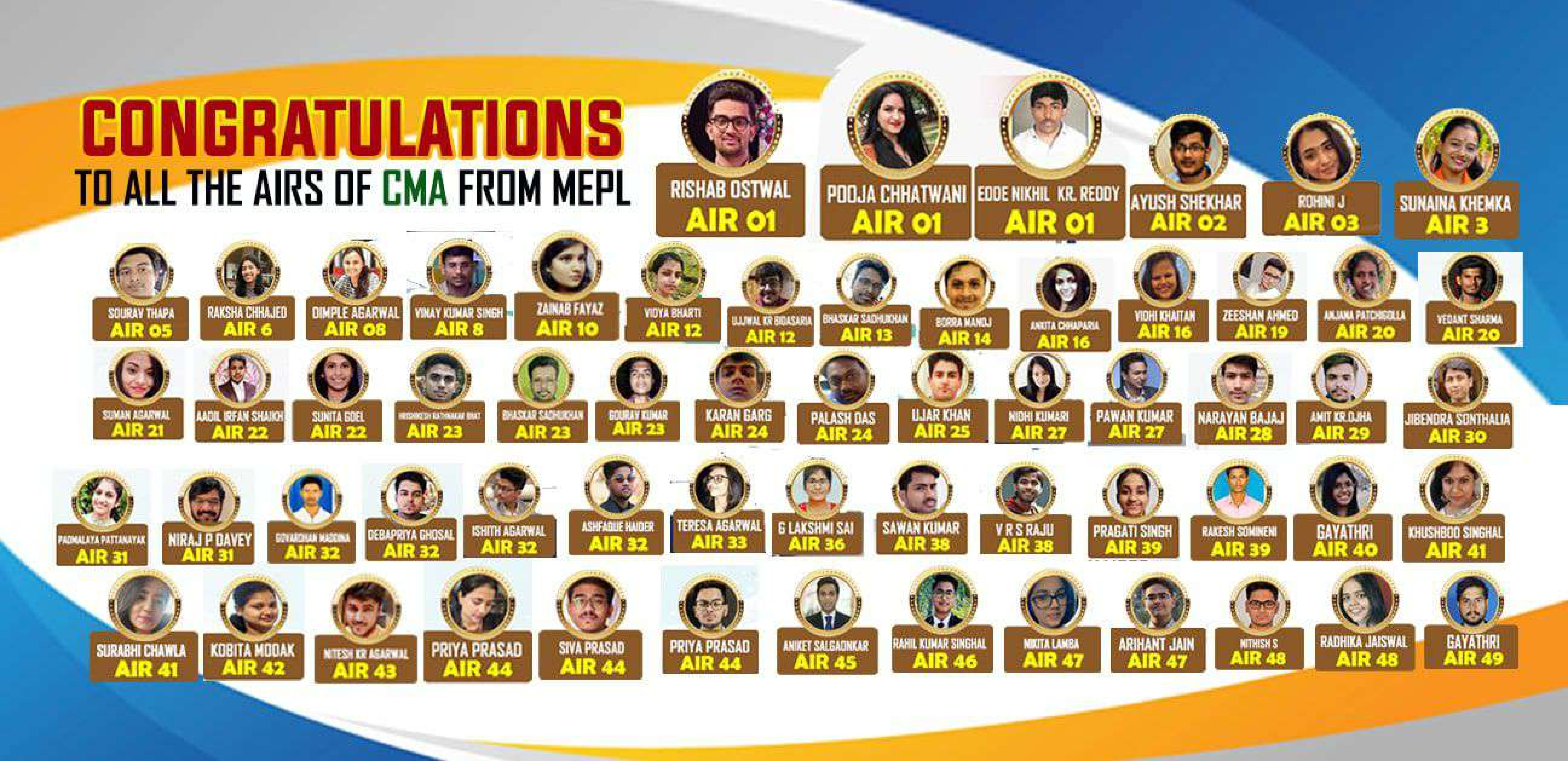

CONGRATULATIONS
TO ALL THE AIRS OF CMA FROM MEPL
RISHAB OSTWAL
AIR 01
POOJA CHHATWANI
AIR 01
EDDE NIKHIL KR. REDDY
AIR 01
AYUSH SHEKHAR
AIR 02
ROHINI J
AIR 03
SUNAINA KHEMKA
AIR 3
SOURAV THAPA
AIR 05
RAKSHA CHHAJED
AIR 6
DIMPLE AGARWAL
AIR 08
VINAY KUMAR SINGH
AIR 8
ZAINAB FAYAZ
AIR 10
VIDYA BHARTI
AIR 12
UJJWAL KR BIDASARIA
AIR 12
BHASKAR SADHUKHAN
AIR 13
BORRA MANOJ
AIR 14
ANKITA CHHAPARIA
AIR 16
VIDHI KHAITAN
AIR 16
ZEESHAN AHMED
AIR 19
ANJANA PATCHIGOLLA
AIR 20
VEDANT SHARMA
AIR 20
SUMAN AGARWAL
AIR 21
AADIL IRFAN SHAIKH
AIR 22
SUNITA GOEL
AIR 22
AIR 23
BHASKAR SADHUKHAN
AIR 23
GOURAV KUMAR
AIR 23
KARAN GARG
AIR 24
PALASH DAS
AIR 24
UJAR KHAN
AIR 25
NIDHI KUMARI
AIR 27
PAWAN KUMAR
AIR 27
NARAYAN BAJAJ
AIR 28
AMIT KR.OJHA
AIR 29
JIBENDRA SONTHALIA
AIR 30
PADMALAYA PATTANAYAK
AIR 31
NIRAJ P DAVEY
AIR 31
GOVARDHAN MADDINA
AIR 32
DEBAPRIYA GHOSAL
AIR 32
ISHITH AGARWAL
AIR 32
ASHFAQUE HAIDER
AIR 32
TERESA AGARWAL
AIR 33
G LAKSHMI SAI
AIR 36
SAWAN KUMAR
AIR 38
V R S RAJU
AIR 38
PRAGATI SINGH
AIR 39
RAKESH SOMINENI
AIR 39
GAYATHRI
AIR 40
KHUSHBOO SINGHAL
AIR 41
SURABHI CHAWLA
AIR 41
KOBITA MODAK
AIR 42
NITESH KR AGARWAL
AIR 43
PRIYA PRASAD
AIR 44
SIVA PRASAD
AIR 44
PRIYA PRASAD
AIR 44
ANIKET SALGAONKAR
AIR 45
RAHUL KUMAR SINGHAL
AIR 46
NIKITA LAMBA
AIR 47
ARIHANT JAIN
AIR 47
NITHISH S
AIR 48
RADHIKA JAISWAL
AIR 48
GAYATHRI
AIR 49

BASICS OF MANAGEMENT AUDIT

INTRODUCTION

- ✓ ***Management Audit is the total examination of transaction of an organization,***
- ✓ ***and includes checks on the effectiveness of managers, their compliances with company on professional standard, the reliability of management functioning, the quality of performance of duties and recommendations for improvement.***

Management audit deals with –
(i) the objectives of an organisation;
(ii) the policies and procedures in terms of the objective of the organisation; and
(iii) adequate performance of an organisation in terms of objectives, policies, and procedures.

Definition and Objects of Management Audit

Management audit is the unique process appraising the performance of directors, managers or in the other words, appraising the performance of the management.

The main objectives of management audit can be summarized as follows:-

(i) to ensure optimum utilization on all the resource employed, including money, materials, machines, men and methods;

(ii) to highlight efficiencies in objectives, policies, procedures and planning;

(iii) to suggest improvement in methods of operations;

(iv) to highlight weak links in organizational structure and in internal control systems, and suggest necessary improvements;

(v) to help management by providing health indicators and help prevent sickness or help cure in case of sickness; and

(vi) to anticipate problems and suggest remedies to solve them in time.

Benefits of Management Audit

(i) It helps management in framing basic policies for the organization and to define objectives.
(ii) management audit helps in preparing a viable and achievable plan for the organization.
(iii) It helps implement the plans.
(iv) It assists in smooth operation of the organization.
(v) It assists in analyzing SWOT (strengths, weaknesses, opportunities and threats) of the organization.

(vi) to ensure optimum utilization on all the resource employed, including money, materials, machines, men and methods;

(vii) to highlight efficiencies in objectives, policies, procedures and planning;

(viii) to suggest improvement in methods of operations;

(ix) to highlight weak links in organizational structure and in internal control systems, and suggest necessary improvements;

(x) to help management by providing health indicators and help prevent sickness or help cure in case of sickness; and

(xi) to anticipate problems and suggest remedies to solve them in time.

Scope and Usefulness of Management Audit

Accordingly, the scope of management audit may include –

(i) The suitability, practicability and present compliance or otherwise of the organization with its desired objectives and aims.

(ii) The current image of the organization among customers, general public within its own particular industrial or commercial field.

(iii) Efficient utilization of resources of the organization.

(iv) The rate of return of investors' capital – whether poor, adequate or above average.
(v) Relationship of the business with its own shareholders and investing public in general.
(vi) Employee relation.
(vii) The aims and effectiveness of management.
(viii) Financial policies

Accountability is the main criteria of audit, particularly management audit. The process of accountability includes following elements:

(i) Description of the organization and its participants.

(ii) Identification of objectives and the provision of relevant information to those objectives.

(iii) Ability of action on the part of the participants.

Uses of Management Audit

(i) It helps management in framing basic policies for the organization and to define objectives.
(ii) management audit helps in preparing a viable and achievable plan for the organization.
(iii) It helps implement the plans.
(iv) It assists in smooth operation of the organization.
(v) It assists in analyzing SWOT (strengths, weaknesses, opportunities and threats) of the organization.

(vi) to ensure optimum utilization on all the resource employed, including money, materials, machines, men and methods;
(vii) to highlight efficiencies in objectives, policies, procedures and planning;
(viii) to suggest improvement in methods of operations;
(ix) to highlight weak links in organizational structure and in internal control systems, and suggest necessary improvements;
(x) to help management by providing health indicators and help prevent sickness or help cure in case of sickness; and
(xi) to anticipate problems and suggest remedies to solve them in time.

Concept of Management Audit

Conceptually management audit covers areas which are not normally covered by other audits. Secondly, management audit does not go into the vouchers or other similar evidence but comprises of the appraisal of management effectiveness in various areas of managerial operations.

Management function include –

(i) Planning.

(ii) Organising.

(iii) Staffing.

(iv) Coordinating.

(v) Communicating.

(vi) Directing.

(vii) Motivating.

(viii) Controlling.

(ix) Innovating.

Functions of Management Audit

(i) Marketing, including selling and distribution.
(ii) Manufacturing/servicing from selection to recruitment, training, motivating, retaining, advancement, etc.
(iii) Personnel policies and industrial relations.
(iv) Finance including maintenance of accounts.
(v) Research & development.

Ingredients/ Basis	Management Audit	Internal Audit	Financial, cost and other audits
1. Expectations	Appraising management	Assisting Management to identify problems.	Specific under statutory and other's directions.
2. Attitude	Friend, Philosopher and guide.	Policeman/judge	Watch dog/judge
3. Agency	Outside team or management	Internal or External	Specially designated persons
4. Force	Force	Statutory in some cases.	Statutory

Ingredients/ Basis	Management Audit	Internal Audit	Financial, cost and other audits
5. Area	Complete Management or specific problems.	Mainly procedural.	Specific objectives
6. Evaluation	Effectiveness/ quality of management/Policies	Quality of procedures Operations/data	Specific information
7. Period covered	Past, present and future.	Past and present	Mainly past
8. Procedures	Flexible	Structured	Highly structured

Ingredients/ Basis	*Management Audit*	*Internal Audit*	*Financial, cost and other audits*
9. Reporting level	*Higher*	*Operational*	*Designated*
10. Time span	*Futuristic*	*Current and immediate.*	*Current and immediate past.*
11 . Periodicity	*Regular*	*Regular*	*Annual*

Steps of Management Audit

The steps of management audit are:-

1. Select an area of operation of management

2. Establish what should be the objective, standard or target of the operation.

3. Determine whether the actual results meet the standards, norms or targets. If not, why not?

(i) Is the target too difficult?

(ii) Is failure to achieve the target costing the organisation?

4. Establish what is done to ensure the achievement of the norms, target and standards.
What steps are taken for –
(i) planning
(ii) operations, execution
5. Carryout a detailed investigation.
6. Report the findings of the audit and make recommendations.

Management Auditing Procedure

1. *Make a preliminary survey of the activity under audit.*
2. *Study the basic charter of the activity under audit (applicable laws and related legislative history.*
3. *Review the policies established to govern the activities.*
4. *Report on the findings of the audit work.*

Techniques by which the auditor can identify problems areas

(i) Identification of possible control weakness by survey:- During the preliminary survey work information is obtained on how the activity is supposed to function.

(ii) Review of management reports.

(iii)Review of internal audit or inspection reports.

(iv)Physical inspection:- Physical inspections of the organization's activities.

(v) Discussions with the officials and employees

Techniques of Management Audit

(i) <u>Accounting or economic techniques</u>

(a) Break-even analysis

(b) Budgetary control including flexible budget system

(c) Cost management techniques indicating how an organization's assets should be allocated over competing projects or

(d) Discounted cash flow and net present value methods.
(e) Cost benefit analysis.
(f) Standard costing and marginal costing
(g) Activity based costing to test.
(h) Quality analysis of company transactions.

(ii) Scientific techniques

(a) Computer Models: Decision on material mix, product, mix, make or buy etc.

(b) Network analysis

(c) Mathematical programming

(iii) Statistical techniques

(a)Activity sampling

(b) Monte Carlo Simulation

(c) Exponential smoothing

(d) Interfirm comparison

(iv) Personnel techniques
(a)Attitude survey
(b)Man-machine relationship
(c)Training methods
(d)Profitability and productivity measurement

(v) General techniques
(a)Statistical theory of management
(b) Analysing the problem
(c) Establish management by objectives.
(d) Determine the key factors

(b) Brain storming
(c) Transfer pricing
(d) Management by objectives
(e) Management by exception

Management Audit Evidence

The auditor's evidence comes from his discussions with the people concerned in the organization, the survey and review of various reports of the organization.

Management Audit Programme (MAP)

It is a plan of action drawn in advance of taking up the audit.

