

# Cost Audit In India: Regulatory Effectiveness, Compliance Burden And Opportunities For Reform

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**Abstract-** *Statutory cost audit represents one of the most distinctive and debated dimensions of corporate regulation in India. Originating as an administrative intervention to curb industrial profiteering and ensure resource conservation during the planned economy era, the discipline has evolved into an instrument of economic governance under Section 148 of the Companies Act, 2013. However, the regulatory architecture faces growing tensions between the corporate mandate for ease of doing business and the public policy requirement for verifiable, granular microeconomic data. Industry associations argue that statutory cost record-keeping and audit impose substantial compliance costs, procedural overlap with financial reporting, and administrative rigidities. Conversely, regulatory and administrative bodies—including the National Pharmaceutical Pricing Authority, the Directorate General of Trade Remedies, and public procurement agencies—depend on contemporaneous, product-level cost records to determine fair consumer pricing, calculate injury margins in anti-dumping investigations, and monitor state incentive distributions. This paper evaluates the statutory architecture of cost audit in India, analyzes the empirical and institutional dimensions of regulatory effectiveness, examines the structural causes of compliance friction, and appraises international parallels in the United States, the United Kingdom, and Germany. Drawing upon recent policy evaluations, particularly the 2024 Inter-Ministerial Committee Report chaired by Ashu Mathur and contemporary scholarly discourse, the study articulates a comprehensive blueprint for structural reform centered on digital integration, threshold rationalization, sector harmonization, and dynamic risk-based oversight.*

**Keywords-** Cost Audit, Section 148, Companies Act 2013, Regulatory Effectiveness, Compliance Burden, Directorate General of Trade Remedies, Trade Policy, Cost Accounting Standards.

## I. INTRODUCTION

The regulatory framework governing corporate enterprise in India has historically assigned a unique role to internal operational transparency<sup>1</sup>. While corporate governance architectures in most Anglo-American common law jurisdictions rely almost exclusively on generalized financial accounting to protect investor capital, India has

maintained a dedicated statutory track for operational and product-level cost audit<sup>2</sup>. The genesis of this system dates back to the mid-twentieth century<sup>1</sup>. Following the recommendations of the Vivian Bose Commission of Inquiry, which exposed widespread corporate mismanagement, hidden siphoning, and speculative inventory manipulation across several major industrial conglomerates, the Companies Act, 1956 was amended in 1965 to introduce statutory provisions for mandatory cost accounting records and cost audits<sup>1</sup>.

During the initial decades of industrial planning, statutory cost audit functioned primarily as an administrative instrument for direct price controls, tariff setting, and the policing of scarce physical resource allocations<sup>3</sup>. The state required independent attestation of input-output ratios, conversion costs, and capacity utilization to administer complex cost-plus pricing regimes in foundational industries such as cement, steel, sugar, textiles, and bulk drugs<sup>3</sup>. With the structural liberalization of the Indian economy in 1991, market pricing largely supplanted administered pricing, precipitating debates regarding the continued necessity of statutory cost audits<sup>2</sup>. Critics argued that market competition inherently penalizes operational inefficiency, rendering mandated cost audits redundant<sup>2</sup>.

Despite these objections, the Indian legislative and regulatory establishment reaffirmed and modernized the mandate through the enactment of Section 148 of the Companies Act, 2013<sup>1</sup>. This statutory continuity reflects a foundational distinction between financial accounting and cost accounting<sup>2</sup>. Financial statements, constructed under Indian Accounting Standards (Ind AS), report aggregate enterprise earnings and historical stewardship for capital markets<sup>2</sup>. In contrast, cost accounting identifies, classifies, measures, and assigns costs directly to individual products, services, processes, and operating activities<sup>2</sup>. It provides contemporaneous insight into physical input-output coefficients, scrap generation, labor productivity, overhead allocations, and resource consumption<sup>3</sup>.

