

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) In which year Cost Audit was initially introduced in India?
- (a) 1949
 - (b) 1959
 - (c) 1965
 - (d) 1975
- (ii) In which form, the Cost Auditor appointed has to render the cost audit report to the Board of Directors of the Company, as per the specified time limit?
- (a) CRA – 1
 - (b) CRA- 2
 - (c) CRA – 3
 - (d) CRA – 4
- (iii) Cost Auditing Standard 104 deals with_____.
- (a) Cost Audit Documentation
 - (b) knowledge of business , its Process and the Business Environment
 - (c) planning an Audit of Cost Statements
 - (d) overall objectives of the Independent Cost Auditor
- (iv) The Cost Accounting Standard 9 deals with_____.
- (a) Packing material cost
 - (b) Capacity determination
 - (c) Classification of cost.
 - (d) Direct expenses
- (v) Within how many days of occurrence of any casual vacancy in the office of a cost auditor, whether due to resignation, death removal to be filled by the Board of Directors?
- (a) 30 days
 - (b) 60 days
 - (c) 120 days
 - (d) 180 days
- (vi) _____ is the next step, once the instance document is successfully validated from the tool.

- (a) attach instance document to the Form CRA-4
 - (b) convert to PDF and verify the contents of the instance document
 - (c) pre-scrutinize the validated instance document
 - (d) download XBRL validation tool
- (vii) Under which Act, the Bureau of Energy Efficiency was formed?
- (a) The Companies Act, 2013
 - (b) The Income Tax Act, 1961
 - (c) The Energy Conservation Act, 2001
 - (d) None of the above
- (viii) The KPI, _____ is used to measure productivity & efficiency of a machine.
- (a) Contribution per unit of material used.
 - (b) Machine downtime ratio
 - (c) % of Idle time to total available time
 - (d) Cost per of Break-Down Hour
- (ix) Royalty paid on units produced ₹50,000, Hire Charges of equipment used for production ₹5,000, Design charges ₹30,000, Software development charges related to production ₹25,000. The Direct Expenses is:
- (a) ₹50,000
 - (b) ₹55,000
 - (c) ₹85,000
 - (d) ₹1,10,000
- (x) The Cost Accounting Standard 14 deals with_____.
- (a) Pollution Control cost
 - (b) Research and Development cost
 - (c) Manufacturing cost
 - (d) Quality Control.

Answer: 1

- (i) (c) 1965

Reason: Cost Audit was first introduced in India in the year 1965, with the introduction of Sec 233B of Companies Act 1956 for Cost Audit and Sec 209 (1) (d) for maintenance of Cost Records.

- (ii) (c) CRA-3

Reason: Every cost auditor, who conducts an audit of the cost records of a company, shall submit the cost audit report along with his or its reservations or qualifications or observations or suggestions, if any, in form CRA-3.

- (iii) (b) knowledge of business , its Process and the Business Environment

Reason: The objective of Cost Auditing Standard - 104 is to enable the cost auditor to have knowledge of the client's business which is sufficient to identify and understand the events, transactions and practices that, in the cost auditor's judgment may have a significant effect on the examination of cost statements or on the preparation of the cost audit report.

(iv) (a) Packing Materials Cost

Reason: CAS-9 deals with the principles and methods of determining The objective of this standard is to bring uniformity and consistency in the principles and methods of determination of Packing Materials Cost with reasonable accuracy.

(v) (a) 30 days

As per Rule-6 of the Companies (Cost Records and Audit) Rules, 2014, Any casual vacancy in the office of a cost auditor, whether due to resignation, death or removal to be filled by the Board of Directors within thirty days of occurrence of such vacancy and the company shall inform the Central Government in Form CRA-2 within thirty days of such appointment of cost auditor.

(vi) (c) pre-scrutinize the validated instance document

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

(vii) (c) The Energy Conservation Act, 2001

Reason: The Bureau of Energy Efficiency formed under the Energy Conservation Act 2001. The agency's function is to develop programs which will increase the conservation and efficient use of energy in India.

