



Supplementary on Study Material of Paper 17 for December,2024 Term of Examination

Section - A : Cost Audit

Module 3: Cost Auditor

Point No. 3.2: Cost Auditor's Eligibility, Qualifications, Disqualifications, Appointment, Registration, Rotation, Remuneration, Removal, Rights and Duties, Liabilities

Sections applicable to Finance Auditors are laid down from Sections 139 to 147.

There are no corresponding defining Sections for Cost Auditor except Section 148.

Section 148 (5), inter alia provides that qualifications, disqualifications, rights, duties and obligations as applicable to Financial Auditor shall also apply to Cost Auditor, so far as may be applicable.

So Sections applicable to Financial Auditor shall, so far as may be applicable, apply to a cost auditor.

To make these applicable to Cost auditors, these are to be read with the following:

- 1) Companies (Audit and Auditors) Rules, 2014
- 2) Companies (Cost Records and Audit) Rules, 2014
- 3) Cost and Works Accountants Act, 1959

Section 139 to 148 provide for the qualifications, disqualifications, appointment, removal, rights & duties and liabilities of company auditors to be read with Companies (Audit and Auditors) Rules, 2014. Some of the Rules are discussed hereunder. Section 148(5) provides the provisions applicable to statutory auditors will also apply to cost auditors.

Cost Auditor's Eligibility

Eligibility criteria under Section 141 of the Companies Act, 2013 read with Rule 10 of the Companies (Audit and Auditors) Rules, 2014 and Section 148 of the Companies Act, 2013. The following persons are not eligible for appointment as a cost auditor:

- (a) A body corporate. However, a Limited Liability Partnership registered under the Limited Liability Partnership Act, 2008 can be appointed. [Section 141(3)(a)]
- (b) An officer or employee of the Company. [Section 141(3)(b)]
- (c) A person who is a partner, or who is in the employment of an officer or employee of the company. [Section 141(3)(c)]
- (d) A person who, or his relative or partner is holding any security of or interest in the company or any of its subsidiary or of its holding or associate company or a subsidiary company or a subsidiary of such holding company. [Section 141(3)(d)(i)]
- (e) Relatives of any partner of the firm holding any security of or interest in the company of face value exceeding ₹ 1 lakh. [Section 141(3)(d)(i) and Rule 10(1) of Companies (Audit and Auditors) Rules, 2014]



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- (f) A person who or whose relative or partner is indebted to the company or its subsidiary, or its holding or associate company or a subsidiary or such holding company, for an amount exceeding ₹ 5 lakhs. [Section 141(3)(d)(ii) and Rule 10(2) of Companies (Audit and Auditors) Rules, 2014]
- (g) A person who or whose relative or partner has given any guarantee or provided any security in connection with the indebtedness of any third person to the company or its subsidiary, or its holding or associate company or a subsidiary of such holding company, for an amount exceeding ₹ 1 Lakh. [Section 141(3)(d)(iii) and Rule 10(3) of Companies (Audit and Auditors) Rules, 2014]
- (h) A person or a firm who, whether directly or indirectly, has business relationship with the company or its subsidiary, or its holding or associate company or subsidiary of such holding company or associate company. [Section 141(3)(e) and Rule 10(4) of Companies (Audit and Auditors) Rules, 2014]
- (i) A person whose relative is a director or is in the employment of the company as a director or key managerial personnel of the company. [Section 141(3)(f)]
- (j) A person who is in the full time employment elsewhere or a person or a partner of a firm holding appointment as its auditor if such person or persons is at the date of such appointment or reappointment holding appointment as an auditor of more than twenty companies. [Section 141(3)(g)]
- (k) A person who has been convicted by a court for an offence involving fraud and a period of ten years has not elapsed from the date of such conviction. [Section 141(3)(h)]
- (l) Any person whose subsidiary or associate company or any other form of entity, is engaged as on date of appointment in providing specialised services to the company and its subsidiary companies as below:
- (a) Accounting and book keeping services
 - (b) Internal audit
 - (c) Design and implementation of any financial information system
 - (d) Actuarial services
 - (e) Investment advisory services
 - (f) Investment banking services
 - (g) Rendering of outsourced financial services
 - (h) Management services
 - (i) Any other kind of services as may be prescribed
- [Section 141(3)(i) and Section 144]

Qualifications

Applicability of Section 141 of the Companies Act, 2013, with respect to the Qualification of Cost Auditor, to be read along with Section 148 of the Companies Act, 2013, Cost and Works Accountants Act, 1959 and Companies (Cost Records and Audit) Rules, 2014

Section 148 (5) of the companies act, 2013, inter alia provides that qualifications as applicable to auditor (financial) is also applicable to cost auditor, so far as may be applicable.