An efficient management audit programme shall comprise the following:

(i) Review of the organizational objectives and plans

(ii) Study of the policies and practices of the management

(iii) A critical review of the organizational structure

(iv) Study of the systems and procedures

(v) Evaluation of operations

(vi) Study of the efficiency of the use of physical resources available.

(vii) Check on adherence to the statutory obligation and

(viii) Above all, review the efficiency of manpower

Qualifications of Management and Administrative Auditors

The essential qualities of a management auditor are:
(i) Ability to grasp the business problems
(ii) General understanding of the nature, purposes and objects of the organization.
(iii) assist the progress of the organization.
(iv) Knowledge of the principles of delegation of authority

(v) Understanding different internal control devices.

(vi) Sufficient knowledge statistical techniques, cost and management accounting.

(vii) General understanding of different laws.

(viii) Sufficient knowledge and experience in preparing various reports.

(ix) Tactfulness, perseverance, pleasing and dynamic personality.

Audit Checklist

A management auditor shall normally maintain an audit checklist.

The organizational areas covered fall under the broad categories of:-

- *Planning*
- *Organising*
- *Staffing*
- *Coordinating*
- *Communicating*
- *Directing*
- *Motivating*
- *Controlling and*
- *Innovating*

An auditor should look for any weakness which may affect efficiency of the organization

(i) Directorial weakness
(ii) Management weakness
(iii) Organisational weakness
(iv) Financial weakness
(v) Systems weakness

(vi) Procedural weakness
(vii) Functional weakness
(viii) Operational weakness
(ix) Marketing weakness
(x) Industrial relations weakness

Characteristics of A Good Management Audit Report

Characteristics of a good management audit report are:-

(i) Pertinence	*P*
(ii) Comprehensiveness	*C*
(iii) Brevity	*B*
(iv) Timeliness	*T*
(v) Motivating	*M*
(vi) Formatting	*F*

Special Reports for Banks, Shareholders, Employees & Small Business

Salient features for these special reports are briefly discussed below:-

(1) <u>Reports for banks and creditors</u>:-

Form and content of financial statements and schedules re important to the lender but explanatory notes to the statements and schedules are perhaps more important to them.

(2) <u>Report to shareholders</u> :-

In India, auditor's report in the prospectus at the time of public issue is very important.

(3) <u>Reports to employees</u> :-

Reports for employees are mainly prepared for better understanding of the business.

(4) <u>Reports for small business</u> :-

the management auditor should design his report in a very simple way as the report for a small business if specifically directed to a person or a small group of persons only.

COST AUDIT U/S 148

1. Meaning

It means auditing of cost records by a cost accountant (CMA in practice).

2. Applicability of maintaining cost records

If aggregate turnover of company (whether in regulated sector i.e., Type A or unregulated sector i.e., Type B) in immediately preceeding financial year is minimum 35 crores.

3. Applicability of cost audit

Regulated sector (Type A)

Aggregate turnover in immediately preceeding financial year minimum 50 Cr and from individual product minimum 25 Cr.

Unregulated sector (Type B)

Aggregate turnover in immediately preceeding financial year minimum 100 Cr and from individual product minimum 35 Cr.

4. Type A i.e., Regulated Sector

- Power
- Petroleum
- Drugs
- Telecommunication
- Sugar
- Fertilizer

5. Type B i.e., Unregulated Sector

Rest

6. Example

Suppose A ltd is a petroleum company manufacturing three products A, B and C whose turnover of immediately preceeding financial year given below:-

Situations	*Cost Record Applicability*	*Cost Audit Applicability*
1. Products *A: 20 Cr* *B: 20 Cr* *C: 20 Cr*	*Yes*	*No*

Situations	*Cost Record Applicability*	*Cost Audit Applicability*
2. Products *A: 30 Cr* *B: 20 Cr* *C: 20 Cr*	*Yes*	*Only for product A*
3. Products *A: 30 Cr* *B: 10 Cr* *C: 5 Cr*	*Yes*	*No*

7. Cost Record are maintained in CRA 1.

8. Appointment of Cost Auditor

If Audit Committee (AC) exists

AC shall recommend the name of the cost auditor.

BOD shall appoint.

If Audit Committee (AC) does not exists

BOD shall appoint on its own.

9. Remuneration of Cost Auditor

If Audit Committee (AC) exists

AC will recommend.

↓

BOD shall fix.

↓

Shareholder shall approve.

If Audit Committee (AC) does not exists

BOD shall fix.

↓

Shareholder shall approve.

10. Time limit of Appointment

Cost auditor shall be appointed within 180 days from the commencement of financial year and company shall inform about its appointment in form CRA 2 to CG (ROC) within 30 days of appointment or 180 days of commencement of financial year whichever is earlier.

11. Casual Vacancy

All the casual vacancy shall be filled up by BOD within 30 days of such casual vacancy and company shall inform to CG (ROC) within 30 days of filling of such casual vacancy by submitting Form CRA 2.

12. Removal of Cost Auditor

BOD may remove the cost auditor without any prior approval of CG.

13. Qualifications, Powers and Duties of Cost Auditor

Same as company auditor mutatis mutandis (with necessary changes).

14. Can company auditor be appointed as Cost Auditor?

No

15. Can the internal auditor be appointed as cost auditor?

No

16. Time limit of completing Cost audit

Cost audit shall be completed within 180 days from the end of financial year and cost auditor shall issue his cost audit report in Form CRA 3 to company and within 30 days company shall along with explanation to adverse remarks if any submit to ROC in Form CRA 4.

17. Exemptions from Cost Audit: (No exemptions in cost record)

- *Unit in SEZ*
- *Company whose revenue from export in foreign exchange more than 75% of total revenue.*
- *Unit for captive consumption*

Cost Audit Documentation and Audit Process

Meaning of

Documentation:

Audit documentation is a material of audit working papers prepared and preserved by cost auditor in connection with the performance of his audit.

Audit file:

Audit file means collection of one or more folders or any other shortage media whether kept in physical or electronic form containing audit documentation.

Audit working papers:

Audit working papers are ordered documents containing details of audit procedures are applied, audit evidences collected and basis of opinion.

3 stages of cost audit or overview of cost audit

Planning

1. Understanding the entity and its environment including internal environment.
2. Risk identification and strategy.
3. Risk and materiality assessment.

Performing

1. Audit execution
2. Audit procedures
3. Obtain audit evidences or audit findings.

Reporting

1. Audit conclusion
2. Issuing an audit report

Practical steps of audit process

Step 1: Objective of Audit and management Outlook

Auditor should understand from management of the entity whether management is looking for a cost audit just to satisfy the statutory requirement or also to fulfil other objectives like

- Cost reduction
- Checking parameters of operational efficiency
- Suggesting product diversification
- Define profit making and loss making products
- Suggesting marketing strategies
- Complete review of business strategies

Step 2: Preconditions

1. Cost auditor should understand the following:-

- Objective of cost audit
- Area, nature and scope of cost audit.
- Number of cost auditors appointed.
- Applicable reporting framework.
- Reporting period.
- Statutory deadlines

2. Cost auditor should ensure that management understands its responsibilities:-

- To maintain cost records.
- To present cost statements.
- To give unrestricted access to cost auditor to its books and persons.
- *To give additional information is required by cost auditor.*
- *To give necessary representations.*
- *To select and apply cost accounting principles.*

3. Auditor and cost auditor should agree on audit fees and payment schedules and sign the engagement letter.

Step 3: Understanding the company's in business (key inputs to make audit plan)

Cost auditor before making an audit plan should understand the following relating to company's business:-

1. Nature of companies activities, ownership and management structure.
2. Nature of industry in which it operates.
3. Applicable reporting framework.
4. Companies production process.
5. Details of subsidiaries, associates and joint ventures.
6. Purchase and sales policy.
7. Inventory Policy
8. Internal Control system
9. Internal audit system
10. Previous year's audit report

Step 4: Planning the audit

Audit plan should include the following

1. **Timings (dates) and duration (number of days) of audit.**
2. **Level and number of audit personnel required.**
3. **Determining the audit engagement partner.**
4. **Deciding materiality level.**
5. **Drawing and overall audit plan and strategy.**
6. **Formulating audit procedures like**
7. **Formulating risk assessment procedures**

Formulating audit procedures like

- *Test of controls*
- *Test of details*
- *Analytical procedures*
- *Management representation*
- *Assertion*

Step 5: Executing the audit

- *Performing the audit procedures as planned.*
- *Collecting the audit evidences and checking.*
  - *Relevance and reliability*
  - *Sufficiency and*
  - *Source of such evidences*
- *Preparing draft audit and discussion.*
- *Preparing final audit report.*

Step 6 Audit documentation

- *Documenting audit plan and strategy*
- *Documentary working papers*
- *Documenting audit evidences*
- *Documenting draft audit observations.*
- *Documenting final audit report.*

COST AUDITOR - PROFESSIONAL ETHICS, RESPONSIBILITIES

COST AUDITOR – DEFINITION

"Cost auditor" means a Cost Accountant in practice

Code Of Professional Ethics

The objectives of the accountancy profession require four basic needs to be met:

(a) Credibility in information and information systems;
(b) Professionalism identified by employers, clients and other interested parties;
(c) Quality of service carried out to the highest standards of performance; and
(d) Confidence

Cost accountants have to observe fundamental principles, which are:

(a) Integrity - A cost accountant should be straightforward and honest in performing his services.
(b) Objectivity
(c) Competence
(d) Confidentiality
(e) Professional Behaviour

Duties Of A Cost Auditor To Report Fraud – (Section 143 Of The Companies Act, 2013)

(i) According to Section 143(12) of the Companies Act 2013, if an auditor of a company, has reason to believe that an offence involving fraud is being or has been committed against the company by officers or employees of the company, he shall immediately report the matter to the Central Government within such time and in such manner as may be prescribed.

(ii) Sub-Section specifies that no duty to which an auditor of a company may be subject to shall be regarded as having been contravened by reason of his reporting the matter referred to in sub-section (*12*) if it is done in good faith.

(iii) Sub-Section 14 makes it clear that the provisions of this section shall *mutatis mutandis* apply to the cost accountant in practice conducting cost audit under section 148.

(iv) According to Sub-Section 15 if any auditor, cost accountant or company secretary in practice do not comply with the provisions of sub-section (*12*), he shall be punishable with fine which shall not be less than one lakh rupees but which may extend to twenty-five lakh rupees.

(v) Matter are required to be reported immediately but not later than 2 days of his knowledge specifying:

(a) Nature of Fraud with description;

(b) Approximate amount involved; and

(c) Parties involved.

(vi) Following disclosures are required to be made in Board's Report:

(a) Nature of Fraud with description;

(b) Approximate Amount involved;

(c) Parties involved, if remedial action not taken; and

(d) Remedial actions taken

Professional And Other Misconducts

The First Schedule
Part I
Professional Misconduct In Relation To Cost Accountants In Practice

A cost accountant in practice shall be deemed to be guilty of professional misconduct, if he:-

(1) allows any person to practice in his name as a cost accountant unless such person is also a cost accountant in practice and is in partnership with or employed by himself;

(2) pays or allows or agrees to pay or allow, directly or indirectly, any share, commission or brokerage in the fees or profits of his professional work, to any person other than a member of the Institute or a partner or a retired partner or the legal representative of a deceased partner.

"Partner" includes a person residing outside India with whom a cost accountant in practice has entered into partnership

(3) accepts or agrees to accept any part of the profits of the professional work of a person who is not a member of the Institute:

Provided that nothing herein contained shall be construed as prohibiting a member from entering into profit sharing or other similar arrangements, including receiving any share, commission or brokerage in the fees, with a member of such professional body or other person having qualifications, as is referred to in item (2) of this Part;

(4) enters into partnership, in or outside India, with any person other than a cost accountant in practice or such other person who is a member of any other professional body having such qualifications as may be prescribed

(5) secures, either through the services of a person who is not an employee of such cost accountant or who is not his partner or by means which are not open to a cost accountant, any professional business:

(6) solicits clients or professional work, either directly or indirectly, by circular, advertisement, personal communication or interview or by any other means:

Provided that nothing herein contained shall be construed as preventing or prohibiting-

(i) any cost accountant from applying or requesting for or inviting or securing professional work from another cost accountant in practice;

(ii) a member from responding to tenders or enquiries issued by various users of professional services or organisations from time to time and securing professional work as a consequence;

(7) advertises his professional attainments or services, or uses any designation or expressions other than cost accountant on professional documents, visiting cards, letter heads or sign boards, unless it be a degree of a University established by law in India or recognised by the Central Government or a title indicating membership of the [Institute of Cost Accountants of India] or of any other institution that has been recognised by the Central Government

Part II

Professional Misconduct In Relation To Members Of The Institute In Service

A member of the Institute (other than a member in practice) shall be deemed to be guilty of professional misconduct, if he being an employee of any company, firm or person—

(1) pays or allows or agrees to pay, directly or indirectly, to any person any share in the emoluments of the employment undertaken by him;

(2) accepts or agrees to accept any part of fees, profit or gains from a lawyer, a cost accountant or broker engaged by such company, firm or person or agent or customer of such company, firm or person by way of commission or gratification.

Part III

Professional Misconduct In Relation To Members Of The Institute Generally

A member of the Institute, whether in practice or not, shall be deemed to be guilty of professional misconduct, if he —

(1) not being a fellow of the Institute acts as a fellow of the Institute;

(2) does not supply the information called for, or does not comply with the requirements asked for by the Institute, Council or any of its Committees, Director (Discipline), Board of Discipline, Disciplinary Committee, Quality Review Board or the Appellate Authority;

(3) while inviting professional work from another cost accountant or while responding to tenders or enquiries or while advertising through a write up, or anything as provided for in items (6) and (7) of Part I of this Schedule, gives information knowing it to be false.

Part IV

Other Misconduct In Relation To Members Of The Institute Generally

A member of the institute, whether in practice or not, shall be deemed to be guilty of other misconduct, if—

(1) he is held guilty by any civil or criminal court for an offence which is punishable with imprisonment for a term not exceeding six months;

(2) in the opinion of the Council he brings disrepute to the profession or the institute as a result of his action whether or not related to his professional work.

