

Paper - 19: Cost and Management Audit

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Full Marks: 100

Time allowed: 3 hours

Part - I

Answer Question 1 which is compulsory.

1. Choose the correct option among four alternative answers. (1 mark for correct choice, 1 mark for justification.) [10*2=20 marks]

- (i) The cost records are to be maintained as specified in _____.
(a) CRA1
(b) CRA 2
(c) CRA 3
(d) CRA 4
- (ii) There are _____ to the Act clarifies or indicates that the schedules provide an illustrative list of acts and omissions constituting "professional or other misconduct"
(a) two schedules
(b) three schedules
(c) four schedules
(d) five schedules
- (iii) CAS 11 deals with _____.
(a) Administrative Overhead
(b) Factory Overhead
(c) Selling & Distribution Overhead
(d) Financial Cost
- (iv) A manufacturing unit showed, during the Financial Year 2021-22, the following financial data (in ₹lakh): Net Sales 4,800, Export Incentives 300, Other income 350, Adj. of Finished Stock (+) 250, Materials 1450, Salaries 1060, Overheads 290, and Tax 250. The Value Added as per Rules is (in ₹lakh) _____.
(a) 2550
(b) 2840
(c) 3900
(d) 5350
- (v) Remuneration of the Non-Executive Directors is treated as _____.
(a) Administrative Overheads
(b) Employee Costs
(c) Salaries and Wages
(d) Management Expenses
- (vi) Which of the following ratios appears as Profitability Ratio in Part D of Annexure to the Cost Audit Report?
(a) Net Profit to Net Sale
(b) Value added to Net Sales
(c) Profit before Tax to Value Added.
(d) Net Profit to Share Capital.
- (vii) Propriety Audit in the context of Government Audit seeks to ensure that _____.
(a) public money are not spent for the benefit of a particular person
(b) public officer should exercise same vigilance as in respect of expenditure of his/her own money
(c) no authority should pass an order which will be directly or indirectly to its own advantage
(d) All of the above

- (viii) Machinery used in defence, space and atomic energy sector and fulfilling turnover criteria is under
- (a) regulated sector.
 - (b) unregulated sector.
 - (c) exempted by different statute.
 - (d) not applicable category.
- (ix) The procedures followed by the cost auditor to reduce the audit risk to an acceptable level will not detect a misstatement that exists and that could be material is _____.
- (a) Inherent risk.
 - (b) Detection risk.
 - (c) Control risk.
 - (d) None of the above.
- (x) Consumer Service Audit is part of _____
- (a) Business Activity Audit
 - (b) Social Audit
 - (c) Service Audit
 - (d) None of Above

Answer:

1. (i) (a) CRA 1
Reason: Pursuant to Rule 5(1) of the Companies (Cost Records and Audit) Rules, 2014, the form CRA 1 prescribes the form in which cost records shall be maintained.
- (ii) (a) two schedules
Reason: As per section 22 of the Cost and Works Accountants Act, 1959 there are two schedules to the Act clarify or indicate that the schedules provide an illustrative list of acts and omissions constituting "professional or other misconduct".
- (iii) (a) Administrative Overheads.
Reason: This standard deals with the principles and methods of classification, measurement and assignment of administrative overheads, for determination of the Cost of product or service, and the presentation and disclosure in cost statements.
- (iv) (c) ₹ 3900 Lakh.
Reason: (Sales 4800 + Export Incentive 300 + Adj of Finished stock 250)- (Materials 1450) = ₹ 3900 Lakh.
- (v) (a) Administrative Overheads
Reason: As per the Generally Accepted Cost Accounting Principles (GACAP), Remuneration of the non-Executive Directors will not be considered as part of Employee Costs but will be treated as part of Administrative Overheads.
- (vi) (c) Profit before Tax to Value Added
Reason: This is one of the four ratios identified as Profitability Ratios in Part D of Annexure to the Cost Audit Report.
- (vii) (d) All of the above
Reason: The objective of Propriety Audit is that public money is not spent for the benefit of a particular person. Public officer should exercise same vigilance as in respect of expenditure of his/her own money and no authority should pass an order which will be directly or indirectly to its own advantage.

