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caro 2003 - Para viii

I] Text of Para viii :

Para (viii) Where maintenance of cost records has been prescribed by the Central Government under clause (d) of sub-section (1) of section 209 of the Act, whether such accounts and records have been made and maintained. [Emphasis supplied]

II] What prompted me to write this article?

[1] Recently few companies referred matter to me for an opinion on applicability of Cost Accounting Records Rules to their company products / activities. Some others referred for advice on modalities of compliance etc. While going through the published Annual Accounts of these companies I observed that in some case the MAOCARO certificate issued by Statutory Financial Auditor had **OMITTED** the word "MADE" in respect of this para and it **TALKED ONLY OF "...company has MAINTAINED"**

[2] The companies in question are big Corporates and still this error was observed. I therefore thought it essential to bring the following to the knowledge of all professionals.

III] Made & Maintained - Explained

[1] The provision in CARO 2003 Para viii is just the same as it was in MAOCARO 1988. When this was introduced, there was a lot of debate about the usage of words "MADE and MAINTAINED" as against just "Maintained". Subsequently the matter was referred to Department of Company Affairs [DCA] for clarification. DCA then issued clarification¹ in 1989 that the word "MADE" applies in respect of Cost Accounts and the word "MAINTAINED" applies in respect of Cost Records.

[2] Thus Statutory Financial Auditor has to satisfy himself that the *Cost Accounting Records* have been *Maintained* and *Cost Accounts* have been *Made*.

[3] To appreciate this fully One needs to understand some basics in relation to Cost Audit, such as relevant Rules, meaning of Cost Accounting Records, Cost Accounts – Statements etc.

IV] Cost Audit – Some Basics

A] There are two types of Rules to be complied with in Cost Audit.

A.1] Cost Audit Report Rules [CARepR]

A.2] Cost Accounting Records Rules [CARecR]

B] Cost Accounting Records, Cost Accounts and Cost Audit

B.1] Cost Accounting Records

B.2] Cost Accounts

B.3] Cost Audit – Statutory / Voluntary

A] There are two types of Rules to be complied with in Cost Audit.

A.1] Cost Audit Report Rules

- 1] Are common to all Industries
- 2] They Prescribe
 - i] Annexure² to Cost Audit Report [having 28 Paras covering different information]
 - ii] Proforma ...to be attached with Report
 - iii] Form of the Cost Audit Report to be issued by Statutory Cost Auditor

Of the above first two i.e. Annexure and Proforma are to be signed by Company Secretary and one Director. Where there is no Company Secretary, these are to be signed by Two Directors. These are also to be approved by Board³ [in a Meeting]

Cost Auditor has to sign all the three viz. Annexure, Proforma and Form of the Cost Audit Report.

The observations of Cost Auditor are to be discussed in Audit Committee⁴.

A.2] Cost Accounting Records Rules

- A] Are specific to each Industry / Product / Activity etc.; AND
- B] They Prescribe
 - [i] Records to be maintained in respect of different resources employed by the company and
 - [ii] Cost Accounts Statements - Annexures, Proformae etc. to be prepared;

Schedule VI formats prescribed for Financial Statements are common to Companies. Unlike this the Cost Accounts Statements are specific to Industry / Product / Activity etc. and consequently are markedly different from each other.

B] Records, Accounts and Audit

B.1] Cost Accounting Records

- [1] Cost Accounting Records Rules specify information to be maintained for all resources employed by the company. Besides, the Cost Audit Report Rules [that include Annexure to the Cost Audit Report - Paras 1 to 28] also require certain information to be compiled. Cost accounting records should also cover this information.
- [2] Maintenance of Cost Accounting Records is Compulsory for a Company from the time the relevant records rules become applicable.
- [3] The records are to be maintained on continuous⁶ basis. It may happen that the Financial Accounts – Audit are incomplete by the date when records and accounts are to be submitted to Statutory Cost auditor. There is no provision for extension of time. Therefore under any circumstances the company must complete and submit the Cost Records and Cost Accounts to Statutory Cost Auditor within specified time limit. In case of delay in Financial Accounts there is provision for submission of Supplementary Report in case of necessity.

