommunications services n.e.c.	99842909
2.	Generation, transmission, distribution and supply of electricity regulated by the relevant regulatory body or authority under the Electricity Act, 2003 (36 of 2003).	

	Transmission of electricity (on own account)	99691110
	Distribution of electricity (on own account)	99691120
	Electricity transmission services (on a fee or contract basis)	99863110
	Electricity distribution services (on a fee or contract basis)	99863120
3.	Petroleum products; including activities regulated by the Petroleum and Natural Gas Regulatory Board under the Petroleum and Natural Gas Regulatory Board Act, 2006 (19 of 2006).	
	Transport services via pipeline of petroleum	99651311
	Transport services via pipeline of natural gas	99651312
	Gas distribution through mains (on own account)	99691200
	Gas distribution services through mains (on a fee or contract basis)	99863200
4.	Port services of stevedoring, pilotage, hauling, mooring, re-mooring, hooking, measuring, loading and unloading services rendered for a Port in relation to a vessel or goods.	
	Operation services of Ports, docks etc.	99675111
	Operation services by lighthouses, lightships & light vessels etc.	99675112

	Inland waterway operation services (excl. Cargo handling)	99675120
	Pilotage and berthing services on coastal and transoceanic (overseas) waters	99675210
	Pilotage and berthing services in inland waters	99675220
	Other supporting services for water transport n.e.c.	99675900
	Other cargo and baggage handling services	99671900
5.	Aeronautical services of air traffic management, aircraft operations, ground safety services, ground handling, cargo facilities and supplying fuel rendered at the airports and regulated by the Airports Economic Regulatory Authority under the Airports Economic Regulatory Authority of India Act, 2008 (27 of 2008).	
	Air transport services of letters and parcels	99653110
	Air transport services of other freight	99653190
	Other cargo and baggage handling services	99671900
	Airport operation services (excl. cargo handling)	99676100
	Air traffic control services	99676200
	Other supporting services for air transport	99676300

6.	Construction Services relating to following infrastructure projects where Govt. expenditure is involved: (a) Roads, national highways, state highways, major district roads, other district roads and village roads, toll roads, bridges, highways and other road related services.	
	Highways (except elevated highways)	99532111
	District Roads	99532112
	Village Roads including Panchayat Roads	99532113
	Safety installations for highways, roads etc.	99532114
	Highways (except elevated highways), streets and roads n.e.c.	99532119
	Bridges and viaducts of metal for all types of land transport	99532211
	Bridges and viaducts of metal for pedestrians	99532212
	Bridges of concrete or other materials, for all types of land transport	99532213
	Bridges of concrete or other materials for pedestrians	99532214
	Elevated highways for motor vehicle traffic	99532215
	Bridges and elevated highways n.e.c.	99532219
	Highway tunnels	99532221

	Road tunnels	99532222
	Construction Services of highways (except elevated highways)	99542111
	Construction Services of district roads	99542113
	Construction Services of village roads including panchayat roads	99542114
	Construction Services of safety installations for highways roads etc.	99542116
	Construction Services of other highways, streets & roads n.e.c	99542117
	Repair/alterations etc of highways, streets and roads	99542118
	General construction services of highways (except elevated highways), streets and roads n.e.c.	99542119
	Construction Services of bridges and viaducts of metal for all types of land transport	99542211
	Construction Services of bridges and viaducts of metal for pedestrians	99542212
	Construction Services of bridges of concrete or other materials, for all types of land transport	99542213

	Construction Services of bridges of concrete or other materials for pedestrians	99542214
	Construction Services of elevated highways for motor vehicle traffic	99542215
	Construction Services of bridges and elevated highways n.e.c.	99542216
	Repair/alterations etc of bridges and elevated highways	99542218
	General construction services of bridges and elevated highways, n.e.c	99542219
	Construction Services of highway tunnels	99542221
	Construction Services of road tunnels	99542222
	Demolition services of highways	99543102
	Demolition services streets other than highways	99543103
	Large-scale earthwork, excavation, sloping and earthmoving services involving making of embankments or cuttings, prior to highway construction (roads, motorways, railways, etc.)	99543301
	Installation services of all types of street furniture (e.g., bus shelters, benches, telephone booths, public toilets, etc.)	99544003

	Electrical installation services for illumination & signaling systems for roads, railways, airports, harbours and similar premises	99546193
7.	Construction Services relating to following infrastructure projects where Govt. expenditure is involved: (b) Industrial, commercial and social development relating to real estate development, including an industrial park or special economic zone	
	Buildings used for production (This includes buildings used for assembly activities of industrial establishments)	99531211
	Workshops	99531212
	Storage buildings	99531213
	Industrial buildings n.e.c.	99531219
	Buildings used primarily for trade	99531221
	Commercial buildings n.e.c.	99531229
	Manufacturing facilities of textiles	99532692
	Manufacturing facilities of basic chemicals, compounds and pharmaceuticals	99532693
	Chemical and related manufacturing facilities such as blast furnaces and coke ovens	99532694

	Iron foundries	99532695
	Manufacturing facilities of metals other than iron	99532696
	Specialized facilities for manufacturing n.e.c	99532699
	Construction Services of Buildings used for production (This includes buildings used for assembly activities of Industrial establishments)	99541211
	Construction Services of Workshops	99541212
	Construction Services of Storage buildings	99541213
	Construction Services of other Industrial buildings n.e.c	99541214
	General construction services of industrial buildings n.e.c.	99541219
	Construction Services of Buildings used primarily for trade	99541221
	Construction Services of Commercial buildings, n.e.c	99541226
	Repair/alterations etc. of commercial buildings	99541227
	General construction services of commercial buildings n.e.c.	99541229
	Construction Services works for manufacturing facilities of textiles	99542692