- (viii) (b) Unregulated sector
Reason: Machinery used in defence, space and atomic energy sector and fulfilling turnover criteria is under unregulated sector
- (ix) (b) Detection risk.
Reason: "Detection risk" is the risk that the cost auditor will not detect a misstatement that exists in an assertion that could be material, either individually or when aggregated with other misstatements. Detection risk is a function of the effectiveness of an audit procedure and of its application by the auditor.
- (x) (b) Social Audit.
Reason: Consumer Service Audit is an audit of public responsibility of business enterprise in relation to its customers and is a part of social audit. The audit is based on the philosophy that the role of business should be conducive to raising the quality of life through its contribution in terms of better product-quality and services.

Part – II

Answer any five questions from question number 2 to 8. Each question carries 16 marks.

[5 x 16= 80]

2. (a) (i) What is the meaning of "Turnover" in relation to the Companies (Cost Records and Audit) Rules, 2014? 3 + 3
(ii) Whether separate Form CRA-2 is required to be filed by a company having two or more different types of products covered under cost audit? 6
- (b) (i) Which information are likely to be provided in Filing Form CRA-4? 6
(ii) The Companies (Cost Records and Audit) Rules, 2014 have not prescribed any specific formats for the cost statements. In what manner and format would the cost statements be kept under these Rules? 4

Answer:

2. (a) (i) Sub-section 91 of Section 2 of the Companies Act, 2013 defines "turnover" as "the aggregate value of the realization of amount made from the sale, supply or distribution of goods or on account of services rendered, or both, by the company during a financial year. For the purposes of these Rules, "Turnover" means gross turnover made by the company from the sale or supply of all products or services during the financial year. It includes any turnover from job work or loan license operations but exclude duties and taxes. Export benefit received should be treated as a part of sales.
- (ii) CRA-2 Form (intimation for appointment of cost auditor to Central Government) has replaced the earlier Form 23C (application seeking approval for appointment of cost auditor). A single Form CRA-2 is required to be filed providing details of the sectors/industries covered under cost audit and details of cost auditor. For Companies appointing multiple cost auditors, only one single Form CRA-2 is required to be filed. Provision has been made in the Form to accommodate details of multiple cost auditors.

(b) (i) As per the Companies (Cost Records and Audit) Rules, 2014 every company covered under these rules shall, within a period of thirty days from the date of receipt of a copy of the cost audit report, furnish the Central Government with such report along with full information and explanation on every reservation or qualification contained therein, in Form CRA-4. The following information is provided in Filling Form CRA-4:

- (1) Corporate identity number (CIN) or foreign company Registration number (FCRN) of the company
- (2) General Information
- (3) Details of Industries/Sectors/Product(s)/Service(s) (CETA heading level, wherever applicable as per Rules for Regulated and Non-regulated sector) for which the Cost Audit Report is being submitted
- (4) Details of Industries/Sectors/Product(s)/Service(s) (CETA heading level, wherever applicable as per Rules for Regulated and Non-regulated sector) not covered in the Cost Audit Report
- (5) Details of the cost auditor(s) appointed
- (6) Details of observation of the Cost Audit report
- (7) Attachment
 - XBRL document in respect of the cost audit report and Company's information and explanation on every Qualification and reservation contained therein
 - Optional attachment, if any.

(ii) Maintenance of records

- (1) Every company under these rules including all units and branches thereof, shall, in respect of each of its financial year commencing on or after the 1st day of April, 2014, maintain cost records in form CRA-1.

Provided that in case of company covered in serial number 12 and serial numbers 24 to 32 of item (B) of rule 3, the requirement under this rule shall apply in respect of each of its financial year commencing on or after 1st day of April, 2015.

- (2) The cost records referred to in sub-rule (1) shall be maintained on regular basis in such manner as to facilitate calculation of per unit cost of production or cost of operations, cost of sales and margin for each of its products and activities for every financial year on monthly or quarterly or half-yearly or annual basis.
- (3) The cost records shall be maintained in such manner so as to enable the company to exercise, as far as possible, control over the various operations and costs to achieve optimum economies in utilization of resources and these records shall also provide necessary data which is required to be furnished under these rules.