THE SECOND SCHEDULE

Part I

Professional Misconduct In Relation To Cost Accountants In Practice

A cost accountant in practice shall be deemed to be guilty of professional misconduct, if he:—

(1) discloses information acquired in the course of his professional engagement to any person other than his client so engaging him, without the consent of his client, or otherwise than as required by any law for the time being in force;

(2) certifies or submits in his name, or in the name of his firm, a report of an examination of cost accounting and related statements unless the examination of such statements has been made by him or by a partner or an employee in his firm or by another cost accountant in practice;

(3) permits his name or the name of his firm to be used in connection with an estimate of cost or earnings contingent upon future transactions in a manner which may lead to the belief that he vouches for the accuracy of the forecast;

(4) expresses his opinion on cost or pricing statements of any business or enterprise in which he, his firm or a partner in his firm has a substantial interest;

(5) fails to disclose a material fact known to him in a cost or pricing statement, which is not disclosed in a cost or pricing statement but disclosure of which is necessary in making such statement where he is concerned with such statement in a professional capacity;

(6) fails to report a material mis-statement known to him to appear in a cost or pricing statement with which he is concerned in a professional capacity;

(7) does not exercise due diligence, or is grossly negligent in the conduct of his professional duties;

(8) fails to obtain sufficient information which is necessary for expression of an opinion

(9) fails to invite attention to any material departure from the generally accepted procedure of costing and pricing applicable to the circumstances;

(10) fails to keep moneys of his client other than fees or remuneration or money meant to be expended in a separate banking account or to use such moneys for purposes for which they are intended within a reasonable time.

PART II

PROFESSIONAL MISCONDUCT IN RELATION TO MEMBERS OF THE INSTITUTE GENERALLY

A member of the Institute, whether in practice or not, shall be deemed to be guilty of professional misconduct, if he-

(1) contravenes any of the provisions of this Act or the regulations

(2) being an employee of any company, firm or person, discloses confidential information acquired in the course of his employment, except as and when required by any law for the time being in force or except as permitted by the employer;

(3) includes in any information, statement, return or form to be submitted to the Institute, Council or any of its Committees, Director (Discipline), Board of Discipline, Disciplinary Committee, Quality Review Board or the Appellate Authority any particulars knowing them to be false;

(4) defalcates or embezzles moneys received in his professional capacity.

Part III

Other Misconduct In Relation To Members Of The Institute Generally

A member of the Institute, whether in practice or not, shall be deemed to be guilty of other misconduct, if he is held guilty by any civil or criminal court for an offence which is punishable with imprisonment for a term exceeding six months.]

Penalties Under The Act

Section 24 of the CWA Act, 1959: Penalty for falsely claiming to be a member, etc.

Any person who,-

(i) not being a member of the Institute-

(a) represents that he is a member of the Institute; or

(b) uses the designation cost accountant; or

(ii) being a member of the Institute, but not having a certificate of practice, represents that he is in practice or practices as a cost accountant, shall be punishable on first conviction with fine which may extend to one thousand rupees, and on any subsequent conviction with imprisonment which may extend to six months, or with fine which may extend to five thousand rupees, or with both.

Section 25 of the CWA Act, 1959: Penalty for using name of the Council, awarding degrees of cost accountancy, etc.

(1) No person shall –

(i) use a name or a common seal which is identical with the name or the common seal of the Institute or so nearly resembles it as to deceive or as is likely to deceive the public;

(ii) award any degree, diploma or certificate or bestow any designation which indicates or purports to indicate the position or attainment of any qualification or competence in cost accountancy similar to that of a member of the Institute; or

(iii) seek to regulate in any manner whatsoever the profession of [cost accountants.]

(2) First conviction with fine which may extend to one thousand rupees, and on any subsequent conviction with imprisonment which may extend to six months, or with fine which may extend to five thousand rupees, or with both.

Section 26 of the CWA Act, 1959: Companies not to engage in cost accountancy.

(1)No company, whether incorporated in India or elsewhere, shall practice as cost accountants.

(2) Any contravention of the provisions shall be punishable on first conviction with fine which may extend to one thousand rupees, and on any subsequent conviction to five thousand rupees.

Unqualified persons not to sign documents

(1) No person other than a member of the Institute shall sign any document on behalf of a cost accountant in practice

(2) Any person who contravenes the provisions without prejudice to any other proceedings which may be taken against him, be punishable on first conviction with a fine not less than five thousand rupees but which may extend to one lakh rupees, and in the event of a second or subsequent conviction with imprisonment for a term which may extend to one year or with a fine not less than ten thousand rupees but which may extend to two lakh rupees or with both.]

Section 29 of the CWA Act, 1959: Sanction to prosecute.

- **No person shall be prosecuted under this Act except on a complaint made by or under the order of the Council or of the Central Government.**

DISQUALIFICATION OF AUDITOR U/S 141(3)

a. Body corporate except LLP.
(This is because law makers wanted guilty auditors to be personally liable which is not possible in case of body corporate, so body corporate is disqualified.)

b. Officer or employee of company: Independence

c. Partner/employee of officer/employee of company: Independence

d. If a person is disqualified or his partner or relative.

(i) Holds shares in the company or its holding or its subsidiary or its associate or subsidiary of holding (Fellow subsidiary).

Provided that relative may hold shares in the co. UPTO FACE VALUE not exceeding Rs 1000 or such higher sum as may be prescribed (currently face value prescribed is Rs 1 lakh).

If relative is holding face value more than 1 lakh then corrective action to be taken within 60 days.

(ii) Indebted for an amount exceeding Rs 5 lakh in company/holding/ subsidiary/associate/fellow subsidiary.

(iii) Given any guarantee or security to company/holding/ subsidiary/associate/ fellow subsidiary more than Rs 1 lakhs for any third party.

e. A person/firm is disqualified if it has direct or indirect business relationship with company/ holding/ subsidiary/associate/fellow subsidiary.

f. A person is disqualified if his relative is either a director or in employment as a KMP of the company.

g. A person/firm is disqualified to conduct more than 20 audits in a year.

h. A person is disqualified for 10 years from the date of conviction for an offence involving fraud and imprisoned.

i. A person is disqualified if he renders services u/s 144 to company/holding/subsidiary.

Discuss ceiling limit.

Ceiling limit on the number of audits is 20 or partner who is not in full time employment elsewhere.

Example: A, B and C are partners in a CA firm

A
(In full time employment elsewhere)

B
(Part time)

C
(Is also a partner in another CA firm having 12 audits in his name there)

= 0 + 20+ 8
(20-12)

= 28 audits

Following audits are not counted in ceiling limit

- Branch audit
- Tax audit (As per ICAI's notification its limit is 60 per partner)
- Internal audit
- OPC
- Small company
- Dormant company
- Private company having PUSC less than 100 Cr

COST AUDITING AND ASSURANCE STANDARDS

Sub-section (3) of section 148 prescribes that the auditor conducting the cost audit shall comply with the *cost auditing standards*. This proviso to be read with the following explanation:

"cost auditing standards" mean such standards as are issued by the Institute of Cost Accountants of India, constituted under the Cost and Works Accountants Act, 1959, with the approval of the Central Government..

The Institute of Cost Accountants of India is a founder member of the International Federation of Accountants (IFAC). The International Auditing and Assurance Standards Board (IAASB) established under the authority of IFAC have issued series of International Standards on Auditing (ISAs).

Government of India, Ministry of Corporate Affairs, vide their letter no. 52/33/CAB/2013 dated 10th September, 2015 has, under section 148(3) of the Companies Act, 2013, granted Central Government's approval to the following Cost Auditing Standards:

1. Cost Auditing Standard-101 on Planning an audit of Cost Statements;
2. Cost Auditing Standard-102 on Cost Audit Documentation;
3. Cost Auditing Standard-103 on Overall objectives of the independent cost auditor and the conduct of an Audit in accordance with Cost Auditing Standards
4. Cost Auditing Standard-104 on Knowledge of business, its processes and the business environment

Cost Auditing Standard on Planning an Audit of Cost Statements - 101

1. **Objective** - The objective of this Standard is to guide the members in planning for the audit of cost statements so that it is performed in an efficient and effective manner. Audit planning shall also include establishing the overall audit strategy and audit plan for the conduct of the audit.

2. **Definitions**

- **Audit**: Audit is an independent examination of financial, cost and other related information of an entity whether profit oriented or not, irrespective of its size or legal form, when such an examination is conducted with a view to expressing an opinion thereon.
- **Audit Plan**: A record of the planned nature, timing and extent of risk assessment procedures and further audit procedures at the assertion level in response to the assessed risks.
- **Audit Risk**: Audit risk is the risk that the cost auditor expresses an inappropriate audit opinion on the cost statements that are materially misstated.

2. Requirements

1. ***Prior to entering the planning phase, the Cost Auditor shall ensure that:***

(a) the appointment as cost auditor is proper, he has received the letter of appointment

(b) the ethical requirements

(c) an understanding of the terms of reference , *scope of coverage*

2. At first Audit Strategy is made and then the plan and then the audit programme

3. ***In formulating the Overall audit strategy, the Cost Auditor shall consider all relevant factors.***

(a) results of preliminary activities

(b) knowledge from previous audits

(c) knowledge of business

(d) nature and scope of the audit

(e) statutory deadlines and reporting format

4. The Cost Auditor shall develop an audit plan.

5. The Cost Auditor shall update the Overall audit strategy and the audit plan as required during the course of *audit.*

6. The Cost Auditor shall document the overall audit strategy, the audit plan and any significant changes *made therein during the audit engagements and the reasons for the changes.*

3. Application Guidance

1. ***The nature and extent of planning activities will vary according to the:***

(a) size and complexity of the entity's activities, the number of products to be covered, the processes and operations involved

(b) the audit team members' previous experience

2. Planning is not a discrete phase of an audit, but rather a continuous and iterative process.

3. In audits of small entities where the entire audit may be conducted by a small audit team comprising the audit partner working with say one team member .

Cost Auditing Standard on Cost Audit Documentation – 102

Covered in Chp – 3

The Cost Audit Documentation should be retained for at least ten years from the date of the Cost Audit Report.

Cost Auditing Standard Overall Objectives of the Independent Cost Auditor and the Conduct of an Audit in Accordance with Cost Auditing Standards - 103

Objectives

The Cost auditor's overall objectives are:

1. **to obtain reasonable assurance about whether the cost statements as a whole are free from material *misstatement, whether due to fraud or error***
2. ***Where reasonable assurance cannot be obtained, the cost auditor should qualify the opinion and in extreme cases disclaim an opinion.***

Professional Judgment: The application of relevant training, knowledge and experience, within the context provided by cost auditing standards, cost accounting standards and ethical requirements, in making informed decisions about the courses of action that are appropriate in the circumstances of the audit engagement.

Professional Skepticism: An attitude that includes

(1)a questioning mind,

(2)being alert to conditions which may indicate possible misstatements due to error or fraud, and

(3)a critical assessment of audit evidence.

Requirements

1. The cost auditor shall comply with the relevant ethical requirements including those pertaining to *independence in respect of cost audit engagements.*
2. *While conducting an audit, the cost auditor shall comply with each of the Cost Auditing Standards relevant to the audit.*
3. The cost auditor shall plan and perform an audit with an attitude of professional skepticism
4. The auditor shall obtain sufficient appropriate audit evidence
5. The cost auditor shall exercise professional judgment

Application Guidance:

Audit and Ethics: The cost auditor should comply with relevant ethical requirements as per Code of Ethics issued by the Institute of Cost Accountants of India. The fundamental principles with which the auditor is required to comply are Independence, Integrity, Objectivity, Professional competence and due care, Confidentiality and Professional conduct.

Conduct of audit – By applying Relevant Cost Auditing Standard

A cost auditor cannot obtain absolute assurance because there are inherent limitations in an audit that affect the cost auditor's ability to detect material misstatements. These limitations result from factors such as the following:

(1) The use of sample testing.
(2) The inherent limitations of internal control (for example, the possibility of management override or collusion).
(3) The fact that most audit evidence is persuasive rather than conclusive.

Audit Risk and Materiality:

Inverse Relationship

Responsibility for the Cost Statements: **The cost auditor is responsible for forming and expressing an opinion on the Cost Statements.**
The Cost auditor is not responsible for preparing and presenting the cost statements in accordance with the applicable Cost reporting framework

Cost Auditing Standard on Knowledge of Business, its Processes and the Business Environment - 104

The following is the *Cost Auditing Standard* (Cost Auditing Standard - 104) on "Knowledge of Business, its Processes and the Business Environment".

Objective

The objective of this standard is to enable the cost auditor to have knowledge of the client's business

Requirements

1. The Cost Auditor shall have adequate level of understanding of the knowledge of Business, its Processes *and the Business Environment to develop a reasonable assurance in order to express an opinion on the cost statements*
2. ***The Entity and Its Environment***: The cost auditor should obtain an understanding of the following:

(a) The nature of the entity, (including its operations covering Business processes, major inputs, Joint & By- Products and Wastages and major outputs etc) and the entity's ownership and governance structure.

(b) Relevant industry, regulatory, and other external factors including the applicable cost and financial reporting framework.

(c) The entity's selection and application of cost accounting policies.

(d) The measurement and review of the entity's performance.

The Entity's Internal Control:

(a)Control Environment: The cost auditor shall evaluate whether management has created and *maintained a culture of honesty and ethical behaviour.*

(b) The entity's risk assessment process: *The cost auditor shall obtain an understanding of whether the entity has a process for*

(1) Identifying business risks relevant to cost reporting objectives;

(2) Assessing the likelihood of their occurrence;

(3) Estimating the significance of the risks; and

(4) Deciding about actions to address those risks.

c) Cost Information System/ Management Information System:

(1) The classes of transactions and their analysis, that are significant to the cost statements;

(2) The procedures, by which those transactions and their analysis are initiated, recorded, processed, and reported in the management information systems and cost statements;

(3) The related cost accounting records

(d) Control Activities: *The auditor shall obtain an understanding of the control activities, relevant to the audit.*

(e) Monitoring of controls

COST AUDIT PROGRAMME

FACTORS IN PLANNING COST AUDIT ASSIGNMENT

In planning the audit assignment certain important factors are taken into consideration viz.

(a) Requirement of audit personnel for the assignment

(b) Documentation of the audit procedures and of evidences

(c) Quality control exercised over performance of the assignment etc.