In recent years, the statutory cost audit regime has reached a critical policy crossroad<sup>2</sup>. Industry federations argue that cost audit imposes an uncoordinated compliance overhead, functioning as a burdensome legacy requirement that conflicts with national campaigns to enhance the ease of

doing business<sup>2</sup>. Simultaneously, key regulatory and economic institutions have become more dependent on granular cost intelligence to formulate public policy, detect corporate frauds, counteract international trade dumping, and prevent fiscal leakages in major industrial subsidy schemes<sup>2</sup>. The core policy issue facing regulators is not whether the cost audit mechanism suffers from structural friction, but whether its deficiencies necessitate statutory withdrawal or modernized reform<sup>2</sup>.

**The Statutory and Technical Architecture** The contemporary legal foundation of cost audit in India is embodied in Section 148 of the Companies Act, 2013, read alongside the Companies (Cost Records and Audit) Rules, 2014 (CCRA Rules 2014)<sup>2</sup>. Under Section 148(1), the Central Government exercises discretionary powers to mandate that companies engaged in the production of specified goods or the provision of specified services maintain cost accounting records in a prescribed manner<sup>2</sup>. Under Section 148(2), the Central Government may direct that an independent audit of these cost records be conducted by a Cost Accountant in practice, as recognized under the Cost and Works Accountants Act, 1959<sup>1</sup>.

The CCRA Rules 2014 operationalize this statutory mandate through a dual-classification structure dividing economic activities into "Regulated Sectors" and "Non-Regulated Sectors"<sup>6</sup>. Rule 3 establishes the applicability criteria for the maintenance of cost records, while Rule 4 delineates the turnover thresholds that trigger a mandatory cost audit<sup>6</sup>.

The statutory compliance workflow follows an interconnected, sequential procedural cycle<sup>6</sup>. Maintenance begins under Form CRA-1, which establishes the mandatory principles and cost ledgers that enterprises must maintain continuously, covering materials, employee costs, utilities, repair, depreciation, research and development, and captive transfers<sup>6</sup>. The corporate entity notifies the Ministry of Corporate Affairs of the appointment of an independent cost auditor using Form CRA-2 within thirty days of the board meeting or within one hundred and eighty days from the commencement of the financial year, whichever is earlier<sup>13</sup>.

Following fieldwork, the cost auditor issues a detailed audit report under Form CRA-3, providing certifications, reservations, quantitative product sheets, operational assessments, and reconciliation with audited financial accounts<sup>6</sup>. Finally, the company submits the verified cost audit report and board explanations for any reservations to the Central Government using Form CRA-4 via the MCA21 portal in eXtensible Business Reporting Language

(XBRL) format within thirty days of receiving the CRA-3 report<sup>6</sup>.

The technical foundation of this audit mechanism is codified by the Institute of Cost Accountants of India (ICMAI) through twenty-four Cost Accounting Standards (CAS-1 to CAS-24)<sup>14</sup> and accompanying Standards on Cost Auditing (SCAs 101 to 104)<sup>4</sup>. Standards such as CAS-2 (Capacity Determination), CAS-3 (Production Overheads), CAS-4 (Cost of Production for Captive Consumption), CAS-6 (Material Cost), CAS-7 (Employee Cost), and CAS-14 (Pollution Control Cost) establish uniform metrics for isolating direct costs from unabsorbed capacity losses, abnormal losses, and arbitrary overhead allocations<sup>4</sup>. This standard-setting framework ensures that cost audit opinions remain anchored in verifiable accounting discipline rather than subjective managerial estimation<sup>3</sup>. Regulatory accountability has been reinforced by proposed amendments in the Corporate Laws (Amendment) Bill, 2026, which introduces heightened personal accountability for Chief Financial Officers and Directors regarding the structural integrity and factual accuracy of cost records submitted under Section 148<sup>16</sup>.

### **Regulatory Effectiveness: Micro-Level Discipline to Macro-Economic Governance**

The regulatory effectiveness of the cost audit framework extends beyond internal accounting verifications to impact multiple areas of economic policy, market regulation, and corporate oversight<sup>2</sup>. While traditional financial audits verify that balance sheets present a true and fair view of a corporate entity's net worth and operating profit, cost audits examine the underlying operational efficiency, input-output conversions, pricing integrity, and governance structures<sup>2</sup>.

