

# **Internal Audit in Different Organizations :**Electricity Distribution/supply

- Applicable provisions of Indian Electricity Act and Electricity Supply Act with respect to maintenance of Accounts, Reserves etc.
- Recording of consumption of electricity by Consumers
- Applicable tariff for different category of consumers
- Collection from consumers at collection points , from collection Agents, online credits etc.
- Consumer number-wise collection reconciliation
- Installation and Equipment/Meter sale , re-connection proceeds and reconciliation
- Overdue consumer numbers and necessary steps
- Reconciliation of Rebates , applicability/eligibility and availing the same
- Accounting of Security Deposits ( SD) received and up-dation due to higher consumption
- Collection of enhanced SD
- Expense booking ( all expenses) and payments
- Stores , issue procedure and consumption
- Fund allocation for capital expenditure and Capex spent
- Fuel surcharge and computations, claims
- Depreciation and other applicable charges

# Internal Audit in Different Organizations : Port/Bulk Terminals

- ❑ Available facilities ( Loading, Unloading, Anchoring, Dry-docking etc.) and applicable tariff structure against each
- ❑ Agency agreements for specified period and with facility-wise tariff structure
- ❑ Pass-on cost and inclusion in agreement
- ❑ Accounting for services delivered and billing
- ❑ Cost for dredging and creek cleaning for maintaining floatation
- ❑ Maintenance expenses for capital assets like floating cranes, mechanical berths, weighing facilities , storage areas etc.
- ❑ Pilotage facilities and cost
- ❑ Force majeure and it's inclusion in Agreements
- ❑ Adequate Security arrangements to protect goods and facilities and cost therefor
- ❑ Sourcing of technical grade employees like swimmer, anchoring staff etc.
- ❑ Financing arrangement and cost thereon
- ❑ Tracking performance with gestation period of the Project

# Internal Audit in Different Organizations :Shipping

- ❖ Fleet size including owned Vessels and Chartered Vessels
- ❖ Flag of Chartered Vessels and related fees
- ❖ Third Party Chartering Agreements ( Time Charter and Cargo Charter) with financial exposure
- ❖ Type /Capacity of Vessels/Tankers ( Suez Max, Panamax, VLCC etc.) and related capacity with cargo specification
- ❖ Vessel Registration and charges
- ❖ Insurance and Depreciation
- ❖ Computation of 'Demurrage and Detention' vs 'Dispatch' as per lay can period
- ❖ Force majeure and delays ( without penalty )
- ❖ Loading and Unloading operation
- ❖ Portage and other charges payable
- ❖ Benchmarking of freight against Baltic freight
- ❖ Ballasting and Fueling cost
- ❖ On board crew and legal formalities



# Internal Audit in Different Organizations : Mines ( Coal, Lime Stone)

- ✓ Participation in bidding process acquire 'mining rights'
- ✓ Documentation as to 'right to carry out mining operations'
- ✓ Conditions as to stowing and plantations during mining operations
- ✓ Permission for operations with specific conditions e.g digging instead of blasting
- ✓ Lifting volume and royalty and Govt. levies as maintained in lifting Register
- ✓ Expenses on removal of overburdens, stowing operations and greenery
- ✓ Contractual arrangements for lifting and transportation from pit to weigh bridge and further
- ✓ Listing of owned capital assets used in operation and depreciation there on
- ✓ Maintenance expenditure and fuel cost for equipment and vehicles
- ✓ Payments made to Contractors ( lifting basis and/or manpower basis)
- ✓ Payment for Equipment hiring charges ( volume based and/or period based)
- ✓ Estimation of mined product lying near pit ( not removed)
- ✓ Safety measures at site
- ✓ Appointment for Statutory positions e.g Mines Safety Officer, Mines Manager etc.
- ✓ Quality assessment ( exclusion of off-specification) of lifted material
- ✓ Lifted volume certification and reconciliation



# **Internal Audit in Different Organizations :Plantations ( Tea, Coffee , Rubber)**

- Land rights over plantation area and demarcation between different Estates
- Estate Manager/s and their responsibilities
- Allocation of expenses for Capex, Opex and New plantations
- Expenses on up-keep and maintenance of plantation area/s
- Collection records for Leaves, Beans and Latex ( as applicable to different plantation areas)
- Labour rates applicable, Billing therefor and Payments
- Certification of Jobs and Payments as per agreed rates
- Stock of different products ( Raw Leaf, roasted leaf and Beans , Latex, Finished products etc.
- Quality assessment and gradation of Product ( Tea, Coffee etc.)
- Compliance against statutory responsibilities

# **Internal Audit in Different Organizations :Passenger Transport Organizations**

- Capital Budget for Vehicle purchases
- Budget for major overhauling and actual spent
- Vehicles Registration and Ownership right
- Obtaining rout permits for operating in State/National destinations
- Monitoring of running expenses like fuel, tyres replacement , spare parts life cycle etc.
- Operators ( Driver, Helper etc.)attendance and payments
- Sale of Tickets ( number control over tickets) and booking charges
- Passenger per Km. cost and Revenue ( guide to fix Ticket /Revenue)
- Vehicle-wise Log Book maintenance and checking for mileage , fuel performance etc.
- Finance cost and allocation to Vehicles for cost accumulation purposes
- Compliance w.r.t PUC (Pollution Under Control) certification, Certificate of Fitness etc.
- Cash , petty cash physical count against Cash Collection Statement

## **Internal Audit in Diff. Organizations :Newspaper printers( excl. Electronic version)**

- ☐ Circulation statistics
- ☐ Distribution and reach strategy
- ☐ Commission structure of Agents engaged in distribution
- ☐ Cost on Permanent News Reporter , Photographer and news collected through freelancers
- ☐ Newsroom activities and editing before printing the news item
- ☐ Advertisement tariff applicable for different days based on visibility ( size) and prominence of news page
- ☐ Advertisement booking, date of insertion and collection
- ☐ Co-ordination and cost for printing newspaper in different presses ( capacity constraint at a single place)
- ☐ Newspaper return from Stands , acknowledgement of receipts and value adjustment
- ☐ Honorarium agreed and paid to Guest Column writers
- ☐ Purchase Orders for Newsprint, Ink etc. , Receipt of Material and payment for such Expenses
- ☐ Maintenance of Printer and Depreciation of equipment
- ☐ Cost of preserving Published copies ( preferable electronic mode) for future reference



# **Internal Audit in Different Organizations :**Logistic support services

## ***Nature of Logistic Services – Transportation of Goods, Rake Clearance ,Warehousing, Handling and Distribution***

- ☐ ***Owning fleet***
- ☐ ***Local / National Permit***
- ☐ ***Arranging fleet from open market***
- ☐ ***Loading***
- ☐ ***Unloading***
- ☐ ***Delivery and Acceptance***
- ☐ ***Certification of Volume by the User***
- ☐ ***Rate Agreement/Contract***
- ☐ ***Billing***
- ☐ ***Collection***
- ☐ ***Taxation implications***
- ☐ ***Recovery by User for short/defective delivery***
- ☐ ***Payment to Staff/ Driver/office bearers***
- ☐ ***Fuel and Vehicle Maintenance cost***
- ☐ ***Security Deposit made to User and recovery on discontinuance of service***

# Internal Audit in Different Organizations :Logistic support services

- ☐ *Authorization from Railway*
- ☐ *Loading and Unloading volume certification*
- ☐ *Rate Agreement*
- ☐ *Billing and Collection*
- ☐ *Own/arrange warehousing*
- ☐ *Municipal approval for Warehouse*
- ☐ *Stock maintenance*
- ☐ *Despatch from warehouses*
- ☐ *Maintenance of records for receipt/dispatch and stock movement*
- ☐ *Short /Excess Reporting*
- ☐ *Ambiance maintenance*
- ☐ *Payments to Loader /Despatch Gang*

# Internal Audit in Different Organizations :Real Estate Developer

- Development right over the Land ( purchase or joint development)
- Project approval from appropriate authority
- Land Sketch and development plan
- Project cost estimation and financial arrangement/tie-ups
- Procurement of necessary materials for construction /development
- Number of Units and budgeted Cost for each
- Specific inclusions and exclusions in Sale agreements with the Buyer to suit their purpose
- Cost plus Contract
- Partial completions and recognition of revenue /profit
- Obtaining necessary certification for part /full completion of the Project
- Sale deeds and handover of ownership rights
- Collection of proceeds
- Update and completion of accounting process



# Cost Audit Program for elements of Cost

A cost audit comprises the following :

**Verification of the cost accounting records such as the accuracy of the cost accounts, cost reports, cost statements, cost data and costing technique.**

Sl.No.	Elements of Cost
1	Audit of Production -Product wise
2	Audit of Raw Material Cost
3	Audit of Key RM Inventory status
4	Audit of Electricity Cost
5	Audit of cost of electricity generated by DG ( Diesel Generator)
6	Audit of Demineralised water cost
7	Audit of Steam Cost
8	Audit of Stores and Spares cost
9	Audit of Repair and ,maintenance cost
10	Audit of Employee cost
11	Audit of Oinsurance cost
12	Audit of Depreciation cost
13	Audit of Administrative Cost
14	Audit of selling and distribution cost
15	Audit of packing material cost
16	Audit of sales value

## Cost Audit Program for elements of Cost : Audit of Production –Product-wise

- Whether appropriate cut-offs are observed to identify calendar dates with stages of production?
- Whether organizational guideline is in place to identity percentage completion in different product stages?
- Whether Finished products, Work In Progress -WIP ( SFG Semi Finished Goods) are segregated and considered Accordingly?
- Whether products manufactured and capacity available are compared to find out utilization?
- Whether only Quality approved products are declared as ‘production’ and considered for further analysis?
- Whether any incremental capacity reckoned for actual product-wise higher output?
- Whether technological improvement caused higher product-wise output?
- Whether efficiency enhancement of labour force resulted in higher output?
- Whether production tracking over a period of time (say 5-years) captured for further analysis?

