

Private and Personal Opinion

ANALYSIS OF EXPERT GROUP RECOMMENDATIONS

By

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| Sl.No | Recommendations | Remarks |
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| 1 | Phased introduction of cost accounting and cost audit framework in all companies to achieve the highest levels of competitiveness, the Expert Group also recommends that only such companies maturing into higher levels of adoption of best cost and management accounting Practices/guidelines may be permitted voluntary compliance. | India as an emerging economic power has to adopt cost tools for having cost leadership as an objective. The concept will bring in greater cost consciousness and also provide expert knowledge to Indian industry, so much in need to provide competitive products and services on a global scale. All know about cost but few know about cost management in order to optimize operations and maximize margins. The recommendation aims at providing such tool in the hands of the Indian industry. Ministry of Corporate Affairs needs to be commended for such a bold and forward looking approach. |
| 2 | Individual Cost Accounting Records Rules (CARR) prescribing product wise formats for maintenance of cost records are not required. As such, necessary cost data should logically emanate from the same set of primary books of account and other accounting data/records. | The recommendation is in line with accounting / cost accounting principles. However if necessary cost data do not logically emanate from the same set of primary books of account and other accounting data/records then ICWAI must come out with clear guidelines for members as well as industry to deal with this kind of a situation. |
| 3 | "class of companies" under the existing section 209(1)(d) of the Companies Act, 1956, should be considered at the company level rather than at the product level. This will facilitate focus shift to the enterprise governance. | This consideration will pave way for greater value addition, better segmental analysis and proper enterprise governance. |
| 4 | That all companies (excluding the exempted categories), should maintain cost accounting records in respect of utilisation of materials, labour or other items of cost, as an integral part of books of account. However, in order to | ICWAI must take up the call and gear itself to the challenges and respond to the call of the Indian industry. The |

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| | <p>promote uniformity and consistency in the preparation and presentation of cost statements under different statutes and under WTO, it is also recommended that such cost accounting records should adhere to the cost accounting standards issued by ICWAI that have integrated, harmonized and standardized the generally accepted cost accounting principles and practices. The above should be introduced in a phased manner as recommended in a later paragraph.</p> | <p>process of issuance of cost accounting standards must be expedited without losing control over the quality of the standards.</p> |
| <p>5</p> | <p>that it should be the management's prerogative to choose appropriate cost management framework. The Group also recommends that the Government, professional bodies and industry associations should play a pro-active role in promoting such competitiveness of India Inc. by undertaking sector-based competitiveness and benchmarking studies. The Group further recommends that ICWAI should undertake an exercise to suggest sector specific standard costs on priority basis.</p> | <p>This is what was intended by TTK while introducing the bill on CARR in parliament half a century ago. ICWAI must take up the call and constitute sector-specific expert groups to have benchmarking studies. The group should have expert from various fields and industry representatives.</p> |
| <p>6</p> | <p>a. Maintenance of cost accounting records by the corporate sector should be shifted from the existing rule/format-based mechanism to a principle-based mechanism having universal application.</p> <p>b. Maintenance of cost accounting records by the corporate sector should be based on generally accepted cost accounting principles that have to be integrated, harmonized and standardized in the Cost Accounting Standards (CAS) to be issued by ICWAI in consultation with all stakeholders and in harmony with the Indian GAAP and Accounting Standards. The Group has already made detailed recommendations in the relevant chapter on CAS.</p> <p>c. As recommended by the Working Group, this may be done in a phased manner as under: Phase-I:</p> <ul style="list-style-type: none"> <input type="checkbox"/> No change in the existing provisions under section 209(1)(d) of the Companies Act, 1956 required. <input type="checkbox"/> In place of all the existing CARRs, single combined CARR should be notified. <input type="checkbox"/> Scope of CARR should cover all companies (except the micro & small companies) engaged in the production, processing, manufacturing or mining activities. <p>Phase-II:</p> <ul style="list-style-type: none"> <input type="checkbox"/> No change in the existing provisions under section 209(1)(d) of the Companies Act, 1956 required. <input type="checkbox"/> All the Cost Accounting Standards issued by ICWAI | <p>The onus will be on ICWAI to shorten or eliminate the phase-II by quickly putting in place cost accounting standards to fulfill the requirements.</p> <p>Phase –III requires amendment in the Act and therefore will depend upon as and when such exercise is taken up.</p> |