The systemic influence of cost audit operates across three primary regulatory dimensions: public policy and economic administration, trade defense and competitive market protection, and internal corporate governance<sup>2</sup>. In public administration, statutory cost records supply the granular baseline necessary to regulate administered consumer prices, establish utility tariffs, and audit capital projects<sup>2</sup>. In market defense, certified cost data provides the evidentiary standard required to evaluate predatory pricing, investigate cartel behaviors, and calculate injury margins in international trade disputes<sup>2</sup>. Within corporate enterprises, cost audits function as operational diagnostics, evaluating capacity utilization, checking transfer pricing integrity, and curbing internal resource leakages<sup>3</sup>.

### **Price Determination and Consumer Welfare**

In sensitive and social-priority sectors, statutory cost data protects consumers from monopolistic pricing and unfair margins<sup>2</sup>. The National Pharmaceutical Pricing Authority (NPPA) operates under the Drugs (Prices Control) Order to fix and revise ceiling prices of scheduled formulations and bulk drugs<sup>2</sup>. Generalized financial statements cannot isolate the precise conversion cost, active pharmaceutical ingredient consumption coefficient, or packaging material cost of an individual pharmaceutical formulation<sup>2</sup>.

By relying on cost accounting data certified under Form CRA-3 and governed by CAS-4 and CAS-6, the NPPA computes ceiling prices based on actual industry manufacturing costs rather than inflated self-reported estimates<sup>2</sup>. Similarly, state electricity regulatory commissions and the Petroleum and Natural Gas Regulatory Board utilize cost audit data to decouple allowable operational expenditures from return on equity, preventing public utilities from passing operating inefficiencies, plant idling costs, and excessive transmission losses onto end-consumers<sup>3</sup>.

### **Anti-Dumping and Trade Defense Mechanisms**

A critical application of statutory cost data occurs in international trade remedies administered by the Directorate General of Trade Remedies (DGTR) under the Ministry of Commerce and Industry<sup>2</sup>. In investigations involving anti-dumping duties, countervailing duties, and safeguard measures, the domestic industry must establish that unfairly priced imports are causing material injury<sup>17</sup>.

A central parameter in this legal determination is the computation of the Non-Injurious Price (NIP) and the resulting Injury Margin<sup>17</sup>. The NIP represents the fair production cost that an efficient domestic manufacturer should recover under normal market conditions<sup>17</sup>. The DGTR explicitly requires domestic petitioners to provide statutory Cost Audit Reports and detailed plant-wise cost ledgers for the injury period<sup>20</sup>.

Because Indian manufacturers already maintain statutory cost records under Section 148, the DGTR can extract verified, contemporaneous input-output ratios, actual energy consumption norms, raw material utilization coefficients, and overhead absorption metrics<sup>2</sup>. This contemporaneous verification is decisive: retrospective estimations constructed post-hoc during trade disputes lack evidentiary weight and are routinely contested by foreign exporters and WTO appellate panels<sup>2</sup>. The availability of attested cost data allows India's trade authorities to defend domestic manufacturers against predatory foreign dumping and structural trade distortions<sup>2</sup>.

### **Fiscal Integrity and Subsidy Administration**

The rapid expansion of incentive-based industrial policies—exemplified by the Government of India's Production-Linked Incentive (PLI) schemes across fourteen manufacturing sectors—has elevated the fiscal importance of statutory cost audits<sup>6</sup>. PLI disbursements are conditioned on reaching incremental production thresholds and meeting targeted domestic value addition percentages<sup>6</sup>. Without audited cost data, industrial units could inflate reported value addition by re-invoicing imported sub-assemblies or misallocating domestic administrative expenses<sup>2</sup>.

The Inter-Ministerial Committee on Cost Accounting Records highlighted that cost audit mechanisms provide independent verification of local value addition, raw material consumption, and captive component transfers<sup>6</sup>. Similarly, in public infrastructure procurement and defense manufacturing, cost audits serve as a mechanism to detect and minimize cost overruns in major capital contracts<sup>6</sup>.