# Cost Audit Program for elements of Cost : Audit of Raw Material (RM)Cost

- ✓ Whether BOM ( Bill Of Materials) includes every element/item required to carry out Production with Product-wise details.
- ✓ Whether a Budget with expected price is made for all key raw material?
- ✓ Whether any subsequent changes in BOM are updated for considering consumption?
- ✓ Whether a variance analysis is carried out at periodical intervals to assess actual cost is within a reason level?
- ✓ Whether high difference is analysed to pre-empt any possibility to avoid/reduce such implications?
- ✓ Whether receipting process is in place and inventory updation carried out on real time basis?
- ✓ Whether storage is made appropriately without any possibility of mix-up, spilling over and losses due to airborne?
- ✓ Whether inventory movements are made against approvals of appropriate authority?
- ✓ Whether raw materials including bulks are issued for consumption/kept in storage against a proper method of measurement?
- ✓ Whether perpetual and/or quarterly physical verification process is in place?
- ✓ Whether the difference between Book Stock and physical stock adjusted in the relevant period of accounting?
- ✓ Whether the Ordering process considers , (a) EOQ (b) Lead Time ( c ) effective life of RM etc.
- ✓ Whether the entity having a policy to identify slow and non-moving raw materials and fixing level for provision against such items?
- ✓ Whether a material codification logic is followed for identification of imported and local raw materials ( having similar look but difference in price and effectiveness)?
- ✓ Whether abnormal loss of material is appropriately treated?



## Cost Audit Program for elements of Cost : Audit of Key RM Inventory Status

- ☐ Whether by value or volume the list of materials qualified as 'key' Raw Material ?
- ☐ Whether the entity having a stocking /holding policy for such items for continuity of production?
- ☐ Whether the prevalent consumption pattern justifies the pre-determined inventory holding policy?
- ☐ Whether any improvement in lead time , delivery conditions etc. explored to reduce the volume at hand/yard?
- ☐ Whether low inventory ever caused production stoppages?
- ☐ Whether comparison made for holding cost over a period of time ( say 3-years)?

# Cost Audit Program for elements of Cost : Audit of Electricity Cost

- ❖ Whether all Cost Centres ( Production and Utility ) are mapped for electricity consumption, e.g Kiln, Grinding , Packer ( Prodn.) and Air Compressor, Chilling Plant etc.( Utilities)
- ❖ Whether Electricity consumption standard and required heat is mapped against each of the facilities.
- ❖ Whether actual electricity consumption is in tandem with output/Production from each of the facility e.g Packing Volume vs. electricity consumption, Kiln consumption vs. Clicker produced , Grinding Mill electricity consumption vs. Cement manufactured.
- ❖ Whether difference between actual consumption and Standard mapped and reason for such differences are validated.
- ❖ Whether self generation of electricity for captive consumption and buying are appropriate metered and allocated to cost centres.
- ❖ Whether calibration and certification there of obtained for entire metering process.
- ❖ Whether appropriate allocation methodology is followed for common area of consumption.
- ❖ Whether source-wise electricity cost is analysed for appropriate cost allocation and product-wise absorption purposes.
- ❖ Whether cost trend over a period ( say 5-years) is analysed planning power cost scenario and possible requirement of Capex in the area.

## Cost Audit Program for elements of Cost : Audit of Electricity Cost ' DG

- Whether fuel ( diesel) , repair and maintenance and other running expenses are captured and monitored properly?
- Whether DG run Hours and purpose are recorded ?
- Whether record for units generated and purpose of usage are maintained ?
- Whether meter readings are recorded at specified periods?
- Whether fuel consumption vs. units generated are maintained over a period to measure (a)fuel efficiency (b) DG efficiency
- Whether appropriate consumption points are mapped and DG distributes electricity accordingly?
- Whether consumables are properly allocated and certified as usage to run DG Facility.
- Whether depreciation and other overheads are charged to appropriate Machine ( where multiple DGs are used)
- Whether calibration of meters and reading accuracy is ensured?
- Whether DG Cost and other source-wise cost is captured , compared to assess alternate possibilities?



## Cost Audit Program for elements of Cost : Audit of Demineralized Water (DM)cost

- Whether allotment of 'Cost Centre' and capturing of cost is carried out properly?
- Whether element-wise cost with volume of consumption is maintained ?
  - Volume of filtered water
  - Volume of chemicals
  - Electricity used in TP(Treatment Plant)
- Whether volume of DM Water generated are captured correctly ?
- Whether use points are mapped and consumption of DM Water captured appropriately?
- Whether a proper cost structure is in place and DM Water consumption data ensures accuracy?
- Whether all relevant cost including depreciation captured in DM Water Cost Centre?

## Cost Audit Program for elements of Cost : Audit of steam cost

- Whether running hours of Boiler and Steam generated are (Mt.) are recorded ?
- Whether all relevant Boiler running expenses/consumptions like DM Water ( Ltr.), Electricity (KWH), Fuel ( Light Diesel Oil , Coal (Mt.) , Steam consumption etc. are recorded and maintained.
- Whether line losses are measured for future corrective actions.
- Whether standard requirement ( Mt.)of Product (Mt.) are compared for any probable variance.
- Whether high consumption areas are covered by Meters and meter readings obtained at fixed intervals.
- Whether consumption variance ,if any, is analysed for understanding the reason ( e.g leakage in pipe lines, erroneous reading of meters, inactive meters etc.)
- Whether manpower cost , consumables and other Boiler House related cost ( e.g repair, maintenance etc.) are booked timely and correctly.

## Cost Audit Program for elements of Cost : Audit of Stores and Spares cost

- ☐ Whether Cost Centre-wise Requisition for Spares are maintained to arrive at total requirement of Spares at Unit/Entity level.
- ☐ Whether to support the above and to avail 'price advantage' , appropriate codification logic is in place?
- ☐ Whether Spares are classified under A,B , C Category to exercise proper supervision and control.
- ☐ Whether there exists any organizational Guideline to differentiate between Slow, Non-moving spares based yearly consumption history?
- ☐ Whether appropriate valuation methodology exists for Stores and Spares falling under Slow, Non-moving category?
- ☐ Whether Product-wise , Plant-wise, Cost Centre-wise Spares issues and consumption are tracked ?
- ☐ Whether accounting guidance for recording Stores and Spares to appropriate 'cost centres' / 'Plants' in place?
- ☐ Whether the 'Spares Control Account' is reflected in Trial Balance and tallied.



## Cost Audit Program for elements of Cost : Audit of Repairs and Maintenance Cost

- ✓ Whether Repair and Maintenance Costs are attached/tied against each of the 'Cost Centres'?
- ✓ Whether age of plant along-with 'Repair Maintenance expenditure ' ( R & M spent trending higher) compared to 'Plant Value and remaining life' decide on replacement of the asset.
- ✓ Whether all 'R & M Expenditure' booked to appropriate 'cost centres'?
- ✓ Whether 'Repair and Maintenance cost' per Mt. of Product indicating a 'rising , falling or constant' trend?
- ✓ Whether a 'R & M Budget' is prepared to keep the expenses within the limit?
- ✓ Whether ' R & M Cost' is bifurcated into “ Normal , Special, Shut-down, Break-down “ etc. to have ( R & M) better visibility on normal and abnormal Cost hike.

## Cost Audit Program for elements of Cost : Audit of employee Cost

- ☐ Whether Employees whose names are appearing in the 'pay roll ' only considered for 'employee cost'?
- ☐ Whether permanent deployment with contractual pay, also clubbed as 'employee cost'?
- ☐ Whether employees are tagged against each of the 'cost centre' whereby cost centre-wise 'pay roll' cost can be validated?
- ☐ Whether any employee movement , A-D-C ( Addition –Deletion- Change) tracked immediately against relevant 'cost centre'?
- ☐ Whether 'product cost build up' considers 'cost centre-wise' employee cost ?
- ☐ Whether trend analysis is carried out for employee cost captured over a period?
- ☐ Whether such trend indicated employee performance improvement overriding 'inflationary / statutory increases'?
- ☐ Whether industry-wide bench marking applied for 'employee cost' of the relevant industry?
- ☐ Whether 'employee cost' as percentage of product cost analysed for cost reduction/ minimization purposes?

## Cost Audit Program for elements of Cost : Audit of insurance Cost

- ❖ Whether 'cost centre-wise' Assets are identified and tagged?
- ❖ Whether abovesaid Assets are covered against insurable perils obtaining appropriate policy cover under individual policy or 'umbrella policy' ?
- ❖ Whether Premia cost against each of the Asset/Cost Centre are identifiable and captured?
- ❖ Whether new assets are also covered immediately and premia cost allocated to appropriate asset cost centre?
- ❖ Whether 'cost centre-wise' insurance cost allocation being checked and any Y-O-Y variance can be validated with proper reasoning?
- ❖ Whether monetary impact of insurance cost with product-wise absorption compared for product cost movement purposes?
- ❖ Whether impact of changed output considered to measure movement of 'product-wise insurance' cost?

## Cost Audit Program for elements of Cost : Audit of depreciation Cost

- ☐ Whether 'Cost Centre-wise' Assets are identified and depreciation against those are captured for the period under review?
- ☐ Whether new installations are mapped and considered on the depreciation schedule?
- ☐ Whether 'product cost' includes depreciation as per aforesaid calculation?
- ☐ Whether individual asset performance and remaining life considered for depreciation assessed?
- ☐ Whether reason for sudden increase or decrease in depreciation cost w.r.t 'cost centre' /s analysed for the 'root cause'?



## Cost Audit Program for elements of Cost : Audit of administrative overhead Cost

- Whether specific guideline is available for the heads of expenditure to be considered as 'Administrative Overhead'?
- Whether Year-wise administrative cost break-up is available w.r.t Product, Cost Centre ?
- Whether allocation/apportionment of administrative expenses are carried out logically and consistently the same followed?
- Whether any abnormal increase/decrease noticed in administrative overhead cost and also in the Product?

## Cost Audit Program for elements of Cost : Audit of administrative overhead Cost

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## Cost Audit Program for elements of Cost : Audit of selling & distribution O/H Cost

- ☐ Whether categorization of Selling and Distribution (S & D) cost available at the organizational level and Product, cost centre-wise also?
- ☐ Whether Selling and Distribution cost at product level as a percentage of COGS is fixed?
- ☐ Whether Y-O-Y (year on year) S & D Cost trend over a period is analyzed to get a feedback on the responsible account head , where expenditure trend is much higher/lower than anticipated?
- ☐ Whether sound logic based allocation /apportionment principle is followed for overhead cost division?
- ☐ Whether the principle followed for allocation/apportionment is consistently followed year after year?
- ☐ Whether per Unit increase/decrease in S & D Cost at each of the Product level considered for 'price fixation' ?
- ☐ Whether infrastructural improvement and/or change in sales policy evaluated for increase/decrease of S & D Expenditure.