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| | <p>should be adopted under the Companies Act, 1956 based on the recommendations of either the existing NACAS or a similar body to be set-up.</p> <p>□ Single combined CARR as notified in Phase-I should be replaced with modified CARR containing adherence to the Cost Accounting Standards issued by ICWAI.</p> <p>Phase-III:</p> <p>□ The existing provisions under section 209(1)(d) of the Companies Act, 1956 should be amended as under: <i>Section 209(1)(d): Every company shall keep at its registered office proper books of account with respect to utilization of material or labour or to other items of cost as may be prescribed by the Central Government. The Central Government may, by notification in the Official Gazette, exempt any company or class of companies from compliance with any of the requirements of section 209(1)(d), if in its opinion, it is necessary to grant the exemption in the public interest.</i></p> <p>□ Scope of CARR as notified in Phase-II above should cover all companies.</p> <p>d. ICWAI should issue simplified format/proforma for preparation and presentation of requisite cost data/information for the benefit of industry & professional fraternity.</p> <p>e. For certain regulated industries such as electricity, telecommunications, petroleum & natural gas, etc., ICWAI should issue industry-specific guidelines in consultation with the concerned regulatory body and industry association.</p> <p>f. A sample of combined simplified CARR is enclosed.</p> | |
| 7 | <p>In view of above, the Group recommends that the existing provision of exemption to small scale industrial undertakings, as defined in the Industries (Development and Regulation) Act, 1951 from the requirement of maintaining cost accounting records should be continued.</p> | <p>In line with overall recommendations</p> |
| 8 | <p>Accordingly, the Expert Group recommends that all micro & small scale industrial undertakings, as defined in the Micro, Small and Medium Enterprises Development Act, 2006 should continue to remain exempted from the requirement of maintaining cost accounting records even if they belong to class of companies engaged in the production, processing, manufacturing or mining activities, subject to the following conditions. Such companies should also remain outside the ambit of cost audit.</p> <p>a. <i>The aggregate value of the machinery and plant installed wherein, as on the last date of the immediate preceding accounting year, does not exceed limit as specified for a small scale industrial undertaking under the provisions of Micro, Small and Medium Enterprises Development Act, 2006;</i></p> | <p>For all such exempted companies ICWAI should think about some guidance notes etc. This will help them to remain competitive and at the same time without increasing cost of compliance. This has also been recommended by the expert group.</p> |

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| | <p>b. <i>The aggregate value of the turnover made by the company from sale or supply of all its products during the immediate preceding accounting year does not exceed twenty crore of rupees;</i></p> <p>c. <i>The company's equity or debt securities are not listed or are not in the process of listing on any stock exchange, whether in India or outside India;</i></p> <p>d. <i>It is not a bank, financial institution or an insurance company;</i></p> <p>e. <i>It does not have borrowings (including public deposits) in excess of rupees five crore at any time during the immediately preceding accounting year; and</i></p> <p>f. <i>It is not a holding or subsidiary company of a company which is not a small sized company.</i></p> | |
| <p>9</p> | <p>I. All medium size companies should maintain cost accounting records based on generally accepted cost accounting principles and cost accounting standards, as may be notified under section 209 (1)(d) of the Companies Act, 1956.</p> <p>II. With a view to avoid incidence of any additional cost of compliance, such class of companies should also be exempted from the provisions of cost audit under section 233B of the Act.</p> <p>III. Such companies should only file a compliance report with the Central Government, on a proforma to be notified, from a cost accountant certifying requisite maintenance of cost accounting records, as notified under section 209 (1)(d) of the Act.</p> <p>IV. Medium size companies should be classified based on investment in plant & machinery exceeding Rs.5 crore but not exceeding Rs.10 crore (as defined in the statute) and annual turnover exceeding Rs.20 crore but not exceeding Rs.50 crore in the immediately preceding accounting year. While calculating annual turnover, any turnover from trading operations, consultancy services, other incomes, etc. in a manufacturing organisation will not be considered. But turnover from job work or loan license operations would stand included.</p> <p>V. Other conditions that would apply to a medium size company shall be as under:</p> <p>a. <i>The aggregate value of the machinery and plant installed wherein, as on the last date of the immediate preceding accounting year, does not exceed limit as specified for a medium size industrial undertaking under the provisions of Micro, Small and Medium Enterprises Development Act, 2006;</i></p> <p>b. <i>The aggregate value of the turnover made by the company from sale or supply of all its products during the immediate preceding accounting year does not exceed fifty</i></p> | <p>This will help them to remain competitive and at the same time without increasing cost of compliance.</p> |

