

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

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B-1 Wing, 2<sup>nd</sup> Floor,  
Paryavaran Bhavan,  
CGO Complex,  
New Delhi-110 003

Dated the 6<sup>th</sup> November, 2012

To,  
All Stakeholders

Sir,

**Subject: Regulating Cost Audit Fee and fixing limit on the no. of Compliance Reports - Request for comments**

**On regulation of cost audit fee**

Section 233B of the Companies Act, 1956 empowers the Central Government [i.e. Ministry of Corporate Affairs] to direct audit of cost accounts of the companies. It also empowers the Government to (a) prescribe the manner for conducting such audit; (b) grant prior approval for appointment of the cost auditor; and (c) to receive the report of the cost auditor.

2. Examination of cost audit reports of previous few years show that in large number of cases, the quality of such reports are not satisfactory/upto the expected level. Similar such shortcomings have been observed by many other government agencies. This poses a serious problem with the regulators & other user agencies in the government who uses these reports as key inputs in their decision making process.

3. These issues were further examined and without prejudice, it has been observed that in majority of such cases, the company and the cost auditor have not taken the job seriously. Among others, one of the key reasons appears to be very low audit fee which is not commensurate with



the size of the company and nature of its activities. Though it may not be proper to draw such direct correlation between the quality of services rendered with that of the fees paid, but such a hypothesis cannot be ignored. While there is no law governing the audit fee payable by the companies [or charged by the auditors], there appears some justification in creating a sense of discipline among the entities so as to ensure that the cost audit mechanism instituted by law fulfils its intended purpose.

4. Therefore, in order to ensure highest level of quality standards, companies and cost auditors may be advised, as far as possible, to follow the minimum fee structure suggested by the Institute of Cost Accountants of India for rendering cost audit and non-audit services. However, it is also proposed that such fee structure for cost audit and compliance should be suggested by the Institute in consultation with the Ministry of Corporate Affairs.

#### On fixing limit on the no. of Compliance Reports

5. In the revised structure, subject to certain exemptions, all companies covered by Cost Accounting Records Rules 2011 but not covered by cost audit are required to file compliance report with the MCA ensuring maintenance of cost accounting records. This report can be certified by a cost accountant who is either in full-time employment of the company or is engaged in public practice. Vide General Circular No. 68/2011 dated 30<sup>th</sup> November 2011, a cost auditor of the company has also been allowed to certify the compliance report of the said company. While an employee cost accountant can only sign the compliance report of his own company, there is no limit on the practicing cost accountants to certify such compliance reports.

6. Under section 224(1-B) of the Companies Act 1956, there is a limit on the professionals for holding appointment as auditor [or as cost auditor] of a number of companies. There is no such similar provision for compliance certificates. With a view to curb concentration of compliance certificates and ensure high quality services, the Institute of Company Secretaries of India had imposed ceiling of 50 certificates for each practicing company secretary for issue of compliance certificates under section 383A; and 30 for signing of Annual Returns under section 161 of

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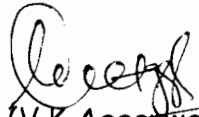
the Companies Act, 1956; which was later changed in the year 2008 to a combined limit of 80 per company secretary. For similar reasons, the Institute of Chartered Accountants of India, in 2007, had imposed a limit of 45 per member or per partner of a firm for undertaking tax audits. On the same analogy, it is proposed to fix a limit of 50 compliance reports for each practicing cost accountant or for each partner of a firm of cost accountants. Since these limits are imposed through the respective Institute, it is proposed to ask the Institute of Cost Accountants of India to do the same.

7. All the above changes are proposed to be made effective from the financial year beginning on or after the 1<sup>st</sup> day of January, 2013.

8. Various companies, and professionals and other stakeholders from corporate sector connected with cost accounting records and cost audit are welcome to examine the above issues and furnish comments/suggestions to this Ministry within a period of three weeks i.e. by 25<sup>th</sup> November, 2012 on the following e-mail address:-

[bharat.goyal@mca.gov.in](mailto:bharat.goyal@mca.gov.in), [goyalbb@gmail.com](mailto:goyalbb@gmail.com), [vi.jay.aggarwal@mca.gov.in](mailto:vi.jay.aggarwal@mca.gov.in)

Yours faithfully,

  
(V.K. Aggarwal)  
Director (Cost)

Copy to:

- ✓ 1. E-Governance Cell, Ministry of Corporate Affairs, Shastri Bhavan, New Delhi with a request to upload this circular on the MCA's website.
2. The President, Institute of Cost Accountants of India, 12, Sudder Street, Kolkata - 700016 with a request to circulate this for the information of all concerned.