# Cost Audit Program for elements of Cost : Audit of Packing Material Cost

- ❖ Whether Primary and Secondary Packing Materials are identified based on usage purpose?
- ❖ Whether special packing opted by bulk buyers are recovered via Invoice Price?
- ❖ Whether proper consumption record is maintained and the same compared with standard set for Packing Materials?
- ❖ Whether any abnormality being noticed in the Packer , which resulted in high abnormal consumption of packing materials.
- ❖ Whether quality of packing materials ensured before they issued to 'shop floor' for consumption.
- ❖ Whether consumption trend is examined for the Products which are 'key products' at least for last five years.
- ❖ Whether packing material rates , examined for last few years ( say five) and how packing materials can be replaced to withstand price pressure.
- ❖ Whether separate codification logic is followed for 'self produced' packing materials and cost for the same.
- ❖ Whether Inventory records are maintained for above 'self produced' items w.r.t generation, Issue and Consumption.
- ❖ Whether change in procurement cost of packing items are accumulated for impact analysis and examine the possibility of pass on to consumer.
- ❖ Whether any abnormal cost is identified for appropriate treatment?



## Cost Audit Program for elements of Cost : Audit of Sales value

- ❖ Whether Product portfolio/Product Basket considered entirely to arrive at sales value?
- ❖ Whether increase/decrease in volume of the Product portfolio impacting sales value?
- ❖ Whether market price movement, discount structure etc. attributing to sales revenue fluctuation?
- ❖ Whether product-wise contribution is analysed to improve sales performance?
- ❖ Whether new launches, change in product portfolio results in higher sales volume/value?
- ❖ Whether higher sales value achievement is at the cost of higher Sales and Distribution expenses/expenditure?
- ❖ Whether appropriate cut-off being observed to determine sales value for the relevant period?
- ❖ Whether sales return and defective supplies are netted off for the purpose of sales value declaration?
- ❖ Whether sales value trend is considered for equivalent periods of different accounting periods?
- ❖ Whether sales budget is realistically set for comparison with actual achieved?
- ❖ Whether analysis along-with root cause carried out to observe sale value variance on Y-O-Y basis?

# Management Audit

- ❑ The two words **Management** and **Audit** creates a new word ‘ **Management Audit**’. The newly formed word exactly answers the most pertinent question-why management audit is necessary for an organization? They are *efficiency* and *profitability*.
- ❑ *Management Audit is a future-oriented, independent, and systematic evaluation of the activities of all levels of management for the purpose of improving organizational profitability and increasing the attainment of the other organizational objectives through improvements in the performance of the management function, achievement of program purpose, social objectives and employees’ development.* -The Institute of Internal Auditors Inc.
- ❑ **Objectives of Management Audit:**
  - ◆ It helps management in setting sound and effective targets.
  - ◆ It suggests management in getting desired results and revealing any defects and irregularities in the process of management.
  - ◆ Management audit helps the management in the effective discharge of their duties.
  - ◆ It helps in the coordination of various departments.
  - ◆ It facilitates the training of personnel and marketing strategies.
  - ◆ It also helps in comparing inputs with outputs.
  - ◆ It ensures strong relations with outsiders.
  - ◆ It also helps in ensuring that the organization has the most efficient internal organization.

# Qualities of Management Auditor

- ☐ A management auditor should have good knowledge and experience of Managerial Functions.
- ☐ An Auditor should have good knowledge of financial statements analysis techniques.
- ☐ An auditor should know human resource accounting and social accounting.
- ☐ He who knows about economics and business laws, etc.
- ☐ He should be through in understanding operational ( Production, Sales ) aspects.
- ☐ Understanding the working of the organization and its problems is also required.
- ☐ An Auditor should have sound knowledge of preparation and understanding of financial statements.
- ☐ He should know and understand the objectives of the organization very well.
- ☐ He should understand planning, budgets, rules, and procedures to be applied in management.
- ☐ He should be well-versed with the entire production process.
- ☐ He should have enough knowledge and experience to understand the reason behind the lack of coordination between different departments.
- ☐ He should have the quality of giving practical and achievable solutions to the problems in the organization.



## Role Of CMAs in Management Audit (MA)

A Management auditor should have the following specific qualities:

- i. Ability to understand and gauge business problems.
- ii. General understanding of the organization.
- iii. Expert knowledge on the principle of delegation of authority, management by objective, management by exception, management planning and control and the different budgetary systems, and those of internal control devices (viz. flow chart, the flow of work, analysis of work schedules, etc.,).
- iv. Sufficient knowledge and experience in preparing various reports for presentation.
- v. General understanding of different laws-General laws, Company law, Tax laws FEMA, etc. that affect the functioning of the whole of the organization.
- vi. Background knowledge about-Engineering, Statistics, Costing, Management accounting, financial accounting, industrial psychology, Managerial economics, etc.
- vii. Tactfulness, perseverance, and lastly-pleasing and dynamic personality.



# MAP ( Management Audit Program)

A management audit program is an essential prerequisite to conducting the audit. It is a plan of action drawn in advance of taking up the audit, and to help the auditor to cover the entire area of his function thoroughly. He should lay down for himself a proper procedure to be followed to complete the work in time, giving thorough coverage to all aspects. An efficient management audit program 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) Exercise of proper management control
- (viii) Maintain a suitable monitoring system through a management information system (MIS)
- (ix) Check on adherence to the statutory obligation and
- (x) Above all, review the efficiency of manpower handling, which ultimately results in the organization's effectiveness.

# MAR ( Management Audit Report )

## **Management Audit Report (MAR)**

It is important to prepare a good MAR. A good MAR can motivate the management and get the required results.

## **Characteristics of a good management audit report**

The detailed characteristics of a good management audit report can be summarized as follows :

- (i) Pertinence
- (ii) Comprehensiveness
- (iii) Brevity
- (iv) Timeliness
- (v) Motivating
- (vi) Formatting

# Cost Audit

**The Institute of Cost & Works Accountants of India defines ‘cost audit’ as “an audit of efficiency of minute details of expenditure while the work is in progress and not a post-mortem examination like Financial audit, which is a ‘fait accompli’.**

A cost audit comprises the following :

**Verification of the cost accounting records such as the accuracy of the cost accounts, cost reports, cost statements, cost data and costing technique.** Examination of these records to ensure that they adhere to the cost accounting principles, plans, procedures and objective.

**Cost audit helps in detection of errors and frauds.** The management gets accurate and reliable data based on which they can make day-to-day decisions like price fixation, margin, continuity or outsourcing , make or buy etc. It helps in cost control and finding avenues of cost reduction.



# COST RECORDS AND AUDIT (CRA )

- ❑ The Cost Audit and requirement of details are informative for better and clear understanding of the Users of Report. **CRA – 1**, prescribes 30 ( thirty ) broad headings for detailed cost accumulation. The Headings are : 1. Material Cost , 2. Employee Cost , 3. Utilities , 4. Direct Expenses , 5. Repair and Maintenance , 6. Fixed Assets and Depreciation , 7. Overheads , 8. Administrative Overheads , 9. Transportation Cost , 10. Royalty and Technical Know-how, 11. Research and Development Expenses , 12. Quality Control Expenses, 13. Pollution control Expenses, 14. Service Department Expenses, 15. Packing Expenses , 16. Finance Cost , 17. Any other item of Cost , 18. Capacity determination , 19. Work-In- Progress , 20. Captive consumption , 21. By-product and Joint product , 22. Adjustment of cost variances , 23. Reconciliation of Cost and Financial Account , 24. Related Party , 25. Expenses or Incentives on Exports , 26. Production Records , 27. Sales Records , 28. Cost Statements , 29. Statistical Records , 30. Records of Physical verification.
- ❑ Pursuant to section 148(3) of the Companies Act 2013 and rule 6(2) and 6(3A) of the Companies (Cost Records and Audit) Rules 2014; **CRA -2** is the Form of intimation of appointment of Cost Auditor by the Company to Central Government.
- ❑ The prescribed Format (Ref. **CRA -3**) i.e the Cost Audit Report includes Unit-wise, Product/Service-wise Cost Statements and Schedules, deviation for the same need to be reported. Part – D of CRA-3 is a measure towards performance orientation which includes the following aspects :
  - a. Product and Service profitability statement
  - b. Profit reconciliation
  - c. Value addition and distribution of earnings
  - d. Financial position and ratio analysis
- ❑ Cost Audit Report filing with Central Government vide **CRA -4**. It is needless to point out that appropriate documentation ( Working papers, Files, process document in physical or electronic form/ mode ) and additional supporting, if any, t to be filed in XBRL ( eXtensible Business Reporting Language). Every Company covered under this rules, within a period of 30 days from the receipt of the cost audit report to submit /upload in XBRL Format the detail and report with full information and explanations on every reservations or quantification contained therein in CRA-4 as specified in the Companies Filing of Documents and Forms in XBRL Rules 2015 in MCA Portal. This helps Companies to integrate Financial and Cost datum across all operational areas for better control.

## **COST RECORDS AND AUDIT (CRA )**

**The above requirements are to accomplish the objectives ( general and specific) of cost audit:**

- (i) To verify that the cost accounting records (or costing books) are accurate.
- (ii) To certify that costing principles have been fully adhered to in maintaining cost accounts.
- (iii) To find out whether the predetermined cost accounting procedures and processes have been strictly followed by the management.
- (iv) To detect errors and frauds, which might have been committed intentionally or otherwise in preparing cost accounts.
- (v) To check whether each item of expenditure involved into the relevant components of goods manufactured has been properly incurred.
- (vi) To see how far the existing practices of cost records are helpful for the management to take decisions.
- (vii) To disclose the deficiencies or inefficiencies in the use of material, labour and machines with a view to assist the management.
- (viii) To assist the external auditor in conducting detailed checking by reducing the volume of audit work through the use of internal cost audit system.
- (ix) To exercise moral check on the cost accounting staff and to attain efficiency in cost accounting systems and procedures.



