

Departmental Circular No.2/2002

No. 5/21/2001-C.L.V

52/03/CAB-2002

Government of India

Ministry of Finance and Company Affairs

Department of Company Affairs

Shastri Bhavan, 5th Floor, "A" Wing,
Dr. R.P. Road, New Delhi-110001.

Dated: 18th March, 2002

Subject: Cost Audit Report to be discussed in the Audit Committee to be constituted under section 292A of the Companies Act, 1956.

1. A new section 292A has been introduced in the Companies Act, 1956 through Companies (Amendment) Act, 2000 pursuant to which every company having paid up capital of not less than five crores of rupees shall constitute a Committee of the Board known as "Audit Committee" which shall consist of not less than three directors and such number of other directors as the Board may determine of which two-thirds of the total number of members shall be directors, other than managing or whole-time directors.

2. Sub-section (6) of the said section further states that the Audit Committee should have discussions with the auditors periodically about internal control systems, the scope of audit including the observations of the auditors and review the half yearly and annual financial statements before submission to the Board and also ensure compliance on internal control systems.

3. The matter whether Cost Audit Report prepared by the Cost Auditor under section 233B of the Companies Act, 1956 shall be discussed in the Audit Committee has been examined in this Department.

4. It has been already clarified in Departmental Circular No. 6/2001 dated 20.08.2001 that the term "auditors" includes Cost Auditor and hence "scope of audit including observations of the auditors" occurring in the above sub-section includes the scope of audit including observations of the Cost Auditors as well.

5. Cost audit is one of the methods of internal control system and cost audit report is an important tool in the hands of the management. The Audit Committee in its duty to ensure compliance of internal control system shall also discuss the

suggestions made in the Cost Audit Report for implementation, wherever cost audit has been directed under section 233B of the Companies Act, 1956.

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To:

1. All Regional Directors
2. All Registrar of Companies / Official Liquidators
3. Sr. PPS to Secretary / PA to JS (M) / PA to EA
4. Secretary, ICWAI / ICAI/ ICSI
5. Cost Audit Branch
6. Guard File