In view of what is stated above, Qualification of Cost Auditor are enumerated as given below:

- 1) A person shall be eligible to for appointment as cost auditor who is a cost accountant. [Section 148 (3)]



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- 2) Cost Accountant means a Cost Accountant as defined in clause (b) of sub-section (1) of Section 2 of the Cost and Works Accountants Act, 1959 and who holds a valid certificate of practice under sub-section (1) of Section 6 of the Cost and Works Accountants Act, 1959. {Section 2 (28)}
- 3) “cost accountant” means a person who is a member of the Institute [clause (b) of sub-section (1) of Section 2 of Cost And Works Accountants Act, 1959.
- 4) A person is a member of the Institute if his name appears in the Register of the Institute { Subsection (2) of Section 19 of Cost and Works Act,1959}
- 5) An Individual or Firm, as the case may be is eligible for appointment as cost auditor provided he / it satisfies the criteria as provided in section 141 of the Act {Sub Section (b) of Section (1A) of Rule 6 of Companies (Cost Records and Audit) Rules, 2014
- 6) Proviso to subsection (1) of Section 141 provides that a firm can also be appointed by its firm name as cost auditor of the company if majority of its partners practicing in india are qualified for appointments as cost auditors of the company
- 7) Sub-Section (2) of Section 141 provides that where a firm including a limited liability partnership (LLP) is appointed as Cost Auditor of the company, only the partners who are cost accountants shall be authorized to act and sign on behalf of the firm.

Disqualifications

As per Section 141(3), read with Rule 10 of Company (Audit and Auditor) Rule 2014 and Section 148, the following persons shall not be eligible for appointment as Cost auditor of a company:

- (a) a body corporate other than a limited liability partnership registered under the Limited Liability Partnership Act, 2008;
- (b) an officer or employee of the company;
- (c) a person who is a partner, or who is in the employment, of an officer or employee of the company;
- (d) a person who, or his relative or partner:
 - (i) is holding any security of or interest in the company or its subsidiary, or of its holding or associate company or a subsidiary of such holding company, of face value not exceeding rupees one lakh;
 - (ii) is indebted to the company, or its subsidiary, or its holding or associate company or a subsidiary of such holding company, in excess of rupees five lakh;
 - (iii) has given a guarantee or provided any security in connection with the indebtedness of any third person to the company, or its subsidiary, or its holding or associate company or a subsidiary of such holding company, in excess of rupees one lakh;
- (e) a person or a firm who, whether directly or indirectly, has business relationship with the company, or its subsidiary, or its holding or associate company or subsidiary of such holding company or associate company of such nature as may be prescribed;

Note: For this purpose, the term ‘business relationship’ shall be construed as any transaction entered into for a commercial purpose, except –

- (a) commercial transaction which are in the nature of professional services permitted to be rendered by an auditor or audit firm under the Companies Act, 2013 or the Cost and Works Accountants Act, 1959 and the rules or regulations made under those Acts;
- (b) commercial transactions which are in the ordinary course of business of the company at arm’s length price–like sale of products or services to the auditor as customer.



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- (f) a person whose relative is a director or is in the employment of the company as a director or key managerial personnel;
- (g) a person who is in full time employment elsewhere or a person or a partner of a firm holding appointment as its auditor, if such persons or partner is at the date of such appointment or reappointment holding appointment as auditor of more than twenty companies;
- (h) a person who has been convicted by a court of an offence involving fraud and a period of ten years has not elapsed from the date of such conviction;
- (i) a person who, directly or indirectly, renders any service referred to in Section 144 to the company or its holding company or its subsidiary company.

Where a person appointed as an auditor of a company incurs any of the disqualifications mentioned in sub-section (3) after his appointment, he shall vacate his office as such auditor and such vacation shall be deemed to be a casual vacancy in the office of the auditor [Section 141(4)] read with Sub Rule 3A of Rule 6 of Companies (Cost Records and Audit) Rules, 2014.

Appointment

As per Section 148(3) of the Companies Act 2013, cost audit shall be conducted by a Cost Accountant who shall be appointed by the Board. No person appointed under Section 139 as an auditor of the company shall be appointed for conducting the audit of cost records. The auditor so appointed shall comply with the cost auditing standards

As per Rule 6 of the Companies (Cost Records & Audit) Rules 2014 (as amended)

- (1) 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.

Provided that before such appointment is made, the written consent of the cost auditor to such appointment, and a certificate from him or it, as provided in sub-rule (1A), shall be obtained

(1A) The cost auditor appointed under sub-rule (1) shall submit a certificate that—

- (a) the individual or the firm, as the case may be, is eligible for appointment and is not disqualified for appointment under the Act, the Cost and Works Accountants Act, 1959(23 of 1959) and the rules or regulations made thereunder;
 - (b) the individual or the firm, as the case may be, satisfies the criteria provided in section 141 of the Act, so far as may be applicable;
 - (c) the proposed appointment is within the limits laid down by or under the authority of the Act; and
 - (d) the list of proceedings against the cost auditor or audit firm or any partner of the audit firm pending with respect to professional matters of conduct, as disclosed in the certificate, is true and correct.”
- (2) Every company referred to in sub-rule (1) shall inform the cost auditor concerned of his or its appointment as such 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.
- (3) Every cost auditor appointed as such shall continue in such capacity till the expiry of one hundred and eighty days from the closure of the financial year or till he submits the cost audit report, for the financial year for which he has been appointed.