# CRITICAL ELEMENTS OF COST AUDIT REPORT AND RELATED EVIDENCES (PHYSICAL & DIGITAL)

**The following critical elements must be stated in the cost auditor's report:**

- (a) Whether the machines and labour remained idle during the year because of the shortage of raw materials.
- (b) Whether a large quantity of raw materials were stocked which remained unutilized for a long time, thereby locking up the working capital of the company.
- (c) He should state whether the cost records maintained by the company were adequate for the purpose of audit.
- (d) He should state whether the broad policy laid down by the management was faithfully followed.
- (e) The report should concentrate more on the cost of production, comparative profitability, and operating efficiency of different lines in which the company is engaged rather than the routine statistical or financial information.
- (f) The cost auditor should state if there has been a rise in the cost of production as compared to that of the previous year. He should analyse the causes of such a rise. He should clearly point out where the problem originates from.
- (g) The report should state if there has been any wastage during the process of manufacture and how it could be avoided.
- (h) The cost auditor should also mention the areas in which it is possible to reduce the cost of production.
- (i) He should state whether or not the cost statement reveals a true and fair view of the cost of production.

# Cost Accounting Standard (CAS)

CAS No.	Nomenclature	Objective
1	Classification of Cost	Uniformity and consistency in the principles of classification of cost for disclosure and presentation in the cost statements of a product or service
2	Capacity determination	Uniformity and consistency in the principles and methods of determination of capacity with reasonable accuracy.
3	Prodn. & Operation Overheads	Uniformity and consistency in the principles and methods of determining the production or operation overheads with reasonable accuracy .
4	Cost of Prodn. for captive consumption	Uniformity and consistency in the principles and methods of determining the cost of production with tax impacts for goods used for captive consumption ; cost statement prepared based on standard for assessable value of goods used for captive consumption ; better transparency in the valuation of goods used for captive consumption.
5	Determination of average cost of transportation	Uniformity in the application of principles and methods used in the determination of averaged/equalized transportation cost; prescribe the system to be followed for maintenance of records for collection of cost of transportation and apportionment to cost centres, locations or products ; to provide transparency in determination of cost of transportation.



# Cost Accounting Standard (CAS)

CAS No.	Nomenclature	Objective
1	<b>Classification of Cost</b>	Nature of Expenses – Material , Man and Expenses. These are again be (1) Direct and (2) Indirect expenses
		Cost Object - Cost Statement for Product, Services or activities
		Cost Unit –( Metric Tonne, Mega Watt, Number etc. for Manufacturing ) ; (Tonne – Km., Full Time Hour , Room-nights etc. for Services )
		Classification by Behaviour – Fixed Cost, Variable Cost and Semi-variable Cost
		Classification by Function – Production , Administration , Research , Development , Selling , Distribution

# Cost Accounting Standard (CAS)

CAS No.	Nomenclature	Objective
2	<b>Capacity Determination</b>	Types of Capacity – (1) Installed (2) Normal (3) Utilized (4) Normal Idle & (5) Abnormal Idle
		Installed Capacity – (1) Tag given by Equipment Manufacturer ; (2) Operational constraints determine normal or actual operational capacity ; (3) Actual operational capacity ; (4) Diff. between installed capacity and normal capacity ; (5) Diff. between normal capacity and actual capacity
		Disclosure – A. Reason for capacity underutilization B. Abnormal cost due to capacity underutilization C. Periodical change in capacity with reasons D. Basis of capacity computation etc.
		Capacity is one of the performance indicator

# Cost Accounting Standard (CAS)

CAS No.	Nomenclature	Objective
3	<b>Production and Operation Overheads</b>	Overhead means Indirect Costs
		Material Nett of all Credits excepting Cash Discount
		Exclusions are – Finance Cost , Abnormal Cost , Notional cost i.e without cash outflow (excl. Depreciation) e.g , Rent on own house, Penalties-damages-fines for statutory violations
		Subsidy, Grants or Incentive received shall be considered for reduction in product cost. Variance between Standard and Actual is part of cost.
		Fixed part absorption based on Normal Capacity or Actual capacity whichever is higher. Variable part based on actual capacity utilization

# Cost Accounting Standard (CAS)

CAS No.	Nomenclature	Objective
4	<b>Cost of Production for captive consumption</b>	Assessable value of goods used for captive consumption is @115% of cost of production of such goods.
		Cost of consumption consist of Material consumed , Direct Manpower cost, Direct Expenses , Works Overheads , QC Cost , R & D Cost , Packing Cost ( both primary and secondary) , Administrative Overheads.
		Stock adjustments , adjustment for WIP , FG , Scrap ,Wastages to be considered
		Any changes in cost accounting principles and practices during the concerned period having materiality , the cost of production in terms of comparability with previous periods.
		Inventory certified copy not available requires proper disclosure.



# Cost Accounting Standard (CAS)

CAS No.	Nomenclature	Objective
6	Material Cost	Uniformity and consistency in the principles and methods of determining the material cost with reasonable accuracy
7	Employee cost	Uniformity and consistency in the principles and methods of determining the employee cost with reasonable accuracy
8	• Cost of utilities	Uniformity and consistency in the principles and methods of determining the cost of utilities with reasonable accuracy
9	Packing Material cost	Uniformity and consistency in the principles and methods of determining the packing material cost with reasonable accuracy
10	Direct Expenses	Uniformity and consistency in the principles and methods of determining the direct expenses with reasonable accuracy

# Cost Accounting Standard (CAS)

CAS No.	Nomenclature	Objective
6	Material Cost	Uniformity and consistency in the principles and methods of determining the material cost with reasonable accuracy
7	Employee cost	Uniformity and consistency in the principles and methods of determining the employee cost with reasonable accuracy
8	• Cost of utilities	Uniformity and consistency in the principles and methods of determining the cost of utilities with reasonable accuracy
9	Packing Material cost	Uniformity and consistency in the principles and methods of determining the packing material cost with reasonable accuracy
10	Direct Expenses	Uniformity and consistency in the principles and methods of determining the direct expenses with reasonable accuracy

# Cost Accounting Standard (CAS)

CAS No.	Nomenclature	Objective
6. Contd.		Normal loss or spoilage prior to receipting , cost ( recoveries from Suppliers, carriers, insurers etc.) absorbed in Units/quantity balance physically available
		Losses due to shrinkage or evaporation, Gain due to elongation shall be considered in material cost to the extent they are normal with corresponding volume adjustment.
		Demurrage , detention , penalty etc. shall not form part of ‘cost of materials’
		Subsidy, Grant, Incentive w.r.t any material shall be reduced from cost for ascertainment of the cost object to which such amounts are related.
		Any abnormal cost to be excluded from material cost.

# Cost Accounting Standard (CAS)

CAS No.	Nomenclature	Objective
6. Contd.		Normal loss or spoilage prior to receipting , cost ( recoveries from Suppliers, carriers, insurers etc.) absorbed in Units/quantity balance physically available
		Losses due to shrinkage or evaporation, Gain due to elongation shall be considered in material cost to the extent they are normal with corresponding volume adjustment.
		Demurrage , detention , penalty etc. shall not form part of ‘cost of materials’
		Subsidy, Grant, Incentive w.r.t any material shall be reduced from cost for ascertainment of the cost object to which such amounts are related.
		Any abnormal cost to be excluded from material cost.



# Cost Accounting Standard (CAS)

CAS No.	Nomenclature	Objective
7.	<b>Employee Cost</b>	Benefits paid or payable for the services rendered for permanent , contractual and temporary deployment.
		Compensation paid to employees for the past period (dispute or court order) shall not form part of employee cost. Short provision of prior period made in current period shall not form part of employee cost.
		Difference between time paid/payable for and time booked on 'cost object' is to be treated as 'Idle time'.
		Indirect Employee Cost forms part of Overhead.
		Subsidy , Grant etc. are to be reduced for ascertaining Employee Cost

# Cost Accounting Standard (CAS)

CAS No.	Nomenclature	Objective
<b>8. Cost of Utilities</b>		Cost of maintaining stand-by utilities shall be the Committed Cost.
		Any utility created as back-up against any failure of the main source of utility ,is called stand-by.
		Each type of utility shall be treated as a distinct cost object.
		Cost of self generated utilities for own consumption shall comprise direct material cost, direct employee cost , direct expenses and factory overheads.
		Cost of utilities purchased shall be measured at cost of purchase including duties & taxes , transportation cost , insurance and other expenditure directly attributable to procurement (net of trade discount and refundable duties ) that can be quantified with reasonable accuracy at the time of acquisition.
		Cost of utilities generated for the sale to outside parties shall comprise of direct material cost, direct employee cost, direct expenses , Factory Overheads, distribution cost, share of administration overhead, marketing overheads. Sale value also includes margin.

# Cost Accounting Standard (CAS)

CAS No.	Nomenclature	Objective
	<b>9. Packing Material Cost</b>	Any material used for packing of a product. Primary Packing Material is essential to hold and preserve the Product for its use by Customer. The secondary packing material is used to store, transport and saleable unit identification.
		Purchase of Packing material shall be valued at purchase price inclusive of taxes and duties and all related spent ( net of credit). Credit refers to trade discount, cash credits and rebates . Cash Discount is not deductible.
		Abnormal losses are not includible , while normal losses are includible.
		Forex components of imported packing material shall be converted based on the rate on the date of transaction. Any further changes does not form part of cost.
		Self manufactured packing material shall be valued at total of direct material cost, direct employee cost, direct expenses, production overheads and Administration Overheads relating to production.

# Cost Accounting Standard (CAS)

CAS No.	Nomenclature	Objective
10.	<b>Direct Expenses</b>	Assigned directly to cost object. These are expenses relating to manufacture of a product or rendering of a service , which can be identified or linked with the cost object other than direct material cost and direct employee cost e.g. Royalty, Special Drawings etc.
		Expenses related to manufacture of a product or rendering of a service , which can be identified or linked with cost object ( excluding direct material and direct employee cost).
		Bought out resources shall be valued at Invoice or agreed price including taxes, duties and all related expenses nett of credits.
		Lumpsum expenses or one time payments, shall be amortized on the basis of benefits received.
		Self created Direct Expenses shall be valued at total of direct material cost, direct employee cost, direct expenses, production overheads and administrative overheads relating to production.