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| | <p><i>crore of rupees;</i></p> <p><i>c. The company's equity or debt securities are not listed or are not in the process of listing on any stock exchange, whether in India or outside India;</i></p> <p><i>d. It is not a bank, financial institution or an insurance company;</i></p> <p><i>e. It does not have borrowings (including public deposits) in excess of rupees ten crore at any time during the immediately preceding accounting year; and</i></p> <p><i>f. It is not a holding or subsidiary company of a company which is not a small and/or medium sized company.</i></p> | |
| 10 | The existing practice of notifying industry/product wise CARR and ordering product-wise cost audit orders only on selective companies, seeking unit-wise cost details and other data/information, should be dispensed with. | This will remove the discretionary treatment of companies within the same group and bring in uniformity and principle based mechanism. |
| 11 | In view of above, the Expert Group strongly endorses the Working Group's recommendation that there is need to continue the cost audit mechanism. However, to save costs, to ensure complete confidentiality of company's sensitive cost data and to avoid any possible misuse, present structure of cost audit report need to be modified and the formats prescribed therein needs to be simplified. | This has been a long standing industry view. The system definitely requires modification to address concern of the industry. Indian companies including MNC's do require protection of data in order to avoid its misuse. Any step in this direction should be welcomed. |
| 12 | <p>Keeping the aforesaid in view, the Group recommends that,</p> <p>(a) The existing practice of a company covered under section 209(1)(d) of the Companies Act, 1956 and not covered under section 233B <i>ibid</i> (except medium size companies that would be required to maintain cost accounting records but have been recommended for exemption from cost audit) should be discontinued;</p> <p>(b) All companies should be asked to furnish information, either in Form 23AC (relating to e-filing of Balance Sheet) or in Form 23ACA (relating to e-filing of Profit & Loss Account), whether the company is covered under section 209(1)(d) of the Companies Act, 1956 relating to maintenance of cost accounting records;</p> <p>(c) Cost audit orders under section 233B of the Companies Act, 1956 should be issued on all such companies that are not specifically exempted; and</p> <p>(d) MCA-21 data should be used to identify such companies.</p> | This will bring uniformity in the system and also data base under MCA-21 can be put to effective use. |
| 13 | The Group has already recommended that all micro, small and medium size companies, engaged in the production, processing, manufacturing or mining activities, having | These class of companies requires a separate treatment. |

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| | <p>investment in plant & machinery up to Rs.10 crore and annual turnover up to Rs.50 crore in the immediately preceding accounting year, subject to certain conditions, should be exempted from the provisions of cost audit under section 233B of the Companies Act, 1956. In addition, the Group recommends that other special categories such as section-25 companies, companies limited by guarantee and companies/associations not for profit, except those where any part of surplus income is allowed for distribution among the shareholders, companies having their total operations outside India, etc. should also be exempted from the ambit of cost audit.</p> | |
| 14 | <p>Keeping these issues in mind, the Group recommends as under:</p> <p>(a) Existing concept of filing unit-wise and product-wise cost audit report, introduced in 2001, should be dispensed forthwith. Filing of minute cost details for each factory/unit, within a factory/unit for each product, and within a product for each type/variety/description separately and all complexities in reporting have to be avoided. The revised structure should do away with providing detailed cost statements of individual products since the same compromises with the confidentiality and competitive edge of individual companies;</p> <p>(b) Existing Cost Audit Report Rules, 2001, as amended in 2006, containing very detailed and complex reporting formats should be replaced with the new Cost Audit Report Rules, 2008;</p> <p>(c) Only abridged statement containing product group-wise cost statements along with cost auditor's report should be filed with the Government. All other cost details, statements, schedules, etc. should remain with the company; and</p> <p>(d) Cost auditor should submit detailed unit-wise and productwise cost statements, duly certified by him, to the company, which may be called for by any Government agency and/or regulator depending upon the need.</p> <p>(e) A sample copy of modified Cost Audit Report Rules, containing modified Form-I & other formats is enclosed as Annexure-XVIII.</p> | <p>This is in line with the industry demand and universal auditing system. This was overdue in changed economic scenario.</p> <p>A separate analysis is required on modified format.</p> |
| 15 | <p>Accordingly, the Groups recommends as under:</p> <p>(a) Product Group means a group of homogenous and alike products, produced from same raw materials & by using similar or same production process, having similar physical/chemical characteristics & common unit of measurement, and having same or similar sage/application;</p> <p>(b) Product Group can be considered as an alternate to</p> | <p>This will bring synchronisation with the accounting standards which is needed for universal application. ICWAI should come out with Guidance Note within three months as visualized.</p> |