	Construction Services works for manufacturing facilities of basic chemicals, compounds and pharmaceuticals	99542693
	Construction Services works for chemical and related manufacturing facilities such as blast furnaces and coke ovens	99542694
	Construction Services works for Iron foundries	99542695
	Construction Services works for manufacturing facilities of metals other than iron	99542696
	Construction Services works of specialized facilities for manufacturing n.e.c	99542697
	Repair/alterations etc of other industrial plants	99542698
	General construction services of other industrial plants n.e.c.	99542699
	Preparation services to make sites ready for subsequent construction work	99543202
	Test drilling and boring and core extraction services for construction, geophysical, geological or similar purpose	99543203
8.	Health services, namely functioning as or running hospitals, diagnostic centres, clinical centres or test laboratories.	
	Surgical services for inpatients	99931110
	Gynecological and obstetrical services for inpatients	99931120

	Psychiatric services for inpatients	99931130
	Other services for inpatients n.e.c.	99931190

	General medical services	99931210
	Consultation services in Pediatrics	99931221
	Consultation services in Gynecology and obstetrics	99931222
	Consultation services in Neurology and psychiatry	99931223
	Consultation services in Orthopedics	99931224
	Surgical consultation services	99931225
	Treatment services in outpatients clinics, e.g. dialysis, chemotherapy, insulin therapy etc.	99931226
	Dental services	99931230
	Childbirth and related Services	99931910
	Nursing services	99931920
	Physiotherapeutic services	99931930
	Ambulance services	99931940

	Medical laboratory services	99931950
	Diagnostic-imaging services	99931960
	Blood, sperm and organ bank services	99931970
	Homeopathy	99931991
	Ayurveda	99931992
	Unani	99931993
	Naturopathy	99931994
	Acupuncture/Acupressure	99931995
	Other human health services n.e.c.	99931999
	Veterinary services for pet animals	99835100
	Veterinary services for livestock	99835200
	Other veterinary services n.e.c.	99835900
9.	Education services, other than such similar services falling under philanthropy or as part of social spend which do not form part of any business.	
	Pre-primary education services	99921000

	Primary education at the first level (Class I-V)	99922001
	Primary – Education Guarantee Scheme and Alternative and Innovative Scheme (EGS & AIE)	99922002
	Provision of literacy programmes for adults at primary level	99922003
	Special education for handicapped students at primary level	99922004
	Other primary education activities n.e.c.	99922009
	General School Education at upper Primary level (Class VI to VIII)	99923101
	Provision of literacy programmes for adults at upper primary level	99923102
	Special education for handicapped students at upper Primary Level	99923103
	Other upper primary education activities n.e.c.	99923104
	Technical and vocational education at upper primary level except for handicapped	99923201
	Technical and vocational education for handicapped students at upper Primary Level	99923202

	General school education in the first stage of the secondary level (IX-X) without any special subject pre-requisite	99923301
	General school education in the second stage of the secondary level (XI-XII) giving, in principle, access to higher education	99923302
	Upper secondary education services, technical and vocational	99923400
	General school education in the second stage of the secondary level (XI-XII) giving, in principle, access to higher education	99924101
	General Education after first/second stage of secondary level leading to tertiary education	99924102
	General Education after first/second stage of secondary level not leading to tertiary education	99924103
	Technical and Vocational Education after first/second stage of secondary level leading to tertiary education	99924201
	Technical and Vocational Education after first/second stage of secondary level not leading to tertiary education	99924202
	Higher education in humanities and Arts leading to a university degree or equivalent	99925101
	Higher education in Social Sciences leading to a university degree or equivalent	99925102

	Higher education in Science leading to a university degree or equivalent	99925103
	Higher education in Commerce leading to a university degree or equivalent	99925104
	Higher education in Management courses leading to a degree or equivalent	99925105
	Higher education in Fine arts leading to a university degree or equivalent	99925106
	Higher education in Engineering/other technical courses leading to a university degree or equivalent	99925107
	Higher education in Medical/bio-technology and related courses leading to a university degree or equivalent	99925108
	Higher education in other subjects leading to a degree or equivalent n.e.c	99925109
	Cultural education services	99929110
	Education in athletic activities	99929121
	Education in cricket activities	99929122
	Other education and training services n.e.c.	99929190

	training on motor driving	99929191
	computer training services	99929192
	Other education and training services n.e.c.	99929199
	Educational support services	99929200
10.	Construction Services relating to following infrastructure projects where Govt. expenditure is involved: (c) Irrigation, dams, and flood control waterworks	
	Dams and similar water-retaining structures	99532331
	Embankments for coastal areas	99532332
	Embankments for other waterside areas	99532333
	Dams n.e.c.	99532339
	Irrigation waterworks	99532341
	Flood control waterworks	99532342
	Irrigation and flood control waterworks n.e.c.	99532349
	Construction Services of dams and similar water-retaining structures	99542331

	Construction Services of embankments for coastal areas	99542332
	Construction Services of embankments for other waterside areas	99542333
	Construction Services of dams n.e.c.	99542334
	Repair/alterations etc of dams	99542338
	General construction services of dams n.e.c.	99542339
	Construction Services of Irrigation waterways	99542341
	Construction Services of flood control waterworks	99542342
	Construction Services of Irrigation and flood control waterworks n.e.c.	99542343
	Repair/alterations etc of irrigation and flood control waterworks	99542348
	General construction services of irrigation and flood control waterworks n.e.c.	99542349
11.	Construction Services relating to railway infrastructure projects- Rail systems, Metro rail and other railway related services	
	Broadgauge	99532121

	Metergauge	99532122
	Narrowgauge	99532123
	Metro railways	99532124
	Railway electrification structures	99532125
	Railway Bridges	99532126
	Level crossings	99532127
	Signaling systems	99532128
	Railways n.e.c.(including tramways)	99532129
	Railway tunnels	99532223
	Tunnels and related underground constructions for underground railway traffic	99532224
	Electricity power lines for railways	99532425
	Construction Services of broadgauge railways	99542121
	Construction Services of metergauge railways	99542122
	Construction Services of narrowgauge railways	99542123
	Construction Services of metro railways	99542124