(viii) (b) Machine downtime ratio

Reason: It is a ratio which indicates the efficiency and productivity of a machine. So, it is a key performance indicator to measure performance of a machine.

(ix) (d) ₹1,10,000/-.

Reason: Direct expenses = Royalty paid on units produced + Hire Charges of equipment used for production + Design charges + Software development charges related to production = ₹50,000 + ₹5,000 + ₹30,000 + ₹25,000 = ₹1,10,000/-.

(x) (a) Pollution Control Cost

Reason: CAS- 14 deals with the principles and methods of measurement and assignment of Quality Control cost and the presentation and disclosure in cost statement. The objective of this standard is to bring uniformity, consistency in the principles, methods of determining pollution Control cost with reasonable accuracy.

Part – II

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

- | | |
|---|---|
| 2. (a) How Cost information helps the organization and management? | 6 |
| (b) (i) What do you mean by Audit File? | 4 |
| (ii) Mention the steps to be followed by a cost Auditors for Practical Audit Process. | 6 |

Answer: 2 (a)

1. Cost information enables the organization to structure the cost, understand it and use it for communicating with stakeholders
2. Costing is an important tool in assessing organizational performance in terms of Shareholder and stakeholder value. It informs how profit and value are created, and how efficiently and effectively operational processes transform input into output. It contributes to the data input on economy level parameters like resources efficiency, waste management, resources allocation policies etc.
3. Costing includes product, process, and resource-related information covering the functions of the organization and its value chain. Costing information can be used to appraise actual performance in the context of implemented strategies.
4. Good practice in costing should support a range of both regular and non- routine decisions when designing products and services to :
 - Meet customer expectations and profitability targets;
 - Assist in continuous improvements in resources utilization; and
 - Guide product mix and investment decisions.
5. Working from a common data source (or a single set of sources) also helps to ensure that output reports for different audiences are reconcilable with each other.
6. Integrating databases and information systems can help to provide useful costing information more efficiently as well as reducing source data manipulation.

2(b)

- (i) Audit file means one or more folders or other storage media, in physical or electronic form, containing the records that comprise the audit documentation which are linked directly or indirectly with the audit process. The cost auditor shall assemble the audit documentation in an audit file. The final audit file should be completed within a reasonable time after the completion of the audit. After the assembly of the final audit file has completed, the auditor should not delete or discard audit documentation of any nature before the end of its retention period.
- (ii) In order to conduct practical audit, the following steps are to be followed by a cost auditor:

Step I: Objectives of Audit and Management Outlook i.e. cost optimization or cost reduction, checking parameters of operational efficiency of a unit or any utility or any other function or department, identifying profit making or loss making products, suggesting changed marketing strategies, complete review of business strategies etc.

Step II: Pre-conditions i.e. Objectives of cost audit, Area, nature and scope of audit, Number of cost auditors appointed, the applicable reporting framework, the reporting period, the statutory deadlines etc.

Step III: Understanding the Company's Business i.e. the cost auditor is required to understand the company's business, its corporate structure and various systems followed like Internal Control Systems, Internal Audit System, Accounting Systems & Policies , Cost Accounting System & Policies, Company's MIS system, risk identification & management system, IT policy, IT data security policy etc.

Step IV: Planning the Audit which includes timing and duration of audit period, Level and number of audit personnel to be deployed, audit partner to be deployed, drawing up an overall audit plan and audit strategy, Formulating appropriate audit procedures etc.

Step V: Execution of Audit i.e. Perform the audit checks and procedures as planned, Collect all required audit evidence and validate their relevance, reliability and accuracy, Prepare draft observations & discuss with key management personnel and Prepare final audit report.
Step VI: Audit Documentation i.e. Document audit plan, audit strategy, working papers, draft observations, final report etc. and preserve all documents in a bound folder/file for the prescribed period.