Audit personnel for the assignment

The cost audit team to whom the assignment is to be delegated need appropriate direction and supervision. It is therefore, essential that they accomplish the following tasks:

(i) Physical inspection of the activities and the area where they are performed;

(ii) Knowledge of the key personnel responsible for the activities and for the maintenance of cost records;

(iii) Physical inspection of the cost accounting records and other records relating to activities;

(iv) Study of the statements of budgets, plans and strategies relating to activities;

(v) Study of the Cost Accounting system

Documentation of the audit procedures and of evidences

Chap - 3

Quality control over performance of the assignment

(a) Monitoring the progress of the preparation / maintenance of cost accounting records;
(b) Reviewing that the audit assistants do have necessary skill and competence
(c) Modifying the plan and programme, as considered necessary; and
(d) Removing the differences of professional judgement between the personnel and deciding the level which is appropriate for reference purpose

CHECKLIST TO AUDIT VARIOUS COST ELEMENTS

1. Audit of production - Product wise
2. Audit of raw material cost
3. Audit of key raw materials inventory status
4. Audit of electricity cost
5. Audit of cost of electricity generated by DG set
6. Audit of demineralised water cost
7. Audit of steam cost
8. Audit of stores and spares cost
9. Audit of repairs and maintenance cost
10 Audit of employee cost
11. Audit of insurance cost
12. Audit of depreciation cost
13. Audit of administrative overhead cost
14. Audit of selling and distribution overhead cost
15. Audit of packing material cost
16. Audit of sales value

Audit of Production - Product Wise

Following checklist should be considered to audit production - product wise:

- Ensure that there is proper inventory balancing for each of the finished product, for example,

  Opening Stock + Production = External Sales + Internal Transfers + Closing Stock
- Ensure that closing stock of previous year is correctly considered as opening stock of current year
- Check the capacity utilisation of previous 5 years - product wise
- For any abnormal under utilisation of production capacity the auditor should seek the reasons from the management and what steps management has proposed to undertake to overcome under utilisation of capacity.
- Check whether there is any circumstance where there is addition to capacity for any product during the year but actual production achieved is either equal to or less than that of previous year. Reasons for the same should be sought from the management

Audit of Raw Material Cost

- Ensure that proper quantitative inventory balancing is carried
  Opening Stock + Purchases – Consumption = Closing Stock
- Work out Input / Output Ratios for key raw materials for previous 3 to 5 years.
- In case of chemical based industries, some chemicals tend to evaporate during their storage. Being normal loss, it should be shown as consumption for that product.
- In some cases it may happen that residue of some particular raw material is not reusable but has to be sold out in the market, say for example In such case, sale value of residue of raw material X will be reduced from raw material consumption of X for Product A only.
- FIFO & Weighted Average rates can be applied

- FIFO & Weighted Average rates can be applied
- If some raw material is produced in-house, then the company would have created separate cost centre for that raw material.
- Sometimes a company may keep rented storage tank at port to store the material which is subsequently brought to the company premises. This rent will form part of cost of material
- Demurrage or detention charges or any penalty levied should not form part of landed cost of raw material
- R & D department should suggest how to reduce/eliminate wastages
- Check the trend of rates of key raw materials for previous 4 years

Audit of Key Raw Materials Inventory Status

- Obtain information about current stock position
- Assess how the stock position is keeping pace with consumption pattern
- Check whether unnecessary increase in the volume of inventory results in more and more cost locked up in inventory

Audit of Electricity Cost

Following checklist should be kept in view to audit electricity cost during cost audit:

- Focus on A Category cost centres
- Any increase in consumption without any corresponding increase in output requires explanation from the management as it is a matter of concern
- Check the trend of electricity cost for previous 5 years
- Check whether proper meters are installed
- Check whether meters are regularly calibrated
- A company may have more than one source of electricity.

Audit of Cost of Electricity Generated by DG Set

Following checklist should be remembered to audit the cost of electricity generated by DG set:

- Monthly report of Diesel Generating Set prepared by officer in-charge of DG set should be the basis for ascertainment of cost of electricity generated
- Ensure that monthly report contains the following information:

(a) No of hours DG set is operated
(b) Quantity of high speed diesel used
(c) Total units generated

- Proper meters should be in place to quantify the total units generated
- Meters should be regularly calibrated
- There should be proper system to quantify quantity of diesel used
- Ensure the correctness of depreciation and insurance booked against DG set

Audit of Demineralised Water Cost

Following checklist should be kept in view to audit demineralised water cost during cost audit:

- Proper cost centre should be allocated to DM water plant
- Monthly report prepared for demineralised water plant should form the basis for ascertainment of cost of demineralised water plant
- Ensure that monthly report so prepared contains the following data

(a) Quantity of filtered water used

(b) Quantity of chemicals used

(c) Electricity units used (Kwh)
(d) Quantity of demineralised water generated
(e) Quantity of demineralised water allocated to production cost centres, boiler etc

- There should be proper system in place to quantify quantity of demineralised water generated and quantity allocated to various cost centres
- It is recommended to have proper meters which should be regularly calibrated
- Ensure correctness of depreciation and insurance
- Cost of electricity
- Cost of chemicals consumed

Audit of Steam Cost

• Generally boiler house prepares monthly report which becomes the basis for ascertainment of cost of steam. Ensure that monthly report for boiler contains the following information:

(a) Running hours of boiler
(b) Quantity of steam generated (MT)
(c) DM water consumption (KL)
(d) Electricity consumption (Kwh)
(e) Fuel consumption

- The cost auditor should check the following ratios for previous 5 years:

(a) Cost of steam generated for previous 5 years

(b) Quantity of steam generated per unit of fuel used

- Focus on A category cost centres
- Ensure that cost of consumable stores and repairs is properly booked against boiler
- Ensure that depreciation and insurance are correctly worked out
- Cost auditor should go through steam cost of previous 5 years

Audit of Stores and Spares Cost

- If there is any substantial increase in expenditure with respect to any particular cost centre/cost centres then reasons for the same should be discussed with the head of that cost centre(s) so that appropriate action can be taken to prevent such recurrences.
- The cost auditor can pick up few major items of stores & spares and ensure that they have been booked against correct cost centres
- The cost auditor should also go through expense control chart

Audit of Repairs and Maintenance Cost

- If there is any substantial increase in expenditure with respect to any particular cost centre / cost centres then reasons for the same should be discussed with the head of that cost centre(s) so that appropriate action can be taken to prevent such recurrences.
- The cost auditor can pick up few major items of repairs & maintenance and ensure that they have been booked against correct cost centres
- The cost auditor should also go through expense control chart

Audit of Employee Cost

Following checklist should be kept in view to audit employee cost during cost audit:

- The cost auditor should verify the following information:

(a) Employee cost for previous 5 years – cost centre wise

(b) Number of employees for previous 5 years - cost centre wise

(c) Employee cost per employee for previous 5 years - cost centre wise

- The cost auditor should also verify the following information:

(a) Employee cost for previous 5 years – product wise

Audit of Employee Cost

(b) Number of employees for previous 5 years – Product wise

(c) Employee cost per employee for previous 5 years – product wise

- The cost auditor should verify that cost centre wise list of employees is regularly updated in employee payroll so that cost centre wise employee cost gives correct reflection of employee cost
- Generally, employees are transferred from one cost centre to another cost centre. The cost auditor should ensure that pay roll of employees reflect all such transfers correctly and timely
- Increase in number of employees for particular cost centres or product should be looked into. The reasons and justification should be obtained from the management

Audit of Insurance Cost

The insurance premium paid by company may cover various kinds of insurances. Insurance of plant & Machinery, buildings and equipments, furniture & fixtures usually covers risks of general loss and fire.

- The cost auditor should obtain information from either CMA department/Finance department
- product wise expenses on insurance.

Audit of Depreciation Cost

Same as Insurance

Audit of Administrative Overhead Cost

A cost auditor should ask for the following information:

(a) Trend of administrative expenses (`/Lacs) – year wise

(b) Administrative expenses (`/MT) – year wise product wise

- The auditor should see that basis of allocation/apportionment
- For any abnormal increase in any expenses, the cost auditor should ask for cost centre wise break up discuss with the management
- He should see that donations and penalties are not charged to products but shown as items of reconciliation
- If there is any substantial increase/decrease in per MT administrative expenses as compared to any of 4 years, he should seek the reasons for the same

Audit of Selling and Distribution Overhead Cost

1) Determination of the costs of sales of products and the extent of profitability of each.
2) Control of selling & distribution costs
3) Price fixation

- A cost auditor should ask for the following information:

  (a) Trend of selling & distribution expenses (`/Lacs) – year wise

(b) Selling & distribution expenses (per/MT) – year wise product wise

- He should see that basis of allocation/apportionment
- For any abnormal increase in any expenses and discuss with the management

Audit of Packing Material Cost

- Efforts should be made to negotiate the rate of high value consumption packing materials
- Steps should be taken to reduce handling losses, wastages, etc
- Ensure that proper quantitative inventory balancing is carried out for all the packing materials i.e. opening stock + purchases – consumption = closing stock
- For charging packing material cost to product/products, both FIFO and weighted average rates can be applied.
- a company prepares expense control chart
- If some packing material is produced in-house then the company would have created separate cost centre for that packing material.

Audit of Sales Value

- More focus should be on products of A category and B category in terms of sales value
- Check whether efforts have been made to increase sales realisation
- Check whether efforts have been made to procure more orders for product/products having higher contribution
- Check whether company has diverted resource allocation from high volume/low contribution products to high contribution products
- Check that there is a proper balance between the opening stock, production, sales and closing stock in order to ensure no unnecessary locking up of working capital in terms of closing stock
- Check that any increase in production capacity has resulted in increase in sales quantity without affecting corresponding sales realisation

An overall checklist of the programme is drawn up for reader's guidance:

Sl. No.	Planning Phases	Action to be taken
1.	Familiarisation with the company:	Acquire the previous years' Annual Reports and Accounts (at least 5 years)
(a)	Nature of business and industry	
(b)	Objectives of the company, e.g., maximisation of profits, cost reduction, quality improvement, customised production etc. Strategies of the company like market expansion, market diversification including mergers/acquisitions, research including innovation, product diversification including product mix etc.	Keep notes
(c)	Ownership, e.g. public or private, domestically controlled or MNC, major shareholders, management position of shareholders	Identify and keep notes on legal forms.
(d)	Corporate structure, subsidiaries and affiliates ownership percentage and dates of acquisition	Keep notes

Sl. No.	Planning Phases	Action to be taken
2.	Company records: Memorandum and Articles of Association, foreign technical collaboration & agreement, other agreement deeds or contracts including that of inter-company transactions, secretarial records and registers.	Obtain copies. Keep notes
3. (a) (b) (c)	Familiarisation with the Organization of the Company: Head of Finance/ Accounts/Costing Other Directors & Key Managerial Personnel Delegation of Financial and Administrative Authorities; Organisation control systems in existence including MIS, and cost control processes	Keep notes
4.	Familiarity with organisation profile: Main or Central or Head Office Administration Offices other functional managements, e.g. Purchase, Sales, Production, Finance, etc. Background of Key personnel	Obtain detailed organisation chart showing functional relationships.

Sl. No.	Planning Phases	Action to be taken
5.	Familiarity with the company policies: (a) Capitalisation (b) Products or Services (c) Inter-company transactions policies (d) Other important policies	Keep notes and Identify
6.	Sales policy and sales management: Pricing Policies – Home and export sales	Keep notes and Identify
7.	Production planning and control: Manufacturing process, factory layout, Product details	Obtain the process flowcharts
8.	Accounting systems: Financial accounting, Cost accounting, Integrated accounts	
9.	Management information systems: ◆ Budgets ◆ Standard costing	Obtain an outline of the schemes adopted, if any

Sl. No.	Planning Phases	Action to be taken
10.	Internal audit system and Internal control: Systems/Internal Audit Programmes	Obtain Internal Auditor's Manual and reports on areas covered.
11.	Cost records, statements and reports: *(a)* Cost accounting records and other related records *(b)* Cost Statements and related Statements & documents *(c)* Cost Accounts Manual *(d)* Previous cost auditor's reports (if any)	Obtain them from the cost department.

An Illustrative check-list of information to be obtained

A. One Time Information:

1. Organization chart
2. Process of manufacture with Flow Chart
3. Blue print of production area with machine locations
4. List of cost centres
5. Machine details
6. Product details
7. Details of any product manufactured under any technical collaboration, licence agreement, Terms of payment of royalty if any
8. Details of process chemicals
9. Details of packing materials

PREPARATION AND FILING OF COST AUDIT REPORT

Introduction

A Cost Auditor is required to submit his report in Form CRA-3 which is required to be prepared on the basis of data and information available in the cost accounting records and other data maintained by the company in accordance with CRA-1 of the rules.

Qualified Audit Report

- A qualified audit report is given by the cost auditor
  - when the cost statements are materially misstated due to misstatement in one particular cost element, class of transaction or disclosure that does not have pervasive effect on the cost statements
  - when the cost auditor is unable to obtain audit evidence regarding particular cost element, its allocation and apportionment, class of transaction or disclosure that does not have pervasive effect on the cost statements.

Adverse Audit Report

- An adverse audit report means that the cost statements are materially misstated and such mis-statements have pervasive effect on the cost of production, cost of sales and margin of the products.

Cost Audit Report In XBRL Format (As Per Taxonomy)

XBRL – Extensible Business Reporting Language

"Every company covered under these rules shall, within a period of thirty days from the date of receipt of a copy of the cost audit report, furnish the Central Government with such report in Form CRA-4. All the cost audit reports have to be filed online, with MCA, in XBRL format, attached to the prescribed Form- CRA-4. XBRL is the open international standard for digital business reporting, managed by a global not for profit consortium called "XBRL International". XBRL is used around the world, in more than 50 countries.

XBRL makes reporting more accurate and more efficient.

STEPS FOR FILING COST AUDIT REPORT IN XBRL FORMAT ON MCA PORTAL

1. Creation of XBRL instance document

The first step for creating the instance document is tagging of the XBRL taxonomy elements with the information in the Cost audit report of the company by means of mapping of the taxonomy elements with the Cost audit report. This converts the report into XBRL form.

2. Download XBRL validation tool

A separate tool has been provided on the MCA XBRL portal for validating the generated XBRL instance document. You are required to download the tool from the portal and validate the instance document before uploading the same. (www.mca.gov.in/XBRL)

STEPS FOR FILING COST AUDIT REPORT IN XBRL FORMAT ON MCA PORTAL

3. Load the instance document

To load the instance document, you need to click the open button, select the instance document and open it. You need not exit the tool to load another instance document just click on 'open' again in the menu bar to open the next document.

