

The Companies (Cost Audit Report) Rules, 2013

G.S.R.....(E) – In exercise of the powers conferred by Sub-Sections (1) and (2) of Section 469 read with Sub-Section (2) of Section 148 of the Companies Act, 2013 (18 of 2013), and in supersession of the Companies (Cost Audit Report) Rules, 2011 published vide G.S.R. 430 (E) dated 3rd June, 2011, except as respects things done or omitted to be done before such supersession, the Central Government hereby makes the following rules, namely:-

1. Short Title and Commencement- (1) These Rules may be called The Companies (Cost Audit Report) Rules, 2013.

(2) They shall come in to force on the date of their publication in the Official Gazette.

(3) They shall be applicable in respect of the financial years commencing on or after 1st April, 2014.

2. Definitions and Interpretations. - In these rules, unless otherwise so provided,-

a) “Act” means the Companies Act, 2013 (18 of 2013);

b) “Cost Accountant in practice” means a cost accountant who holds a valid certificate of practice under sub-section (1) of section 6 of the Cost and Works Accountants Act, 1959 and who is in full time practice and includes a firm of cost accountants;

c) “Cost Accounting Standards” means the standards of cost accounting, issued by the Institute;

d) “Cost Auditor” means a cost accountant in practice and includes a firm of cost accountants or a limited liability partnership firm appointed to conduct an audit of cost records, under sub-section (2) of section 148 of the Act;

e) “Cost Audit Report” means the Cost auditor’s report and includes his observations and suggestions, and Annexure to the cost audit report duly audited and signed by Cost Auditor in accordance with proviso to sub-section (5) of section 148 of the Act and these rules;

f) “Form-I” means the Form prescribed in these Rules for filing cost audit report and other documents with the Central Government in the electronic mode;

g) “Form-II” means the Form of the cost audit report and includes auditor’s observations and suggestions, and Annexure to the cost audit report;

h) “Form-III” means the Form of the Performance Appraisal Report;

i) “Generally Accepted Cost Accounting Principles” means the generally accepted principles of cost accounting issued by the Institute;

- j) "Institute" means the Institute of Cost Accountants of India constituted under the Cost and Works Accountants Act, 1959 (23 of 1959);
- k) "Product" means any tangible or intangible good, material, substance, article, idea, know-how, method, information, object, service, etc. that is the result of human, mechanical, industrial, chemical, or natural act, process, procedure, function, operation, technique, or treatment and is intended for use, consumption, sale, transport, store, delivery or disposal;
- l) "Product Group" in relation to tangible products means a group of homogenous and alike products, produced from same raw materials and by using similar or same production process, having similar physical or chemical characteristics and common unit of measurement, and having same or similar usage or application; and in relation to intangible products means a group of homogenous and alike products or services, produced by using similar or same process or inputs, having similar characteristics and common unit of measurement, and having same or similar usage or application;
- m) "Production" means bringing in to existence new goods, a thing that result from any action, process or effort, a product of human activity or effort and includes manufacture.

Explanation- : 'Manufacture' includes any process incidental or ancillary to the completion of manufactured goods and includes deemed manufacture'.

- n) "Production of Goods" means production, making, manufacturing, processing, mining, growing or transformation of tangible or intangible and intermediates, , semi-finished or finished products by using resources, raw materials, components, intermediates, semi-finished goods, sub-assemblies, process, method, factors, ideas, information know-how or other inputs;
- o) "Service" means service as defined in the Finance Act relevant to the accounting year.
- p) "Providing Services" means providing, rendering or allowing use of tangible or intangible products or services of any nature, type, kind or variety and includes all types of job work or processing operations;
- q) All other words and expressions used in these Rules but not defined, and defined in the Act and shall have the same meanings as assigned to them in the Act.

3. **Application-** These Rules shall apply to every company covered under the Companies (Cost Accounting Records) Rules, 2013 under Sub-Section (1) of Section 148 and which have such amount of **net worth** or the **value of the turnover** made by the company from sale or supply of all products or activities during the immediately preceding financial year for sectors under different class of companies covered under Sub-Section (1) of Section 148 of the Act for maintenance of Cost Records, as under;

a) **Companies engaged in Strategic Sectors:**

Wherein the **net worth** as on the last date of the immediately preceding financial year **exceeds rupees five crore**; or the **turnover** made by the company during the immediately preceding financial year **exceeds rupees one hundred crore**.

b) **Companies engaged in an industry regulated by a Sectoral Regulator or a Ministry, or Department of Central Government:**

Wherein the **net worth** as on the last date of the immediately preceding financial year **exceeds rupees five crore**; or the **turnover** made by the company during the immediately preceding financial year **exceeds rupees twenty crore**.

c) **Other Companies**

Wherein the **net worth** as on the last date of the immediately preceding financial year **exceeds rupees five crore**; or the **turnover** made by the company during the immediately preceding financial year **exceeds rupees one hundred crore**.

d) **Companies engaged in providing services**

Wherein the **net worth** as on the last date of the immediately preceding financial year **exceeds rupees five crore**; or the **turnover** made by the company during the immediately preceding financial year **exceeds rupees twenty crore**.