B.2] Cost Accounts

- [1] Many a time Annexures and Proformae annexed to the relevant records rules are considered as being part of cost accounting records. It must be remembered that these Annexures and Proformae are part of Cost Accounts and NOT Cost Accounting Records.
- [2] Every year preparing or “making” the Cost Accounts is compulsory for a Company to which the records rules apply, This involves preparing the Cost Statements, Annexures, Proformae etc.
- [3] This is because as mentioned above (Refer Para III [2]) CARO [and earlier MAOCARO] makes it obligatory on Statutory Financial Auditor to report whether the Company has **MADE** and **MAINTAINED** the **Accounts and Records** as required under S 209[1][d]. To repeat, the word **MADE** refers to Cost Accounts – Statements and **maintained** applies to records. As such if the company has **NOT MADE** [or prepared] the Cost Accounts – Statements Annexures and Proformae etc, the Statutory Financial Auditor will have to give report that is suitably worded.
- [4] Therefore, every Company covered under Cost Accounting Records Rules **must make or prepare every year the Cost Accounts -Statements** as prescribed.
- [5] This is the reason why some of the Statutory Financial Auditors [Chartered Accountants / their Firms] obtain a Certificate from Practising Cost Accountant that the Company has **Made and Maintained** the **Accounts and Records** as prescribed by S 209[1][d].

And this is where the role of Voluntary Cost Audit is.

B.3] Cost Audit – Statutory / Voluntary

- [1] Statutory Financial Audit is to be conducted every year from the year of incorporation.
- [2] However Statutory Cost Audit is to be conducted **ONLY** when
 - [i] a company is covered under provisions of Cost Accounting Records Rules, **and**
 - [ii] a specific order for conducting Statutory Cost Audit is issued by GOI.
- [3] When an Audit is ordered, the Cost Auditor is responsible to GOI and has to submit the Audit Report to GOI and submit a COPY to the Company. The report is to be submitted within 180 days from the close of the Financial Year. There is no provision for extension of time.
- [4] The Annexure to the Cost Audit Report and the Proforma [signed and submitted by the Company] is also to be signed and submitted by the Statutory Cost Auditor with the Cost Audit Report [Form of the Cost Audit Report].
- [5] The new Report Rules require Hard Copy and Two Soft Copies of the Report to be submitted to GOI. The two soft copies⁵ are meant for different use by the GOI and therefore the contents of these soft copies are different.
- [6] As a Good Corporate Practice companies get the Cost Accounts - Statements Audited by conducting a Voluntary Cost Audit by a Cost Accountant during the years prior to the year in which it is ordered by GOI..
- [7] Within 135 days from the close of the Financial Year, the Company has to make available to the Cost Auditor -
 - [i] The Cost Accounting Records, Cost Statements,
[Refer Cost Accounting Records Rules applicable to the Company]
 - [ii] Annexure to The Cost Audit Report and Proforma to the Report
[Refer Cost Audit Report Rules, 2001];

However this has to be read with requirement pertaining to :

- [i] Discussion of the Report in Audit Committee
- [ii] Approval of the Cost Accounts by Board in a meeting and
- [iii] Requirement of signing by Company Secretary and Director

Other rights of Cost Auditor are same as Financial Auditor.

V] Summary

If a company is covered under any Cost Accounting Records Rules,

- [1] It must maintain the records from the time it becomes so covered;
- [2] Records must be maintained on a continuous basis;
- [3] Prepare or make Cost Accounts – Statements even when it is not required to carry out Statutory Cost Audit;

Notes :

1. Ref No. 12/5/86-CL V Dated 27.4.1989
2. Pls note this is different from Annexures and Proformae under CARecR referred above.
3. Refer item 10 of Para 1 of Annexure to the Cost Audit Report
4. No. 5/21/2001-CL V 52/03/CAB-2002 dated 18-03-2002
5. Ref No. 52/22/CAB-2002 Dated 21/26.11.2002