3. (a) **The Cost Accountant of T Ltd. has arrived at a Profit of ₹20,10,500 based on Cost Accounting Records for the year ended March 31, 2022. Profit as per Financial Accounts is ₹22,14,100. As a Cost Auditor, you find the following differences between the Financial Accounts and Cost Accounts:**

	Particulars	₹ in lakhs
(1)	Profit on Sale of Fixed Assets	2,05,000
(2)	Loss on Sale of Investments	33,600
(3)	Voluntary Retirement Compensation included in Salary & Wages in F/A	50,25,000
(4)	Donation Paid	75,000
(5)	Insurance Claim relating to previous year received during the year	5,08,700
(6)	Profit from Retail trading activity	32,02,430
(7)	Interest Income from Inter-Corporate Deposits	6,15,000
(8)	Decrease in value of Closing WIP and Finished goods inventory	
	as per Financial Accounts	3,82,06,430
	as per Cost Accounts	3,90,12,500

You are required to prepare a Reconciliation Statement between the two Accounts for the year ended March 31, 2022. (10)

- (b) **What are the relevant factors that the cost auditor should consider while formulating overall audit strategy?** (6)

Answer: 3

(a)

Reconciliation of Profit between Cost and Financial Accounts for the year ended March 31, 2022

Particulars	₹ in lakhs	₹ in lakhs
Profit as per Financial Accounts:		22,14,100
Add: Loss on sale of investments	33,600	
Add: Voluntary Retirement compensation included in salary and wages in F/A - Not included in cost A/c	50,25,000	51,33,600
Add: Donation paid	75,000	73,47,700
Less: Profit on Sale of Fixed Assets-Not considered in cost A/c	2,05,000	
Less: Receipts of insurance claim related to previous year	5,08,700	
Less: Profit from Retail trading activity	32,02,430	
Less: Interest income from inter-corporate deposit-not considered in cost accounts	6,15,000	
Less: Difference in valuation of stock:		
Decrease in inventories as per cost accounts	3,90,12,500	
Decrease in inventories as per financial accounts	3,82,06,430	53,37,200
Profit as per Cost Accounts		20,10,500

- (b) The Cost Auditor shall formulate an overall audit strategy that sets the scope, timing and direction of the audit. The overall audit strategy guides the development of the audit plan. These relevant factors includes:
- (i) Results of preliminary activities
 - (ii) Knowledge from previous audits and other engagements with the auditee

- (iii) Knowledge of business
- (iv) Nature and scope of the audit
- (v) Statutory deadlines and reporting format
- (vi) Relevant factors determining the direction of the audit efforts
- (vii) Nature, timing and extent of resources required for the audit.

4. (a) What is the principle of valuation of receipt of materials as per CAS-6? (6)
- (b) From the following figures extracted from the financial and cost accounting records, you are required to compute:
- (i) Value Added.
 - (ii) Ratio of Operating Profit to Sales.
 - (iii) Ratio of Operating Profit to Value Added.

<u>Particulars</u>	<u>₹ in lakhs</u>
Net Sales	42,000
Increase in Stock of finished goods	500
Expenses:	
Raw Materials consumed	8,600
Packing materials consumed	2,560
Stores and spares consumed	1,120
Power and fuel	9,200
Insurance	240
Direct salaries and wages	960
Depreciation	1,770
Interest paid	2,796
Factory overhead:	
Salaries and wages	480
Others	500
Selling and distribution expenses:	
Salaries and wages	240
Administration overheads:	
Salaries and wages	240

Answer: 4 (a) As per CAS- 6 the following are the principles of valuation of receipts of materials:

- (i) The material receipt should be valued at purchase price including duties and taxes, freight inwards, insurance, and other expenditure directly attributable to procurement (net of trade discounts, rebates, taxes and duties refundable or to be credited by the taxing authorities) that can be quantified with reasonable accuracy at the time of acquisition.
- (ii) Finance costs incurred in connection with the acquisition of materials shall not form part of material cost.