### **Corporate Governance and Operational Discipline**

From an internal corporate governance perspective, cost audit provides the Board of Directors and the Audit Committee with operational diagnostics that standard financial audits do not capture<sup>3</sup>. Independent cost auditors evaluate capacity utilization profiles governed by CAS-2, identify abnormal inventory shrinkage, trace unabsorbed fixed overheads, and examine scrap and spoilage variations<sup>3</sup>.

Furthermore, cost audits scrutinize related-party transactions<sup>18</sup>. Whereas financial auditors verify the legal authorization and invoice mechanics of related-party dealings, the cost auditor assesses the underlying economics<sup>4</sup>. By applying CAS-4 (Cost of Production for Captive Consumption), the auditor verifies whether intermediate components, shared utility costs, and shared operational infrastructures are transferred at arm's length or leveraged to siphon profits, avoid tax liabilities, or circumvent minority shareholder interests<sup>15</sup>.

### **The Industry Dilemma: Compliance Friction and Ease of Doing Business**

Despite its regulatory utility, the statutory cost audit regime faces persistent criticism from industrial bodies<sup>2</sup>. Industry groups—including the Confederation of Indian Industry (CII), the Federation of Indian Chambers of Commerce and Industry (FICCI), and the Associated Chambers of

Commerce and Industry of India (ASSOCHAM)—frequently challenge cost audit as an unnecessary regulatory imposition that increases compliance costs, exposes sensitive trade secrets, and overlaps with other reporting standards<sup>6</sup>.

The economic burden of cost audit includes both direct monetary expenses and operational overhead<sup>5</sup>. Direct expenses comprise professional audit fees paid to practicing cost accountants, expenses incurred in procuring specialized Enterprise Resource Planning (ERP) cost-allocation modules, and the ongoing operational cost of maintaining dedicated internal cost-accounting teams<sup>3</sup>. For medium-sized industrial enterprises with turnover slightly exceeding statutory thresholds, these direct costs create a material administrative burden<sup>6</sup>.

Indirect frictions are equally pronounced<sup>18</sup>. Indian companies operate under extensive statutory reporting requirements, including statutory financial audits under Section 139, tax audits under Section 44AB of the Income Tax Act, secretarial audits under Section 204, internal financial controls reporting under Section 143, and regular GST audit reconciliations<sup>18</sup>. Layering a separate, mandated cost audit process over this structure strains management capacity<sup>3</sup>. In many organizations, the cost audit has devolved into an annual compliance exercise where cost accountants are hired retrospectively to reconstruct cost sheets to reconcile with already-finalized financial statements, rather than functioning as an active, continuous management control system<sup>3</sup>.

Several structural and procedural anomalies in the CCRA Rules 2014 contribute to this compliance friction<sup>6</sup>. First, the artificial division between Regulated and Non-Regulated sectors creates administrative confusion<sup>6</sup>. Many modern manufacturing conglomerates operate complex, integrated value chains that cross both categories simultaneously<sup>6</sup>. Determining whether shared overheads, centralized utilities, and multi-use intermediate goods belong to the regulated or non-regulated threshold calculations requires burdensome subjective allocations<sup>6</sup>. Second, cost audit applicability depends on two independent conditions: overall enterprise turnover and individual covered product turnover<sup>9</sup>. A diversified company may cross the overall turnover threshold due to unaffected commercial trading or service activities, yet find itself forced to maintain granular cost accounting records for a small manufacturing division that barely approaches the secondary threshold<sup>9</sup>.

Third, the CCRA Rules 2014 mandate the maintenance of cost records and reporting based on 4-digit Central Excise Tariff Act (CTA) or Customs Tariff headings<sup>2</sup>. In practice, a single 4-digit CTA heading often encompasses

dozens of distinct products with completely different raw material compositions, manufacturing cycle times, and cost structures<sup>2</sup>. Aggregating costs at the CTA code level distorts meaningful unit-cost comparisons while generating significant compliance overhead for ERP systems<sup>2</sup>.