Provided that any company engaged in production of goods or providing services of such products and activities covered under the Companies (Cost Accounting Records) Rules, 2013 meant solely for captive consumption or captive use shall not be covered under these rules.

4. **Appointment of Cost Auditor** – (1) Every company as specified in Rule 3 above shall, within one hundred and eighty days of the commencement of every financial year, appoints a cost auditor.

Provided that before such appointment is made, written consent of the cost auditor to such appointment, and a certificate that the appointment, if made, shall be in accordance with the provisions of sections 139, 141 and 148 of the Act and Rules made thereunder, as applicable, shall be obtained from the cost auditor.

- (2) In respect of cost auditor as specified in sub-Rule (1), the Board of Directors of the company shall be responsible for, -

- (a) appointment, re-appointment, remuneration and terms of appointment of the cost auditor of the company;

(b) rotation of cost auditor as per provisions of sub-sections (2), (3) and (4) of section 139 of the Act, as applicable;

(c) satisfying itself with the eligibility, qualifications, and disqualifications of cost auditor, as per the criteria provided in section 141 of the Act, as applicable.

- (3) Where a company is required to constitute an Audit Committee under section 177 of the Act, all appointments, including the filling of a casual vacancy of a cost auditor, shall be made after taking in to account the recommendations of such committee. The Audit Committee shall also be responsible for all the functions as specified under clause (a) to (c) of sub-Rule (2). The cost auditor, wherever appointed shall attend and participate at the concerned meeting of the Audit Committee or of the Board, as the case may be, but shall neither be a member nor have the right to vote.
- (4) Every cost auditor appointed under sub-Rule (1) shall hold office till one hundred and eighty days from the close of the company's financial year or till he submits the cost audit report, for the financial year for which he has been appointed.

Provided that where the company fails to furnish cost accounting records to the cost auditor so as to enable the cost auditor to submit his report within one hundred and eighty days from the close of the financial year, the cost auditor shall continue to hold office till he submits the cost audit report for that financial year and the cost auditor shall make a report to the Central Government regarding non-furnishing of the cost accounting records by the Company to enable him/it to submit its report.

Provided further that the cost auditor shall continue to hold office if he has been reappointed for the succeeding year in accordance with Rule 4.

- (5) Any casual vacancy in the office of cost auditor arising out of death or resignation or removal shall be filled by the Board of Directors within thirty days and the newly appointed cost auditor shall hold the office for the balance period for the financial year for which he is appointed as per provision of sub-Rule (4) of Rule 4.
- (6) Every company as specified in sub-Rule (1) shall inform the cost auditor concerned of his or its appointment and also file a notice of such appointment with the Central Government within thirty days of the Board meeting in which the cost auditor is appointed or within one hundred and eighty days of the commencement of the financial year, whichever is earlier, through electronic mode, in the prescribed form, alongwith with such fees or additional fees as prescribed under the Rules notified under section 403 of the Act.

(7) Every company appointing more than one cost auditor shall appoint or designate one of the cost auditors as the Lead Auditor of the Company.

5. **Removal of Cost Auditor** – A cost auditor appointed under sub-Rule (1) or under sub-Rule (5) of Rule 4 may be removed from his office before the expiry of his term only by a resolution of the Board, after obtaining the previous approval of the Central Government in that behalf in the prescribed form, alongwith with such fees or additional fees as prescribed under the Companies (Fees of Applications) Rules notified under section 459 of the Act.

Provided that before taking any action under this rule, the cost auditor concerned shall be given a reasonable opportunity of being heard.

6. **Remuneration of Cost Auditor** – Every company appointing a cost auditor under sub-Rule (1) or under sub-Rule (5) of Rule 4 shall determine his or its remuneration in accordance with Rule 10.11 prescribed under Chapter X of the Companies Act, 2013.