3. (a) "While conducting an audit, the cost auditor shall comply with each of the Cost Auditing Standards relevant to the audit." – Discuss. 6

(b) The profit as per financial accounts of M/s KH Private Company for the year 2021-2022 was Rs.1,54,28,642. The profit as per Cost Accounting Records for the same period was less. You are required to prepare a reconciliation statement and arrive at the profit as per Cost Records. The following details are collected from the financial schedules and cost accounting records: 10

	Financial Accounts	Cost Accounts
Valuation of Stock		
Opening: WIP	25,62,315	22,65,710
Finished Goods	2,65,47,520	2,92,18,950
Closing : WIP	42,75,640	37,36,346
Finished Goods	3,72,59,430	4,35,25,149

Interest income from inter-corporate deposits	6,15,340	—
Donations given	4,85,560	—
Loss on Sale of Fixed Assets	1,22,546	—
Value of cement taken for own consumption	3,82,960	3,65,426
Cost of Power drawn from own Wind Mill		
— At EB tariff	—	49,56,325
— At cost	36,20,370	—
Non-operating income	45,36,770.	—
Voluntary retirement compensation	16,76,540	—
Insurance claim relating to previous year received during the year	14,35,620	—

Answer:

3. (a) While conducting an audit, the cost auditor shall comply with each of the Cost Auditing Standards relevant to the audit. A Cost Auditing Standard is relevant to the audit when the Cost Auditing Standard is in effect and the circumstances addressed by the Cost Auditing Standard exist.

Conduct of audit:

(i) The Cost Auditing Standards provide the standards for the cost auditor's work in fulfilling the overall objectives of the cost auditor. The Cost Auditing Standards deal with general responsibilities of the cost auditor, as well as cost auditor's further considerations relevant to the application of those responsibilities to specific topics.

(ii) In performing an audit, the cost auditor may be required to comply with legal or regulatory requirements in addition to Cost Auditing Standards. In such cases in addition to complying with each of the Cost Auditing Standard relevant to the cost audit, it may be necessary for the cost auditor to perform additional audit procedures in order to comply with the legislative and regulatory requirements. The Cost Auditing Standards do not override law or regulations that govern audit process.

The form of the cost auditor's opinion will depend upon the applicable cost reporting framework and any applicable laws or regulations such as Companies Act and Rules prescribed thereunder.

(iii) The need for the auditor to depart from a relevant requirement is expected to arise only where the requirement is for a specific procedure to be performed and, in the specific circumstances of the audit, that procedure would be ineffective in achieving the aim of the requirement.

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In exceptional circumstances, the cost auditor may judge it necessary to depart from a relevant requirement in a Cost Auditing Standard. In such circumstances, the auditor shall perform alternative audit procedures to achieve the aim of that requirement.

Answer:

3. (b)

Working:

Computation in difference in Valuation of Stock

	Financial Accounts	Cost Accounts
Opening (WIP & FG) Closing (WIP & FG)	2,91,09,835	3,14,84,660
	4,15,35,070	4,72,61,495
	1,24,25,235	1,57,76,835

Reconciliation of Financial Profit and Costing Profit

	₹	₹
Profit as per Financial Accounts		1,54,28,642
Add: Difference in Stock Valuation	33,51,600	
Loss on Sale of Fixed Assets	1,22,546	
Donation not considered in Cost Records	4,85,560	
Voluntary retirement compensation not included in cost		
	16,76,540	56,36,246

		2,10,64,888
Less: Non-operating income	45,36,770	
Less: Interest income from intercorporate deposit	6,15,340	
Difference in value of cement taken for own consumption	17,534	
Difference in valuation of windmill power (₹49,56,325 – 36,20,370)	13,35,955	
Insurance claim relating to previous year	14,35,620	79,41,219
Profit as per Cost Accounts		1,31,23,669

4. (a) Define Management Audit. Discuss about the functions of Management Audit. (2+6)

(b) (i) What is meant by Corporate Service Audit? (ii) Describe the areas of Corporate Services Audit, the scrutiny thereof and the evaluation criteria used in such audit.