	Construction Services of railway electrification structures	99542125
	Construction Services of railway Bridges	99542126
	Construction Services of railways n.e.c.	99542127
	Repair/alterations etc of railways	99542128
	General construction services of railways n.e.c. (including tramways)	99542129
	Construction Services of railway tunnels	99542223
	Construction Services of tunnels and related underground constructions for underground railway traffic	99542224
	Construction Services of electricity power lines for railways	99542425
	Engineering services for railways and related structures	99833232
	Engineering services for mass transit systems, such as light rail or subway systems	99833235
12.	Storage cost of Agro Products covered under PDS	99531213

Appendix-3

Formats for Cost Audit

Form CRA-3

[Pursuant to Rule 6(4) of the Companies (Cost Records and Audit) Rules, 2014]

FORM OF THE COST AUDIT REPORT

I/We .... having been appointed as Cost Auditor(s) under Section 148(3) of the Companies Act, 2013 (18 of 2013), read with the Companies (Cost Records and Audit) Rules, 2014 (as amended), of ……………… [mention name of the company] having its registered office at .... [mention registered office address of the company] (hereinafter referred to as "the company"), have audited the Cost Records maintained under section 148 of the said Act, in compliance with Cost Auditing Standards, in respect of the .... [mention name(s) of product(s)/service(s) with CTA Headings and Tariff Items] for the period/year [mention the financial year] maintained by the company and report, in addition to my/Our observations and Suggestions in para 2.

Responsibilities of the Management

The company is responsible for maintenance of adequate cost accounting records in accordance with the provisions of the Act and Rules; selection and application of appropriate cost accounting policies; making judgments and estimates that are reasonable and prudent; and design, implementation and maintenance of adequate internal cost controls, that were operating effectively for ensuring the accuracy and completeness of the cost accounting records, relevant to the preparation and presentation of the cost statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

Cost Auditor’s responsibility

My/Our responsibility is to express an opinion on these cost statements, including other statements, based on our audit. This report is made solely to give information required by the Act and rules made thereunder in accordance with section 148 of the Companies Act, 2013 and for no other purpose.

I/We conducted our audit in compliance with the Standards on Cost Auditing issued by the Institute of Cost Accountants of India with due approval of the Central Government. These standards require that we comply with ethical requirement and plan and perform the audit to obtain reasonable assurance about whether the cost statements are free from material misstatement.

A cost audit involves performing procedures to obtain audit evidence about the amount and disclosures in the cost statements. The procedures selected depends on the cost auditor's judgment, including the assessment of the risks of material misstatement in the cost statements, whether due to fraud or error. A cost audit also includes evaluating the appropriateness of cost accounting policies used and the reasonableness of cost accounting estimates made by the directors, as well as evaluating the overall presentation of the cost statements.

I/We believe that the audit evidence I/we have obtained is sufficient and appropriate to provide a basis for my/our audit opinion.

Cost Auditor's Opinion

In my/our opinion and to the best of my/our information and according to the explanations given to me/us, the aforesaid cost statement and other details give/do not give the information required by the Act and rules made there under, in the, manner so required and give/do not give true and fair view of the company's per unit cost of production / operation / services, cost of sales and margin for each of its products and services, audited by us, for the period/year………………[mention the period/year].

The cost auditor's opinion on the cost statements and other details, as audited shall further include a statement on the following matters:

(i) Whether the cost statements and other details presented by the management are based on audited/or unaudited financial statements.

(ii) Whether the company has discharged its responsibility for the matters stated in the Act and Rules made thereunder with respect to the preparation of cost statements, including other statements.

(iii) Whether the company has discharged its responsibility with respect to the submission of cost statements, including other statements to be annexed to the cost audit report. These cost statements, including other statements, were submitted to us on ______________________ [mention the date on which cost statements, including other statements, were submitted to the cost auditor].

(iv) Whether the cost auditor has obtained all the information and explanations, which to the best of his knowledge and belief were necessary for the purpose of his audit.

(v) Whether the cost auditor has audited all the units and branches of the company as per his terms of engagement and scope of audit.

(vi) Whether the cost auditor has received proper returns from the units and branches not audited or visited by him that were adequate for the purpose of his audit.

(vii) Whether the company has maintained proper cost records showing full particulars, including quantitative details, in accordance with the provisions of the Act and Rules made thereunder.

(viii) Whether the company has maintained cost records on regular basis in such manner as to facilitate calculation of per unit cost of production or cost of operations, cost of sales and margin for each of its products and activities.

(ix) Whether the company has selected and consistently applied appropriate cost accounting policies, commensurate to its nature and size of business; whether any material changes are made in the cost accounting policies; and if so, whether the same have resulted in significant variations in the presentation of cost statements and other details.

(x) Whether any fraud on or by the company has been noticed during the course of cost audit or reported during the year; If yes, the nature and the amount involved is to be indicated.

Further, the Cost Auditor has to certify the following:

(i) I/we have/have not obtained all the information and explanations, which to the best of his knowledge and belief were necessary for the purpose of this audit.

(ii) In my/our opinion and to the best of my/our information, the said books and records give/do not give the information required by the Companies Act, 2013, in the manner so required.

(iii) In my/our opinion, the company has/does not have adequate system of internal audit of cost records which to my/our opinion is commensurate to its nature and size of its business.

(iv) In my/our opinion, information, statements in the annexure to this cost audit report gives/does not give a true and fair view of the cost of production of product(s)/rendering of service(s), cost of sales, margin and other information relating to product(s)/service(s) under reference.

(v) Detailed unit-wise and product/service-wise cost statements and schedules thereto in respect of the product/service under reference of the company duly audited and certified by me/us are/are not kept in the company.

2. Observations and suggestions, if any, of the Cost Auditor, relevant to the cost audit on matters such as product/service profitability, capacity utilization, productivity/efficiency of key materials, utilities and energy inputs and manpower productivity, major adverse variances etc.