Finally, substantial portions of the information required in Form CRA-3 duplicate disclosures already mandated under Ind AS financial statements, such as related-party transactions, fixed asset schedules, and foreign exchange earnings, while omitting sector-specific operational metrics critical for non-manufacturing sectors like IT-enabled services, healthcare, and telecommunications<sup>6</sup>.

### Comparative International Cost Regulatory Frameworks

The debate over the statutory institutionalization of cost audit is often framed by critics as an Indian anomaly<sup>2</sup>. However, comparative international legal analysis reveals that advanced industrial economies maintain specialized, mandatory cost accounting and cost audit frameworks, primarily structured around public procurement, state contracting, and market regulation rather than generalized corporate law<sup>2</sup>.

In the United States, cost accounting standards and audit oversight are institutionalized through the Cost Accounting Standards Board (CASB), operating under the Office of Federal Procurement Policy (41 U.S.C. Chapter 15)<sup>2</sup>. The CASB promulgates mandatory cost accounting principles for commercial enterprises entering into negotiated, non-competitive federal contracts exceeding statutory thresholds, which are rigorously audited by the Defense Contract Audit Agency (DCAA)<sup>2</sup>.

The American historical experience provides a cautionary lesson regarding the risks of deregulatory enthusiasm<sup>2</sup>. In 1980, the United States Congress defunded and abolished the CASB, driven by free-market arguments that competitive market pressures and standard financial accounting principles (US GAAP) were sufficient to protect government procurement from waste<sup>2</sup>. The resulting eight-year regulatory vacuum saw widespread defense procurement scandals, unsubstantiated overhead shifting, and inflated cost-plus billing<sup>2</sup>. Recognizing that financial accounting cannot prevent cost-shifting across complex multi-product lines, Congress re-established the CASB in 1988 with expanded statutory authority<sup>2</sup>. The US precedent demonstrates that withdrawing cost accounting mandates without functional substitutes exposes public expenditure and commercial integrity to structural risks<sup>2</sup>.

In the United Kingdom, the regulation of operational costs is governed by the Single Source Regulations Office (SSRO), established under the Defence Reform Act 2014<sup>28</sup>. The SSRO provides statutory oversight for single-source defense contracts awarded by the Ministry of Defence<sup>28</sup>. Contractors operating under Qualifying Defence Contracts are legally required to maintain standardized cost accounting records and submit open-book cost sheets<sup>29</sup>. The SSRO regulates Allowable Costs to ensure that contracted expenses are Appropriate, Attributable, and Reasonable<sup>30</sup>. In Germany, statutory principles under Section 255 of the German Commercial Code (*Handelsgesetzbuch* – HGB) establish binding rules governing the calculation of production costs (*Herstellungskosten*)<sup>2</sup>. German corporate law requires enterprises to maintain costing systems that differentiate direct material and labor expenses, appropriate proportions of necessary production overheads, and depreciation on fixed assets, while strictly prohibiting the inclusion of general administrative, financing, or distribution expenses in production asset cost sheets<sup>2</sup>. This integration of cost accounting principles into baseline statutory accounting provides reliable data for commercial balance sheets, tax assessments, and industrial oversight<sup>2</sup>.

### Critical Evaluation: Second- and Third-Order Dynamics

Analyzing cost audit in India through an economic lens reveals several complex dynamics and unintended consequences embedded in the regulatory system<sup>2</sup>. A key risk in broad deregulatory proposals—such as recommendations to abolish Section 148 entirely—is the emergence of negative macroeconomic externalities<sup>2</sup>. While eliminating cost audit would remove compliance costs for individual corporations, it would simultaneously undermine India's trade remedy architecture<sup>2</sup>. If domestic manufacturers cease maintaining contemporaneous cost records under CAS frameworks, their capacity to initiate or sustain anti-dumping petitions before the DGTR would be compromised<sup>2</sup>. Foreign exporters accused of predatory pricing would exploit the lack of independently audited cost documentation to contest injury calculations<sup>2</sup>. The individual firm's compliance savings would be offset by sector-wide vulnerabilities to dumped foreign imports<sup>2</sup>.