(2 + 6)

Answer:

4. (a) Management audit is the unique process appraising the performance of directors, managers or in the other words, appraising the performance of the management. A working director is included as a manager for purposes of management audit. It is normally presumed to be a non-routine investigation into a performance of a manager or group of managers. But in a number of organizations management audit is now a regular feature to examine and improve managerial effectiveness.

Management audit is the systematic and dispassionate examination, analysis and appraisal of management's overall performance. It is a form of appraisal of the total performance of the management by means of an objective and comprehensive examination of the organisation structure, its components such as department, its plans and policies, methods of process or operation and controls, and its use of physical facilities and human resources. Thus management audit is concerned with evaluation and appraisal of the control system and information in the entire or in various segments of the organisation.

The functions of Management Audit are given below:

The functions of management audit extend to audit of the effective functioning of every area of operations coming under the management purview from the stage of its planning to proper implementation and execution. Every manufacturing or service organisation could broadly be identified into the following functional areas –

- (i) Marketing, including selling and distribution.
- (ii) Manufacturing/servicing, including maintenance of supply chain, machinery and equipment, etc.
- (iii) Human resource management from selection to recruitment, training, motivating, retaining, advancement, etc.
- (iv) Personnel policies and industrial relations.
- (v) Finance including maintenance of accounts and providing accounting information to guide the management of its performance and position.
- (vi) Research & development including application research and basic research, if any.

An understanding of the objectives of each functional area at every level of the organisation and effectively achieving such objectives shall be the prime responsibility of management. Checking of such effective achievement is the function of management audit. These are dealt with in more detail in subsequent sections.

- (b) (i)** Corporate Services Audit is the audit of social behaviour of the company to assess the extent to which the company had met the expectations of the customers, employees, shareholders, suppliers and the community.

The scope of the Corporate Services Audit extends to the critical examination of the different aspects of services and the extent to which the corporate body has rendered satisfactory services. It also includes the evaluation of the degrees of responsiveness and awareness on the part of such enterprise. The performance of the management towards customers, employees, shareholders, suppliers, the community and government is studied separately and properly evaluated by management auditor.

(ii) The areas of Corporate Services Audit and the scrutiny and evaluation criteria can be categorized as follows:

Consumers: Quality of goods in right quantity, right price, right place and right time.

Employees: Pay, Safety, Welfare and Industrial Relations etc.

Shareholders: Safety of investment, satisfactory return and capital appreciation.

Community: Social cost and social benefit, public relation

Fellow- businessmen: Business ethics and fair trade dealings.

State: Compliance with various legislations, fair trade practices, payment of taxes etc.

The concept of Corporate Services Audit is that its appraisal system should consider the level of contribution a business entity makes to society and its environment towards raising the quality of life through better product quality and services rather than profit maximization. The Corporate Services Audit thus attempt to distinguish between the end and means of business and provides a new dimension to the concept of audit approach. In Corporate Services Audit, the auditor checks the company's response to different social needs.

5. **(a) Define Audit Committee. Discuss about the role of Audit Committee.** 8
- (b) (i) Write a short note on the role of Internal Auditor of a company to review Custodianship and Safeguarding of Assets.** 4
- (ii) What are the important matters to be considered for conducting Audit of Co-operative Societies?** 4

Answer:

5. (a) Sub-section (5) of section 177 of the Companies Act, 2013 provides that the Audit Committee may call for the comments of the auditors about internal control systems, the scope of audit, including the observations of the auditors and review of financial statement before their submission to the Board and may also discuss any related issues with the internal and statutory auditors and the management of the company.

The Audit Committee shall have powers to investigate any activity within its terms of reference, to seek information from any employee, to obtain outside legal or other professional advice, to secure attendance of outsiders with relevant expertise, if it considers necessary.

The role of the Audit Committee to

- (i) evaluation of internal financial controls and risk management systems;
- (ii) reviewing, with the management, performance of statutory and internal auditors, adequacy of the internal control systems;
- (iii) reviewing the adequacy of internal audit function, if any, including the structure of the internal audit department, staffing and seniority of the official heading the department, reporting structure coverage and frequency of internal audit;
- (iv) discussion with internal auditors of any significant findings and follow up there on;
- (v) reviewing the findings of any internal investigations by the internal auditors into matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the board;
- (vi) discussion with statutory auditors before the audit commences, about the nature and scope of audit as well as post-audit discussion to ascertain any area of concern.