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| | <p>“product family”. However, it cannot be considered as an alternate to the term “business segment” or “geographical segment” or “reportable segment” as defined in the Accounting Standard 17 for the purposes of reporting segment-wise financial results;</p> <p>(c) ICWAI should issue a Guidance Note on the subject within a period of three months, in consultation with national level industry associations; and</p> <p>(d) For the time being, the companies may be left free to correctly interpret the term “product group”, in consultation with the cost auditor, as best suited to their product range.</p> | |
| 16 | <p>Therefore, as opined by all stakeholders/ interest groups and recommended by Working Group-III, the Expert Group recommends that apart from using the data/information available in the (modified) cost audit reports efiled with MCA, all Regulators, user Ministries/Departments, Financial Institutions/Banks and other Government Authorities may be left free to directly seek such additional cost details from the concerned companies, as may be required by them based on legal/quasi legal requirement as mandated under their respective statutes.</p> | <p>This will give greater flexibility in the hands of end users for seeking information specific to their requirements and leave CARR for universal application. However ICWAI will do a great service to such regulators etc. if it can come out with some mechanism to fill the gap between CARR and regulator specific requirements.</p> |
| 17 | <p>In view of above, the Working Group recommended that the existing provision of a Statutory (Financial) Auditor’s certificate under CARO certifying maintenance of cost records by the company should be discontinued. The Expert Group endorses this and recommends for immediate implementation.</p> | <p>A welcome recommendation which will leave certification to the experts in that area. This is also commendable and in line with objectives etc. laid down in the Acts of respective bodies applicable on their membership.</p> |
| 18 | <p>The Expert Group has deliberated upon this issue and opines that transparency, accountability as well as independence of the cost auditor are very important determinants of good enterprise governance, and therefore, shareholders should be given the right to appoint cost auditors and have the cost auditor’s report for better evaluation of the company’s performance & risk management. However, until such time, it is decided to share any part of the cost audit report with the shareholders, the appointment of cost auditors by the shareholders is not practicable and hence the Expert Group suggests that this issue may be examined separately. However, to begin with, the shareholders must know that their company is covered by the cost audit mechanism. Therefore, the Expert Group endorses the recommendation of the Working Group that the cost auditors should be appointed by the Board of Directors of a company without seeking any prior approval from the Central Government (i.e. MCA) and reports the same to</p> | <p>The system of seeking prior approval from the Central Government has been a bone of contention for many years now. By this provision CAB shall be free from routine and not so useful time spent on giving approvals which in any case has lost relevance. The time can be utilized for industry specific analysis and value added service to MCA.</p> <p>CAB with its exposure and expertise can become a nodal point for cost analysis for various sectors and may also become sort of a regulator so much needed by India inc. and Government.</p> |