# Cost Accounting Standard (CAS)

CAS No.	Nomenclature	Objective
11	Administrative Overheads	Uniformity and consistency in the principles and methods of determining the administrative overheads with reasonable accuracy
12	Repairs and Maintenance Cost	Uniformity and consistency in the principles and methods of determining the repairs and maintenance cost with reasonable accuracy
13	Cost of service cost centre	Uniformity and consistency in the principles and methods of determining the Cost of Service Cost Centre with reasonable accuracy
14	Pollution Control Cost	Uniformity and consistency in the principles and methods of determining the Pollution Control Cost with reasonable accuracy
15	Selling and Distribution Overheads	Uniformity and consistency in the principles and methods of determining the Selling and Distribution Overheads with reasonable accuracy

# Cost Accounting Standard (CAS)

CAS No.	Nomenclature	Objective
<b>11</b>	<b>Administrative Overheads</b>	Cost of all activities relating to general management and administration of an entity.
		In case of leased assets , if the lease is an operating lease , the entire rentals shall be included in the administrative overheads. In case of financial lease, the finance cost portion should be segregated and treated as part of finance cost.
		Cost of software , including up-grade shall be amortised over its estimated useful life.
		Administrative Overheads shall not include any abnormal administrative cost.
		Fines, penalties, damages and similar charges paid to statutory authorities or other third parties shall not form part of Administrative Cost.
		Overheads are to be apportioned in proportion to benefits received by the cost objects.

# Cost Accounting Standard (CAS)

CAS No.	Nomenclature	Objective
12	Repairs and Maintenance	Cost of all activities which have the objective of maintain, restoring an asset in or to a state in which it can perform the requisite function at intended capacity and efficiency.
		R & M Cost shall be traced to a cost object to the extent economically feasible.
		Any R & M Cost relating to abnormal circumstances , if material and quantifiable, shall not form part of R & M Cost.
		Cost of major overhaul shall be amortized on a rational basis.
		Each type of repair activity ( planned maintenance, break down etc.) to be identified separately.

# Cost Accounting Standard (CAS)

CAS No.	Nomenclature	Objective
13	<b>Cost of Service Cost Centre</b>	The cost centre ,which provides services to production, Operation or other service cost centre e.g R & D, Transport, Computer cell etc.
		Stand by Service :Any facility created as back-up against any failure of the main source of service. Support Service : The cost centre which primarily provides auxiliary service across the entity.
		Any abnormal cost excluded from cost of service cost centre.
		Disclosure to be made for the basis of distribution cost of each service cost centre to the consuming centres.
		The cost of purchase, production, distribution, marketing and price of services with reference to sales to outside parties



# Cost Accounting Standard (CAS)

CAS No.	Nomenclature	Objective
14	<b>Pollution Control cost</b>	Pollution control cost shall be valued at total of direct and indirect cost relating to the said activity.
		In house pollution control activity shall be valued at cost of all resources including cost of material , consumable stores spares, manpower , utilities, equipment usage etc. in the activity.

# Cost Accounting Standard (CAS)

CAS No.	Nomenclature	Objective
15	<b>Selling and Distribution Overheads</b>	Expenses related to sale of products or services and include all indirect expenses incurred in selling the products and services e.g receivable collection cost , after sales service , Travelling of sales team, commission to sales Agents etc.
		Selling and Distribution expenses , benefits of which are expected to be derived over a long period , shall be amortized on a rational basis.
		Demurrage ,detention, penalty etc. shall be excluded from sales and distribution overhead.
		Credits /recoveries relating to selling and distribution overheads including those rendered without any consideration, material and quantifiable, shall be deducted to arrive at the net selling and distribution overheads.
		Selling and distribution overheads directly traceable shall be assigned to the relevant product sold or services rendered.

# Cost Accounting Standard (CAS)

CAS No.	Nomenclature	Objective
16	Depreciation and Amortization	Uniformity and consistency in the principles and methods of determining the depreciation and Amortization with reasonable accuracy
17	Interest and Financing Charges	Uniformity and consistency in the principles and methods of determining and assigning the Interest and Financing Charges with reasonable accuracy
18	• Research and Development cost	Uniformity and consistency in the principles and methods of determining the research and Development costs with reasonable accuracy and presentation of the same
19	Joint cost	Uniformity and consistency in the principles and methods of determining and assigning joint cost with reasonable accuracy
20	Royalty and Technical Know-how fee	Uniformity and consistency in the principles and methods of determining the amount of royalty and technical know-how fee with reasonable accuracy

# Cost Accounting Standard (CAS)

CAS No.	Nomenclature	Objective
19	<b>Joint Costs</b>	By Product – Products with relatively low value produced incidentally in the manufacturing of the product or services.
		Joint Product- Products or services that are produced simultaneously, by the same process, identifiable at the end of the process and recognized as main products or services having sufficient value.
		Split-off point- The point in the production process at which joint products become separately identifiable. Synonymous ‘separation point’
		Joint costs are cost of common resources used to produce two or more products or services simultaneously.
		Scrap or waste recovery to be deducted from the cost of joint product



# Cost Accounting Standard (CAS)

CAS No.	Nomenclature	Objective
21	Quality control	Uniformity and consistency in the principles and methods of determining the depreciation and Amortization with reasonable accuracy
22	Manufacturing Cost	Uniformity and consistency in the principles and methods of determining the manufacturing cost of excisable goods
23	• Overburden removal cost	Uniformity ,consistency in the principles and methods of determining and assigning overburden removal cost with reasonable accuracy
24	Treatment of revenue in cost statements	Uniformity ,consistency in the principles and methods for treatment of revenue in cost statements with reasonable accuracy

*THANK you!*  
*For your attention,*  
*patience & understanding !*



Case Study-1: Global Retailers Co. - Mitigating Supply Chain Risks through Risk-Based Audit

**Background:** Global Retailers Co. (GRC) operates in the highly competitive retail industry, sourcing products from various international suppliers. With a presumption that the company may face significant disruptions in its supply chain due to unexpected geopolitical events, such as trade tensions and political instability in key regions. Recognizing the need to proactively address these risks, GRC's internal audit team initiated a risk-based audit to assess and mitigate supply chain vulnerabilities.

Objectives of the Risk-Based Audit:

- 1. Identify Geopolitical Risks:**
  - Assess the potential impact of geopolitical events on the supply chain, including trade restrictions, tariffs, and political instability in key sourcing regions.
- 2. Evaluate Supplier Resilience:**
  - Examine the resilience of GRC's suppliers to geopolitical risks. Evaluate their contingency plans, diversification strategies, and ability to adapt to changing political and economic conditions.
- 3. Assess Inventory Management:**
  - Review GRC's inventory management practices to ensure adequate buffer stock, alternative sourcing options, and efficient distribution channels in the face of supply chain disruptions.
- 4. Examine Contractual Agreements:**
  - Scrutinise contractual agreements with suppliers, logistics partners, and other stakeholders to identify clauses related to force majeure, dispute resolution, and risk-sharing mechanisms.
- 5. Recommend Mitigation Strategies:**
  - Develop actionable recommendations to mitigate identified risks, enhance supply chain resilience, and establish a framework for continuous monitoring of the situation.

Audit Process:

- 1. Risk Identification:**
  - The internal audit team collaborated with key stakeholders, including procurement, logistics, and risk management teams, to identify potential geopolitical risks that could impact the supply chain.
- 2. Data Collection and Analysis:**
  - Conducted a thorough analysis of historical geopolitical events and their impact on the retail industry. Collected data on supplier locations, dependencies, and vulnerabilities.
- 3. Supplier Assessments:**
  - Evaluated the financial health, geographic diversification, and risk management practices of key suppliers. Engaged in discussions with suppliers to understand their contingency plans and commitment to risk mitigation.
- 4. Inventory and Distribution Review:**
  - Examined GRC's inventory levels, lead times, and distribution strategies. Assessed the company's ability to quickly adapt and reroute shipments in response to disruptions.

5. Contractual Analysis:

- Reviewed contractual agreements with suppliers and logistics partners to ensure alignment with risk mitigation objectives. Identified areas for contract renegotiation or enhancement.

6. Mitigation Strategies:

- Collaborated with management to develop and implement mitigation strategies, such as dual sourcing, diversification of suppliers, renegotiation of contracts, and the establishment of a crisis management plan.

**Results and Impact:** The risk-based audit provided GRC with valuable insights into its supply chain vulnerabilities and preparedness for geopolitical risks. The company implemented several recommendations, including diversifying its supplier base, renegotiating contracts with flexible terms, and enhancing inventory management practices. As a result, GRC improved its resilience to geopolitical events, minimised supply chain disruptions, and positioned itself to navigate future uncertainties more effectively.

Key Takeaways:

- The case emphasises the critical role of internal audit in identifying and addressing risks associated with geopolitical events in a global supply chain.
- The integration of risk management principles into the internal audit process enhances the organisation's ability to proactively manage and mitigate potential disruptions.
- Continuous monitoring and adaptation of risk mitigation strategies are essential to ensure the ongoing resilience of the supply chain in a dynamic global business environment.

Case Study-2: XYZ Manufacturing Company - Streamlining Operations through Operational Audit

**Background:** XYZ Manufacturing Company, a global player in the manufacturing industry, recognised the need to optimise its production processes to remain competitive in the market. In response to this challenge, XYZ initiated an operational audit. The internal audit team was tasked with evaluating the efficiency and effectiveness of the company's production operations.

Objectives of the Operational Audit:

- 1. Identify Operational Bottlenecks:**
  - Examine the manufacturing processes to identify bottlenecks, inefficiencies, and areas causing delays in production.
- 2. Evaluate Resource Utilisation:**
  - Assess the utilisation of resources, including machinery, manpower, and raw materials, to identify underutilised capacities and areas of resource wastage.
- 3. Review Internal Controls:**
  - Evaluate the existing internal controls within the production processes to identify vulnerabilities and opportunities for strengthening controls to prevent errors and ensure product quality.
- 4. Recommend Process Improvements:**
  - Develop recommendations for process improvements aimed at enhancing efficiency, reducing costs, and improving overall operational effectiveness.