The Audit Committee shall mandatorily review the Internal audit reports relating to internal control weaknesses; and the appointment, removal and terms of remuneration of the Chief internal auditor shall be subject to review by the Audit Committee.

5. (b) (i) The Internal Auditor should review the control system to ensure that all assets are accounted for fully. He/she should review the means used for safeguarding assets against losses viz, fire, improper or negligent activities, theft, illegal activities etc. He/she should review the control system for intangible assets, e.g. the procedure relating to credit control. Where a company uses electronic control equipment, the physical and system control on processing facilities as well as data storage should be examined and tested. He/she should review adequacy of the insurance cover for the various risks involved. He/she should also verify the existence of assets.

Para 30 of the Companies (Cost Records and Audit) Rules, 2014 states that "Records of physical verification may be maintained in respect of all items held in the stock such as raw materials, process materials, packing materials, consumables stores, machinery spares, chemicals, fuels, finished goods and fixed assets etc. Reasons for shortages or surplus arising out of such verifications and the method followed for adjusting the same in the cost of the goods or services shall be indicated in the records."

(b) (ii) Section 17(2) of the Co-operative Societies Act, 1912 specifically requires the auditor to conduct an examination of the overdue debts, if any, and a valuation of the assets and liabilities of the society. The auditor of a co-operative society is also required to point out various irregularities, improprieties, and departures from the provisions of the Act, rules framed thereunder, and the bye-laws of the society.

The following matters are to be considered for conducting audit of Co-operative Societies

1. Examination of overdue debts
2. Overdue Interest
3. Certification of Bad Debts
4. Valuation of Assets and Liabilities
5. Adherence to Co-operative Principles
6. Observations of the Provisions of the Act and Rules
7. Verification of Members' Register and examination of their pass books
8. Special report to the Registrar
9. Audit classification of society

6. (a) A manufacturing firm has up its own power plant to cater its need in manufacturing process.

Its one month data is given below :

Number of units produced = 100 lakh units of which 5% is used by generating unit.

Material and utility used :

- (i) Coal 300 MT @ Rs. 30,000 per MT
- (ii) Oil 5 MT @ Rs. 1,60,000 MT
- (iii) Cost of Water extraction and treatment: 6 lakh litres @ Rs. 3 per litre
- (iv) Steam boiler cost Rs. 55 lakh with residual value 5 lakhs after life of 10 years.
- (v) Cost of Generating Plant is Rs. 90 lakhs with no residual value. Depreciation is charged on straight line method @ 10%
- (vi) Generating Plant : 100 skilled workers @ Rs. 30,000 & 150 helpers @ Rs. 20,000 pm.
- (vii) Boiler plant : 60 semi-skilled workers @ Rs. 25,000 & 100 helpers @ Rs. 20,000pm
- (viii) Repair & Maintenance of generating plant & Boiler is Rs. 5.0 lakhs
- (ix) Share of Administrative charges Rs. 20 lakh
- (x) Realization from Sale of ash disposed is Rs. 1.5 lakh

Prepare a cost sheet for Electricity Generating Cost and calculate cost per unit. 8

- (b) ABC Co. has planned for an investment of Rs. 800.00 lakh with 50% Loan from Banks at 10% interest.

Direct Cost for the year = Rs. 480.0 lakhs and 50% of which is Material cost. Other expenses are at Rs. 80.0 lakh.

The goods will be sold at 150% of direct cost. Tax rate is assumed at 50%.

