

## **Gist of CFI Discussion with Adviser (Cost), MCA**

We are writing this to apprise the members of the gist of discussion at the CFI meeting with **Mr. R Asokan**, Adviser (Cost), Ministry of Corporate Affairs (MCA) on 7<sup>th</sup> November 2014 at Delhi. This was in context of the representation made by the Federation to the Convener of the Expert Committee set up by MCA for re-examining some aspects of the Cost Records & Audit Rules 2014. (Rep. already circulated to the members is attached once again).

The Federation was represented by Mr. P S Guin, Larsen & Toubro Limited and Mr. Ramakrishna Prabhu, Hindustan Construction Co. Ltd. apart from Mr. Siddharth Singh and Mr. Shiv Rawat from CFI Secretariat.

During the discussion, Mr. Guin and Mr. Prabhu once again briefed Mr. Asokan of the key concerns of the construction & infrastructure industry, in relation to the principles involved with respect to determining the coverage and ambit of the rules as well as the immense practical difficulties in implementation. It was recalled that the Federation had also earlier apprised MCA of these issues during the several rounds of discussions on the Companies (Cost Accounting Records Rules), 2011.

We are happy to inform that the response of Mr. Asokan, Adviser (Cost), MCA was quite encouraging and positive. The salient points made him during the discussions are given below for information of the members:

- The infrastructure construction industry should remain assured that the Government of India is well aware of the difficulties arising from the introduction of Cost Records & Audit Rules 2014 and the very purpose of forming the Expert Committee was to undertake a thorough review.
- It was explained by CFI team that an important feature of the 'Construction industry' is building of projects by the 'Developer/Owner' and execution thereof by the 'Contractor/Sub-contractor'. The latter selected on the basis of competitive bidding cannot influence the project cost and at the most can be covered under maintenance of cost records. Example of road projects was given.
- It was appraised that the earlier rules of 2011, was principle based without prescribed formats, wherein records were to be maintained based on Generally Accepted Cost Accounting Principles (GACAP) and Cost Accounting Standards (CAS). Disclosure of quantitative information for Projects / Services was optional.
- It was also expressed that product/project cost records are maintained by the company and disclosure was based on 'Product Group' concept which helped maintain confidentiality, and this aspect should be addressed. Linkage to Central Excise Tariff number which existed under earlier rules and found helpful for determination of coverage, may be restored.

- It was also conveyed that there is a lack of clarity on coverage, for which 'products', 'activities' under coverage, as well as terms like 'public interest' to be clearly defined.
- Concern was expressed over increase of disclosure paras to 24 paras from 3 paras earlier (in case of companies with compliance) and 11 paras earlier (in case of companies having audit requirements also). It was explained that most of the new paras introduced are in the nature of detailed worksheets, and at company level consolidation of sought data, including for projects/products not under audit, involved huge cost, time and effort without commensurate value to the company. The problem was compounded in case of a multi-product company. Companies have adopted the formats as per 2011 rules and with efforts put in for the past three years are trying to achieve a level of stability. Hence the CFI representatives suggested disclosure formats as per 2011 rules.
- It was conveyed that any new rules to be introduced, should be only after taking genuine industry concerns into account and sufficient time should also be given. As considerable time has elapsed in current year, the Rules of 2011 could be continued in current year.
- The point made by CFI that a distinction should be made between a 'Product' and a 'Project', the purpose of such rules was agreed upon and in fact MCA had already made a note of this.
- Similarly, the distinction between the 'Developer' and 'Contractor' shall be kept in view while formulating compliance and audit rules.

The government also agreed that the level of information sharing should not go down to a level where there was likelihood of breach of confidentiality, particularly in an industry which was dependent upon tendering process for business procurement. It was assured that this aspect shall be addressed.

- MCA was now also working upon outlining the separate threshold for applicability of the audit rules.
- Efforts would be made towards simplification and rationalization of forms & formats prescribed in the Rules.
- The new emphasis of the government now was on e-governance to reduce problems faced by industry and in the long run aim was that information submitted through one window could be shared by other government departments through e-governance network.

Mr. Asokan appreciated the points made by the CFI representatives and assured that all valid concerns would be taken into account. It was mentioned by Mr. Asokan that the process of revision as deem appropriate may take about a month or two.

This is for information of the members. We shall keep you posted of further developments.