Audit Process:

1. Engagement Planning:

- Collaborated with production managers, operations teams, and key stakeholders to understand the company's operational objectives and define the scope of the operational audit.

2. Data Collection and Analysis:

- Collected and analysed data on production workflows, cycle times, resource allocation, and error rates. Utilised key performance indicators (KPIs) to assess the current state of operations.

3. Site Visits and Observations:

- Conducted on-site visits to manufacturing facilities to observe processes firsthand. Engaged with production staff to gain insights into day-to-day challenges and opportunities for improvement.

4. Process Mapping:

- Mapped out the end-to-end production processes to identify critical stages, dependencies, and potential bottlenecks. This visual representation helped in pinpointing areas for focused improvement.

5. Internal Control Assessment:

- Evaluated the effectiveness of internal controls related to inventory management, quality assurance, and production scheduling. Identified weaknesses and vulnerabilities in the existing control mechanisms.

6. Stakeholder Interviews:

- Engaged in interviews with key stakeholders, including production managers, quality assurance teams, and frontline workers, to gather insights into operational challenges and potential solutions.

7. Recommendations and Implementation:

- Developed a comprehensive report outlining findings and recommendations for process improvements and strengthened internal controls. Collaborated with operations teams to prioritise and implement changes.

**Results and Impact:** The operational audit led to several positive outcomes for XYZ Manufacturing Company:

- Increased Efficiency:** Identified and addressed bottlenecks, leading to streamlined production workflows, reduced cycle times, and increased overall operational efficiency.
- Cost Reduction:** Improved resource utilisation and optimised production processes resulted in cost savings, contributing to the company's bottom line.
- Enhanced Internal Controls:** Strengthened internal controls minimised errors in production, improved product quality, and reduced the risk of defects and recalls.
- Improved Employee Morale:** Streamlined processes and reduced operational challenges positively impacted employee morale and engagement, creating a more efficient and collaborative work environment.

Key Takeaways:

- This case study emphasises the proactive approach of XYZ Manufacturing Company in addressing operational challenges through an operational audit.
- Engaging with key stakeholders and frontline workers is crucial for gaining valuable insights into operational processes and challenges.



- The implementation of recommendations and continuous monitoring are essential for sustaining improvements and optimising business processes over time.

**Case Study-3: Community Health Clinic - Safeguarding Compliance through Healthcare Audit**

**Background:** A community health clinic, dedicated to providing accessible healthcare services, recognised the importance of maintaining strict compliance with healthcare regulations and standards. To ensure adherence and mitigate legal and reputational risks, the clinic initiated a comprehensive compliance audit. The internal audit team was tasked with reviewing patient records, billing practices, and compliance with privacy laws.

**Objectives of the Compliance Audit:**

- 1. Review Patient Records:**
  - Evaluate the accuracy, completeness, and confidentiality of patient records to ensure compliance with healthcare privacy laws and standards.
- 2. Assess Billing Practices:**
  - Examine billing procedures to verify accuracy, transparency, and adherence to regulatory guidelines. Ensure that the clinic is appropriately billing for services rendered.
- 3. Compliance with Applicable Laws:**
  - Verify the clinic's compliance with policies and laws, including the Health Insurance like The National Health Policy, National Medical Commission Act, 2019, Indian Clinical Establishment Act, Right to Privacy, The Pharmacy Act, 1948, Bio-Medical Waste (Management & Handling) Rules, 1998, Drugs and Cosmetics (Amendment) Rules, 2018 or any equivalent laws & regulations applicable.
- 4. Identify Areas of Non-Compliance:**
  - Identify any areas of non-compliance, potential vulnerabilities, or deviations from established healthcare regulations. Develop recommendations for corrective actions.

**Audit Process:**

- 1. Engagement Planning:**
  - Collaborated with clinic administrators, healthcare providers, and compliance officers to understand the clinic's healthcare compliance objectives and define the scope of the audit.
- 2. Patient Record Review:**
  - Conducted a thorough review of patient records, focusing on the accuracy of medical documentation, patient consent forms, and measures taken to protect patient confidentiality.
- 3. Billing Practices Examination:**
  - Examined billing practices, including coding accuracy, claims submission, and verification of services provided. Ensured compliance with regulatory guidelines to prevent billing fraud or errors.
- 4. Privacy Laws Compliance Assessment:**
  - Assessed the clinic's adherence to privacy laws, including the protection of patient health information, secure data storage, and processes for reporting breaches if any.

**5. Employee Interviews:**

- Conducted interviews with clinic staff to understand their awareness of compliance requirements, training received, and any challenges faced in maintaining compliance.

**6. Documented Findings and Recommendations:**

- Documented audit findings, highlighting areas of compliance strength and identifying any instances of non-compliance. Developed clear and actionable recommendations for corrective actions.

**7. Stakeholder Communication:**

- Engaged with clinic leadership to communicate audit findings, discuss recommendations, and facilitate the development of an action plan for addressing identified compliance gaps.

**Results and Impact:** The compliance audit had significant positive outcomes for the Community Health Clinic:

- **Enhanced Patient Data Protection:** Identified and implemented measures to strengthen patient data protection, ensuring compliance with privacy laws and safeguarding patient confidentiality.
- **Improved Billing Accuracy:** Addressed billing discrepancies and inaccuracies, ensuring that the clinic billed for services accurately and transparently, reducing the risk of regulatory penalties.
- **Mitigated Legal and Reputational Risks:** Proactive identification and correction of compliance gaps minimised the risk of legal actions and reputational damage, reinforcing trust with patients and stakeholders.
- **Staff Training and Awareness:** Identified opportunities for improving staff awareness and training on healthcare compliance, contributing to a culture of ongoing compliance vigilance.

**Key Takeaways:**

- This case study underscores the critical role of compliance audits in the healthcare industry to prevent legal and reputational risks.
- Ongoing staff training and communication are essential components of maintaining a culture of compliance within a healthcare organisation.
- Regular compliance audits help healthcare providers identify and rectify potential issues before they escalate, ensuring the highest standards of patient care and regulatory adherence.

**Case Study-4: Tech Innovators Inc. - Fortifying Cybersecurity Through IT Audit**

**Background:** Tech Innovators Inc., a cutting-edge technology company, recognised the critical importance of maintaining robust cybersecurity measures to protect sensitive information and ensure the resilience of its digital infrastructure. To address this concern, the company engaged in a comprehensive IT audit. The internal audit team was tasked with evaluating network security, data protection practices, and employee awareness of cybersecurity protocols.

**Objectives of the IT Audit:**

**1. Assess Network Security:**

- Evaluate the effectiveness of Tech Innovators Inc.'s network security measures, including firewalls, intrusion detection systems, and access controls.

**2. Review Data Protection Practices:**

- Examine data protection policies and practices, ensuring encryption protocols, secure data storage, and measures to prevent unauthorised access.

**3. Evaluate Employee Awareness:**

- Assess the level of employee awareness regarding cybersecurity best practices, including the handling of sensitive information, recognising phishing attempts, and secure password practices.

**4. Identify Vulnerabilities and Risks:**

- Identify potential vulnerabilities in the company's IT infrastructure and assess risks related to data breaches, cyberattacks, and the overall resilience of the digital environment.

**Audit Process:**

**1. Engagement Planning:**

- Collaborated with IT professionals, cybersecurity experts, and key stakeholders to understand Tech Innovators Inc.'s IT objectives and define the scope of the IT audit.

**2. Network Security Assessment:**

- Conducted a thorough review of network security measures, including penetration testing, vulnerability assessments, and analysis of firewall configurations to identify potential weaknesses.

**3. Data Protection Review:**

- Examined data protection practices, including encryption methods, data storage protocols, and access controls. Ensured alignment with industry best practices and compliance with data protection regulations.

**4. Employee Awareness Survey:**

- Administered surveys and conducted interviews to gauge employee awareness of cybersecurity protocols, potential social engineering risks, and their understanding of the importance of safeguarding sensitive information.

**5. Risk Identification and Analysis:**

- Identified and analysed potential risks associated with the company's IT infrastructure, considering emerging cyber threats and industry-specific challenges.

**6. Documentation of Findings:**

- Documented audit findings, highlighting areas of strength and identifying potential vulnerabilities. Provided a risk matrix to prioritise areas that required immediate attention.

**7. Recommendations and Mitigation Plan:**

- Developed a comprehensive report outlining recommendations for mitigating identified risks and enhancing cybersecurity measures. Collaborated with IT and management teams to develop and implement a mitigation plan.

**Results and Impact:** The IT audit had significant positive outcomes for Tech Innovators Inc.:

- **Strengthened Network Security:** Implemented enhanced network security measures, addressing vulnerabilities and ensuring a more resilient defense against cyber threats.



- **Improved Data Protection Practices:** Updated data protection policies and practices, incorporating encryption enhancements and reinforcing access controls to safeguard sensitive information.
- **Enhanced Employee Awareness:** Conducted targeted cybersecurity training sessions, raising employee awareness and fostering a culture of proactive cybersecurity vigilance.
- **Reduced Cybersecurity Risks:** The implementation of audit recommendations led to a significant reduction in cybersecurity risks, contributing to the overall resilience of the company's digital infrastructure.

Key Takeaways:

- This case study underscores the critical role of IT audits in safeguarding sensitive information and ensuring the resilience of an organisation's digital infrastructure.
- A proactive and collaborative approach, involving IT professionals, cybersecurity experts, and employees, is essential for the success of IT audits.
- Regular IT audits contribute to ongoing improvement, helping organisations stay ahead of emerging cyber threats and ensuring the highest standards of cybersecurity.

Social engineering risks involve exploiting human psychology to manipulate individuals into divulging confidential information, providing unauthorised access, or taking actions that could compromise the security of an organisation.

Case Study-5: Internal Audit Case Study - Addressing Environmental Concerns at EcoTech Manufacturing

**Background:** Eco-Tech Manufacturing, a leading player in the manufacturing industry, has been facing increasing scrutiny and concerns related to its environmental impact. The company is committed to sustainability but recognises the need for a thorough internal audit to assess and address environmental concerns.