Determine (i) Net Profit margin (ii) Return on Assets (iii) Assets turnover (iv) Return on owners equity (v) Inventory Turnover

8

Answer:

6. (a)

	Calculation	₹ Lakh
Material cost		
Coal	300 x 30,000	90.00
Oil	5 x 1,60,000	8.00
Water	6 x 3	18.00
Total Material Cost		116.00
Wages for Generator Plant	(100 x 30,000) + (150 x 20,000)	60.00
Wages for Boiler plant	(60 x 25,000) + (100 x 20,000)	35.00
Depreciation - Generating Plant	90 x 0.10	9.00
Depreciation- boiler plant	(55-5) / 10	5.00
Repair & Maintenance of generating plant & boiler		5.00
Administrative Exp		20.00
Total Cost		250.00

As generating unit consumes 5%, effective unit produced for manufacturing = 95 lakh
 Cost per unit = Rs. 250/95 = Rs. 2.63

6. (b)

	₹ lakh
Sales : 480 x 1.5	720
Direct Cost	480
Gross Profit	240
Operating Exp + interest	120
Profit before Tax	120
Net profit after Tax	60
(i) Net Profit Margin (60/720)	8.33%
(ii) Return on Assets (60/800)	7.5 %
(iii) Return on Equity (60/400)	15%
(iv) Asset Turnover (720/800)	0.9
(v) Inventory Turnover (240/7200) x 100	33.33%

7. (a) Evaluation of the personnel function of an organization by management auditor is by no means an easy task. In your view what are aspects to be covered and points to be kept in mind while assessing the personnel function of an organization? 8
- (b) There was a strike from 17.08.2021 to 28.10.2021 in a company of which you are Cost Auditor for the year ending 31.03.2022. Although the Company began working from 29.10.2021 production could effectively begin only from 30.11.2021. The expenses incurred during the year ending 31.03.2022 were:

	Rs. in lakh
Salaries & Wages (Direct)	4,000
Salaries & Wages (Indirect)	3,000
Power (Variable 90%)	1,600
Depreciation	2,000
Other Fixed Expenses	2,800
Repairs and Maintenance (Variable ₹1,200 lakhs)	1,600
Total	15,000

Detailed examination of the records that of the above the following relate to the period 17.08.2021 to 29.11.2021.

	Rs. in lakh
Salaries & Wages (Indirect)	900
Depreciation (Non-productive)	700
Other Fixed Expenses	1,000
Repairs and Maintenance (Indirect)	200
Total	2,800

Detailed examination of the records that of the above the following relate to the period 17.08.2021 to 29.11.2021

Answer:

7. (a)

The personnel management is concerned with managing people at work for development of efficient and loyal employees for attainment of organization goals. So evaluation personnel function is not an easy task. The important areas to be covered by management auditor while evaluating personnel function are as follows:

- (i) Methods followed for manpower planning, recruitment, training, promotion and transfers.
- (ii) Action plan for reducing absenteeism.
- (iii) Procedure for analysis of labour turnover and steps taken for reduction of the same.
- (iv) Method adopted for developing wage and salary structure.
- (v) Incentives plan-financial, i.e., bonus, increment etc. and non-financial e.g., job enrichment, promotion, etc.
- (vi) Welfare and safety measures adopted including social security measures and community development programmes.
- (vii) Performance appraisal system of the organization.
- (viii) Measures undertaken to boost employee morale.

The following points to be kept in mind while assessing the personnel function of an organization:

- (i) It is difficult to exactly quantify the influence of human factors and its contribution to success or failure of the organization.
- (ii) Development of a uniform yard stick for measurement of performance of a large group of workers is also not easy.
- (iii) Workers get influenced by the overall industrial environment.
- (iv) Motivating the employees towards achievement of organization goals is a very important as well as difficult task.
- (v) The management auditor should assess whether the managers possess necessary leadership qualities and dynamic ideas to motivate their personnel.

- (vi) The personnel function is a very important function because in the absence of a well-organized personnel function, the company will not be able to utilize the other resources in optimum manner. Human resource is the most important resource in any organization.

7. (b) The strike period in the given question is from 17.08.2021 to 28.10.2021.

Therefore, the total strike period in the given question is $(15+30+28) = 73$ days

We can say that the total non-strike period for the F.Y. 2020-21 is $(365-73) = 292$ days

But the production effectively started by the company from 30.11.2021. It means that the production was shut down for a period of $(15+30+31+29) = 105$ days.