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Provided that the cost auditor appointed under these rules may be removed from his office before the expiry of his term, through a board resolution after giving a reasonable opportunity of being heard to the Cost Auditor and recording the reasons for such removal in writing;

Provided further that the Form CRA-2 to be filed with the Central Government for intimating appointment of another cost auditor shall enclose the relevant Board Resolution to the effect;

Provided also that nothing contained in this sub-rule shall prejudice the right of the cost auditor to resign from such office of the company;

(3A) Any casual vacancy in the office of a cost auditor, whether due to resignation, death or removal, shall be filled by the Board of Directors within thirty days of occurrence of such vacancy and the company shall inform the Central Government in Form CRA-2 within thirty days of such appointment of cost auditor.

(3B) The cost statements, including other statements to be annexed to the cost audit report, shall be approved by the Board of Directors before they are signed on behalf of the Board by any of the director authorised by the Board, for submission to the cost auditor to report thereon

(4) 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.

(5) 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.

(6) 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 alongwith full information and explanation on every reservation or qualification contained therein, in Form CRA-4 in Extensible Business Reporting Language format in the manner as specified in the Companies (Filing of Documents and Forms in Extensible Business Reporting language) Rules, 2015 alongwith fees specified in the Companies (Registration Offices and Fees) Rules, 2014.”

“Provided that the Companies which have got extension of time of holding Annual General Meeting under section 96(1) of the Companies Act, 2013, may file form CRA-4 within resultant extended period of filing financial statements under section 137 of the Companies Act, 2013”. – Sub Rule 6 of Rule 6 of Companies (Cost Records and Audit) Rules, 2014

(7) The provisions of sub-section (12) of Section 143 of the Act and the relevant rules made thereunder shall apply mutatis mutandis to a cost auditor during performance of his functions under Section 148 of the Act and these rules.

Sub Rule 7 of Rule 6 of Companies (Cost Records and Audit) Rules, 2014.

Resignation

The auditor who has resigned from the company shall file within a period of 30 days from the date of his resignation, a statement in the prescribed form with the company and the registrar (Section 140 (2).

Statement in the form ADT-3 is prescribed by Rule 8 of Companies (Audit and Auditors) Rules, 2014

If the auditor does not comply with sub section (2) of section 140, then he shall be punishable with fine not less ₹ 50,000 subject to a maximum of ₹ 2 Lakh.



Rotation

The provisions for maintenance of cost accounting records and cost audit are governed by Section 148 of the Companies Act, 2013. The provisions of Section 148 clearly states that no person appointed under Section 139 as an auditor of the company shall be appointed for conducting audit of cost records of the company. Section 148 also provides that qualifications, disqualifications, rights, duties and obligations applicable to auditors (financial) shall apply to a cost auditor appointed under this section. The eligibility, qualifications and disqualifications are provided in Section 141 of the Act and powers and duties are provided in Section 143. Section 143(14) specifically states that the provisions of Section 143 shall mutatis mutandis apply to a cost auditor appointed under Section 148. There are no other provisions governing the appointment of a cost auditor.

Section 139(3) of the Act read with Rule 6 of Companies (Audit and Auditors) Rules, 2014 deals with the provision of rotation of auditors and these provisions are applicable only to appointment of auditors (financial). The Act does not provide for rotation in case of appointment of cost auditors and the same is not applicable to a cost auditor. It may, however, be noted that though there is no statutory provision for rotation of cost auditors, individual companies may do so as a part of their policy, as is the practice with Public Sector Undertakings.

Remuneration

Rule 14 of the Companies (Audit and Auditors) Rules, 2014 has laid down the procedure of appointment and fixing the remuneration of a cost auditor. It states as follows:

Remuneration of the Cost Auditor:

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 in practice, 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 recommended by the Audit Committee under (i) shall be considered and approved by the Board of Directors and ratified subsequently 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 in practice or a firm of cost accountants in practice as cost auditor and the remuneration of such cost auditor shall be ratified by shareholders subsequently.

Removal

The cost auditor may be removed before the term by Board resolution after giving reasonable opportunity of hearing and recording the reasons for removal. [Proviso to Sub Rule (3) of Rule 6 of Companies (Cost Records and Audit) Rules, 2014.

As per Sub Rule (3A) of Rule 6 of the Companies (Cost Records & Audit) Rules 2014 (as amended), any casual vacancy in the office of a cost auditor, whether due to resignation, death or removal to be filled by the Board of Directors within thirty days of occurrence of such vacancy and the company shall inform the Central Government in Form CRA-2 within thirty days of such appointment of cost auditor.



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Rights and Duties

Section 148 (5) of the companies act, 2013, inter alia provides that Rights and Duties as applicable to auditor (financial) is also applicable to cost auditor, so far as may be applicable.

Now rights and duties of Financial Auditor has been prescribed under section 143 of the Companies Act, 2013.

