DECODING COST AUDIT: RULES, RELEVANCE, AND REPORTING

Introduction

In today's highly competitive and cost-conscious business environment, effective cost management is essential for sustainable growth and profitability. One of the key tools that enable organizations to monitor, analyze, and control their costs is Cost Audit. Unlike financial audits, which focus on the accuracy of financial statements, cost audits delve into the efficiency and propriety of cost records and cost accounting systems.

Cost audit plays a vital role in ensuring that resources are utilized optimally and that pricing decisions are based on accurate cost data. It enhances transparency, promotes accountability, and helps organizations comply with regulatory requirements under the Companies Act, 2013 and the rules prescribed by the Institute of Cost Accountants of India (ICAI-CMA). This article explores the concept, objectives, legal framework, scope, and benefits of cost audit, along with its relevance in improving organizational performance and strategic decision-making.

Applicability of Cost Accounts and Cost Audit

CG has notified only 39 industries as follows-:

1. **Table A-: Regulated Sector (6 Industries)**

S.No	Regulated Sector
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);
2	Generation, transmission, distribution and supply of electricity regulated by the relevant regulatory body or authority under the Electricity Act, 2003 (36 of 2003);
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);
4	Drugs and pharmaceuticals;
5	Fertilisers;
6	Sugar and industrial alcohol;

1. Table B-: Non- Regulated Sector (33 Industries)

S.No	Non-Regulated Sector
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.
2	Turbo jets and turbo propellers;
3	Arms and ammunitions and Explosives;
4	Propellant powders; prepared explosives (other than propellant powders); safety fuses detonating fuses; percussion or detonating caps; igniters; electric detonators ;
5	Radar apparatus, radio navigational aid apparatus and radio remote control apparatus
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;
7	Port services of stevedoring, pilotage, hauling, mooring, re-mooring, hooking, measuring, loading and unloading 4[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)];
8	Aeronautical services of air traffic management, aircraft operations, ground safety services, ground handling, cargo facilities and supplying fuel rendered 5[at the airports] and regulated by the Airports Economic Regulatory Authority under the Airports Economic Regulatory Authority of India Act, 2008 (27 of 2008);

1. **Table B-: Non- Regulated Sector (33 Industries)**

S.No	Non-Regulated Sector
9	Iron and Steel;
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);
11	Rubber and allied products; including products regulated by the Rubber Board constituted under the Rubber Act, 1947 (XXIV of 1947);
12	Coffee and tea;
13	Railway or tramway locomotives, rolling stock, railway or tramway fixtures and fittings, mechanical (including electro mechanical) traffic signalling equipment's of all kind;
14	Cement;
15	Ores and Mineral products;
16	Mineral fuels (other than Petroleum), mineral | oils etc.;
17	Base metals;
18	Inorganic chemicals, organic or inorganic compounds of precious metals, rare-earth metals of radioactive elements or isotopes, and Organic Chemicals;

1. **Table B-: Non- Regulated Sector (33 Industries)**

S.No	Non-Regulated Sector
19	Jute and Jute Products;
20	Edible Oil;
21	Construction Industry as per para No. (5) (a) as specified in Schedule VI of the Companies Act 2013 (18 of 2013);
22	Health services, namely functioning as or running hospitals, diagnostic centres, clinical centres or test laboratories;
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.
24	Milk powder;
25	Insecticides;
26	Plastics and polymers;
27	Tyres and tubes;
28	7[Pulp and Paper];

1. **Table B-: Non- Regulated Sector (33 Industries)**

S.No	Non-Regulated Sector
29	Textiles;
30	Glass;
31	Other machinery and Mechanical Appliances;
32	Electricals or electronic machinery;
32	Production, import and supply or trading of following medical devices, namely:- • Cardiac stents; • Drug eluting stents; • Catheters; • Intra ocular lenses; • Bone cements; • Heart valves; • Orthopaedic implants; • Internal prosthetic replacements; • Scalp vein set; • Deep brain stimulator; • Ventricular peripheral shud; • Spinal implants; • Automatic impalpable cardiac 8[defibrillators], • Pacemaker (temporary and permanent); • Patent ductus arteriosus, atrial septal defect and ventricular septal defect closure device; • Cardiac re-synchronize therapy ; • Urethra spinicture devices; • Sling male or female; • Prostate occlusion device; and • Urethral stents:

Cost Accounts and Cost Audit

(A) OTO= Overall Turnover
(B) CTO= Covered Turnover = Add Turnover of Products in 39 industries

Cost Accounts	Cost Audit	
	Table A (6 Industries)	Table B (33 industries)
A Company that satisfies BOTH conditions must prepare Cost Accounts 1. They belong to 39 industries **AND** 2. OTO> 35 crore	Cost Audit of only **Table –A** products if-: 1. OTO> 50 crore **AND** 2. CTO> 25 crore	Cost Audit of **BOTH Table-A and Table-B** products if 1. OTO> 100 crore **AND** 2. CTO> 35 crore

The requirements for cost audit shall not applicable to a company

- Whose revenue from Exports, in foreign currency exceeds 75% of its total revenue
- Which is operating from Special Economic Zone
- Which is engaged in generation of electricity for capitive consumption through Captive Generating Plant

Appointment, Eligibility, Tenure and Filing Requirements of Cost Auditor

1. Appointment of Cost Auditor

- The Company is required to appoint a Cost Auditor within 180 days from the beginning of financial year
- The Board of Director shall appoint a Cost Auditor who must be Cost Accountant in practice
- The appointment must be filed with the Central Government (MCA) using form CRA-2 within 30 days of the board resolutions or within 180 days of the start of the financial year, whichever is earlier

2 Eligibility of Cost Auditor

- Must be a Cost Accountant as defined under the Cost and Works Accountants Act, 1959
- Should not be disqualified under Section 141 of the Companies Act, 2013 (similar to statutory auditor disqualifications).
- The auditor must be independent and not in conflict of interest.

3. Tenure and Rotation

- No specific tenure is prescribed, but companies typically appoint cost auditors annually.
- Rotation provisions under Section 139(2) do not apply to cost auditors.

4. Filing Requirements

- After conducting the audit, the cost auditor shall submit the Cost Audit Report in Form CRA-3 to the Board of Directors.
- The company must file the report with the Central Government in Form CRA-4 within 30 days from the date of receipt of the report.

Procedures for Conducting Cost Audit

Collection and verification of Cost Records
The cost auditor initiates the audit by collecting relevant cost records from the company. These may include records related to materials, labor, overheads, utilities, production, inventory, and sales. The auditor verifies whether the company is maintaining cost records as prescribed under the Companies (Cost Records and Audit) Rules, 2014 and checks compliance with the Cost Accounting Standards (CAS) issued by the Institute of Cost Accountants of India.

Analysis Audit Working Papers and Queries

After obtaining and verifying cost records, the auditor performs a detailed analysis of cost structures, operational efficiencies, and variances. Audit working papers are prepared to document findings, calculations, and justifications. During the course of the audit, the auditor may raise queries or seek clarifications from relevant departments to ensure the accuracy, completeness, and fairness of the cost data. This step helps in identifying inefficiencies, wastage, or any non-compliance with cost accounting standards.

Reporting and Submission to the Board and MCA

Once the audit is completed, the auditor prepares the Cost Audit Report in Form CRA-3. This report includes observations, qualifications (if any), cost data analysis, and the auditor’s opinion. The report is first submitted to the Board of Directors for their review and comments. Subsequently, the company is required to file the final Cost Audit Report with the Central Government (MCA) in Form CRA-4 within 30 days from the date of receipt of the report from the cost auditor

Conclusion

In an era where operational efficiency, regulatory compliance, and cost competitiveness are paramount, Cost Audit emerges as a strategic tool for modern enterprises. By offering deep insights into cost structures, wastage, and inefficiencies, cost audit goes beyond mere compliance it facilitates informed decision-making, enhances transparency, and strengthens internal controls.

With statutory backing under the Companies Act, 2013, and detailed rules laid down by the Ministry of Corporate Affairs, cost audit ensures that companies not only maintain proper cost records but also align their cost strategies with broader financial and operational goals. For stakeholders including management, regulators, and investors a robust cost audit framework builds confidence in the company's resource utilization and long-term sustainability.

As Indian businesses continue to expand and globalize, the role of cost audit will only grow in relevance. Organizations that embrace it proactively stand to gain a competitive advantage through better pricing, improved profitability, and enhanced governance.

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