**Objective:** Conduct an internal audit to identify, evaluate, and mitigate environmental risks and concerns within Eco-Tech Manufacturing, ensuring compliance with environmental regulations and fostering a culture of sustainability.

Audit Scope:

1. **Energy Consumption:**
  - Assess the efficiency of energy usage across manufacturing facilities.
  - Identify opportunities for energy conservation and sustainable practices.
2. **Waste Management:**
  - Evaluate waste disposal methods and adherence to environmental regulations.
  - Recommend improvements for reducing, reusing, and recycling waste.
3. **Emissions Control:**
  - Examine emissions from manufacturing processes.
  - Implement measures to minimise environmental impact and comply with emission standards.
4. **Raw Material Sourcing:**
  - Review sourcing practices for raw materials and their environmental impact.
  - Explore sustainable sourcing options.

5. **Compliance with Environmental Regulations:**
  - Ensure compliance with local, national, and international environmental regulations.
  - Develop processes for ongoing monitoring and adherence.

Audit Process:

1. **Engagement Planning:**
  - Collaborate with environmental experts, operations teams, and key stakeholders to define the scope and objectives of the audit.
2. **Data Collection and Analysis:**
  - Gather data on energy consumption, waste generation, emissions, and raw material sourcing.
  - Utilise key performance indicators (KPIs) for analysis.
3. **Site Visits and Observations:**
  - Conduct on-site visits to manufacturing facilities to observe processes and assess environmental practices.
  - Engage with plant personnel to gather insights.
4. **Stakeholder Interviews:**
  - Interview key stakeholders, including environmental and operations managers, to understand existing processes, challenges, and improvement opportunities.
5. **Regulatory Compliance Review:**
  - Evaluate existing procedures to ensure compliance with environmental regulations.
  - Identify any gaps in compliance and recommend corrective actions.
6. **Risk Assessment:**
  - Conduct a risk assessment to prioritise environmental concerns based on their potential impact on sustainability and regulatory compliance.
7. **Recommendations and Implementation:**
  - Develop a comprehensive report outlining findings, risks, and recommendations for improvement.
  - Collaborate with management to prioritise and implement changes.

**Results and Impact:** The internal audit at Eco-Tech Manufacturing had significant positive outcomes:

- **Reduced Energy Consumption:** Implemented energy-efficient technologies and practices, leading to a reduction in overall energy consumption.
- **Improved Waste Management:** Established a comprehensive waste management system, emphasising recycling and waste reduction, contributing to a more sustainable operation.
- **Emissions Control Measures:** Introduced technologies to minimise emissions and implemented monitoring systems to ensure compliance with emission standards.
- **Sustainable Raw Material Sourcing:** Explored and adopted sustainable sourcing practices for raw materials, contributing to the reduction of the company's environmental footprint.
- **Enhanced Compliance:** Strengthened processes to ensure ongoing compliance with environmental regulations, minimising the risk of regulatory penalties.

Key Takeaways:

- This case study highlights the proactive approach of EcoTech Manufacturing in addressing environmental concerns through an internal audit.

- Collaboration with environmental experts and key stakeholders is crucial for the success of environmental audits.
- The implementation of recommendations and ongoing monitoring contribute to a sustainable and environmentally responsible business model.

On Audit Program: CMA Club Visit to Goa Resort

**Objective:** To verify and ensure that all usage charges for resort facilities, including the swimming pool, health care, gym, food court, golf course, etc., and food bills incurred by CMA Club members during their 3-night stay, have been accurately recorded and paid in full before checkout.

**Scope:** The audit will cover all aspects of usage charges and food bills related to the stay of CMA Club members at the Goa Resort.

Audit Steps:

1. **Review Reservation Records:**
  - Obtain the reservation records for CMA Club members' stay at the Goa Resort.
  - Confirm the check-in and check-out dates.
2. **Check Usage Charges:**
  - Examine the records of each club member's usage of resort facilities, including the swimming pool, health care, gym, food court, golf course, etc.
  - Verify that usage charges are accurately recorded for each facility.
3. **Verify Food Bills:**
  - Collect food bills for all meals consumed by CMA Club members during their stay.
  - Ensure that the bills include details such as date, time, items ordered, and quantity.
4. **Cross-Check with Member Signatures:**
  - Match signatures on facility usage and food bills with the signatures on check-in and check-out documents.
  - Confirm that the charges were incurred by the actual club members.
5. **Confirm Payment Authorisation:**
  - Verify that all usage charges and food bills have been authorised for payment by the CMA Club.
  - Cross-check with any pre-authorisation records.
6. **Review Payment Records:**
  - Examine payment records to ensure that all usage charges and food bills are settled before the club members' checkout.
  - Confirm that payments match the recorded amounts.
7. **Check for Complimentary Services:**
  - Review records to confirm if any services or meals were offered as complimentary to the CMA Club members.
  - Ensure that complimentary services are properly documented and authorised.
8. **Examine Discounts or Promotions:**
  - Check for any discounts or promotions applied to the usage charges or food bills.
  - Verify the legitimacy and authorisation of any discounts.



9. Audit Internal Controls:

- Assess the effectiveness of internal controls related to billing and payment processes.
  - Evaluate segregation of duties to prevent fraudulent activities.
10. Confirm Compliance with Club Policies:

- Ensure that the resort's billing and payment procedures align with the policies and guidelines established by the CMA Club.
11. Review Documentation Trail:

- Follow the documentation trail from the initiation of usage to payment, ensuring completeness and accuracy.
12. Perform Sample Testing:

- Conduct sample testing of a random selection of usage charges and food bills to validate the accuracy and completeness of records.

**Reporting:** Prepare a comprehensive audit report summarising the findings, including any discrepancies or non-compliance with established procedures. Provide recommendations for improvements and enhancements to internal controls if needed.

**Follow-Up:** Engage with resort management to discuss the audit findings and collaborate on implementing corrective actions. Conduct follow-up audits, if necessary, to ensure sustained compliance with billing and payment procedures.

**On Audit Presentation:**  
**Title: Implementation of Machine-Based Attendance Recording System at No Man's Land Plant - Audit Committee Presentation**

- Slide 1: Title Slide
- Title: "Modernising Attendance Recording at No Man's Land Plant"
  - Subtitle: "A Proposal for Implementing Machine-Based Attendance System"
  - Date: [Presentation Date]

- Slide 2: Introduction
- Brief introduction to the current attendance recording methods.
  - Overview of the need for modernisation and efficiency improvement.
  - Introduction of the proposal to implement a Machine-Based Attendance Recording System.

- Slide 3: Objectives of the Machine-Based System
- Improving accuracy and reliability in attendance recording.
  - Enhancing efficiency and reducing manual efforts.
  - Strengthening control measures and data security.

- Slide 4: Benefits of Machine-Based System
- Accurate and real-time attendance tracking.
  - Reduction in manual errors and data discrepancies.
  - Streamlined payroll processing.
  - Improved compliance with labour regulations.
  - Enhanced employee accountability.

- Slide 5: System Features
- Biometric authentication for employee identification.
  - Integration with HR and Payroll systems.
  - Real-time reporting and monitoring capabilities.
  - Customisable access levels for administrators.
  - Audit trails for tracking changes and system usage.

- Slide 6: IT-Enabled Controls
- Data Encryption: Ensuring data security and confidentiality.
  - User Authentication: Role-based access and multi-factor authentication.
  - Audit Trails: Logging all system activities for monitoring and accountability.
  - Regular Security Audits: Conducting periodic reviews to identify and address vulnerabilities.

- Slide 7: Implementation Timeline
- Phased implementation plan to minimise disruption.
  - Key milestones and deadlines.
  - Testing and validation processes.

- Slide 8: Budget and Resources
- Overview of estimated costs.
  - Resource requirements for implementation.
  - Return on Investment (ROI) projections.

- Slide 9: Risk Mitigation
- Identification of potential risks associated with the implementation.
  - Strategies for risk mitigation and contingency plans.

- Slide 10: Training and Change Management
- Employee training programs for system usage.
  - Change management strategies to facilitate smooth transition.
  - Communication plans to keep employees informed.

- Slide 11: Compliance and Legal Considerations
- Ensuring compliance with data protection laws.
  - Addressing employee privacy concerns.
  - Legal considerations in the implementation process.

- Slide 12: Recommendations
- Proposal for Audit Committee approval.
  - Request for allocation of necessary resources.
  - Assurance of continuous monitoring and evaluation.

- Slide 13: Q&A
- Invite questions and discussions from the Audit Committee.

- Slide 14: Conclusion
- Summary of key points.
  - Reiteration of the benefits and value of the proposed system.

- Slide 15: Next Steps
- Outline of the next steps in the implementation process.
  - Confirmation of ongoing communication and updates.

- Note to Presenter:
- Be prepared to address potential concerns related to data security, privacy, and the overall impact on employees.
  - Emphasise the strategic advantages of the proposed system in terms of efficiency, accuracy, and compliance.