- (iii) Normal loss or spoilage of material prior to reaching the factory or at places where the services are provided shall be absorbed in the cost of balance materials net of amounts recoverable from suppliers, insurers, carriers or recoveries from disposal.
- (iv) Losses due to shrinkage or evaporation and gain due to elongation or absorption of moisture etc., before the material is received shall be absorbed in material cost to the extent they are normal, with corresponding adjustment in the quantity.
- (v) The forex component of imported material cost shall be converted at the rate on the date of the transaction. Any subsequent change in the exchange rate till payment or otherwise shall not form part of the material cost. Explanation: The date on which a transaction (whether for goods or services) is recognised in accounting in conformity with generally accepted accounting principles.
- (vi) Any demurrage or detention charges, or penalty levied by transport or other authorities shall not form part of the cost of materials.
- (vii) Subsidy/Grant/Incentive and any such payment received/receivable with respect to any material shall be reduced from cost for ascertainment of the cost of the cost object to which such amounts are

Answer: 4 (b)

(i) Computation of Value Added	₹ in lakhs	₹ in lakhs
Net Sales+ Increase in Stock of Finished Goods		42,500
Less:		
Cost of bought out materials and services:		
Raw Materials –	8,600	
Packing Materials	2,560	
Stores and Spares	1,120	
Power and fuel	9,200	
Insurance	240	
Other factory overhead	<u>500</u>	<u>22,220</u>
Value Added		20,280
Composition of Value Added:		
Depreciation (Company as retained funds)	1,770	
Interest	2,796	
Salaries and wages (960 + 480 + 240 + 240)	<u>1,920</u>	<u>6,486</u>
Profit before tax (balancing figure) (Company as retained funds)		13,794
Operating Profit : (Company as retained funds)		
PBT		13,794
Interest paid		<u>2,796</u>
		16,590

ii) Ratio of operating profit to net sales = $\frac{\text{Operating Profit}}{\text{Net Sales}} = \frac{16,590}{42,000} \times 100 = 39.50\%$

iii) Ratio of operating profit to value added = $\frac{\text{Operating Profit}}{\text{Value Added}} = \frac{16,590}{20,280} \times 100 = 81.80\%$

5. (a) (i) Which standards are to be maintained for Govt. Expenditure Audit?

(ii) Discusses the role of C & AG in the Audit of a Govt. company.

(6+4)

(b) Define Local Bodies. What is the basic objective of Local Body?

(6)

Answer: 5 (a) (i)

Audit of government expenditure is one of the major components of government audit conducted by the office of C & AG. The basic standards set for audit of expenditure are to ensure that there is provision of funds authorised by competent authority fixing the limits within which expenditure can be incurred. Briefly, these standards are explained below:

- (i) **Audit against Rules & Orders:** The auditor has to see that the expenditure incurred conforms to the relevant provisions of the statutory enactment and is in accordance with the financial rules and regulations framed by the competent authority.
- (ii) **Audit of Sanctions:** The auditor has to ensure that each item of expenditure is covered by a sanction, either general or special, accorded by the competent authority, authorising such expenditure.
- (iii) **Audit against Provision of Funds:** It contemplates that there is a provision of funds out of which expenditure can be incurred and the amount of such expenditure does not exceed the appropriations made.
- (iv) **Propriety Audit:** It is required to be seen that the expenditure is incurred with due regard to broad and general principles of financial propriety. The auditor's aim is to bring out cases of improper, avoidable, or infructuous expenditure even though the expenditure has been incurred in conformity with the existing rules and regulations. Audit aims to secure a reasonably high standard of public financial morality by looking into the wisdom, faithfulness and economy of transactions.
- (v) **Performance Audit:** This involves that the various programmes, schemes and projects where large financial expenditure has been incurred are being run economically and are yielding results expected of them. Efficiency-cum-performance audit, wherever used, is an objective examination of the financial and operational performance of an organisation, programme, authority or function and is oriented towards identifying opportunities for greater economy, and effectiveness.