Dated: this ___day of _20

at ____(mention name of place of signing this report)

For …………………………….. (mention name of Cost Audit firm)

…………….(Firm Regd. No.)

……………….Seal of Cost Audit Firm

……………………..NAME OF THE PARTNER

……………SIGNATURE AND SEAL OF THE COST AUDITOR (S)/Partner(s) signing the Cost Audit REPORT

…………. MEMBERSHIP NUMBER (S)

…………… UDIN

Notes:

(1) Delete words not applicable.

(2) If as a result of the examination of the books of account, the Cost Auditor desires to point out any material deficiency or give a qualified report, he/she shall indicate the same against the relevant para (i) to (vi) in the prescribed form of the Cost Audit Report giving details of discrepancies he/she has come across.

(3) The report, suggestions, observations, and conclusions given by the Cost Auditor under this paragraph shall be based on verified data, reference to which shall be made here and shall, wherever practicable, be included after the company has been afforded an opportunity to comment on them.

Annexure to the Cost Audit Report

Part-A

1. General Information

1	Corporate identity number or foreign company registration number	
2	Name of company	
3	Address of registered office or of principal place of business in India of company	
4	Address of corporate office of company	
5	Email address of company	
6	Date of beginning of reporting Financial Year	dd/mm/yyyy
7	Date of end of reporting Financial Year	dd/mm/yyyy
8	Date of beginning of previous financial year	dd/mm/yyyy
9	Date of end of previous financial year	dd/mm/yyyy

10	Level of rounding used in cost statements (in INR)	Absolute/thousands/lacs/crores
11	Whether Indian Accounting Standards are applicable to the company:	Yes/No
12	Number of cost auditors for reporting period	
13	Date of board of directors meeting in which annexure to cost audit report was approved	
14	Whether cost auditors report has been qualified or has any reservations or contains adverse remarks	
15	Consolidated qualifications, reservations, or adverse remarks of all cost auditors	
16	Consolidated observations or suggestions of all cost auditors	
17	Whether company has related party transactions for sale or purchase of goods or services	

2. General Details of Cost Auditor

1	Whether cost auditor is lead auditor	

2	Category of cost auditor	
3	Firm's registration number	
4	Name of cost auditor/cost auditor’s firm	
5	PAN of cost auditor/cost auditor’s firm	
6	Address of cost auditor or cost auditor’s firm	
7	Email id of cost auditor or cost auditor’s firm	
8	Membership number of member signing report	
9	Name of member signing report	
10	Name(s) of product(s) or service(s) with CTA Headings and tariff item and CTA Tariff	
11	SRN number of Form CRA-2	
12(a)	Number of audit committee meeting (s) during the year for which Cost Auditor was invited.	
12(b)	Number of audit committee meeting(s) attended by cost auditor during year	
13	Date of signing cost audit report and annexure by cost auditor	

14	Place of signing cost audit report and annexure by cost auditor	

3. Cost Accounting Policy

(1) Briefly describe the cost accounting policy adopted by the Company and its adequacy or otherwise to determine correctly the cost of production/operation, cost of sales, sales realization, and margin of the product(s)/service(s) under reference separately for each product(s)/service(s). The policy should cover, inter alia, the following areas:

a) Identification of cost centers/cost objects and cost drivers.

b) Accounting for material cost including packing materials, stores and spares etc., employee cost, utilities, and other relevant cost components.

c) Accounting, allocation, and absorption of overheads

d) Accounting for Depreciation/Amortization

e) Accounting for by-products/joint-products or services, scarps, wastage etc.

f) Basis for Inventory Valuation

g) Methodology for valuation of Inter-Unit/Inter Company and Related Party transactions.

h) Treatment of abnormal and non-recurring costs including classification of other noncost items.

i) Other relevant cost accounting policy adopted by the Company.

(2) Briefly specify the changes, if any, made in the cost accounting policy for the product(s)/service(s) under audit during the current financial year as compared to the previous financial year.

(3) Observations of the Cost Auditor regarding adequacy or otherwise of the Budgetary Control System, if any, followed by the company.

4. PRODUCT/SERVICE DETAILS (for the company as a whole)

Name of Product(s) /Service(s)	UOM	CTA Heading and Tariff Item (Wherever applicable)	Whether Covered under Cost Audit Yes / No	Net Operational Revenue (Net of taxes, duties etc.)	
				Current Year Rs.	Previous Year Rs.
1.					
2.					
3.					
4.					
Total Net Operational revenue of Manufactured Product or Service					
Other Operative Incomes of the Company					

Total Operative Incomes of the Company					
Other Incomes of Company					
Total revenue as per Financial Accounts					
Exceptional and Extra Ordinary income					
Other Comprehensive Income					
if any					
Total Revenue including Exceptional, Extra Ordinary and Other Comprehensive Income, if. Any					
Turnover as per Excise / Service Tax /GST records					
Note: Explain the difference, if any, between Turnover as per Financial Statements and Turnover as per Excise / Service Tax /GST records.					

PART-B

FOR MANUFACTURING SECTOR

1. QUANTITATIVE INFORMATION (for each product with CTA Heading and Tariff Item separately)			
Name of Product			
CTA Heading/CTA Tariff item			
Particulars	Unit	Current Year	Previous Year
1. Available Capacity			
(a) Installed Capacity			
(b) Capacity enhanced during the year if any			
(c) Capacity available through leasing arrangements if any			
(d) Capacity available through loan license / third parties			
(e) Total available Capacity			

2. Actual Production			
(a) Self manufactured			
(b) Produced under leasing arrangements			
(c) Produced on loan license / by third parties on job work			
(d) Total Production			
3. Production as per Excise/ GST records			
4. Capacity Utilization (in-house)			
5. Finished Goods Purchased			
(a) Domestic Purchase of Finished Goods			
(b) Imports of Finished Goods			
(c) Total Finished Goods Purchased			
6. Stock & Other Adjustments			
(a) Change in Stock of Finished Goods			
(b) Self / Captive Consumption (incl. samples etc.)			
(c) Other Quantitative Adjustments, if any (wastage etc.)			