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| | the shareholders in the Board of Directors' Report. | |
| 19 | Therefore, the Expert Group recommends that Indian companies should also follow this healthy practice of voluntarily rotating the cost auditors after every 3-5 years. | This recommendation has its root in/ from Naresh Chandra Committee recommendations. However this should be left in the hands of the companies rather than bringing a law for this. As a practice in many companies and firm of auditors the practice is to have a separate partner looking into the details after a period . The practice followed in the case of financial audit should be a adopted for universal and uniform application |
| 20 | Therefore, the Group recommends that the existing proviso under sub-section (1) of section 233B of the Companies Act, 1956 may be deleted. | In line with other provisions as visualized. |
| 21 | In view of this, the Expert Group recommends that as at present, periodicity of cost audit should remain on annual basis. In addition, the Group recommends quarterly internal audit of cost records. The Group further recommends that the possibility of introducing quarterly limited review of cost details, in case of listed companies, may be examined in consultation with SEBI. | In line with current audit practices and requirements of SEBI. A welcome step. |
| 22 | After evaluating the pros & cons, the Working Group-III recommended that circulation of selected information to the shareholders of the company, containing cost trends, key performance indicators, risk assessment or key risk indicators, CSR details, trends or factors like external economic conditions and internal efficiency, etc., as part of the management analysis section of the annual report to meet with the overall objectives of good corporate governance, should be left to the discretion of the management. ICWAI should work out a model format in consultation with SEBI. This would align with the findings of IFAC survey on external financial reporting. The Expert Group endorses this. The Expert Group also recommends that in line with the earlier issue of appointment of cost auditors in the AGM, this issue may also be re-examined separately. | Appointment of cost auditor in AGM should be examined and ICWAI can come out with a white paper on this issue. |
| 23 | Hence, the Group recommends issue of Cost Accounting Standards based on the generally accepted cost accounting principles & practices presently followed by the industries in India. The Group recommends that all the Cost Accounting Standards (CAS) issued/to be issued should be aligned | CASB has to take a call and see that existing key objectives are aligned with this recommendation if not already done. |

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| | <p>with the following key objectives:</p> <ul style="list-style-type: none"> □ To provide a structured approach to measurement of costs in manufacturing, process or service industry; □ To integrate, harmonise and standardize cost accounting principles and practices; □ To provide guidance to the users to achieve uniformity and consistency in classification, measurement, assignment and allocation of costs to products and services; □ To arrive at the basis of computing the cost of product, activity or service where required by legal or regulatory bodies; □ To enable practicing member to make use of Cost Accounting Standards in the matter of attestation of General Purpose Cost statements; and □ To assist in clear and uniform understanding of all the related issues by various user organisations, government bodies, regulators, research agencies, academic institutions, etc. | |
| 24 | Accordingly, the Group recommends that all the existing Cost Accounting Standards may also be restructured as per this revised framework and re-issued. | CASB has to take up this call |
| 25 | In view of this, the Group recommends that the revision of existing CAS as per the revised framework should be done in consultation with the concerned legal and/or statutory authority in the government so that the adoptability of use of these revised standards by such organisations is not disturbed. | This should be part of the road map before the standards are put to NACAS or similar body in the due course. |
| 26 | Therefore, the Group recommends that within the revised framework of CAS, ICWAI should issue Application Guidance Note for each Cost Accounting Standard. The application guidance note should provide the explanatory notes and interpretations of various terminologies and methodologies referred to in the cost accounting standards with suitable illustrations and formats for presentation of cost statements. | A welcome suggestion. ICWAI must take the call. |
| 27 | Therefore, the Group recommends that ICWAI should assign utmost priority for issue of all the CAS already identified. | A welcome suggestion. ICWAI must take the call. |
| 28 | Therefore, the Group recommends that CAS may also be issued for all those areas (excluding the common areas already included in the list of 39) that are of use by the infrastructure or service sector companies. | ICWAI and CASB has to take the call |
| 29 | In this regard, the Group recommends that Cost Accounting Standards Board and the Council of | CASB and ICWAI have to take the call. |