4. Validate the instance document

The next step is to validate the instance document. The following validations shall be performed by the tool-

- Validating that the instance document is as per the latest and correct version of taxonomy prescribed by MCA
- All mandatory elements have been entered
- Business Rules as specified by MCA

STEPS FOR FILING COST AUDIT REPORT IN XBRL FORMAT ON MCA PORTAL

5. Pre-scrutiny of the instance document

Once the instance document is successfully validated from the tool, the next step is to pre-scrutinize the validated instance document with the help of the same tool using a working internet connection.

6. Convert to PDF and verify the contents of the instance document.

Once the instance document has been successfully pre-scrutinized, the next step is to generate PDF by using 'Export to PDF' functionality in the tool to verify the final instance document.

STEPS FOR FILING COST AUDIT REPORT IN XBRL FORMAT ON MCA PORTAL

7. Attach instance document to the Form CRA-4

Form CRA-4 is available on the MCA portal for filing in XBRL instance documents by the Company.

8. Submitting the Form CRA-4 on the MCA portal.

After the form is correctly filled, it is required to pre-scrutinize and then sign the form [with a valid digital signature of the person authorized by the board resolution] and then upload the same as per the normal e-Form filing process.

A. List of common errors [Annexure – II]

(1)Issue in net connectivity. Please check your connection
(2) The PDF is not getting generated or PDF generated is of zero kilobytes in size.
(3) The format of the date entered is not as per the valid format.
(4) For Boolean data types 'Yes' or 'No' has been entered.
(5) Wrong Currency code like Rs entered.
(6) Mandatory fields have not been entered.
(7) In case of mandatory table, there is no element present.

B. Interpretation of validation errors [Annexure – I]

The following the instructions have to be followed to interpret those errors –

- All the Element Names will be shown within single quotes, like-'Quantity Of Material Consumed'
- All the values will be shown within square brackets like- [In Employment]

MANAGEMENT REPORTING ISSUES UNDER COST AUDIT

Introduction

Performance measures help managers to create capable and matured processes. Effective performance measures can let us:

- ✓ *Monitor performance to judge how well the company is fairing,*
- ✓ *Know if company management is meeting its goals.*
- ✓ *If appropriate actions have been taken to affect performance or improve efficiency.*

PERFORMANCE ANALYSIS

(a) To improve profits and profitability.

(b) To optimize resource allocation.

(c) To optimize the product and services portfolio.

The following criteria may help the management auditor to select and include the various performance measurement criteria in the Report on Performance Analysis:

(i) Effect on profitability

(ii) Effect on resource utilisation

(iii) Effect on liquidity

(iv) Effect on risks

(v) Effect on quality

(vi) Effect on competitiveness

(vii) Effect on responsiveness to the market etc.

An ideal Report on Performance Analysis should possess the following characteristics:

1. Objectivity

2. Capability of being predictive value

3. Comprehensiveness

4. No information overload

5. Coverage of strategic thrust

6. Trend measures and current status

7. Timeliness

8. Segmented and enterprise-wide coverage

MECHANISM FOR PERFORMANCE ANALYSIS

After analysing the activities within each process, we give below the mechanism for performance analysis as follows:

(a) Monitor performance
(b) If company is meeting its own set goals
(c) Take action if the customers are satisfied.
(d) If improvements are necessary.

STEPS SUGGESTED FOR REPORT ON PERFORMANCE ANALYSIS

***Step 1*. Identify and understand the key strategies of the company.**

***Step 2*. Choose strategies that have more visible expressions in costs data.**

***Step 3*. Identify the activities that were impacted by the strategies.**

***Step 4*. Analyze the cost implications of those activities.**

***Step 5*. Present the evaluation, in a table.**

***Step 6*. Give explanatory notes for the terms used, calculations made, and assumption behind the evaluations.**

***Step 7*. Finalize the finding after a discussion with the concerned operating executives and then with the management of the company.**

CONTENTS OF THE REPORT ON PERFORMANCE ANALYSIS

The Report on Performance Analysis may cover the following areas:

(i) Capacity Utilization Analysis

(ii) Productivity/Efficiency Analysis

(iii) Utilities/Energy Efficiency Analysis

(iv) Key-Costs & Contribution Analysis

(v) Product/Service Profitability Analysis

(vi) Market/Customer Profitability Analysis

(vii) Working Capital & Inventory Management Analysis

(viii) Manpower Analysis

CAPACITY UTILISATION ANALYSIS

The auditor's checklist:

1. ***Technical documents pertaining to the equipment***
2. ***Production planning reports***
3. ***Interviews with managers responsible***
4. ***Wastage reports***
5. ***Benchmarking exercises done***

PRODUCTIVITY AND EFFICIENCY ANALYSIS

The cost auditors checklist would include, inter alia, the following:

1. *The Bill of Material (BOM) for each product*
2. *The standard cost card, if any*
3. *Internal reports on consumption, wastages per unit.*
4. *Production scheduling.*

UTILITIES AND ENERGY EFFICIENCY ANALYSIS

The performance parameters could include the following:

(i)Energy generated per unit of fuel consumed.

(ii)Measurement of improvement in power factor.

(iii)The cost of generating energy per unit.

(iv)Trend analysis of energy costs

KEY COSTS AND CONTRIBUTION ANALYSIS

The checklist for the auditor could include:

1. Sales and production records.

2. Reconciliation with GST records.

3. Price lists and discount structure policy.

PRODUCT/SERVICE PROFITABILITY ANALYSIS

The checklist for the auditor could include:

1. *Sales and production records*
2. *Reconciliation with GST records*
3. *Price lists and discount structure policy*

MARKET / CUSTOMER PROFITABILITY

The checklist:-

1. ***Market and customer-wise sales and cost reports.***
2. ***The marketing campaigns.***
3. ***New customers added during the year.***

WORKING CAPITAL AND INVENTORY MANAGEMENT ANALYSIS

The auditor's checklist could include the reference to the following:

1. *Records related to inventory of RM, WIP and FG, stock discrepancy reports.*
2. *Inventory aging reports.*
3. *Reports on receivables*
4. *Terms and conditions of working capital funds.*

MANPOWER ANALYSIS

The auditor's checklist for this content area may be:

1. *Details of number of recruitments done, number of people left, the labour turnover ratios*
2. *The data on idle time.*
3. *Manpower productivity reports.*
4. *Use of temporary or casual labour.*

OTHER AREAS SUGGESTED TO BE COVERED IN THE REPORT ON PERFORMANCE ANALYSIS

(a) Risk Analysis: Risk analysis affect the future performance. The auditor should

(i) Identify the sources of various risks

(ii) Assess the potential downside or upside effect thereof.

(iii) Recommend risk mitigation tools.

(b) <u>Environment and Sustainability</u>: This can be assessed to provide insight into how effectively the company is following policies on CSR, environment and sustainability.

(c) <u>Quality Performance</u>: This can be assessed by relating the quality costs incurred versus the benefits achieved by reduction in customer complaints or increase in customer satisfaction index.

(d) <u>R & D Performance</u>: The future performance of companies would depend upon their success of the R & D initiatives.

(e) <u>Business Process Performance</u>: The processes could be evaluated on the criteria like speed, accuracy, empowerment, hurdles, facilitation etc.

(f) <u>Human Resource Accounting</u>: This is an extended analysis of total human resource costs.

(g) Value Added Analysis: The value added is measured as an absolute value created by the business and the distribution thereof to the employees and other providers of capital.

MANAGEMENT ACCOUNTING TOOLS

The following table shows various management accounting tools that are used to serve different objectives:

Purpose	*Management Accounting tool*
Control	*Budgetary control, standard costing, variance analysis.*
Cost computation	*Full (absorption) Costing, Job, batch, process or contract costing Activity based costing, Time Driven ABC .*

Purpose	*Management Accounting tool*
Cost reduction	*Total Quality management, Quality costing, Kaizen costing, Lean manufacturing, Value Analysis and Value Engineering, Six Sigma.*
Pricing and decision making	*Target costing, Life cycle costing, Throughput accounting, Variable or marginal costing*
Total performance management	*Balanced Scorecard, Performance Prism, Performance pyramid, Business Objects, Business Intelligence*

Planning for the Report on Performance Analysis

Key Performance Indicators (KPIs) are:-

(a) __Quantitative__ – these can be financial or non-financial

(b) __Qualitative__ – these are often lead indicators i.e. they influence future performance

(c) __Actionable__ – those which can be influenced by enterprise actions or controllable

(d) __Trending__ – those which need to be assessed over a period of time to observe whether they are improving or not.

Corporate Social Responsibility u/s 135

1. Applicability :- Any Co(including foreign Co) satisfying any of the 3 conditions in immediately preceeding FY

T/O Min 100 Cr or

NW Min 500 Cr or

Net Profit Min 5 Cr

Provided that if the above Co ceases to satisfy the above 3 limits for continuous 3 FYs then CSR shall not apply unless limit is attracted again.

What are the obligations if Sec 135 attracted?

Constitute of CSR committee

1. having atleast 3 director out of which/ shall be Ind Dir.
2. Co not read to appoint Ind Dir shall constitute CSR committee with only 2 Dir.
3. Pvt Co shall constitute CSR committee with only 2 Dir.
4. Foreign Co shall constitute CSR committee with only 2 persons out of which shall be resident in India.

Spend atleast 2%* Aug NP of immediately preceeding 3FYs.

1. NP is computed u/s 198.
2. 2 items shall be excluded from NP.
   a. Profits from overseas branches.
   b. Dividend received from companies on which sec135 is applicable.

Functions/ Role of CSR Committee

- Recommend CSR policy having activities of Schedule VII
- Recommend the amount of CSR expenditure
- Monitor CSR Policy

Role of BOD

- Approve CSR policy recommended by CSR committee
- Make necessary CSR expenditure

What activities will not continue CSR?

- Activities outside India
- Activities done for employees & their family members
- Political contribution u/s 182
- Any activity undertaken in the ordinary course of business except pharma Companies for COVID19 vaccination/ drugs

How to do CSR/ Mode of CSR

- Co can directly do CSR expenditure or
- By opening a Sec 8 Company or
- By contributing to are registered society/ trust having good track record in last 3 FYs.

Disclosure of CSR

Board Report

Company's Website

8. Schedule VII Activities of CSR (Acronym + HEEENAS)

1. Eradication of hunger poverty, malnutrition.
2. Promotion of Education.
3. Promotion of Gender Equality.
4. Protection of Environment.
5. Protection of National Heritage.
6. Measures for the benefits of Armed Forces Veterans, war widows.
7. Promotion of Rural Sports, naturally recognized sports, Paralympic & Olympics sports.
8. Contribution to PM National Relief fund or PM CARES (Citizen's Assistance & Relief in Emergency situation) fund.
9. Contribution to technology incubators or R&D projects related to development of COVID 19 vaccination/drugs.
10. Rural Area development.
11. Slum Area development(slum areas is areas notified by CG/SG/Local Authority as slum).

MANAGEMENT AUDIT IN DIFFERENT FUNCTIONS

Corporate Objectives And Culture

Corporate Objectives are the overall objectives of the organization that influence the direction of corporate strategy.

In other words, what the organization seeks to achieve is corporate objective.

These are the specific, realistic and measurable aims which an organization plans to achieve.

These represent the charter that the organisation has laid down for itself.

The corporate objectives of world famous 'NIKE' company are reproduced as under:

Protect & improve Nike's position as the number one athletic brand in America;

Build a strong momentum in growing fitness market.

The corporate objectives of 'Apple Computers, USA are :

"To offer the best possible personal computing technology, and to put that technology in the hands of as many people as possible." Totally different and the business operations will differ dramatically depending upon the exact choice of corporate objective.

Corporate Culture - Concept

Culture refers to a corporate's values, beliefs and behaviours on the basis of which people interpret experiences and behave. Generally firms with strong cultures achieve higher results. unsuccessful companies generally have as the three R's in their corporate culture i.e., "resistance", "resentment" and "revenge".

Corporate culture should consists of the following:-

- Commitment to honest productivity.
- Planned performance and growth.
- Informative, informing and informed, organization.
- Consideration for others in partnership with the organization.

Corporate Services Audit

Corporate services audit means critical examination of the different aspects of services and their extent that have been satisfactorily rendered by a corporate body.

The areas of corporate services audit criteria can be categorized as follows:	
1. Consumers	Quality goods at right prices, place and time.
2. Employees	Pay, training, safety, welfare.
3. Shareholders	Safety of investment, satisfactory return, capital appreciation.
4. Community	social benefit, public relations
5. Fellow-businessmen	Business ethics and fair trade dealings
6. State	Compliance with the spirit of laws, payment of taxes.

Corporate Development Audit

A corporate development audit is an independent objective study of an organization's capabilities. It aims at identifying strengths and weaknesses.

Corporate development audit assures that –

- The various factors and forces constituting a corporate enterprise.
- The pattern of departmentalization in an enterprise.
- The personnel problems are handled appropriately.

Corporate Development Audit assures that –

A. Check list on corporate planning

(a) Whether SWOT analysis has been made?

(b) What are the corporate strengths and weaknesses in relation to price, product, quality, market share, distribution net work, after sales services, technology.

(c) What are the opportunities and threats in relation to rivalry among existing firms.

(d) How are the threats overcome and opportunities availed of in the past?

(e) Whether the "corporate image" is going to improve in near future?

B. *Checklist on corporate objectives*

(a) Whether the corporate objectives are clear and explicit?

(b) Whether the different elements of the enterprise have separate objectives?

(c) How are these objectives defined?

(d) Are the objectives in writing?

(e) Is there sufficient flexibility

C. Checklist on delegation of authority

(a) Whether there are clear lines of authority from top to bottom in the corporate enterprise?

(b) Whether accountability has been properly coupled with corresponding authority?

(c) Whether responsibility clearly defined in writing?

D. Checklist On Span Of Control And Management

(a) Whether span of control has been recognized in the organization?

(b) Whether everybody in department report only to one superior?

Evaluation Of Personnel Development

Evaluation of personnel development may include the following criteria -

(a) Pre-planning as an essential feature of human resource development.

(b) Ascertaining manpower needs for appropriate education, training and development.

(c) Adopting a suitable programme of recruitment, selection, training and development.

(d) Adequate manpower planning.

Scope Of Personnel Function

"Personnel Management" is that part of the management function which is primarily concerned with the human relationships within an organization.