(d) Total Adjustments			
7. Total Available Quantity for Sale [2(d) + 5(c) + 6(d)]			
8. Actual Sales			
(a) Domestic Sales of Product			
(b) Domestic Sales of Traded Product			
(c) Export Sale of Product			
(d) Export Sale of Traded Product			
(e) Total Quantity Sold			

2. Abridged Cost Statement (for each product with CTA tariff item separately)

	Name of Product (CTA Description)		
	CTA Tariff item		
	Unit of Measure		
	Particulars	Current Year	Previous Year
1	Production		
2	Finished Goods Purchased		
3	Opening Stock		
4	Closing Stock		

5	Change in stock of Finished Goods (3-4)		
6	Captive Consumption		
7	Inter Unit Transfer		
8	Other Adjustment		
9	Quantity Sold		

S. No.	Particulars	Current Year		Previous Year	
		Amount	Rate Per Unit	Am ount	Rate Per Unit
		(Rs)	(Rs)	(Rs)	(Rs)

1	Materials consumed (specify details as per para 2A)				
2	Process Materials/Chemicals				
3	Utilities (specify details as per para 2B)				
4	Direct Employees Cost				
5	Direct Expenses				
6	Consumable Stores and Spares				
7	Repairs and Maintenance				
8	Quality Control Expenses				
9	Research and Development Expenses				
10	Technical Know-how fee/ Royalty				
11	Depreciation/ Amortization				

12	Other Production Overheads				
13	Industry Specific Operating Expenses (specify details as para 2C)				
14	Total (1 to 13)				
15	Increase/ Decrease in Work-in-Progress				
16	Less: Credits for Recoveries if any				
17	Primary Packing Cost				
18	Cost of Production/ Operations (14+15 to 17)				
19	Cost of Finished Goods Purchased				
20	Total Cost of Production and Purchases (18+19)				
21	Increase/Decrease in Stock of Finished Goods				

22	Less: Self or Captive Consumption (including samples, etc.)				
23	Other Adjustment (if any)				
24	Cost of Production/Operation of Product Sold (20+21 to 23)				
25	Administrative Overheads				
26	Secondary Packing cost				
27	Selling & Distribution Overheads				
28	Cost of Sales before finance cost				
29	Finance Cost				
30	Cost of Sales (28+29)				
31	Net Sales Realisation (Net of Taxes and Duties)				

32	Margin [Profit/(Loss) as per Cost Accounts] (31-30)				

Notes:

(1) Separate cost statements shall be prepared for each major product and each CTA tariff item representing the product.

(2) Separate cost statements shall be prepared for domestic supplies and export supplies.

(3) In case the same product has different unit of measure, separate cost statements shall be provided for different units of measures.

(4) The items of cost shown in the proforma are indicative and the same shall be reflected keeping in the mind the materiality of the item of cost in the product.

(5) Separate disclosures are required for the subsidy/incentives received.

(6) In case the company follows a predetermined or standard costing system, the above cost statements shall reflect figures at actual after adjustment of variances, if any.

2A. Details of Materials Consumed
Name of Product
CTA Heading/Tariff Item

Description of Material	Category	UOM	Current Year										Previous Year									
			Opening Stock		Purchases		Directly sold / Transfers		Closing Stock		Consumption		Opening Stock		Purchases		Directly sold / Transfers		Closing Stock		Consumption	
			Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value
1.																						
2.																						
3																						
4.																						
5.																						
6.																						
Category: Indigenous/Imported/Self Manufactured																						

2B. Details of Utilities Consumed							
Name of Product							
CTA Heading/Tariff Item							
Description of Utilities Consumed	UOM	Current Year			Previous Year		
		Quantity	Rate per Unit (Rs.)	Amount	Quantity	Rate per Unit (Rs.)	Amount
1.							
2.							
3.							
4.							
5.							
6.							
7.							

2C. Details of Industry Specific Operating Expenses	
Name of Product	
CTA Heading/Tariff Item	

Description of Industry Specific Operating Expenses	Current Year	Previous Year
	Amount	Amount
1.		
2.		
3.		
4.		
5.		
6.		
7.		
8.		
9.		
10.		

PART-C FOR
SERVICE SECTOR

1. QUANTITATIVE INFORMATION (for each service separately)	
Name of Service	

Service Code (if applicable)			
Particulars	Unit of Measurement	Current Year	Previous Year
1. Available Capacity			
(a) Installed Capacity			
(b) Capacity enhanced during the year if any			
(c) Total available Capacity			
2. Actual Services Provided			
(a) Own Services			
(b) Services under contractual arrangements			
(c) Outsourced Services			
(d) Total Services			
3. Total Services provided as per Service Tax /GST Records			

4. Capacity Utilization (in-house)			
5. Other Adjustments			
(a) Self or Captive Consumption			
(b) Other Quantitative Adjustments if any			
(c) Total Other Adjustments			
6. Total Available Services for Sale [2(d)+5(c)]			
7. Actual Services Sold			
(a) Services rendered – Domestic			
(b) Services rendered – Export			
(c) Total Services Rendered			

2. Abridged Cost Statement (for each Service with SAC heading separately)

	Name of Service		

	Service Code (if Applicable)		
	Unit of Measurement		
	Particulars	Current Year	Previous Year
1	Services Provided		
2	Captive Consumption		
3	Other Adjustment		
4	Services Rendered		

S.	Particulars	Current Year	Previous Year

No.		Amount	Rate Per Unit	Amou nt	Rate Per Unit
		(Rs)	(Rs)	(Rs)	(Rs)
1	Materials consumed (specify details as per para 2A)				
2	Utilities (specify details as per para 2B)				
3	Direct Employee Cost				
4	Direct Expenses				
5	Consumable Stores and Spares				
6	Repairs and Maintenance				
7	Quality Control Expenses				