(ii) Role of C&AG in the Audit of a Government company: The auditor of a government company is appointed by the C&AG. The C&AG have powers under section 143 of the Companies Act, 2013 as follows:

- (i) to direct the manner in which the company's accounts shall be audited by the auditor and to give such auditor instructions in regard to any matter relating to the performance of his functions as such;
- (ii) to conduct a supplementary or test audit of the company's accounts by such person or persons as he may authorise in this behalf; and for the purposes of such audit, to require information or additional information to be furnished to person or persons so authorised, on such matters, by such person or persons, and in such form, as the Comptroller and Auditor-General may, by general or special order; direct.

In addition, the C&AG has a right to comment upon or supplement the audit report in such manner as he thinks fit.

Answer: 5 (b)

Local bodies are institutions of the local self governance, which look after the administration of an area or small community such as villages, towns, or cities. The Local bodies in India are broadly classified into two categories. The local bodies constituted for local planning, development and administration in the rural areas are referred as Rural Local Bodies (Panchayats) and the local bodies, which are constituted for local planning, development and administration in the urban areas, are referred as Urban Local Bodies (Municipalities).

The objectives of Local Bodies are:

- To report the content and presentation of financial statements are true and fair
- Detection and prevention of error fraud, misuse of funds
- To ascertain that full value received for money spent
- Legal and administrative requirements fulfilled

The audit programme for Local Bodies includes the following:

- All sanctions are accorded by competent authority
- Expenditure incurred is according to provisions and as per regulations framed by competent authority

Different schemes, programmes, and projects are running economically and the purpose such programme is achieved.

6. (a) Opening stock of raw materials (5,000 units) ₹1,80,000; Purchase of Raw Materials (17,500 units) ₹7,00,000; Closing Stock of Raw Materials 3,500 units; Freight Inward ₹85,000; Self-manufactured packing material for purchased raw materials only ₹60,000 (including share of administrative overheads related to marketing sales ₹8,000); Demurrage charges levied by transporter for delay in collection ₹11,000; Normal Loss due to shrinkage 1% of materials; Abnormal Loss due to absorption of moisture before receipt of materials 100 units. Calculate the value of Closing Stock (as per Average Cost Method).
- (b) The management of a very big Public Sector Company suspects on the existence of —ghost workers. You, as an Internal Auditor of the company are required to formulate a system of Internal Control for payment of wages and salaries. (8+8)

Answer: 6 (a)

Particulars	Quantity (Units)	Amount (₹)
Opening Stock of Raw Materials	5,000	1,80,000
Add : Purchase of raw materials	17,500	7,00,000
Add : Freight inwards		85,000
Add : Demurrage Charges levied by transporter for delay in collection		11,000
		9,76,000
Less: Abnormal Loss of raw materials (due to absorption of moisture before receipt of materials) = $[(7,00,000 + 85,000 + 11,000) \times 100] / 17,500$	(100)	(4,549)
Less: Normal loss of materials due to shrinkage during transit [1% of 17,500 units]	(175)	-
Cost of self-manufactured packing materials for purchased raw materials only (60,000 – 8,000)		52,000
Cost of Raw Materials	22,225	10,23,451
Value of Closing Stock = Total Cost / (Total units – Units of Normal Loss) [$10,23,451 / (5,000 + 17,500 - 175)$] x 3,500	(3,500)	(1,60,451)
Cost of Raw Materials Consumed	18,725	8,63,000

Note:

- (i) Units of normal loss adjusted in quantity only and not in cost, as it is an includible item

- (ii) Cost of self-manufactured packing materials does not include any share of administrative overheads or finance cost or marketing overheads. Hence, marketing overheads excluded.
- (iii) Abnormal loss of materials arose before the receipt of the raw materials, hence, valuation done on the basis of costs related to purchases only. Value of opening stock is not considered for arriving at the valuation of abnormal loss.
- (iv) Demurrage charges paid to transporter is an includible item. Since this was paid to the transporter, hence considered before estimating the value of abnormal loss.

Answer: 6 (b)

The following system of Internal Control is suggested, to prevent frauds and payment made to "Ghost Workers", if any:

- (i) Every employee should be issued an identity card, containing such particulars as Name, Employee No., Department with Photo affixed.