## Multiple Choice Questions ( MCQ)



# Multiple Choice Questions ( MCQ)

1. Internal Audit Program is prepared by –
  - A. Client/ Employer
  - B. Audit Committee
  - C. Internal Auditor
  
2. For on-line product sale by Company, the Internal Audit Head to focus on –
  - A. Price difference from Brick & Morter shop
  - B. Returns by Customers ( 30% of sales)
  - C. COD ( Cash On Delivery) collection
  - D. IT Controls
  
3. Which of the following controls would ensure that Securities are not lost, stolen , diverted -
  - A. Physical security of the place
  - B. E-Files with approval
  - C. Accounting Records
  - D. All of the above
  
4. Scrap sale value realization depends on –
  - A. Segregation of scrap
  - B. Vendor
  - C. As is where is basis
  - D. Seller



# Multiple Choice Questions ( MCQ)

1. Internal Audit Program is prepared by –
  - A. Client/ Employer
  - B. Audit Committee
  - C. Internal Auditor
  
2. Which of the following is not an inherent limitation of Internal Control System ?
  - A. Management override
  - B. Inefficient Internal Audit Dept.
  - C. Collusion
  
- 3.The ..... Is to provide resources and staff members to accompany the Internal Auditors during site visit –
  - A. Audit Department
  - B. Head of the Site
  - C. Auditee
  
4. Objective of Investigation is –
  - A. Find Fraud
  - B. Discover Error
  - C. Verify transactions
  - D. All of the above

# Multiple Choice Questions ( MCQ)

1. Kitchen Order Ticket is associated with -
  - A. Food chain
  - B. IA Tools and Kit
  - C. Restaurant
  - D. Airline Ticket Booking
  
2. Mr. R enters a payment voucher in SAP, which approved by Mr. A as per Delegation of Power. It is –
  - A. Internal Audit
  - B. Internal Check
  - C. Internal Control
  - D. All of the above
  
3. Verification refers to –
  - A. Checking entries
  - B. Existence of Assets
  - C. Fact finding
  
4. Internal Auditor appointed by Management , should share findings with Management only.
  - A. True
  - B. False

# Multiple Choice Questions ( MCQ)

1. Cross Border transactions can't entered with 'Related Parties'  
A. True  
B. False
2. Which of the following is based on the principle of 'division of work' ?  
A. Internal Control ; B. Internal Check ; C. Internal Audit ; D. All of the A,B,C
3. Which is the correct sequence while performing an IA Assignment ?  
A – Audit Report ; B – Audit Programme; C – Audit Note Book ; D- Audit Files
4. Fraud is applicable for Financial Audit only – True or False
5. What is Cyber Security ?  
  
A- What is Cyber Security?  
a) Cyber Security provides security against malware  
b) Cyber Security provides security against cyber-terrorists  
c) Cyber Security protects a system from cyber attacks  
d) All of the mentioned

# Multiple Choice Questions ( MCQ)

1. Which of the following is a component of cyber security?
  - a) Internet Of Things (IOT)
  - b) AI
  - c) Database
  - d) Attacks
  
2. Outsourced Internal Audit Firm is not guided by Audit Committee  
A. False ; B. True
  
3. Head of Audit of a Limited Corporate, not supposed to monitor the activities of the outsourced Firm, since they are specialists  
A. True ; B. False
  
4. Process Review includes only review of manufacturing Process by Internal Audit  
A. False ; B. True
  
5. Exclusion of scope in an audit engagement, absolves the Internal Auditor for Fraud in the said audit area.  
A. False ; B. True
  
6. Internal Auditor is not responsible for tracking the implementation of the suggestion made in earlier Audit Report.  
A. True ; B. False



# Multiple Choice Questions ( MCQ)

1. Internal Audit Head can be—
  - A. Engineer
  - B. Medical Degree Holder
  - C. IT Expert
  - D. Any of the above
  
2. Review of 'Insurance' should not form part of Risk Based Audit Plan, since it relates to mitigation of Risk
  - A. Agree
  - B. Disagree
  
3. Internal Audit is not mandatory for listed Companies
  - A. True
  - B. False
  
4. Risk Management is not under the purview of Internal Audit
  - A. True
  - B. False
  
5. Data Analysis helps IA to crystalize Audit Findings
  - A. True
  - B. False

# Multiple Choice Questions ( MCQ)

1. \_\_\_\_\_ are processes put in place by management to ensure integrity of financial statements, operational objectives, and compliance with applicable regulations and policies.
  - A. Risk management
  - B. Risk matrices
  - C. Inherent risks
  - D. Internal controls
  
2. What is called when internal audit compares the list of risks they identify to the risks management identified to see if there are any inconsistencies?
  - A. Risk assessment
  - B. Internal control assessment
  - C. Risk management
  - D. Gap analysis
  
3. Which of the following is NOT a main element of a sales system?
  - (A). Receiving orders from customers
  - (B). Marketing
  - (C). Despatching the goods and invoicing customers
  - (D). Recording sales and debtors in the accounts

# Multiple Choice Questions ( MCQ)

1. Which of the following is NOT an accepted method of selection in sampling?
  - (A). Systematic selection
  - (B). Pervasive selection
  - (C). Random selection
  - (D). Haphazard selection
  
2. Which of the following is NOT a main element of a purchases system?
  - (A). Placing orders
  - (B). Receiving purchase invoices
  - (C). Goods received
  - (D). Decisions at board level on whether to incur capital expenditure
  
3. The main object of the audit of the cash book may be \_\_\_\_\_.
  - A. to verify the assets and liabilities.
  - B. to know that all receipts and payments have been properly recorded.
  - C. to check the internal control system in business.
  - D. to check the bank balance

# Multiple Choice Questions ( MCQ)

1. The purpose of the audit of wage payment is to determine that \_\_\_\_\_.
  - A. the work is executed completely for which the workers are paid wages.
  - B. the workers are paid the correct amount of wages under proper authorization.
  - C. the workers are working regularly.
  - D. none of the above.
  
2. Audit in depth means \_\_\_\_\_.
  - A. audit of each and every item.
  - B. intensive audit of each and every item.
  - C. intensive audit of a few items.
  - D. audit of a few selected items
  
3. The most difficult type of misstatement to detect fraud is based on \_\_\_\_\_.
  - A. related party purchases.
  - B. related party sales.
  - C. the restatement of sales.
  - D. omission of a sales transaction from being recorded.



# Multiple Choice Questions ( MCQ)

1. Which of the following is not likely to be a fraud risk factor relating to management characteristics?
  - A. Tax evasion.
  - B. Failure to correct known weakness in internal control system.
  - C. Adoption of conservative accounting principles.
  - D. High management turnover.
  
2. An auditor who accepts an audit but does not possess the industry expertise of the business entity should \_\_\_\_\_.
  - A. engage experts.
  - B. obtain knowledge of matters that relate to the nature of entity business.
  - C. inform management about it.
  - D. take help of other auditors.
  
3. To provide for the greatest degree of independence in performing internal auditing functions, an internal auditor most likely should report to the
  - A. Financial vice president
  - B. Corporate controller
  - C. Board of directors
  - D. Corporate stockholders

# Multiple Choice Questions ( MCQ)

1. Which of the following is a general control that would most likely assist an entity whose system analyst left the entity in the middle of a major project?

- A. Son-father-grandfather record retention
- B. Input and output validation routines
- C. Systems documentation
- D. Check digit verification

2. A review of an EDP system reveals the following items. Which of these is a potential internal control weakness?

- A. Backup master files are stored in a remote location
- B. Users must verbally approve all changes to be made to application programs
- C. Computer operators have restricted access to system programs and data files
- D. Computer operators are required to take vacations

3. An auditor=s primary consideration regarding an entity=s internal control structure policies and procedures is whether the policies and procedures

- A. Affect the financial statement assertions
- B. Prevent management override
- C. Relate to the control environment
- D. Reflect management=s philosophy and operating style

# Multiple Choice Questions ( MCQ)

1. An online bank teller system permitted withdrawals from inactive Accounts. The best control for denying such withdrawals is
  - A. Proof calculation
  - B. Check digit verification
  - C. Master file lookup
  - D. Duplicate record check
2. Audit Note Book contains: ----- (A) Various dates of reference. (B) Details of work done. (C) Notes regarding item requiring clarification, explanations, etc. (D) All of the above.
3. A good audit report must at least meet one of the following qualifications: (A) It should offer constructive and timely suggestions to the management. (B) It should not point out mistakes. (C) It should not be based on factual information. (D) It should not be based on balance sheet.
4. Audit in depth means : (A) Audit of each and every item. (B) Intensive audit of each and every item. (C) Intensive audit of few items. (D) Audit of a few selected items.
5. Before the work of audit is commenced, the auditor plans out the whole of audit work is known as – (A) Audit plan (B) Audit note (C) Audit risk (D) Audit program

# Multiple Choice Questions ( MCQ)

1. Shares issued for consideration other than cash should be vouched with help of – (A) Directors minutes book (B) Shareholders minute's book (C) Contract with the party concerned (D) Cash book
2. The panel of Auditors of cooperative society is maintained by – (A) Chartered Accountant (B) Central Government (C) Registrar (D) Shareholders
3. Outstanding expenses should be verified with the help of – (A) Cashbook (B) Balance book (C) Journal proper (D) None of above.

**2. The external auditor shall not use the work of the internal audit function if the external auditor determines that:**

- 1.the function's organizational status and relevant policies and procedures do not adequately support the objectivity of internal auditors.
- 2.the function lacks sufficient competence.
- 3.the function does not apply a systematic and disciplined approach, including quality control.
- 4.all of the above.



# Multiple Choice Questions ( MCQ)

**1. Basic difference between management audit and operational audit is in:**

- 1.method
- 2.level of appraisal
- 3.method as well as level of appraisal
- 4.neither method nor level of appraisal.

**2. Example of ‘value addition’ through audit activities include ( any one of the following)**

- a. Finding a potential saving in the area of audit
- b. Identification of Equipment failure
- c. Restructuring of staff duty allocation
- d. identification of wealth of person already written off as Bad Debt

**3. Excess Labour identification can be done through**

- a. Time and Motion study
- b. Budgeted production time
- c. Overtime hours and payment made
- d. High idle time

**4.MTTR ( Mean Time To Repair ) and MTBF ( Mean Time Between Failure) are parameters for**

- a. Equipment Availability
- b. Efficiency of Maintenance Gang
- c. How to increase Equipment Efficiency
- d. Replacement of Equipment failing repeatedly

# Multiple Choice Questions ( MCQ)

**1. ‘Price Discovery’ is a mechanism used for-**

- a. Price determination in a competitive environment
- b. Price determination after interaction with buyers and sellers
- c. Understanding buyer sentiment
- d. Retail industry

**2. Quarantine Zone term is used for**

- a. quarantine area used for storage until they are sampled, tested or examined
- b. quarantine area used in hospitals for medicines
- c. quarantine area are measured place for keeping costly materials

**3. PTPK (Per Ton Per Kilometer) is used as a parameter for**

- a. Vehicle running cost
- b. Logistic cost
- c. Selection of Vehicle
- d. Sales and Distribution cost

**4. ‘Discharge Rate’ is associated with –**

- a. Unloading liquid Cargo
- b. Unloading bulk cargo
- c. Unloading cargo manually from Vessels