Moreover, Subsection 14 of Section 143 states that The provisions of this section 143 shall mutatis mutandis apply to the cost accountant in practice conducting cost audit under section 148

This is to be read with Sub Rule (4) of Rule 6 of the Companies (Cost Records and Audit) Rules 2014 and Rule 13 of Companies (Audit and Auditors) Rules, 2014.

- 1) Company shall provide all assistance and facilities to the cost auditor appointed under section 148 for auditing the cost records of the company. [Section 148 (5)]
- 2) The Auditor conducting cost audit shall comply with the Cost Accounting Standards [Section 148 (3)]
- 3) The Report on the audit of Cost Records shall be submitted by Cost Auditor to the Board of Directors [148 (5)].
- 4) The Cost Auditor's report shall also state the following in his report (in Form CRA-3 as mentioned in Sub Rule (4) of Rule 6 of Companies (Cost Records and Audit) Rules, 2014).
 - (a) Whether he has obtained all the information and explanations which to the best of his knowledge and belief were necessary for the purpose of the audit.
 - (b) Whether proper cost records as per Rule 5 of the Companies (Cost Records and Audit) Rules 2014 have been maintained by the company in respect of product / services under reference
 - (c) Whether proper returns adequate for the purpose of the cost audit have been received from branches not visited
 - (d) In my opinion and to the best of my informations, the said books and records give the information required by the Companies Act, 2013 in the manner so required
 - (e) In my opinion, the company does have adequate system of internal audit of cost records which to my opinion is commensurate to its nature and size of its business.
 - (f) In my opinion, information, statements in the annexure to the cost audit report gives a true and fair view of the cost of production of production / rendering of services, cost of sales, margin and other information relating to products / services under reference
 - (g) Detailed unit wise and product wise cost statements and schedules thereto in respect of the product / service under reference of the company duly audited and certified are kept in the company.
- 5) Company shall provide all assistance and facilities to the cost auditor appointed under section 148 for auditing the cost records of the company. [Section 148 (5)]
- 6) The Auditor conducting cost audit shall comply with the Cost Accounting Standards [Section 148 (3)]
- 7) The Report on the audit of Cost Records shall be submitted by Cost Auditor to the Board of Directors [148 (5)].
- 8) The Cost Auditor's report shall also state the following in his report (in Form CRA-3 as mentioned in Sub Rule (4) of Rule 6 of Companies (Cost Records and Audit) Rules, 2014.



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- (h) Whether he has obtained all the information and explanations which to the best of his knowledge and belief were necessary for the purpose of the audit.
 - (i) Whether proper cost records as per Rule 5 of the Companies (Cost Records and Audit) Rules 2014 have been maintained by the company in respect of product / services under reference
 - (j) Whether proper returns adequate for the purpose of the cost audit have been received from branches not visited
 - (k) In my opinion and to the best of my informations, the said books and records give the information required by the Companies Act, 2013 in the manner so required
 - (l) In my opinion, the company does have adequate system of internal audit of cost records which to my opinion is commensurate to its nature and size of its business.
 - (m) In my opinion, information, statements in the annexure to the cost audit report gives a true and fair view of the cost of production of production / rendering of services, cost of sales, margin and other information relating to products / services under reference
 - (n) Detailed unit wise and product wise cost statements and schedules thereto in respect of the product / service under reference of the company duly audited and certified are kept in the company.
- 9) Company shall provide all assistance and facilities to the cost auditor appointed under section 148 for auditing the cost records of the company. [Section 148 (5)]
- 10) The Auditor conducting cost audit shall comply with the Cost Accounting Standards [Section 148 (3)]
- 11) The Report on the audit of Cost Records shall be submitted by Cost Auditor to the Board of Directors [148 (5)].
- 12) The Cost Auditor's report shall also state the following in his report (in Form CRA-3 as mentioned in Sub Rule (4) of Rule 6 of Companies (Cost Records and Audit) Rules, 2014).
- (o) Whether he has obtained all the information and explanations which to the best of his knowledge and belief were necessary for the purpose of the audit.
 - (p) Whether proper cost records as per Rule 5 of the Companies (Cost Records and Audit) Rules 2014 have been maintained by the company in respect of product / services under reference
 - (q) Whether proper returns adequate for the purpose of the cost audit have been received from branches not visited
 - (r) In my opinion and to the best of my informations, the said books and records give the information required by the Companies Act, 2013 in the manner so required
 - (s) In my opinion, the company does have adequate system of internal audit of cost records which to my opinion is commensurate to its nature and size of its business.
 - (t) In my opinion, information, statements in the annexure to the cost audit report gives a true and fair view of the cost of production of production / rendering of services, cost of sales, margin and other information relating to products / services under reference
 - (u) Detailed unit wise and product wise cost statements and schedules thereto in respect of the product/service under reference of the company duly audited and certified are kept in the company.