7. **Cost Auditor to sign the cost audit reports, etc.** – (1) A person or where a firm of cost accountants or limited liability partnership firm is appointed as a cost auditor of the company under sub-Rule (1) or under sub-Rule (5) of Rule 4, the cost auditor's report or any other document or cost statements of the company shall be signed by such person or by any of the partners of the firm responsible for the conduct of cost audit in his own hand along with his membership number, for and on behalf of the firm, and in accordance with the provisions of sub-section (2) of section 141 of the Act, as applicable. In any case the report should not be signed by merely affixing the firm's name.

(2) A company where more than one cost auditor is appointed, the cost auditor's report or any other document or cost statements pertaining to its area of audit shall be signed by such person or by any of the partners of the firm responsible for the conduct of cost audit in his own hand alongwith his membership number, for and on behalf of the firm. In any case the report should not be signed by merely affixing the firm's name.

Provided that where a firm including a limited liability partnership is appointed as a cost auditor of a company, only the partners practising in India who are qualified for appointment as a cost auditor shall be authorised to act and sign on behalf of the firm.

8. **Form of the Report** – (1) Every cost auditor, who conducts an audit of the cost records of the company shall, within one hundred and eighty days from the close of the company's financial year to which the report relates, submit the cost audit report along with auditor's observations and suggestions, and Annexure to the Board of Directors of the company in the prescribed form.

(2) The cost auditor shall, within thirty days of submission of his report to the Board, inform the same to the Central Government, in the prescribed form, along with such fees or additional fees as prescribed under the Rules notified under section 403 of the Act.

(3) Every company specified in Rule 3 shall, keep and maintain cost details, statements, schedules, etc. as prescribed under the Companies (Cost Accounting Records) Rules 2013, for each unit and each product or activity, duly authenticated by at least two Directors of the company and the cost auditors.

(4) Every cost auditor, who submits a report under sub-Rule (1), shall also furnish performance appraisal report in Form III, duly authenticated by the cost auditor, to the Board of the company.

(5) The cost details, statements, schedules, etc. of every company, as specified in sub-Rule (3), relating to a period of not less than eight financial years immediately preceding a financial year, or where the company had been in existence for a period less than eight years, in respect of all the preceding years shall be kept in good order;

9. **Cost Auditor to be furnished with the cost accounting records etc.**- Without prejudice to the powers and duties the cost auditor shall have under sub- section (5) of section 148 of the Act, the company and every officer thereof, including the persons referred to in sub-section (6) of the section 128 of the Act, shall make available to the cost auditor, such cost accounting records, cost statements, other books and documents, and Annexure to the Report, duly completed, as would be required for conducting the cost audit, and shall render necessary assistance to the cost auditor so as to enable him to complete the cost audit and submit his report within the time limit specified in sub-Rule (1) of Rule 8.
10. **Authentication of Annexure to the Cost Audit Report** – The Annexure prescribed with the cost Audit report shall be approved by the Board of Directors before submitting the same to the cost auditor. The Annexure, duly audited by the cost auditor, shall also be signed by the Company Secretary and at least one Director on behalf of the company. In the absence of Company Secretary in the company, the same shall be signed by at least two Directors.
11. **Filing of cost audit report with the Central Government** - In compliance with the provisions of sub-section (6) of section 148 of the Act, every company as specified in Rule 3 shall, within 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 the prescribed form, alongwith with such fees or additional fees as prescribed under the Rules notified under section 403 of the Act.

In case of a company having more than one cost auditor, the company shall furnish the Central Government with the consolidated report of the company as prepared by the lead cost auditor according to proviso to sub-Rule (1) of Rule 9 above duly signed by the Company Secretary and at least one Director on behalf of the company and the lead cost auditor. In the absence of Company Secretary in the company, the same shall be signed by at least two Directors.

- 12. Penalties** – (1) If default is made by the cost auditor in complying with the provisions of these rules, he shall be punishable as provided under sub-section (3) of section 469 read with clause (b) of sub-section (8) of section 148 of the Act.

(2) If a company contravenes any provisions of these rules, the company and every officer thereof who is in default shall be punishable as provided under sub-section (3) of section 469 read with clause (a) of sub section (8) of section 148 of the Act.

- 13. Savings** – The supersession of the Companies (Cost Audit Report) Rules, 2011, shall not in any way affect-

- a) any right, obligation or liabilities acquired, accrued or incurred thereunder;
- b) any penalty, forfeiture or punishment incurred in respect of any contravention committed thereunder; and
- c) any investigation, legal proceeding or remedy in respect of any such right, privilege, obligation, liability, penalty, forfeiture or punishment as aforesaid, and; any such investigation, legal proceeding or remedy may be instituted, continued or enforced and any such penalty, forfeiture or punishment may be imposed as if those Rules had not been superseded.