(a) Organization review and analysis:-

- ***Continuous review and analysis of organization's operation may be necessary in order to determine and develop appropriate work structure.***

(b) Manpower, planning, recruitment and selection:-

- ***Forecasting and planning is essential for a sufficient number of qualified personnel.***

(c) Manpower training and development:-

- ***Appropriate methods and techniques of training and development may be adopted.***

(d) Performance appraisal:-

- *Rating and evaluation of performance of personnel.*

(e) Employee remuneration:-

- *Wage and salary structure, incentive payments.*

(f) Employee services

- *Health and welfare of all employees*

Consumer Services Audit

The primary responsibility of a business enterprise towards consumers is to make available the products of the right qualities at the right time, in right quantity, at the right place and right price.

Checklist on 'consumer services' evaluation:

A. Products related policies and practices

(a) Do the products manufactured meet the needs of the customers of different classes ?

(b) Whether the prices are reasonable?

(d) Whether detailed information regarding the product, are adequately disseminated in order to ensure that the communication made to the customers regarding price, quality, services, etc. are truthful?

(e) Whether constant efforts are made for improvement of the product's?

B. Customer Relationship

(a) Whether the customer complaints are handled promptly and efficiently?

(b) Whether the company responds quickly to the customers' enquiries?

(c) Whether the labels of the products contain adequate information to help the consumers to appreciate quality and other characteristics of the products?

C. General Considerations

(a) Whether safety norms relating to products are maintained ?

(b) Whether performance guarantees are explicitly stated?

(c) Whether all the "warranties" are explicitly stated?

Audit Of Environmental Pollution Control

Pollution can be described in the following ranges :-

- (i) Pollution as any alteration of the environment.
- (ii) Pollution as a damage to man and to the environment.
- (iii) Pollution as interference with other uses of the environment.

The different types, cause and effects of environmental pollution may be as follows -

(a) Air pollution:- Air pollution is the human introduction into the atmosphere of chemicals, particulates or biological materials that cause harm or discomfort to humans or other living organisms or damage the environment. Air pollution is caused by burning coal or crude oil from automobiles.

(b) Water pollution :- Water pollution is the contamination of water bodies such as lakes, rivers and/or oceans caused by effluents. Water pollution affects public health and safety, causes damage to property and leads to many economic losses.

The different types, cause and effects of environmental pollution may be as follows -

(c) Noise pollution:- Noise pollution is a type of energy pollution in which distracting, irritating or damaging sounds are freely audible and is caused by noise due to running of heavy machines, big aircrafts. Noise pollution may lead to loss of efficiency at work, loss of hearing.

(d) Smell pollution:- Discharge of industrial products, unclear garbage dumps, open sewers, etc. and even causes psychological disorders.

The different types, cause and effects of environmental pollution may be as follows -

(e) Thermal pollution:- Large inputs of heated water from a single plant or a number of plants using the same lake or slow-moving stream can have harmful effects on aquatic life. Thermal pollution is radiation of heat generated by plants in industries.

(f) Visual pollution:- Effluents from chemical plants and washeries are discharged into the waterways causing reduced visibility. Industrial fumes and dust causing loss of landscape attractiveness

The different types, cause and effects of environmental pollution may be as follows -

(g) Climate pollution:- Radiation of heat in highly industrial centres leading to "micro climate zones" causing deforestation, shortening plants growth.

(h) Radiation pollution:- Radioactive fallouts, leakage from nuclear reactors causes a significant chronic affect by increasing the rate of genetic mutation.

(i) Soil/land pollution :- Indiscriminate use of fertilizers and pesticides. Due to pollution the quality of soil deteriorates

Energy Audit

An Energy Audit has been defined as an inspection, survey and analysis of energy flows in a building, process or system with the objective of instituting energy efficiency programs in an establishment.

In other words, an energy audit is conducted to seek opportunities to reduce the amount of energy input into the system without negatively affecting the output(s).

Energy audit means monitoring the energy efficiency of different equipment and process.

An energy audit is a fundamental step of the energy conservation programme.

Energy audit and environment audit sometimes done together.

Productivity Audit/Efficiency Audit

The Productivity audit is basically an analysis of the productivity of the resources deployed by any organization. The term ‘resources’ here would include not only “money” but also “men”, “machines”, “materials” and “methods”. The objectives of productivity audit is – to attain optimum result, and to improve on the benchmarks. This audit would generally comprise – comparison of expected returns on utilization of the resources vis-a-vis the actual returns; and the steps taken to improve benchmarks of returns and the utilization. Productivity audit is done by – (a) Ratio analysis – Return on capital employed – Return on sales – Turnover ratios of fixed assets, current assets, inventories, category-wise debtors etc.

The following ratios are generally used in measuring productive efficiency of the resources deployed and utilized:

Resources Deployment:-

- *(a) Capital employed per capita*
- *(b) Capital employed per unit of product*
- *(c) Gross profit to capital employed*
- *(d) Net profit to capital employed*
- *(e) Debt equity ratio*

(f) Net worth and long-term debts to gross fixed assets.

(g) Net worth and long-term debts to net fixed assets.

(h) Debts to fixed loans

(i) Debts to floating loans

(j) Current assets to current liabilities

(k) Net working capital

(l) Total inventory to capital employed.

Resource Utilisation:-

(a) Capacity utilisation – Installed capacity: Utilised capacity of machines (by units)

(b) Capacity utilisation – Installed capacity: Utilised capacity of machines (by machine hours)

(c) Machine time available : Machine time utilized.

(d) Machine time consumed : Per unit of product (individually).

(e) Machine time consumed : Per capita.

(f) Gross fixed assets : Turnover

(g) Net fixed assets : Turnover

(h) Inventories : Turnover

(i) Raw materials : Turnover

(j) Work in process : Turnover

(k) Finished goods : Turnover

(l) Labour time consumed : Division-wise

(m) Labour time consumed : Product-wise

Propriety audit

The expenditure should not, prima facie.

No authority should exercise its power.

Public money should not be utilized for the benefit.

Corporate Social Responsibility (CSR) under Companies Act, 2013

"Net profit" means

(i) Any profit arising from any overseas branch or branches of the company' whether operated as a separate company or otherwise; and

(ii) Any dividend received from other companies in India, which are covered under and complying with the provisions of section 135 of the act.

Corporate Social Responsibility (CSR) Audit- Process

Human Rights: Fundamental Human Rights, Freedom of association and Collective bargaining, non-discrimination.

Business behavior: Relations with clients, suppliers and sub-contractors, Prevention of corruption and anticompetitive practices.

Human Resources: Labor relations, Working conditions, health and safety measures.

Corporate Governance: Board of Directors, Audit and internal controls.

Environment: Pollution control measures undertaken.

Community Involvement: Impacts on local communities.

Evaluation Of Corporate Image

Audit Checks Of Different Managerial Functions

1. ***Directorial Checks***

(a) What routine reports are considered as directors' meetings?

(b) Do the directors receive projected information covering the various functions of the business?

(c) "Whether the Director review strategic and financial plans for achieving long-term success of the company.

(d) What is the directors' policy for ensuring that the right kind of senior managers including CEO are engaged?

(e) What interest do directors take in R&D?

(f) Have the directors set out the objects of the organization in writing?

(g) Are all activities of the organization within the scope of its objectives?

(h) What control do directors exercise on the cash flow?

(i) What is the method of determining budgets?

(j) Do up-to-date organization structure exist?

(k) What control do directors exercise over senior management training?

2. <u>Managerial Checks</u>

(a) Are all level of managers competent in their functions?

(b) What evidence is there that managers are up-to-date in their particular function?

(c) Do all managers sufficiently and efficiently delegate their function?

(d) Are there any example of delegation to the point where control is lost?

(e) Are there adequately defined communication procedures?

(f) Is there adequate definition of stuff responsibilities?

(g) Is there a precise organizational structure?

(h) Is there a system of management by objectives?

(i) Are job specifications available?

(j) Are methods of work defined?

(k) What training facilities or arrangements are there for:

a. Managers?

b. Staff generally?

c. Newly joined staff?

d. Trainees?

(l) Who is responsible for training?

(m) Do managers use their time effectively?

3. Organisational Checks

(a) How effective is the coordination and integration of the various departments?

(b) What is the management information system and who is responsible for it?

(c) Is the information supplied well ?

(d) Is the information structured?

(e) What strengths and weaknesses of the organization are revealed by the scrutiny of the special reports?

(f) How is inflation catered for in budgets?

(g) Has each manager defined the responsibilities of his staff?

(h) What checks are there on the accuracy of the information?

(i) Who has authority to amend such file information?

(j) What security controls are there on the various levels of management information?

(k) How is the business controlled in general?

4. *Capital Checks*

(a)who actually controls the cash flow on a day to day basis?

(b) How effective is the control of cash flow?

(c)Is the working capital adequate?

(d)Is the capital employed the optimum for the business?

(e)Are the fixed assets valued carefully

(f) What authorizations are required for the purchase of fixed assets?

(g) Is there an up-to-date asset register?

(h) How often is the asset register compared with the actual fixed assets position?

(i) Is the equity and loan capital adequate of the business?

(j) How do the ratio of such capital compare with other business audited?

(k) What is the capital structure in relation to ordinary and preference share?

5. <u>*Data Processing Systems Checks*</u>

(a) What are the main categories of data processing system?

(b) Are there adequate controls?

(c) Is use made of appropriate office techniques, such as photocopying, duplicating etc?

(d) Are computer systems used where appropriate?

(e) Is the computer installation appropriate in size and staffing?

(f) Who has access to the computer installations?

(g) How is systems testing organized?

(h) Are recovery procedures featured in systems testing?

6. Standard Procedures Checks

(a) Do standard procedures exist and are they in writing?

(b) Who is responsible for keeping them up-to-date?

(c) Do they adequately reflect changes in organization?

(d) To whom are they circulated?

(e) Are any checks carried out on behalf of general management to verify that the procedures are being adhered to?

(f) If so, who is responsible for carrying out such checks?

7. __Planning Function Organisation Checks__

(a) Who is responsible for overall planning within the organization?

(b) If detailed planning is a staff function, what arrangements are there for making sure the planning does not get out of step with the planning policy makers?

(c) Is there a corporate planning unit?

(d) Is there a corporate stimulation model?

(e) How accurate are the models?

(f) How are the various models kept up-to-date?

(g) Are environmental surveys carried out?

8. Purchasing Function Checks

(a) Are there effective arrangements for minimizing the price of purchases?

(b) What arrangement are there for controlling stock investment, in particular for controlling deliveries of raw materials, perhaps as a result of contracts placed for raw materials to be called off as required?

(c) Is there evidence that the purchasing budget is developing on sound lines?

(d) Effective control on the purchasing function?

(e) Are ‘make-or-buy’ proposals made?
(f) What follow-up is there on scheduled deliveries?
(g) Is the receipt of goods adequately controlled?
(h) Is there an effective system of inspection of materials received?

9. <u>Inventory Control Function Checks</u>

(a) How are maximum and minimum stock controlled?

(b) What customer service level is required?

(c) How are these limits determined?

(d) Is stock control also a function of the economic batch quantities?

(e) How is the issue of stock controlled?

(f) What are the systems of stock security?

(g) Who has authority to scrap the stock?

(h) Are all stock movements accounted for by any paper work?

(i) Is there any security check that goods leaving the premises are covered by one or other of the permitted authorizing documents?

(j) What system is in force for counting the stock?

(k) What is the procedure for investigating any discrepancies in stock?

10. Production Function Checks

(a) How are the production requirements for raw materials communicated to the purchasing function?

(b) How is the production scheduled?

(c) Are these methods suitable for the type, size and complexity of the production processes?

(d) What is the system for amendments to the production schedule?

(e) How are labour requirement determined?

(f) What system is there for ensuring good utilisation for machinery?

(g) what is the system for ensuring good utilisation of labour?

(h) What is the inspection system during production?

(i) How are scrap items to be re-worked and controlled?

(j) What methods are used for forecasting the production levels?

11. <u>Marketing Function Checks</u>

(a) Have clear marketing objectives been set?

(b) What plans have been developed to attain those objectives?

(c) What is the extent and nature of market research?

(d) What principles apply to product planning?

(e) What arrangements are therefore the planning and control of packaging?

(f) How is the effectiveness of special sales promotions?
(g) How is the sales force divided geographically?
(h) How is the performance of salesman measured?
(i) What special incentives are there for salesmen?
(j) How are customers' orders received?
(k) Has a standard order form been considered?

12. <u>Distribution Function Checks</u>

(a) Are there arrangements for deciding the most viable means of transport of finished goods?

(b) What are these arrangements?

(c) how were they developed?

(d) If the organization uses its own transport fleet, have the pros and cons been considered?

(e) Are decentralized warehouses part of the distribution system?

13. *Financial Function Checks*

(a) Is there an internal audit department?

(b) Does the internal audit department make regular reports

(c) Are control checks made the financial records?

(d) Is there a budgetary control system?

(e) How effective is the budget system?

(f) Are the reasons for the discrepancies carefully ascertained and noted in the records?

(g) Are the financial records so organized that the performance of senior managers can be measured?

(h) How is the personnel expenditure authorized?

(i) How is the material expenditure authorized?

(j) How is fixed asset expenditure authorized?

14. <u>Personal Function Checks</u>

(a) Is there a manpower specification?

(b) Who has the authority to amend the manpower specification?

(c) How do staff measure up to this manpower specification?

(d) Has job evaluation been carried out?

(e) Do job specifications exist for all jobs in the organization?

(f) Are adequate personnel records properly maintained at all times?

(g) Is there an active training programme?
(h) Who is responsible for training managers?
(i) What arrangements are there for the management development?
(j) Are adequate training records kept?
(k) How is basic training carried out?
(l) Is this carried out "in-house", "externally" or a mixture of both?
(m) Are promotable employees readily identifiable?

15. Management Service Function and Data Processing Security Checks

(a) What services are covered by the department?

(b) Are the roles of the various specialists defined?

(c) To whom does the head of the management services report?

(d) To whom does the head of the computer department report?

(e) Are the duties of each section clearly defined?

(f) Are operation research techniques practiced?

(g) Are managers generally aware of the type of problem amenable to an operations research approach?

(h) How are projects controlled?

(i) Are projects selected as a result of cost-benefit studies?

(j) Is a project team leader always appointed?

(k) Are the objectives of a project always specifically stated?

(l) What measurement of project progress are used?