Every employee should be told to have their identity card always with them and they should be able to show that on demand at any time for verification/ checking. One employee particulars register must be maintained by the Personnel Department with signature of the Departmental Head and Head of the institution.

At the time of marking attendance and at the time of wage payment, he should show this card.

- (ii) A Bio-metric attendance system may be implemented for recording/checking of proper attendance.
- (iii) A comparison should be made between the attendance time and time booked to the jobs and this will reveal detection of a dummy worker easily, since there would be no booking in the job card for the dummy worker.
- (iv) The system of internal checks should exist for preparation of wages sheets, such that work of each person is checked by another person. All the calculations and entries should then be checked by a responsible person.
- (v) Payment of wages should be made in presence of some responsible officers. Shop-floor Foreman should also be present for identification of workmen. In cases, where possible, payment should be directly credited to the bank accounts of the employee concerned.

7. (a) There was a strike from 13.09.2021 to 16.11.2021 in a company of which you were the Cost Auditor for the year ending 31.03.2022. Although the company began working from 17.11.2021, production could effectively begin only from 5.12.2021. The expenses incurred during the year ended 31.03.2022 were:

Particulars	(₹ in lakhs)
Salaries & Wages (direct)	450
Salaries & Wages (indirect)	300
Power (variable)	180
Depreciation	270
Other Fixed Expenses	360

Detailed examination of the records reveals that of the above, the following relate to the period 13.09.2021 to 16.11.2021:

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Particulars	(₹ in lakhs)
Salaries & Wages (indirect)	105
Depreciation	90
Other Fixed Expenses	135

Calculate the amount which in your opinion should be treated as abnormal for exclusion from the product costs.

(b) Discuss Corporate Development Audit.

(8 + 8)

Answer: 7 (a)

Calculation of Fixed expenses incurred during the period 17.11.2021 to 04.12.2021

Particulars	(₹ in lakhs)
Total expenses 2021- 2022	1,560
Less: Variable expenses (Electricity)	180
Fixed expenses (2021- 2022)	1,380
Less: Fixed expenses during the strike period	330
Fixed expenses during non-strike period	1050

Since the strike period was for 65 days, the non-strike period is 300 days. Hence, Fixed expenses attributed to 18 days, i.e., 17.11.2021 to 4.12.2021 is 6% of ₹1,050 lakhs = ₹63 lakhs.

Therefore, Expenses incurred during 13.9.2021 to 16.11.2021

₹330 lakhs

For expenses incurred during 17.11.2021 to 04.12.2021

₹63 lakhs

Total ₹ 393 lakhs

Hence, ₹393 lakhs is to be treated as abnormal cost and should be excluded from the product cost.

Answer: 7(b)

A Corporate Development Audit is an independent objective study of an organization's capabilities. It aims at identifying strengths and weaknesses and moving toward state-of-the-art performance. A Corporate Development Audit gives a comprehensive picture of the status of corporate development effectiveness and highlights developmental needs. Many organizations use the Corporate Development Audit to identify the state-of-the-art in business development in their industry and determine exactly how much they differ from that ideal. The resulting feedback report highlights all key findings, with specific recommendations for course correction or improvement.

Corporate Development Audit is a comprehensive task to assist the corporate management in various aspects of development through a process of systematic review and evaluation of long- term strategies of the company. Such corporate development audit assures that –

- The various factors and forces constituting a corporate enterprise are the right kind and quality.
- Communication remains the key to the functioning of an enterprise.
- The pattern of departmentalization in an enterprise adopted in the past and proposed for the future for dealing with multidirectional responsibilities is fully responsive to circumstances and business environment.
- The personnel problems are handled appropriately considering the overall objectives of development of the corporate enterprise.
- The responsibilities of planning, coordination, motivation and control at functional management levels are discharged in proper spirit.

A Corporate Development Audit is best performed by a team consisting of different experts of different disciplines as it requires multi-disciplinary approach. Large scale corporate enterprises offer opportunities to the conduct of Corporate Development Audit.