A notable technical anomaly in the current CCRA Rules 2014 is the use of 4-digit CTA headings as the primary unit of cost compilation<sup>2</sup>. This rule was designed to prevent companies from exploiting minor product differences to evade product-specific thresholds<sup>6</sup>. In practice, however, aggregating costs at the 4-digit CTA level can obscure real cost variations<sup>2</sup>. A manufacturer of advanced specialty chemicals, for example, may produce dozens of product grades under the same 4-digit heading, with production costs varying significantly based on

catalytic complexity, reactor cycle times, and input purity<sup>2</sup>. Blending these divergent product lines into an aggregated CTA code cost statement obscures cross-subsidization, masks predatory pricing on specific products, and deprives regulators of actionable product-level data<sup>2</sup>. Recognizing this shortcoming, recent research by former ICAI President Ashwin G. Dalwadi calls for shifting from generic CTA code aggregation back toward item-wise, activity-based cost auditing for major products<sup>2</sup>.

Another systemic failure within the current regime is the operational siloing of cost audit data<sup>2</sup>. Companies invest substantial financial and technical capital to generate detailed Form CRA-3 audit reports, which are converted into XBRL and uploaded via Form CRA-4 to the MCA21 portal<sup>6</sup>. Once filed, however, this data remains largely dormant<sup>2</sup>. The Directorate General of Trade Remedies, the National Pharmaceutical Pricing Authority, and the Competition Commission of India do not have automated, interoperable access to the MCA21 XBRL cost database<sup>2</sup>. When an anti-dumping or drug-pricing investigation begins, these agencies routinely issue separate questionnaires requiring companies to recompile and resubmit the same cost data in bespoke agency formats<sup>2</sup>. This procedural duplication increases industry frustration, transforming what should be a shared repository of economic intelligence into a redundant compliance exercise<sup>2</sup>.

### The Road to Structural Reform: The 2024 Inter-Ministerial Blueprint and Beyond

The systemic frictions within the cost audit regime have prompted substantive policy reviews by the central government<sup>2</sup>. The most comprehensive framework for modernization is articulated in the *Report of the Inter-Ministerial Committee on Cost Accounting Records and Cost Audit Framework*, finalized in January 2024 under the chairmanship of Ashu Mathur, Chief Adviser (Cost), Department of Expenditure, Ministry of Finance, along with Joint Secretary-level representatives from ten Central Ministries<sup>2</sup>. The Mathur Committee's recommendations, reinforced by contemporary empirical studies and professional research, establish a viable roadmap to transform cost audit from an administrative mandate into a streamlined, high-value governance mechanism<sup>2</sup>. The Mathur Committee's central recommendation addresses the structural flaws of the CCRA Rules 2014 by abolishing the artificial distinction between Regulated and Non-Regulated sectors<sup>6</sup>. The Committee proposed replacing this dual-table structure with a single consolidated schedule of covered economic sectors, products, and services<sup>6</sup>. Under this proposal, thirty-five of the thirty-nine sectors currently regulated under Table A and Table B are retained, four redundant sectors are removed, and select

strategic emerging industries are integrated<sup>6</sup>. For the service sector, the Committee recommended aligning classifications with the National Product Classification for Services (NPCS) to resolve historical ambiguities surrounding service-related cost records<sup>6</sup>.

To alleviate compliance burdens on smaller enterprises and eliminate the distortions of the dual-turnover test, the Committee recommended standardizing the applicability metric<sup>6</sup>. The requirement for both cost record maintenance and statutory cost audit should trigger exclusively when a company's aggregate turnover from covered products and services reaches or exceeds ₹75 Crore, discarding the overall company-wide turnover requirement<sup>6</sup>. To protect companies from alternating in and out of compliance due to short-term business fluctuations, coverage would apply if the enterprise crossed the ₹75 Crore covered-turnover threshold in any one of the immediately preceding three financial years<sup>6</sup>. Furthermore, this ₹75 Crore threshold, paired with explicit statutory exemptions for Micro and Small enterprises under the MSMED Act, 2006, shields expanding enterprises—including medium-sized entities with turnovers between ₹50 Crore and ₹75 Crore—from cost audit obligations, preserving capital for early-stage growth<sup>6</sup>.