Notwithstanding anything contained in this section, if an auditor of a company in the course of the performance of his duties as auditor, has reason to believe that an offence of fraud involving such amount or amounts as prescribed in rule 13 of Companies (Audit and Auditors) Rules, 2014, is being or has been



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committed in the company by its officers or employees the auditor shall report the matter to the Central Government within such time and in such manner as prescribed in rule 13 of Companies (Audit and Auditors) Rules, 2014.

Provided that in case of a fraud involving lesser than the specified amount, the auditor shall report the matter to the audit committee constituted under section 177 or to the Board in other cases within such time and in such manner as prescribed in rule 13 of Companies (Audit and Auditors) Rules, 2014.

Provided further that the companies, whose auditors have reported frauds under this sub-section to the audit committee or the Board but not reported to the Central Government, shall disclose the details about such frauds in the Board's report in such manner as prescribed in rule 13 of Companies (Audit and Auditors) Rules, 2014.

Section 143 (13) provides that no duty to which an auditor of a company may be subject to shall be regarded as having been contravened by reason of his reporting the matter referred to in sub-section (12) if it is done in good faith.

Section 143 (14) - The provisions of this section shall mutatis mutandis apply to— (a) the cost accountant in practice conducting cost audit under section 148; or (b) the company secretary in practice conducting secretarial audit under section 204.

- (1) If any auditor, cost accountant or company secretary in practice do not comply with the provisions of sub-section (12), he shall –
- (a) in case of a listed company, be liable to a penalty of five lakh rupees; and
 - (b) in case of any other company, be liable to a penalty of one lakh rupees.

Companies Act, 2013: Strategic Positions

Cost Accountant as a Key Managerial Person

- Section 203 provides for the appointment of Key Managerial Person
 - Managing Director or Chief Executive Officer or manager and in their absence, a whole time director;
 - Company Secretary; and
 - Chief Financial Officer.

By virtue of qualification and experience, a Cost Accountant can become Key Managerial Person in the company.

Cost Accountant as an Independent Director

- Section 149 (4) provides that every listed public company shall have at least one third of total number of directors as independent directors.
- Rule 5 of the Companies (Appointment and Qualification of Directors) Rules, 2014 prescribes the qualification of an independent director who shall possess appropriate skills, experience and knowledge in one or more field of finance, law, management, sales, marketing, administration, research, Corporate Governance, technical operations or other disciplines related to the companies business.

The Cost Accountant having expertise in most of the above fields can become independent director as stipulated in the Companies Act, 2013.

Technical Member of the Tribunal - As per Section 409 (3), a Cost Accountant in Practice having at least fifteen years' service is eligible to be appointed as a Technical Member of the National Company Law Tribunal.



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Technical Member of the Appellate Tribunal - As per Section 411(3), a Cost Accountant, either in employment or in practice, who is having experience of more than 25 years in the prescribed areas is eligible to be appointed as Technical Member of the National Company Law Appellate Tribunal.

Company Liquidator - Section 275 (2) provides that the provisional liquidator or the Company Liquidator, as the case may be, shall be appointed from a panel maintained by the Central Government consisting the names of Chartered Accountants, Advocates, Company Secretaries, **Cost Accountants** or firms or bodies corporate having at least 10 years' experience in company affairs.

Administrator - Section 259 (Chapter XIX dealing with revival of sick companies) of the Companies Act provides for the appointment of administrator. The said section provides that the interim administrator or the company administrator, as the case may be, shall be appointed by the Tribunal from a data bank maintained by the Central Government or any institute or agency authorized by the Central Government in a manner as may be prescribed consisting of the names of Company Secretaries, Chartered Accountants, **Cost Accountants** and such other professionals as may, by notification, be specified by the Central Government.

Cost Accountant as an Expert

- Section 2(38) defines the term 'expert' which includes an engineer, a valuer, a Chartered Accountant, a Company Secretary, a **Cost Accountant** and any other person who has the power or authority to issue a certificate in pursuance of any law for the time being in force.
- Section 211 (2) provides that the **Serious Fraud Investigation Officer** shall be headed by a Director and consists of such number of experts from the following fields to be appointed by the Central Government from amongst persons of ability, integrity and experience in-
 - banking;
 - corporate affairs;
 - taxation;
 - forensic audit;
 - capital market;
 - information technology;
 - law; or
 - such other fields as may be prescribed.

Cost Accountant by virtue of definition in Section 2(38) and having much experience in the above said field may be appointed as an expert.

Registered Valuers

- Section 247 deals with registered valuers.

Section 247(1) provides that where a valuation is required to be made in respect of any property, stocks, shares, debentures, securities or goodwill or any other assets or net worth of a company or its liabilities under the provision of this Act, it shall be valued by a person having such qualifications and experience and registered as a valuer and being a member of an organization recognized, in such manner, on such terms as may be prescribed, and appointed by the audit committee or in its absence by the Board of Directors of that company.



