

Subject: Clarification relating to sub-section (1B) of Section 224 and sub-section (2) of Section 233B of the Companies Act, 1956 regarding the appointment of Cost Auditor

In the application of the amended provisions of the Companies Act, 1956 relating to the amendment to Section 233B (2) of the Act, the following points are hereby clarified:

- (i) U/s 233B of the Act, the Cost Auditor is appointed by the Board of Directors of the Company with the previous approval of the Central Government. According to sub-section (2) of S. 233B *ibid*, the Board can make an appointment of the Cost Auditor only after obtaining a written certificate from him that his appointment if made will be in accordance with the provisions of sub-section (1B) of S. 224 of the Act. The Cost Auditor can give such a certificate only if he does not exceed the specified number of audits prescribed u/s 224 of the Act. As the appointment of Cost Auditor has to be made by the Board of Directors of the company after obtaining the previous approval of the Central Government, the appointment of an auditor is complete only when the company intimates in writing to the Cost Auditor that he has been appointed. Therefore, the Cost Auditor at the time of furnishing a certificate u/s 233B (2) of the Act will have to take into consideration only the number of companies for which he holds firm letters of appointment from various companies, as Cost Auditor.
- (ii) Under the provision of S. 233B of the Act and the Cost Audit Report Rules made thereunder, the Cost Auditor after the submission of the Cost Audit Report has to furnish replies to all the supplementaries, queries from the Department of Company affairs arising through a review of the Cost Audit Report. A question has arisen as to when the term of a Cost Auditor in respect of company shall be deemed to have concluded. It is clarified that for the purpose of furnishing the certificate under sub-section (2) of S. 233B of the Act, a Cost Auditor shall be deemed to have concluded his appointment as soon as he renders a report to the Central Government in accordance with the Cost Audit Report Rules, with a copy to the Company. His obligation to answer queries from the Company Law Board arising out of review of cost audit reports should not debar him from accepting another appointment as Cost Auditor of a company provided the specified number of companies contemplated in S.224 (1B) is not exceeded.

The above clarification may be published in the Journal of the Institute of Cost and Works Accountants of India at an early date.

Yours faithfully,

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