The reform architecture addresses reporting granularity by restructuring compliance forms<sup>6</sup>. While retaining flexibility in Form CRA-1 so that internal cost accounting systems are not burdened with rigid prescriptive templates, the committee recommended redesigning Form CRA-3<sup>6</sup>. To bridge the gap between high-level CTA codes and actionable operational intelligence, cost auditing would focus on "major saleable products"—defined as any product contributing at least 5% or more to total turnover under a given CTA heading<sup>2</sup>. This reform implements the policy advocated by Dalwadi (2026), balancing granular operational visibility with proportionate compliance requirements<sup>2</sup>. Additionally, the committee recommended standardizing Units of Measurement to align strictly with Customs Tariff Act classifications, eliminating cross-filing conversion errors<sup>6</sup>.

A persistent industry concern involves the bureaucratic burden of compiling descriptive performance appraisal reports and separate internal cost audit filings<sup>6</sup>. The reform framework recommends replacing these unstructured reports with a standardized, periodic statement of Key Performance Parameters (KPPs)<sup>6</sup>. Prepared on unaudited operational cost data, these KPP statements would be presented quarterly or half-yearly directly to the company's Audit Committee and Board of Directors<sup>6</sup>. Focusing governance on critical operating metrics—such as capacity utilization, energy consumption efficiency, scrap generation

rates, and inventory velocity—empowers the Board to exercise operational oversight without generating extensive compliance filings<sup>3</sup>.

Finally, the potential of statutory cost data can be unlocked by integrating corporate reporting platforms<sup>2</sup>. Currently, cost audit filings exist in isolated MCA21 data repositories<sup>2</sup>. The reform agenda proposes establishing direct digital linkages between MCA21 Version 3, the DGTR, the NPPA, the Competition Commission of India, and the Goods and Services Tax Network<sup>2</sup>. Because Form CRA-4 is already submitted in structured XBRL format, establishing automated Application Programming Interfaces would enable regulators to access authenticated cost datasets directly during price revisions, anti-dumping petitions, and subsidy validations<sup>2</sup>. This digital interoperability would eliminate duplicate questionnaires for compliant companies while ensuring regulatory policy rests on verified, contemporaneous operational data<sup>2</sup>.

## II. CONCLUSION

The evolution of statutory cost audit in India reflects an ongoing effort to balance micro-level corporate efficiency with public governance needs<sup>2</sup>. Originating as an administrative intervention in a state-dominated economy, the discipline has transformed into an evidentiary foundation supporting trade defense, fair market pricing, anti-profiteering oversight, and industrial policy validation<sup>2</sup>.

The friction between industrial competitiveness and statutory compliance cannot be resolved through complete deregulation or the dismantling of Section 148<sup>2</sup>. As international experiences in the United States and the United Kingdom illustrate, discarding structured cost accounting standards exposes public spending to inflation, undermines trade

remedy actions against foreign dumping, and weakens state subsidy verification<sup>2</sup>. Conversely, maintaining the status quo risks reducing cost audits to an administrative burden that drains capital from middle-market manufacturing enterprises without delivering actionable data to regulators<sup>2</sup>.

The appropriate path forward lies in modernization rather than retreat<sup>2</sup>. By implementing the structural recommendations of the 2024 Inter-Ministerial Committee—unifying sectoral schedules, raising the audit threshold to ₹75 Crore of covered turnover, adopting a three-year lookback rule, focusing reporting on major saleable products, and establishing interoperable digital links between MCA21, DGTR, NPPA, and tax databases—India can resolve the historical tension between corporate flexibility and public

accountability<sup>2</sup>. This restructured architecture can transition cost audit from an isolated compliance duty into an active asset for industrial efficiency, transparent governance, and evidence-based economic policy<sup>2</sup>.

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