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Appearance before Tribunals - The New Act replaces the Company Law Board and to establish National Company Law Tribunal and National Company Law Appellate Tribunal. Section 432 of the Act enables the Practicing Cost Accountant to appear before the Tribunal as well as before the Appellate Tribunal. The Tribunal to be established will take over the functions of the High Court in the matter of merger, amalgamations, winding up, revival of sick companies, etc. By this, the practicing area is going to be wide enough for the Cost Accountant in practice.

Mediation and Conciliation - Section 442 provides that the Central Government shall maintain a panel of experts to be called as Mediation and Conciliation panel consisting of such number of experts having such qualifications as may be prescribed for mediation between the parties during the pendency of any proceedings before the Central Government or the Tribunal or the Appellate Tribunal under this Act.

Rules for this purpose are yet to be notified. However, we may have hope that the role of Cost Accountants will be there.

Liabilities

The duties of a company auditor have been specified in various provisions of the Act. Accordingly, if a company auditor fails to discharge his specified duties, he will be legally held liable. Moreover, there are a number of occasions where an auditor may be held liable to his appointing authority, the Government or any other persons.

The liabilities of an auditor may be discussed as follows:

A. Statutory Liabilities

I. Under Companies Act, 2013

Civil Liabilities: The civil liabilities as per Companies Act, 2013 are stated below:

- (a) **For Misstatement in the Prospectus:** As per Section 35, where a person has subscribed for securities of a company acting on any statement included in the prospectus, or on the inclusion or omission of any matter in the prospectus which is misleading and thereby has sustained any loss or damage and where the auditor as an expert has either made such statement or has given written consent to the issue of the prospectus, he shall be held liable.
- (b) **Liability for Misfeasance:** Misfeasance implies breach of trust or negligence in the performance of duties. As per Section 340, a company auditor may be charged with misfeasance only at the time of liquidation of the company, if it is found that he -
 - (i) has misapplied, or retained, or become liable or accountable for, any money or property of the company; or
 - (ii) has been guilty of any misfeasance or breach of trust in relation to the company.

Criminal Liability: The criminal liabilities of an auditor under the Companies Act, 2013 are as follows:

- (a) **Criminal Liability for Misstatement in the Prospectus:** As per Section 34, where the auditor has authorised the issue of any prospectus which includes any statement which is untrue or misleading or where the prospectus has included or omitted any matter which may mislead, the auditor shall be held liable under Section 447.

Accordingly, (i.e., as per Section 447), for any fraud, involving an amount of at least ten lakh rupees or one per cent of the turnover of the company, whichever is lower, the auditor shall be punishable with imprisonment for a term which shall not be less than six months but which may extend to ten years and shall also be liable to fine which shall not be less than the amount involved in the fraud,



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but which may extend to three times the amount involved in the fraud. Moreover, where the fraud in question involves public interest, the term of imprisonment shall not be less than three years.

However, where the fraud involves an amount less than ten lakh rupees or one per cent of the turnover of the company, whichever is lower, and does not involve public interest, any person guilty of such fraud shall be punishable with imprisonment for a term which may extend to five years or with fine which may extend to fifty lakh rupees or with both.

(b) Punishment for Non-compliance with Sections 139, 144 and 145 of the Act: As per Section 147

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- (i) If an auditor contravenes the provisions of Section 139, 144 or 145, he shall be punishable with fine which shall not be less than ₹25,000 but which may extend to ₹5,00,000 or four times the remuneration of the auditor, whichever is less.
- (ii) If an auditor has contravened the above provisions knowingly or willfully with the intention to deceive the company or its shareholders or creditors or tax authorities, he shall be punishable with imprisonment for a term which may extend to 1 year and with fine which shall not be less than ₹50,000 but which may extend to ₹25,00,000 or eight times the remuneration of the auditor, whichever is less.
- (iii) Convicted auditor shall be liable to refund the remuneration received by him from the company and pay for damages to the company, statutory bodies or authorities or to members or creditors of the company for loss arising out of incorrect or misleading statements of particulars made in his audit report.
- (iv) In case where the audit of a company is being conducted by an audit firm, if it is proved that the partner or partners of the audit firm has or have acted in a fraudulent manner or abetted or colluded in any fraud by, or in relation to, the company or its directors or officers, the partner or partners concerned of the audit firm as well as the firm itself shall be liable for fine jointly and severally. However, for criminal liability other than fine, only the partner or partners will be liable.

(c) Punishment for Refusal or Failure to Produce Documents: As per Section 217, if any auditor fails without reasonable cause or refuses to produce to an inspector or any person authorised by him in this behalf any book or paper, to furnish any information, to appear before the inspector personally when required, to answer any question which is put to him by the inspector, or to sign the notes of any examination referred to in sub-section (7) of Section 217, he shall be punishable with imprisonment for a term which may extend to six months and with fine ranging from twenty-five thousand rupees to one lakh rupees, and also with a further fine which may extend to two thousand rupees for every day after the first during which the failure or refusal continues.

(d) Fraud in Relation to a Company in Winding-up: As per Section 336, if any auditor is engaged in any fraudulent activities in relation to any company in winding up, he shall be punishable with imprisonment for a term which shall not be less than three years but which may extend to five years and with fine which shall not be less than one lakh rupees but which may extend to three lakh rupees.

