

General Circular No.2/2003

No. 5/21/2001-C.L.V

52/323/CAB-87

Government of India

Ministry of Finance and Company Affairs

Department of Company Affairs

Shastri Bhavan, New Delhi.
Dated the 9th of January, 2003

To

All Regional Directors
All Registrars of Companies

Sub: Participation of Cost Auditor in the meetings of Audit Committee to be constituted under Section 292A of the Companies Act, 1956 - clarification reg.

Sir,

The Department has examined whether the cost auditor appointed u/s 233B of the Companies Act, 1956, could or should be invited to the audit committee constituted in compliance with Section 292A. It was clarified vide Circular No.6/2001 dated 20.8.2001 that the cost auditor, wherever appointed, shall also attend and participate at the meetings of the audit committee, but shall not have the right to vote.

2. It has been mentioned in the circular that the presence of cost auditor in such committees will ensure overall cost management besides proper pricing of inter-unit/inter-company transfer and valuation of inventories. The intent of the Department was to impress upon the need for the presence of 'cost auditor' in audit committee meetings, as an auditor, but not as a member. The legislative intention is to constitute audit committees only from directors. As such the usage of these phrases should not be construed to mean that cost auditors are to be members of audit committees.

3. Sub-section 5 of section 292A provides that the auditors, internal auditors, if any, and the directors, in-charge of finance, shall attend and participate at the meetings of audit committees without voting rights. The intention of providing for attending the meetings by auditors and internal auditors is to give an opportunity to the audit committee to hear their views. The cost auditor in his capacity as internal auditor can similarly participate in the meetings of the audit committee.

4. However, it has come to the notice of the Department that an interpretation is being made that cost auditor can be a member of audit committee. It is reiterated that the cost auditor cannot become a member of audit committee and wherever

appointed, can only attend and participate in the meeting without voting rights. Any other interpretation will be outside the purview of section 292A and incorrect.

(E. Selvaraj)
Joint Director (T)