16. Equipment Checks

(a)Who authorizes the purchase or rental capital equipment?

(b)What are the procedures for specifying equipment required?

(c)Is recently obtained equipment in accordance with the specification?

(d)How does capital equipment generally relate to the needs of the business?

(e) Is there the proper balance of office equipment and facilities?

(f) Where a large number of copies of computer output are required, have the merits of producing an offset master and/or the use of micro film considered?

(g) What methods are used for the efficient scheduling of the use of machinery?

17. Methods and Systems Audit Checks

(a) What general control is there on methods and systems?

(b) How efficiently is this exercised?

(c) How are methods and systems knitted into the organizations?

(d) What detailed control is there on the implementation of a system?

(e) If the stages of implementation of a system?

(f) How are methods and systems maintained and documented?
(g) How are systems evaluated?
(h) What is the method of development of a system?
(i) Are flow charts used?
(j) How is the documentation used?

18. <u>Security Audit Checks</u>

(a) What security precautions are taken against leakage of those aspects of the organization's policy and planning, which are desired to be kept secret?

(b) In particular, what security precautions are taken at boardroom level?

(c) Is assess to research and development areas controlled?

(d) Are the controls efficient?

(e) What are the documentary and drawings security controls?

(f) Who is responsible for the security of the company assets?

(g) What measures are taken for the security of cash?

(h) How is cash transferred to the bank?

(i) Is there a fixed asset register and who is responsible for maintaining it?

(j) How effective is the control of receipts and issues of stock-in-trade?

(k) How often are stock-in-trade and raw materials items physically counted?

(l) What action is taken when physically counted stock varies significantly from the book stock?

Audit Checks Of Corporate Divisions/Departments

The audit checks of various corporate divisions/ departments include:

1. Evaluation of Purchase Management

2. Evaluation of Personnel Management

3. Evaluation of Production Management

4. Evaluation of Research and Development Activities

5. Marketing Audit

(i) Evaluation of Sales Management

(ii) Evaluation of Distribution Function

INTERNAL AUDIT IN DIFFERENT SECTORS

AUDIT OF EDUCATIONAL INSTITUTIONS

Audit shall apply the following audit procedures to conduct the audit of educational institutes

1. *If school, colleges have been registered under a trust then auditor should read trust deed to identify various provisions relating to accounts and audit.*
2. *In case of university read the Act passed by the legislature to understand the provisions relating to accounts &audit*
3. *Also read the minutes of meetings of managing committee or governing body*
4. *Auditor will vouch fees received from cash book, student attendance register & counterfoil of fees receipt.*

Audit shall apply the following audit procedures to conduct the audit of educational institutes

5. Check that fines if any have been collected by appropriate authority.

6. Check that scholarship if any granted by appropriate authority.

7. Check that hostel dues have been received or not .

8. Check arrears of fees received or not & what steps of recovery have been taken.

Audit shall apply the following audit procedures to conduct the audit of educational institutes

9. Check Donations Income & its source.

10. Check legacy income & also see the will document .

11. If government grants received, As 12 followed or not.

12. Check that cautions many i.e. security deposit has been refunded or adjusted with dues or not &if not it should be shown as liability.

Audit shall apply the following audit procedures to conduct the audit of educational institutes

13. Check payments made to staffs & teachers.

14. Check income from investments.

15. Check refund of taxes if applicable have been property applied or not .

16. Games fund, scholarship fund have ben used for proper purpose or not .

AUDIT OF CO-OPERATIVE SOCIETY

Co-operative society's Central Act is Co-operative Society Act 1912 & auditor shall apply following procedures to audit Co-operative society:-

1. Examination of Overdue debt.

2. Examination of overdue interest.

3. Bad debts Certification.

Examination of Overdue debt

Overdue debts are those loans which members have not repaid back to Co-operative society on due date . They should be classified as

- *More than 6 months upto 5 years due*
- *More than 5 years due*

Auditor should also report whether its affecting working capital positions or not & whether these overdue amounts are good or bad.

Examination of overdue interest

Interest on overdue debt booked on accrual basis but not yet received should be excluded from interest while computing profits.

Bad debt Certifications

Before writing off bad loans against provision for bad debt or reserve fund auditor should certify it as bad debt.

AUDIT OF CO-OPERATIVE SOCIETY

Co-operative society's central Act is Co-operative society Act 1912 & auditor shall apply following procedures to audit Co-operative society:-

4. Verification of Assets and Liabilities

5. Adherence to Co-operative Principles

6. Members register and passbook.

Valuation of Assets and Liabilities

Auditor shall check whether assets & liabilities have been valued as per Generally Accepted Accounting principles. He shall also check their existence, ownership/obligation & valuation. Fixed assets should be valued at cost less provision for depreciation. Current assets at cost or realizable value which ever is lower.

Adherence to Co-operative Principles

Auditor shall check that mutual assistance principle followed by members or not .

Member's register & pass book

If loan given to a person check that his name was there in register of member or not & also see his passbook whether he actually received the money or not .

AUDIT OF CO-OPERATIVE SOCIETY

Co-operative society's central Act is Co-operative society Act 1912 & auditor shall apply following procedures to audit Co-operative society:-

7. Observation of Act & Rules

8. Special report to registration

9. Awarding class to society

Observation of Act & Rules

Auditor shall check whether Co-operative society has followed applicable Act & Rules or not.

Special report to registration

Auditor shall report to Registrar :-

- Profiteering of member of managing committee
- Any fraud detected
- Mis management
- Dis proportionate advances made to member

Awarding class to society

After completing audit auditor shall award class to society & if maangement is not satisfied it can appeal to Registrar who may ask auditor to reconsider his decision.

AUDIT OF GOVERNMENT EXPENDITURE

C & AG shall apply 5 principle while auditing the government expenditure:-

- *Audit against rules & order.*
- *Audit against sanctions*
- *Audit against provision of funds*
- *Propriety Audit*
- *Performance Audit*

Audit against rules & Order.

C & AG shall check whether Government expenditure is consistent with constitution of India, Rules framed by Parliament & CAG.

Audit against sanctions

Whether Government was sanctioned by appropriate authority or not.

Audit against Provision of funds

Whether Government expenditure was incurred from proper fund which was created for that purpose.

Propriety Audit

It means checking that Government expenditure should not be infructuous i.e wasteful.

Performance Audit

It means checking that objective of government expenditure fulfilled or not & the project in which such expenditure was incurred is operating economically , effectively & effectively or not.

3 Principle of propriety audit

1. The expenditure should not be more than what the occasion demands. Government officers should exercise strict vigilance while expending public money as if they are expending their own money.

2. No part of Government expenditure should be incurred for any direct/indirect benefits of any Government officer.

3. No public money should be expended for any particular person or community unless

3. No public money should be expended for any particular person or community unless

- The amount is insignificant or
- Its ordered by the court or
- Its as per the custom.

Role of C & AG in audit of Government company.

1. CAG has the right to appoint of auditors of government company u/s 139 of the Companies Act 2013.

2. CAG has the power u/s 143 to give directions to the auditors as to how to conduct the audit & also conduct supplementary audit on any item of its financial statement.

3. CAG also has the power to comment upon the audit report of Government company.

Audit of Commercial Accounts

Government also engages in commercial activities by opening any one of the following entities:-

Departmental Organisation	Statutory Corporation	Government company
Government transfers its power department. Eg. Defence factory	*It is formed by passing special Act of parliament. Eg. LIC, Air India .*	*Means a company whose atleast 51% PUSC is held by CG/SG or both.*

Note :- All the above three entities audit is conducted by complying same 5 principle of government expenditure audit.

Audit of Self Help Groups:-

Self help groups are created in India to mobilize empowerment of rural people specially woman & marginalized (neglected) section of society. SHG are facilitated by government or NGOs.

Audit Procedure/Field Balance Sheet Approach in SHG

Background Review	***Prepare Field Balance sheet***	***Private Meeting with members***	***Meeting with SHG (30 minutes)***	***Reporting***
Auditor will check the object of SHG & its cash Book.	*	*Auditor should do meeting with atleast 25% members of SHG to understand their issues.*	*In case of any irregular activity,(eg. Fraud detected) auditor should conduct meeting with entire self help group.*	*Auditor will report his audit summaries.*

* Format of field balance sheet

SL.NO	Asset	Amount	SL.NO	Liabilities	Amount
1	Cash in hand		1	Voluntary saving of members	
2	Cash at bank		2	External borrowing	
3	Loan to members		3	Profit /equity	
4	Fixed deposit		a.	Compulsory	
5	Fixed assets		b.	Retained earnings	

Audit of NGO

While planning audit of NGO , auditor should identify the following:

- *Understand the vision mission & its area of operations.*
- *Understand the organizational chart.*
- *Identify its legal form i.e society or trust or sec 8 company.*
- *Read the minutes of meetings of managing committee or its board.*
- *Understand its accounting system.*

Audit programme should consider the following items of NGO:

Corpus fund	*Reserves*	*Ear marked fund*	*Project balance*	*Loans*	*Fixed asset*	*Investments*	*Cash & bank*
Its includes all donations & grants	*Check transfer to/from reserves.*	*Check reserves created for specific purposes.*	*Check amount collected & expended for a particular project.*	*Check all the loans taken.*	*Check from fixed asset register & physical verification*	*Check from investment register.*	*Check cash book*

Audit of income of NGO

Contributions & grants	Receipts from fund raising programme	Membership fees	Subscription income	Interest & dividend
Auditors will check source of such contributions & grants.	Auditor will check fund raising programme details.	Auditor will tally from members register	Auditor will check details of subscribers who have taken subscription of newsletter & magazines issued by NGO.	Auditor will check it from investment register.

Audit of local Bodies

Budgetary procedure

Auditor will check the budget of receipts & payments of local bodies.

Expenditure control

Auditor will find variances between budgeted & actual expenditure & the reasons behind it.

Accounting system

a. Separate register of taxes, assets & cash maintained or not .
b. Separate voucher for each type of transaction
c. Monthly BRS should be made.
d. Submission repot to state government.

Audit of Hospital

Auditor shall apply following steps to conduct audit of hospital:

1. Auditor should check the letter of appointment & also understand his scope of responsibilities.

2. Auditor should read the trust deed or Charter (constitutional documents) to understand the provision related to accounts

3. Check the patient's register.

4. Vouch patients fees from cash book, counterfoil of patients receipts.

Auditor shall apply following steps to conduct audit of hospital:

- 4. Evaluate internal control system to identify nature, timing, extent of audit procedures.
- 6. Vouch dividend income , interest income on investments with reference to investment register.
- 7. Vouch income of medicine shop & ambulance if these are owned by hospital.
- 8. Vouch canteen income if any.

Auditor shall apply following steps to conduct audit of hospital:

9. Vouch donation & legacy income & verify their source

10. If Government received check whether AS 12 followed.

11. If there was significant deviation between budgeted & actual expense whether approval of managing committee taken or not.

12. Check that proper distinction has been made between reserve & capital expenditure .

Auditor shall apply following steps to conduct audit of hospital:

13. Check that appointment of staffs & payment of salaries have been properly authorized.

14. Physically verify investment & Fixed assets.

15. Check that all depreciable assets have been appropriately depreciated.

Audit of Hotels

1. Internal control : The biggest problem in any hotel is pilferage & so there must exist a strong IC minimise the pilferage & leakages . Strong IC incorporate following points :

a. Effectiveness of cash collections & payments.

b. Procedure for purchase of stocks & assets.

c. Procedure regarding billing of customers.

d. Procedure regarding recording & physical custody of assets.

e. Ensure that weekly trading A/C are prepared.

2. Room sales & cash collection

a.Identify various sales point which generates revenues for the hotel.
Example: room sales, restaurant incomes, sports Centre income , spa income banquet income etc.

b. Check that total sales reported matches with sales at various sales points.

MEANING OF INTERNAL CONTROL

Internal control means identifying & assessing the risk material mis-statement understanding the entity & its environment.

Internal Control means the procedures established, implemented & maintained by TCWG, MGT 4, other personnel in organization which provides reasonable assurance regarding achievement of organization's objectives with regard to

Internal Control means the procedures established, implemented & maintained by TCWG, MGT 4, other personnel in organization which provides reasonable assurance regarding achievement of organization's objectives with regard to

- *Reliability of Financial Reporting.*
- *Proper execution of day to day operations.*
- *Safeguarding of assets and*
- *Compliance of applicable laws.*

OBJECTIVES OF INTERNAL CONTROL

- *Transactions are executed as per Management's authorization.*
- *Transactions are promptly recorded in Correct Account, Date & Correct Accounting Period.*
- *Assets are safeguarded from unauthorized access.*
- *Recorded assets are compared with physical assets at reasonable intervals & in case of any discrepancy, proper action is taken.*

SCOPE OF INTERNAL CONTROL

ADMINISTRATIVE CONTROL	OPERATIONAL CONTROL	FINANCIAL AND ACCOUNTING CONTROL	COMPLIANCE CONTROL
It includes all types of Managerial Controls related to decision making process. An example of It is maintaining a register showing the details of customers contacted by salesmen.	*It is exercised through management accounting technique such as Budgetary Control & Standard Costing.*	*These controls are the managements plan relating to safeguarding of assets, prevention & detection of frauds & errors, accurate accounting records & timely preparation of financial Statements.*	*It relates to timely compliance of all applicable laws.*

STRUCTURE OF INTERNAL CONTROL

Internal Control from organization to organization & it's structure depends on four factors.

- *Types Of Business*
- *Magnitude Of Business*
- *Infrastructure available in the Organization.*
- *Potentiality Of Human Resources.*

LIMITATION OF INTERNAL CONTROL

No matter how strong internal control is but it can only provide a reasonable assurance with respect to achievement of organization's objectives & never an absdute assurance due to limitations of internal control.

- *COST*
- *UNUSUAL TRANSACTIONS*
- *HUMAN ERROR*
- *ABUSE OF AUTHORITY*
- *MANUPULATION BY MANAGEMENT*
- *COLLUSION AMONG EMPLOYEE*

COST

Management may not want to make a strong internal control due to cost evolving in it.

UNUSUAL TRANSACTIONS

No control can be made for unusual transactions.

HUMAN ERROR

There is always a chance of error being made by employees handling internal control.

ABUSE OF AUTHORITY

Management may over ride the internal control for its own benefits.

MANIPULATION BY MANAGEMENT

Management may manipulate the accounting estimates & judgements.