(e) Punishment for False Statement: As per Section 448, if any auditor deliberately makes any false statement in any return, report, certificate, financial statement, prospectus, statement or other document required by the act or deliberately omits any material fact, he shall be liable under Section 447 and shall be subject to the punishment as stated earlier in point (a).



- (f) **Punishment for False Evidence:** As per Section 449, if the auditor intentionally gives false evidence upon any examination on oath or solemn affirmation or in any affidavit, deposition or solemn affirmation, in or about the winding up of any company or about any matter under this Act, he shall be punishable with imprisonment for a term which shall not be less than three years but which may extend to seven years and with fine which may extend to ten lakh rupees.

II. Under Other Acts

Liabilities under Income Tax Act, 1961: As per Section 278 of the Act, if any auditor abets or induces in any manner another person to make and deliver an account, statement or declaration relating to any income chargeable to tax which is false and which the auditor either knows or does not believe to be true, the auditor shall be punished.

Liabilities under Cost Accountants Act, 1959: Schedule I and II of the Act contains a list of instances where a Cost Accountant shall be held guilty of professional misconduct.

Liabilities under Life Insurance Act, 1956: As per Section 104 of the Act, if an auditor makes any false statement in any return, report or other such forms to be issued under this Act, he shall be sentenced to imprisonment or fine or both.

Liabilities under Banking Regulation Act, 1949: As per Section 46 of the Act, if an auditor in any return, balance sheet, or other document willfully makes a statement, which is false in any material particulars, knowing it to be false, or willfully omits to make a material statement, he shall be held liable.

B. Contractual Liabilities

The scope of any audit work is determined by the written contract entered into between the auditor and the client. Thus, if any of the terms of the said contract is contravened, the auditor may be held liable under the Indian Contract Act, 1872.

In case of absence of any written contract between the auditor and the appointing authority, the auditor is expected to conduct complete audit. Hence, if in such a circumstance, he conducts only partial audit and any error or fraud is discovered later on, he shall be held liable.

Moreover, an auditor shall also be held liable if he discloses any secret information of the client to any third party. In the case *Wilde and Others vs. Cape and Dalgeish* (1897) also, it was held that if the client suffers any loss due to the auditor not complying with the contract, the auditor will have to compensate the client for such loss.



Module 4: Overview of Cost Accounting Standards and GACAP

Point No. 4.1: Cost Accounting Standards

CAS – 2 (REVISED 2024) COST ACCOUNTING STANDARD ON CAPACITY DETERMINATION

The following is the Cost Accounting Standard - 2 (Revised 2024) on “CAPACITY DETERMINATION” issued by the Council of the Institute of Cost Accountants of India. This standard replaces CAS-2 (Revised 2015) on Capacity Determination. In this Standard, the standard portions have been set in **bold italic** type. These are to be read in the context of the background material, which has been set in normal type.

1. Introduction

- 1.1 *This standard deals with the principles and methods of determining the capacity of a facility for producing goods or providing services by an entity.*
- 1.2 *This standard deals with the principles and methods of classification and determination of capacity of an entity for ascertainment of the cost of product or service, and the presentation and disclosure in cost statements.*

2. Objective

The objective of this standard is to bring uniformity and consistency in the principles and methods of determination of capacity with reasonable accuracy.

3. Scope

This standard shall be applied to the cost statements, including those requiring attestation, which require determination of capacity for assignment of overheads. The standard may be applied for determination of capacity for any other purpose.

4. Definitions

The following terms are being used in this standard with the meaning specified.

- 4.1 **Achievable or Practical Capacity:** *‘Practical or Achievable Capacity’ is the maximum productive capacity reduced by the predictable and unavoidable factors of interruption pertaining to internal causes.*

Thus, practical capacity is the installed capacity minus the inevitable interruptions due to time lost for preventive maintenance, repairs, set ups, normal delays, weekly off-days and holidays etc. Practical capacity does not consider the external factors causing reduction in production e.g. lack of orders.

- 4.2 **Actual capacity utilization:** *Actual capacity utilization is the volume of production achieved or service provided in a specified period, expressed as a percentage of installed capacity.*

Volume may be measured in terms of units produced or services provided or equivalent machine or man hours, as applicable.

Actual capacity utilization is usually expressed as a percentage of installed capacity.

- 4.3 **Bottleneck:** *refers to an obstruction that hinders or restricts the flow of workflow processes, thereby constraining capacity of production / rendering of services within a business.*

A process step that becomes a congestion point or a blockage for flow of work; It is like the neck of the bottle – smaller (in diameter) – that restricts the flow of contents from the bottle.

For example: a manufacturing plant wherein a particular machine has a lower processing capacity as compared to the machines before and after it in the production line. As a result this machine



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becomes overwhelmed with work, causing a backlog of items waiting to be processed, slowing down the entire production process, and potentially delaying the delivery of finished products to customers.