8	Research and Development Expenses				
9	Technical Know-how fee/ Royalty				
10	Depreciation/ Amortization				
11	Other Overheads				
12	Industry Specific Operating Expenses (specify details as para 2C)				
13	Total (1 to 12)				
14	Less: Credits for Recoveries, if any				
15	Cost of Services Provided (13-14)				

16	Cost of Outsourced/Contractual Services				
17	Total Services Available				
18	Less: Self or Captive Consumption				
19	Other Adjustment (if any)				
20	Cost of Services Sold				
21	Administrative Overheads				
22	Selling & Distribution Overheads				
23	Cost of Sales before finance cost				
24	Finance Cost				
25	Cost of Sales				

26	Net Sales Realisation (Net of Taxes and Duties)				
27	Margin [Profit/(Loss) as per Cost Accounts] (26-25)				

Notes:

1. Separate cost statements shall be prepared for each service.
2. The items of cost shown in the Proforma are indicative and the same should be reflected keeping in mind the materiality of the item of cost in the service.
3. The Proforma may be suitably modified to meet the requirement of the industry/service.
4. In case the company follows a pre-determined or standard costing system, the above cost statement should reflect figures at actuals after adjustment of variances, if any.
5. Separate cost statements shall be prepared for domestic supplies and export supplies.
6. Separate disclosures are required for the subsidy/incentives received.

2A. Details of Materials Consumed	
Name of Service	
Service Code (if applicable)	

Description of Material	Category	UOM	Current Year			Previous Year		
			Quantity	Rate per Unit (Rs.)	Amount	Quantity	Rate per Unit (Rs.)	Amount
1.								
2.								
3.								
4.								
5.								
6.								
7.								
8.								
9.								
10.								
Category: Indigenous/ Imported/ Self Manufactured								

2B. Details of Utilities Consumed

Name of Service								
Service Code (if applicable)								
Description of Utilities Consumed	UOM	Current Year			Previous Year			
		Quantity	Rate per Unit (Rs.)	Amount	Quantity	Rate per Unit (Rs.)	Amount	
1.								
2.								
3.								
4.								
5.								
6.								
7.								
8.								
9.								
10.								

2C. Details of Industry Specific Operating Expenses	
Name of Service	
Service Code (if applicable)	

Description of Industry Specific Operating Expenses	Current Year	Previous Year
	Amount	Amount
1.		
2.		
3.		
4.		
5.		
6.		
7.		
8.		
9.		
10.		

PART-D

1. PRODUCT AND SERVICE PROFITABILITY STATEMENT (for audited products/services)

Sno.	Particulars	Current Year			Previous Year		
		Sales Rs.	Cost of Sales Rs.	Margin Rs.	Sales Rs.	Cost of Sales Rs.	Margin Rs.
	Product 1						
	Product 2						
	Product 3						
	…… etc.						
	Service 1						
	Service 2						
	Service 3						

	…… etc.						
	Total						

2. PROFIT RECONCILIATION (for the company as a whole)			
Sno.	Particulars	Current Year Rs.	Previous Year Rs.
1	Profit or Loss as per Cost Accounts		
	(a) For the audited product(s)/service(s)		
	(b) For the un-audited product(s)/service(s)		
2	Add: Incomes not considered in cost accounts (specify details)		
	a)		
	b)		
	c)		

	d)		
	e)		
	f)		
	g)		
	h)		
	i)		
	j)		

3	Less: Expenses not considered in cost accounts (specify details)		
	a)		
	b)		
	c)		
	d)		
	e)		

	f)		
	g)		
	h)		
	i)		
	j)		
4	Difference in Valuation of stock between financial accounts and cost accounts		
5.	Other adjustments if any		
6	Profit or Loss as per Financial Accounts (excluding Other		
	Comprehensive Income for companies following Ind AS)		
Note: Show abnormal wastages, expenses on strikes/lockouts and any other items of expenses or incomes of abnormal nature etc. not considered in cost separately			

3. VALUE ADDITION AND DISTRIBUTION OF EARNINGS (for the company as a whole)

Sno.	Particulars	Current Year Rs.	Previous Year Rs.
	Value Addition:		
1	Revenue from Operations		
2	Less: Taxes and Other Duties		
3	Net Revenue from Operations		
4	Add: Export Incentives		
5	Add/Less: Adjustment in Stocks		
6	Less: Cost of bought out inputs		
	(a) Cost of Materials Consumed		
	(b) Process Materials / Chemicals		
	(c) Consumption of Stores & Spares		

	(d) Utilities (e.g., power & fuel)		
	(e) Others, if any		
	Total Cost of bought out inputs		
7	Value Added		
8	Add: Income from any other sources		
9(i)	Exceptional & Extra Ordinary Income		
9(ii)	Other Comprehensive Income if any		
10	Earnings available for distribution		
	Distribution of Earnings to:		
1	Employees as salaries & wages, retirement benefits, etc.		
2	Shareholders as dividend		
3	Company as retained funds		

4	Government as taxes (specify)		
5	Exceptional and Extra Ordinary Expenses, if any		
6	Others, if any (specify)		
7	Total distribution of earnings		

4. FINANCIAL POSITION AND RATIO ANALYSIS (for the company as a whole)

A. Capacity Utilization Analysis (Plant / Location / Project wise)

Sno.	Name of the Plant	Units	Normal Capacity	Actual Production		Capacity Utilization	
				Current Year	Previous Year	Current Year	Previous Year
1.							
2.							

Note: Please give the above information for all production plants/units.