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| | ICWAI should also follow the same process and issue the Cost Accounting Standards in consultation with all stakeholders viz. industry associations, companies, government organisations, regulatory authorities, user agencies, professional bodies, professional accountants in public practice, professional accountants in business, etc. | |
| 30 | Therefore, the Group recommends that there should be complete alignment, synergy & harmonization between the Cost Accounting Standards and Financial Accounting Standards. | Long overdue and in line with overall concept of bringing uniformity and harmonization. |
| 31 | The Group further recommends that the Cost Accounting Standards Board of ICWAI, in consultation with the Accounting Standards Board of ICAI, should prepare a list of such items which need harmonization in two sets of standards i.e. Accounting Standards and Cost Accounting Standards and update the list periodically. | Same as above |
| 32 | On specific cost related issues which require different treatment based on cost accounting principles, the Group recommends that any divergence should be disclosed as reconciliation between the Costing Profit & Loss Statement and Financial Profit & Loss Statement. | This practice is there in CARR. A similar system should be adopted. In specific cases if required reconciliation should also be beneficial between book profits and profits under I.T Act. |
| 33 | Therefore, the Group recommends that all the Cost Accounting Standards will also have to be reviewed and aligned with the relevant issues in IFRS. | A forward looking recommendation with relevance to GAPP |
| 34 | The Group recommends that without sacrificing the basic objectives, the CAS should incorporate the best practices enshrined in the Cost Accounting Standards issued by different countries. | In line with the concept of universal application and generally accepted cost accounting principles. |
| 35 | The Group further recommends that CAS should also follow, wherever applicable, the principles enshrined in the current International Good Practice Guidance and the Management Accounting Guidelines issued earlier by International Federation of Accountants (IFAC). | In line with the concept of universal application and generally accepted cost accounting principles. |
| 36 | Therefore, the Group recommends that either the existing mandate of NACAS may be modified or a similar body be set up advising the Central Government on the formulation and laying down of cost accounting policies and standards for adoption by companies or class of companies under the Act. The Group further recommends that till such time, the cost accounting standards issued by | In line with the concept of universal application. NACAS should take up the call. |

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| | ICWAI may be recognised as that prescribed by the Central Government. | |
| 37 | In view of this, the Group recommends that after implementation of various recommendations made by this Group for revised mechanism/framework of cost audit & reporting in the corporate sector, no further steps are required to ensure complete confidentiality of company cost data. | The observation takes care of the industry concern |
| 38 | Keeping in view the aforesaid observations of WG-IV and the opinions expressed by various stakeholders (including companies and industry associations), the Expert Group opines that after implementation of various recommendations made by the Expert Group for revised mechanism/framework of cost accounting records, cost audit and reporting in the corporate sector, there would be substantial reduction in the cost of compliance to the companies. | Though this observation is intended to take care of industry concern, the cost of compliance should always be equated with the fall outs of non compliance. |
| 39 | <p>Keeping the aforesaid observation in view, the Expert Group recommends as under:</p> <p>(a) All the services and other social sectors such as healthcare, education, banking, insurance, financial services, transportation, information technology, public utilities & essential services such as municipalities, electricity, water supply, city transport, etc. should be brought under the mandatory mechanism of cost accounting and cost audit.</p> <p>(b) The existing principles & practices of cost accounting and cost audit should also be extended to various Government projects/schemes, departmental undertakings, such as ordnance factories, railway locomotive/coaches manufacturing units, etc. and all the Government contracts and procurements should be covered forthwith.</p> <p>(c) All the infrastructure sector activities which include roads, seaports, airports, railways, telecom, power projects, industrial parks, urban infrastructure, exploration, refining, mining, etc. are backbone of the growth of any country; hence needs to be included under the provisions of cost accounting and cost audit.</p> <p>(d) All public service organisations should determine user charges based on most efficient costs. Subsidies meant for the poor may be decided after being fully aware of the opportunity cost, social factors and the shadow price. Even where crosssubsidization is necessary, it should be transparent and made known to the public at large.</p> <p>(e) Most of these sectors, services, functions or activities presently either operate as extension of Government ministries/departments or are governed by various</p> | The observations and recommendations are in line with an objective to make Indian products and services globally competitive and using our available resources to maximize benefits for India and Bharat. |

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| | <p>Central/State Government statutes and/or resolutions. These are operated in both the corporate form as well as noncorporate form of organisations. In all the non-corporate and/or not-for-profit organisations, the existing principles & practices of cost accounting and cost audit may be extended by the respective authorities by suitably amending their laws/statutes.</p> <p>(f) Ministry of Corporate Affairs and the Chief Adviser Cost in the Ministry of Finance should take a lead role to spearhead the process of inculcating cost accounting systems in all these organizations/entities.</p> <p>(g) The Institute of Cost and Works Accountants of India should play a supportive role in (a) evolving suitable cost accounting systems; (b) issue of relevant cost accounting standards & guidance notes; and (c) in undertaking training of human resources in such organizations.</p> <p>(h) The Controller General of Civil Accounts and the Accountant Generals, in consultation with the Comptroller & Auditor General of India, should take a lead role in (a) modifying the existing budgetary system of the Central/State Governments;</p> <p>(b) recasting the outcome budgets by correctly evaluating the costs & benefits of each program/activity; and (c) improving the public information system.</p> | |
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