4.4 **Excess Capacity Utilization:** is the difference between installed capacity and the actual capacity utilization when actual capacity utilization is more than installed capacity.

4.5 **Idle Capacity:** is the difference between installed capacity and the actual capacity utilization when actual capacity utilization is less than installed capacity.

4.6 **Installed capacity:** is the maximum capacity of producing goods or providing services, according to the manufacturer's specifications or determined through an expert study.

4.7 **Licensed Capacity:** is the capacity of producing goods or providing services for which licence has been issued by an appropriate authority. Licensed Capacity is sometimes termed as Allowed or Allotted Capacity.

4.8 **Normal Capacity:** is the capacity achieved or achievable for goods or services on an average over a number of periods or seasons under normal circumstances.

5. **Determination of Capacity:**

5.1 **Capacity shall be determined in terms of units of production or services or equivalent machine or man hours.**

5.2 **Installed capacity: Installed capacity is usually determined based on:**

i) **Technical specifications of facility.**

ii) **Technical evaluation.**

iii) **Capacities of individual or interrelated production or operation Centres.**

iv) **Operational constraints or capacity of critical machines or equipment.**

v) **Number of shifts or machine hours or man hours.**

a) In case technical specifications of facility are not available, the estimates by technical experts on capacity under ideal conditions shall be considered for determination of installed capacity.

b) In case the installed capacity is assessed as per direction of the Government or regulator it shall be in accordance with the said directives.

c) Bottlenecks are to be given due consideration while determining the Installed capacity.

5.3 **Achievable or Practical Capacity: Achievable or Practical Capacity is determined after suitable adjustments to the Installed Capacity.**

i) **Time lost due to scheduled preventive or planned maintenance**

ii) **Number of shifts or machine hours or man hours.**

iii) **Holidays and Weekly Offs, normal shut down days, normal idle time,**

iv) **Normal time lost in batch change over, setup, etc.**

v) **Loss in efficiency due to ageing of the machines/ equipment**

vi) **Any other normal Internal Factor**

5.4 **Reassessment of Installed Capacity: Installed capacity shall be reassessed in case of any change due to addition, deletion, modification or for any other reason from the date of such change.**

In case the installed capacity is reassessed as per direction of the Government or regulator it shall be in accordance with the said directives.

5.5 **Determination of Normal Capacity: Normal capacity is determined based on the actual capacity achieved or expected to be achieved over a period of time, or average of achievable capacity over a period of time. Average of three to five normal years may be considered for this calculation.**

The periods influenced by abnormalities should be excluded for this purpose.



Explanation:

1. In case the same products with different specifications and of different ranges in terms of size, type, variety, etc. are manufactured, then there is a need to determine equivalence among them in order to determine the capacity.
2. In case some intermediate products / components etc. are also produced, the production thereof should also be considered in determination of capacity, concept of equivalence may be used.
3. In case some machines are leased out/let out or some machines are taken on lease, resulting decrease/ increase in capacity should also be considered.

6. *Presentation*

- 6.1 *Cost Statements shall present Installed capacity, normal capacity and actual production of goods or services provided, in absolute terms.*
- 6.2 *Actual Capacity utilization shall be presented as a percentage of installed capacity.*

7. *Disclosures*

- 7.1 *The cost statements shall disclose the following:*
 - a. *Basis for arriving at different types of capacity.*
 - b. *Changes in the installed capacity or normal capacity with reason thereof.*
 - c. *Capacity enhanced through outsourcing.*
 - d. *Capacity outsourced to others.*
 - e. *Details of actual production of goods or services provided.*
 - i. *Self-Manufactured goods or services provided through in-house facility*
 - ii. *Goods Produced or services provided through outsourcing*
 - f. *Reasons for low capacity utilization.*
 - g. *Abnormal cost due to under-utilization of capacity.*
- 7.2 *Disclosures shall be made only where material, significant and quantifiable.*
- 7.3 *Disclosures shall be made in the body of the Cost Statement or as a foot note or as a separate schedule.*

8. *Effective date*

This Cost Accounting Standard shall be effective from the period commencing on or after 1st April 2024 for being applied for the preparation and certification of General Purpose Cost Accounting Statement.



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Section – C: Internal Control, Internal Audit, Operational Audit and Other Related Issues

Module 16: Audit of Different Service Organisations

Point No. 16.5: Audit of Self-Help Groups

Point No. 2 of Applying the Field Balance Sheet Approach to Audit

Prepare Field Balance Sheet: The auditor prepares the Field Balance Sheet for the group, as on the date of the audit, based on the SHG's internal records and then cross checks the correctness of balance sheet items. The primary objective is to ascertain the retained earnings of the SHG.

Sl. No.	Assets	Amount	Sl. No.	Liabilities	Amount
1	Cash in Hand		1	Voluntary Savings	
2	Cash at Bank		2	External loan Outstanding	
3	Loan Outstanding with Members		3	Equity:	
4	Fixed Deposit		a	Compulsory Saving	
5	Fixed Asset		b	Retained Earning	
	Total			Total	