B. Operating Cycle Analysis (For Company as a whole)

Sno.	Criteria in Number of Days	Current Year	Previous Year
1.	Inventory Period = Average Inventory x 365 / Cost of Goods Sold		
2.	Debtors Period = Average Debtors x 365 / Net Credit Sales		
3.	Creditors Period = Average Creditors x 365 / Net Credit Purchases		
4.	Gross Operating Cycle = Inventory Period + Debtors Period		
5.	Net Operating Cycle = Gross Operating Cycle – Creditors Period		

C. Inventory Ratios (For Company as a whole)

Sno.	Criteria	Units	Current Year	Previous Year
1.	Value of Write-off / Write-down of Stock	Amt		
2.	Raw Materials Stock to Consumption	Days		

3.	Stores & Spares to Consumption	Days		
4.	Finished Goods Stock to Cost of Sales	Days		
5.	Value of Write-off / Write-down of Stock to Total Inventory Value	%		

D. Value Addition Ratios (For Company as a whole)

Sno.	Criteria	Units	Current Year	Previous Year
1.	Value Addition	Amt		
2.	Profit Before Tax (PBT)	Amt		
3.	No. of Direct Manpower	Amt		
4.	No. of Total Manpower	Amt		
5.	Value Addition to No. of Direct Manpower	%		
6.	Value Addition to No. of Total Manpower	%		
7.	PBT to Value Addition	%		

E. Ratios having implications on Sustainability (Ratios for Product(s)/Service(s) covered under Cost Audit)

Sno.	Criteria	Units	Current Year	Previous Year
1.	Total Power Consumed (1a+1b)	Units		

1a.	Total Power Consumed (Renewable Power Source)	Units		
1b.	Total Power Consumed (Non-Renewable Power Source)	Units		
2.	Total Power Consumption as % of Net Sales Realization	%		
3.	Total R&D Cost as % of Net Sales Realization	%		
4	Total Quality Cost as % of Net Sales Realization	%		
5	Total Pollution Control Cost as % to Net Sales Realization	%		

F. Financial Performance (For Company as a whole)

Sno.	Criteria	Units	Current Year	Previous Year
1.	Share Capital			
2.	Reserves & Surplus			

3.	Long-term borrowings			
)	Amount taken from the banks and other creditors			
)	Purpose for which it has been utilized			
)	Failure of the Company to return the same			
)	Assets against which it has been taken			
4.	Capital Employed	Amt		
5.	Net Worth	Amt		
6.	Profit before Tax (PBT)	Amt		
7.	PBT to Capital Employed	%		
8.	PBT to Net Worth	%		

1) Capital Employed means average of "Net fixed assets (excluding effect of revaluation plus non-current investments and net current assets" existing at the beginning and close of the financial year.

2) Net Worth is as defined under clause (57) of section 2 of the Companies Act, 2013.

3) Net Fixed Assets shall mean the sum total of 'Property, Plant and Equipment', 'Goodwill' , 'Other Intangible Assets' and 'Biological Assets Other than Bearer Plants'

4) In case of companies to which Indian Accounting Standards apply:

a) Revenue shall be net of taxes & duties.

b) PBT shall not include "Other Comprehensive Income"119

5. RELATED PARTY TRANSACTIONS (for the company as a whole)

S no.	Name & CIN of the Related Party	Name of the Product / Service	Nature of Transaction on (Sale, Purchase, Debtors, Creditors, Loans	Quantity	Transfer Price	Amount	Normal Price	Basis adopted to determine the Normal Price	Whether Investment made in related party	If investment made, Amount written off	% of the said transaction with the total transaction

			and Advan ces etc.)								
1											
2											
3											
4											
5											
6			-								
7											
8											
9											
10											

NOTES:

1) Details should be furnished for each Related Party and Product /Service separately.

2) Details of Related Party transactions without indicating the Normal Price and the basis thereof shall be considered as incomplete information.

6. Reconciliation of Indirect Taxes (for the Company as a whole)

				Goods & Services Tax			
	Particulars	Taxable Value / Assessable Value	Excise Duty/ VAT, CST, Cess Etc./ Other State Taxes, if any	CGST	SGST / UTGST	IGST	Cess and Others
		Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
	EXPORT						
	Domestic						
1	Export						
2	Stock Transfers (Net)						

3	Others, if any						
4	Total Excise Duty (1 to 4)	-					
5	VAT, CST, Cess etc.		-				
6	Other State Taxes if any						
7	Goods & Services Tax						
	Outward Taxable Supplies (other than zero rated, Nil Rated and Exempted)						
8	Outward Taxable Supplies (zero rated)						

9	Inward Supplies (liable to Reverse Charge)						
10	Other Outward Supplies (Nil Rated, Exempted)						
11	NON-GST Outward Supplies						
12	Total (8 to 12)	-					

13	Total Duties / Taxes Payable (5 + 6 + 7 + 13)			-	-	-	-
14	Duties/ Taxes paid [by Utilization of Input Tax Credit and Payment through Cash Ledger, as the case may be]		-	-	-	-	-
	Input Tax Credit Utilized						
	CGST / CENVAT						
15	SGST / UTGST / VAT						
16	IGST						
17	CESS						

18	Transitional Credit						
19	Others, if any, specify						

20	Total Input Tax Credit Utilized (15 to 20)						
21	Payment through Cash Ledger			-	-	-	-
22	Total Duties/Taxes Paid (21 + 22)						
23	Difference between Taxes Paid and Payable (14 - 23)		-	-	-	-	-
	Interest/Penalty/Fines Paid		-	-	-	-	-
23							

SIGNATURE	SIGNATURE	SIGNATURE
NAME	NAME	NAME
COST AUDITOR	COMPANY SECRETARY/DIRECTOR	DIRECTOR
MEMBERSHIP NUMBER	MEMBERSHIP/DIN NUMBER	DIN NUMBER
SEAL	STAMP	STAMP
DATE	DATE	DATE

Notes:

(1) Wherever, there is any significant variation in the current year's figure over the previous year's figure for any item shown under each para of the Annexure to the Cost Audit Report, reasons thereof shall be given by the Cost Auditor.