COLLUSION AMONG EMPLOYEES

Employees may have ego clashes or other conflicts white managing internal control.

EVALUATION OF INTERNAL CONTROL

It means checking the effectiveness of internal control.

Evaluation of internal control is mainly done by Audit Committee (AC).

Audit Committee is applicable on Companies under section 177

FOLLOWING ARE THE COMPANIES REQUIRED TO CONSIDER AUDIT COMMITTEE

- *Listed company*
- *Unlisted Public Co. having Paid Up Share Capital Min 10 Cr.*
- *Unlisted Public Co. having turnover Min 100 Cr.*
- *Unlisted Public Co. having Outstanding Loan, Debenture, Borrowings & Deposits > 50 Cr*

These limits will be checked of last audited financial statements.
Also Audit Committee not applicable on following unlisted Public Co.

- *Wholly Owned Subsidiary*
- *Joint Venture*
- *Dormant Company*

ROLE/FUNCTIONS OF AUDIT COMMITTEE

- *Evaluation of Internal Financial Control & Risk management system.*
- *Reviewing the performance of both statutory & internal auditors.*
- *Asking the statutory auditor about its comments on internal control.*
- *Reviewing the findings of investigations by internal auditors.*
- *Reviewing the adequacy of internal control & internal audit functions.*
- *Discussion with statutory auditor before the audit about his scope of audit.*

INTERNAL CONTROL & THE AUDITORS

The auditors shall identify the deficiencies in Internal Control on the basis of audit work performed by it.

Auditors will also find out significant deficiencies if any in Internal Control.

All significant deficiencies shall be reported by auditors in writing to TCWG.

Auditors shall report to Management

- *(i) All Significant deficiencies*
- *(ii) Other deficiencies which auditor feels that Management should be made aware.*

While Reporting deficiencies in Internal Control to TCWG & Management Auditors will also communicate to them.

- *That auditor's objective is only to form an audit opinion on financial statements.*
- *That preparation of Internal Control is not Auditors responsibility.*
- *Deficiencies reported are limited to only those which have been identified by auditor.*

INTERNAL AUDITS NECESSITY

- *It assists the Management to improve Internal Control by identifying the weakness.*
- *It helps to detect frauds & errors.*
- *It helps to detect wastage of resources.*
- *It increases morale of honest staffs.*
- *Helps in checking of Books of Accounts.*
- *Improves Organization's effectiveness*

SCOPE OF INTERNAL AUDIT & IT'S EVOLUTION (Maturity Index)

INITIAL POSITION

Initially scope of internal audit was only limited to checking of transactions & its accounting.

INTERMEDIARY POSITION

Compliance checking & operational Audit also became its scope.

CONTEMPORARY POSITION

Risk based audit i.e. to identify Risk of Material mis-statement information system audit is also added in scope.

INTERNAL AUDITING UNDER THE COMPANIES ACT 2013

Applicability

- *Listed Company*
- *Unlisted Public Company satisfying any one of the four conditions.*
- *Private Company satisfying any one of two conditions.*

Unlisted Public Company satisfying any one of the four conditions.

- *Public Deposits outstanding Min. 25 Cr.*
- *Paid Up Share Capital Min 50 Cr.*
- *Loan, Borrowing, Outstanding from Banks/PFI min 100 Cr.*
- *Turnover Min 200 Cr.*

Private Company satisfying any one of two conditions.

Loan, Borrowing, Outstanding from Banks/PFI more than 100 Cr.

Turnover min 200 Cr.

NOTE :- These limits are to be taken of immediately preceding Financial Year.

INTERNAL AUDITOR

Eligibility	Appointment Authority	Form No.	Duties & Scope	Penal Provision
CA or CMA or any other professional (CS). Internal Auditor may or may not be an employee. Statutory Auditor cannot be Internal Auditor.	BOD shall appoint in consultation with Audit Committee If any.	MGT 14 has to be submitted to inform ROC within 30 days of appointment.	Not mentioned in Act so it will be as per Terms of Engagement.	No specific provision exists.

PREPARATION FOR AN AUDIT

- Define the scope of audit & send an engagement letter.
- Obtain the knowledge of clients business.
- Evaluate Accounting system & Internal Control.
- Determine nature, timing & extent of audit procedures to be performed.

PREPARATION FOR AN AUDIT

- *Adequate Documentation is necessary.*
- *Form an Opinion.*
- *Issue an Audit Report.*

AUDIT TECHNIQUES THROUGH WHICH AUDITORS OBTAINS EVIDENCES

- Vouching
- Verification
- Inquiry
- Confirmation
- Inspection
- Analytical Procedures
- Test Checking i.e., sampling.
- Electronic Data Processing

AUDIT PROGRAMME

It is a detailed layout of audit plan which contains exact audit procedures to be applied on exact dates on exacts items of financial statements by exact auditing staffs.

ADVANTAGES OF AUDIT PROGRAMME

- It's a ready checklist of audit procedures that have been applied.
- Work can be allocated to audit assistants easily.
- Audit is timely completed.
- Audit Plan is achieved.
- Audit evidences are collected.
- It makes audit more effective.

DISADVANTAGES OF AUDIT PROGRAMME

- *Unusual or new areas may be neglected.*
- *Audit becomes mechanical.*
- *Audit becomes rigid.*
- *It kills the initiative of efficient staffs.*

CONTINOUS AUDIT	*FINAL AUDIT*
1. It's a type of Internal audit which starts before the end of financial year.	*It's a type of audit which is done after financial year ends.*
2. Its done throughout the financial year or may be monthly.	*Its not done throughout the year.*
3. Its suitable for organizations having large volume of transactions or where Internal Control is weak.	*Its suitable for organizations having less volume of transactions or where Internal Control is strong.*

AUDIT WORKING PAPERS/DOCUMENTATION

DEFINITION

Audit working papers means audit file containing audit procedures applied, audit evidences collected & auditor's observations.

AUDIT WORKING PAPERS/DOCUMENTATION

ADVANTAGES

1. It helps in audit planning.
2. Helps in future references of articles & assistances.
3. Acts as a legal evidence that audit was properly conducted.

2 TYPES OF AUDIT FILES

- *Permanent Audit File*
- *Current Audit File*

PERMANENT AUDIT FILE

It records those non-recurring audit matters which generally does not change year after year.

Contents are :-

1. *Clients MOA*
2. *Clients AOA*
3. *Significant accounting policies.*
4. *Significant audit observations.*
5. *Significant ratios & trends.*

CURRENT AUDIT FILE

It records those recurring audit matters which generally changes year after year.

Contents are :-

1. *Results of vouching.*
2. *Results of verification.*
3. *Communication of Management.*
4. *Communication with Expert.*
5. *Communication with Other Auditors.*

AUDIT NOTE BOOK

Meaning

Contents

It is a bound book which contains large variety of audit manner.

CONTENTS

1. *Audit queries which are not resolved immediately.*
2. *Client's important clauses of MOA & AOA.*
3. *Internal Control Details.*
4. *Auditor's observations.*
5. *Communication with previous year auditor.*
6. *Communication with Management.*

Form & extent of Audit working papers depend on following factors.

1. *Size of Organizations*
2. *Nature of organizations*
3. *Complexity Involved*
4. *Reliance placed on Internal Control.*
5. *Type of audit procedures applied.*
6. *Risk Of Material mis-statement.*

ENGAGEMENT LETTER

Meaning

Contents

It’s a letter sent by auditor to the client before accepting his audit.

CONTENTS

1. *Auditor's scope of audit.*
2. *Auditor's responsibility.*
3. *Managements responsibility.*
4. *Auditor's unrestricted access to books of Accounts.*

ROLE OF CMAs IN AUDIT

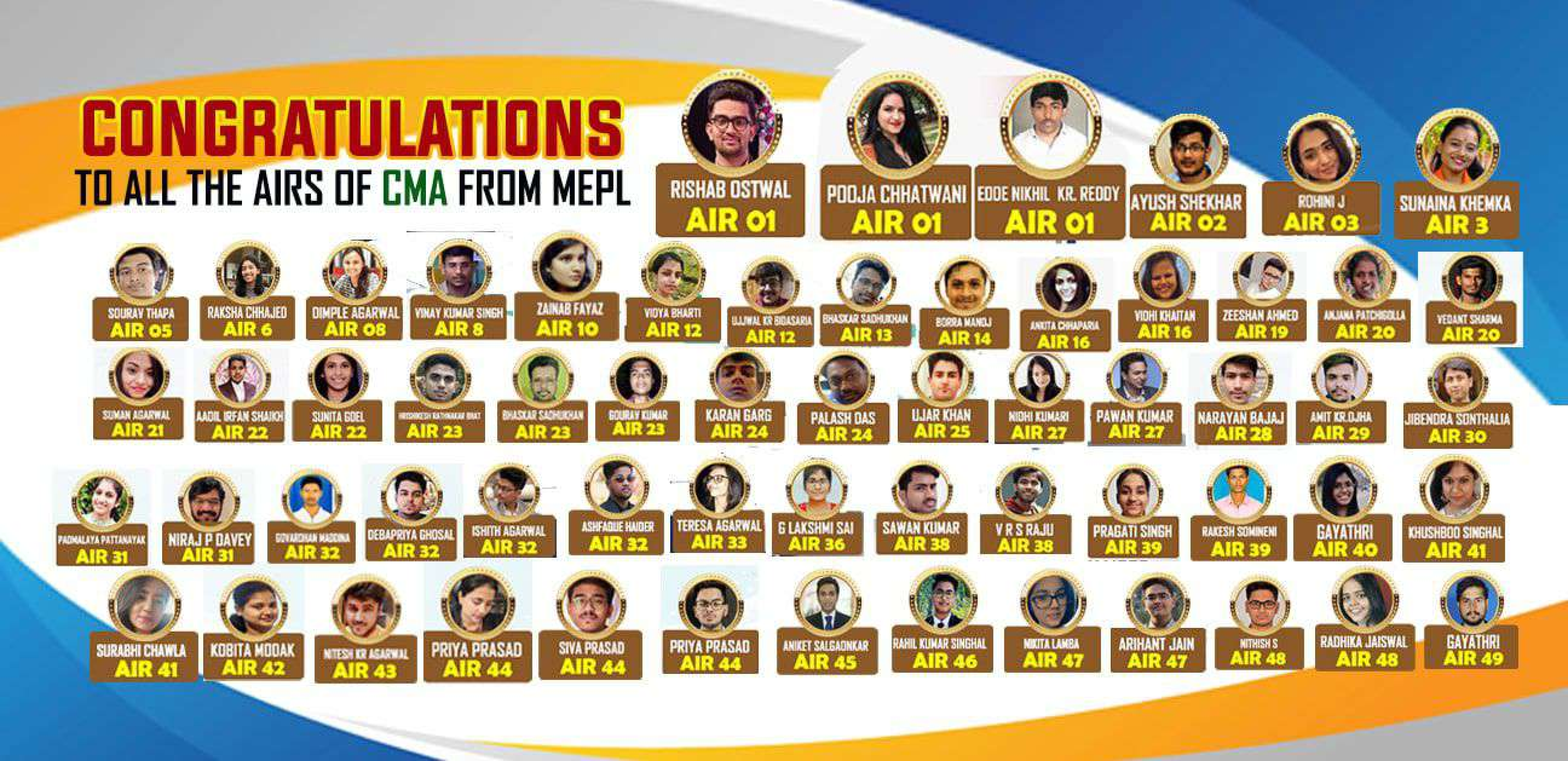
Exactly same as Internal Audit necessity & Internal Audit Evolution.

OPERATIONAL AUDIT

Operational audit is a type of internal audit in which day to day operations are checked.

Internal Audit is of 3 types.
A) Financial
B) Compliance
C) Operational

INTERNAL AUDIT	OPERATIONAL AUDIT
1. Compliance objective.	Risk identification & process improvement objective.
2. Transaction based.	Process based.
3. Financial Accounts focus.	Business Focus.
4. Typical & procedures focus.	Efficiency & improvement focus.
5. Policies & procedures focus.	Risk management focus.


CONGRATULATIONS
TO ALL THE AIRS OF CMA FROM MEPL
RISHAB OSTWAL AIR 01
POOJA CHHATWANI AIR 01
EDDE NIKHIL KR. REDDY AIR 01
AYUSH SHEKHAR AIR 02
ROHINI J AIR 03
SUNAINA KHEMKA AIR 3
SOURAV THAPA AIR 05
RAKSHA CHHAJED AIR 6
DIMPLE AGARWAL AIR 08
VINAY KUMAR SINGH AIR 8
ZAINAB FAYAZ AIR 10
VIDYA BHARTI AIR 12
UJJWAL KR BIDASARIA AIR 12
BHASKAR SADHUKHAN AIR 13
BORRA MANOJ AIR 14
ANKITA CHHAPARIA AIR 16
VIDHI KHAITAN AIR 16
ZEESHAN AHMED AIR 19
ANJANA PATCHIGOLLA AIR 20
VEDANT SHARMA AIR 20
SUMAN AGARWAL AIR 21
AADIL IRFAN SHAIKH AIR 22
SUNITA GOEL AIR 22
HRISHIKESH RATHNAKAR BHAT AIR 23
BHASKAR SADHUKHAN AIR 23
GOURAV KUMAR AIR 23
KARAN GARG AIR 24
PALASH DAS AIR 24
UJAR KHAN AIR 25
NIDHI KUMARI AIR 27
PAWAN KUMAR AIR 27
NARAYAN BAJAJ AIR 28
AMIT KR.OJHA AIR 29
JIBENDRA SONTHALIA AIR 30
PADMALAYA PATTANAYAK AIR 31
NIRAJ P DAVEY AIR 31
GOVARDHAN MADDINA AIR 32
DEBAPRIYA GHOSAL AIR 32
ISHITH AGARWAL AIR 32
ASHFAQUE HAIDER AIR 32
TERESA AGARWAL AIR 33
G LAKSHMI SAI AIR 36
SAWAN KUMAR AIR 38
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RAKESH SOMINENI AIR 39
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SIVA PRASAD AIR 44
PRIYA PRASAD AIR 44
ANIKET SALGAONKAR AIR 45
RAHIL KUMAR SINGHAL AIR 46
NIKITA LAMBA AIR 47
ARIHANT JAIN AIR 47
NITHISH S AIR 48
RADHIKA JAISWAL AIR 48
GAYATHRI AIR 49