Statement showing bifurcation of Expenses between Strike and Non-strike days

		₹In lakh	
Particulars		Amount	Amount
Total expenses incurred during F.Y. 2021-22			
Less: Variable Expenses			
Power (1,600-160)		1,440	
Repairs and Maintenance		1,200	(-) 2,640
Total Fixed Cost incurred in the F.Y. 2021-22			12,360
Since the strike is for 73 days the total expenses incurred during strike period is $(73/365 \times 12,360)$			2,472
The total Cost incurred during the period 17.08.2021 to 29.11.2021 when operations where shut down (Given)			2,800
Therefore, the expenses which are incurred from 29.10.2021 to 29.11.2021 are $(2,800-2,472)$ as calculated above)			328

Therefore, the total fixed expenses incurred in the said period which should be recognised as abnormal are ₹2472 lakhs and not the entire amount of ₹2,800 lakhs.

8. Answer any four.

4x4=16

- Describe the needs for capacity determining.
- What do you mean by Internal Check? Is it different from Internal Audit? Explain.
- What are the steps of Management Audit?
- Write a short note on Operational Audit
- Write a short note on probable format of Environment Statement

Answer:

8. (a) The need for determining "production capacity" in respect of industrial organisation in India arises from the following reasons :-
- To meet the requirement under Section 129 of the Companies Act, 2013, that prescribes the form and contents of the balance sheet as well as profit and loss account (Schedule III of the Companies Act).
 - For purpose of Cost Audit Report under section 148 of the Companies Act, 2013 where a cost audit has been ordered by Government.
 - For internal management purpose, to be used

- In planning, scheduling and controlling production, and
- In planning expansion of capacity and correction of imbalances.
- For assessment of capacities for national level planning.
- For fixing the price of product(s) after ascertaining the capacity costs and per unit incidence thereof etc.

8. (b) Internal Check is a system of instituting checking of the day-to-day transactions as part of the routine system, whereby the work of one person is checked independently or is complimentary to the work of another person i.e. resulting in the prevention and early detection of errors or fraud. Therefore, the systems are so designed that no single individual is responsible for all the stages involved in a transaction, i.e. duties are allocated in such a way that no single individual has an exclusive control over any one transaction or a group of transactions.

Internal Auditing on the other hand is an independent appraisal function established within an organisation to examine and evaluate its activities as a service to the Organisation. The objective of Internal Auditing is to assist members of the organisation in the effective discharge of their responsibilities. Internal auditing furnishes them with analyses, appraisals, recommendations, counsel and information concerning the activities reviewed.

Internal Check and Internal Audit are two important ingredients of Internal Control. Internal Checks are procedures in-built in the overall system itself and take place concurrently with the execution of the transactions, whereas Internal Audit is a distinct function which is carried out after the transactions have taken place.

8. (c) The steps of management audit are:-
1. Select an area of operation of management
 2. Establish what should be the objective, standard or target of the operation.
 3. Determine whether the actual results meet the standards, norms or targets. If not, why not?
 - (i) Is the target too difficult?
 - (ii) Is failure to achieve the target costing the organisation?
 4. Establish what is done to ensure the achievement of the norms, target and standards. What steps are taken for –
 - (i) planning
 - (ii) operations, execution and implementation e.g. use of up-to-date technology.
 - (iii) Measurement of performance and controls?
 5. Carryout a detailed investigation, collect evidence as well as document for audit findings
 6. Report the findings of the audit and make recommendations.
8. (d) An operational audit has been defined as an organized search for ways of improving efficiency and effectiveness. The objective is to assist the organization in performing functions more effectively and economically with focus on the efficiency and effectiveness of operations, it is also stated to be an early warning system for the detection of potentially destructive problems.

8. (e) The following are the main aspects which may be covered in the probable format of Environmental Statement:
- (i) Name and address of the owner/occupier of the industry, operation or process.
 - (ii) Date of last environmental audit report submitted.
 - (iii) Consumption of water and other raw materials during current and previous year.
 - (iv) Pollution generated in air and water along with the output and the types of pollutants and the deviation from standards.
 - (v) Generation of hazardous waste in current year and previous year from processes.
 - (vi) Quantity of solid waste generated during current year and previous year and from recycling or reutilization of waste, etc.
 - (vii) Disposal practice for different type of waste. h. Practice in operation for conservation of natural resources.
 - (viii) Additional investment proposal for environmental protection including abatement of pollution.