(2) Wherever, duration of the current year or the previous year is not 12 (twelve) months, same shall be clearly indicated in the Report.

(3) The Unit of Measurement (UOM) for each Customs Tariff Act Heading, wherever applicable, shall be the same as provided for in the Customs Tariff Act, 1975 (51 of 1975) corresponding to that Customs Tariff Act Heading.

Appendix-4

Formats for Cost Audit of Infrastructure Projects

Proforma-1 - Infrastructure Project Performance - Overall Summary

	General Details	
A 1	Name & description of the Project	
A 2	Sanction Date of the Project	
A 3	Original Approved Project Cost	
A 4	Revised Approved/Estimated Project Cost	
A 5	Date of Reporting	

	Milestone-wise Project Approval Details	Milestone -1	Milestone -2	Milestone -3	Milestone -4	Milestone -n	Total
B 1	Approved Project Milestones						
B 2	Brief description of each Milestone						
B 3	Approved Timeline for each Milestone						
B 4	Original Approved Cost for each Milestone						

B 5	Revised Approved/Estimated Cost of each Milestone						
	Project Execution Details						
	Timeline Details						
C 1	Start-time of each Milestone						
C 2	If completed, state end-time of completion of each Milestone						
C 3	In not completed, state its progress						

	in terms of percentage:						
C 4	- At the beginning of the year						
C 5	- As at the Reporting Date						
	Time Overrun Details						
D 1	If completed, state total time overrun of each Milestone in months						
D 2	In not completed, state its time overrun in number of months:						
D 3	- Till the beginning of the year						

D 4	- As at the Reporting Date						
	Cost Details						
E1	If completed, state total cost of completion of each Milestone						
E2	In not completed, state its cost details in terms of actual amount:						
E3	- At the beginning of the year						
E4	- As at the Reporting Date						

	Cost Overrun Details						
F1	If completed, state total cost overrun of each Milestone in amount						
F2	In not completed, state its cost overrun in terms of actual amount:						
F3	- At the beginning of the year						
F4	- As at the Reporting Date						

Proforma -2 - CONSTRUCTION PROJECT-WISE ABRIDGED COST STATEMENT

Sno.	Particulars		
A	GENERAL INFORMATION		
1	Name/Description of the Infrastructure Project		
2	Location of the Project		
3	Original Award date		
4	Scheduled Completion date		
5	Revised Completion date		
6	Estimated Time Overrun (months)		
7	Original Approved Cost (Rs. Crore)		
8	Revised Completion Cost (Rs. Crore)		
9	Estimated Cost Overrun (Rs. Crore)		
B	COST INFORMATION	Year-1	Year-2

		To-date Constructio n Cost	Cost as per Recognize d Revenue	To-date Constructio n Cost	Cost as per Recognize d Revenue
	Percentage Completion to-date				
1	Land Cost				
2	Cost of Construction Materials				
3	Cost of Utilities				
4	Direct Employees/Workers Cost				
5	Design Cost				
6	Sub-Contractor Charges				
7	Other Direct Costs				
8	Depreciation/Amortizatio n				

9	Cost of leasing plant & machinery				
10	Construction/ Development Overheads				
11	Administrative Overheads				
12	Interest & Financing Charges				
13	Cost of Sales (1 to 12)				
14	Todate Billed Revenue				
15	Margin (14 - 13)				

Proforma-3 - Infrastructure Project Performance - Cost Escalation Details

Name & description of the Project:													
Date of Reporting:													
Sno.	Factors of Cost Escalation	UOM	Original Cost Estimates			Revised Cost Estimates			Cost Variation			Reasons of Variation	Suggestions to avoid escalations
			Qty.	Rate	Cost	Qty.	Rate	Cost	Qty.	Rate	Cost		
A	Due to escalation in Land Acquisition Costs												
A1													
A2													
	SubTotal (A)												
B	Due to change in Statutory Taxes/Duties (Tax category-wise)												

B1													
B2													
	SubTotal (B)												
C	Due to Exchange Rate Variation (Foreign Currency-wise)												
C1													
C2													
	SubTotal (C)												
D	Due to Price Escalation within the originally approved time cycle (Item-wise)												
D1													
D2													

	SubTotal (D)												
E	Due to Price Escalation owing to the Time Overrun (Item-wise)												
E1													
E2													
	SubTotal (E)												
F	Due to Under Estimation at the Initial Stage (Item-wise)												
F1													
F2													
G	SubTotal (F)												
G1	Due to change in Scope of the Project (Item-wise)												

G2													
	SubTotal (G)												
H	Due to Additions/Deletions on account of other reasons (Item-wise)												
H1													
H2													
	SubTotal (H)												
I	Total Cost Escalation till the Reporting Date												

Note: Add rows under each factor as required for reporting complete details.

Proforma-4 - Infrastructure Project Performance - Time Overrun Details

Name & description of the Project:						
Date of Reporting:						
Sno.	Factors affecting Time Overrun	Original Scheduled Time to complete the Activity	Actual or Revised Time to complete the Activity	Time overrun in Months	Reasons for Time Overrun	Suggestions to avoid Time Overrun
1	Due to delays in Land Acquisition					
2	Due to delay in obtaining forest/environment clearances					
3	Due to delays in getting statutory approvals					
4	Due to delay in getting clearances from local authorities					

5	Due to delay in tie-up of project financing & other financial issues					
6	Due to delay in finalization of detailed engineering					
7	Due to delay in getting technical approvals					
8	Due to delay in tendering, ordering & equipment supply					
9	Due to lack of infrastructure support & linkages					
10	Due to changes in scope of the project					
11	Due to law & order problems					
12	Due to Geological surprises					
13	Due to pre-commissioning teething troubles					
14	Due to contractual issues					
15	Due to non-availability of adequate manpower					

16	Due to Encroachments at site & difficulties in clearing the site					
17	Due to State imposed restrictions owing to various factors					
18	Due to litigations/ Court Cases (NGT)					