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As the Corporate Development Audit is more of an introspective nature, necessary initiation and support should come from a firm decision taken by the Board of Directors and its chairman. Moreover, as this audit highlights the corporate strengths and weakness, especially failures, inefficiencies and bottlenecks, it should be undertaken by a high-powered team with the corporation and acceptability of all those concerned with it.

8. Answer any four.

(4×4=16)

- (a) Write a short note on Audit Committee under The Companies Act 2013?**
- (b) Distinguish between Continuous Audit and Final Audit.**
- (c) "Management Audit team should be multidimensional." — Discuss.**
- (d) What are the steps to be followed to file the Cost Audit Reports in XBRL Format?**
- (e) Write a short note on Risk of Material Misstatement.**

Answer: 8

(a) Audit Committee under The Companies Act 2013

The Board of directors of every listed company and the following classes of companies, as prescribed under Rule 6 of Companies (Meetings of Board and its powers) Rules, 2014 shall constitute an Audit Committee:

All public companies with a paid up capital of ₹10 Crores or more;

All public companies having turnover of ₹100 Crores or more;

All public companies, having in aggregate, outstanding loans or borrowings or debentures or deposits exceeding 50 Crores or more.

The paid up share capital or turnover or outstanding loans, or borrowings or debentures or deposits, as the case may be, as existing on the date of last audited Financial Statements shall be taken into account for the purposes of this rule.

(b) Continuous Audit: -

Continuous audit involves the detailed examination of all the transactions by the auditor continuously throughout the year or at regular intervals, say fortnightly or monthly. A continuous audit is one which is commenced and carried on before the close of the financial year to which it relates. It involves the constant engagement of auditor's staff at the client office throughout the period under review. Continuous audit is suitable in cases where the final accounts are desired to be presented soon after the close of the financial year or there is great volume of transactions or the system of internal check is weak.

Final Audit : A Final Audit is also called as completed audit or periodical audit. Final Audit is done after the close of the financial year, i. e. after the books of accounts have been closed and the Final Accounts are drawn up. In this type of audit, the client gives the possession of books of accounts to the auditor for audit and routine checking and other audit procedures begin only after that.

- (c) A management auditor handling a large organisation on a continuous basis or a number of audits at the same time has to build up a competent team of people, who possess the qualifications attributed to a management auditor.**

As a management auditor, he/she is concerned with all aspects of the business and the organisation, ranging from manufacture, to marketing and finance, the management audit team should be multi-disciplinary to make multi-dimensional approach to audit function.

A competent management audit team, internal to an organisation, could effectively be represented by the heads of various departments viz., production, materials management, maintenance, personnel, marketing, finance, industrial engineering, quality control, etc. Such a team can competently lead and direct the audit to attain the organisational objectives.

- (d) The following steps are to be followed in sequence to file the Cost Audit Reports in XBRL Format:
- (i) Mapping the individual cost elements of the Company to the elements of taxonomy.
 - (ii) Populating relevant data in the software/ filing tool.
 - (iii) Creating instance document.
 - (iv) Validating the instance document with the validation tool of MCA.
 - (v) Use available tool to convert the instance document to a human readable format and check correctness of data.
 - (vi) Attaching instance document to the e-form and filing on MCA portal.
- (e) Audit risk is a function of the risk of material misstatement and detection risk. The risk of material misstatement has two components viz. Inherent Risk and Control risk.
- (1) **Inherent risk:** the susceptibility of an assertion about the measurement, assignment or disclosure of cost to a misstatement that could be material, either individually or when aggregated with other misstatements, before consideration of any related controls.
 - (2) **Control risk:** the risk that a misstatement that could occur in an assertion about the measurement, assignment or disclosure of cost and that could be material, either individually or when aggregated with other misstatements, will not be prevented, or detected and corrected, on a timely basis by the entities internal, operational and management control.

The cost auditor shall identify and assess the risks of material misstatement at the cost statement level; and at the assertion level including items of cost, cost heads and disclosures thereof.

For this purpose, the cost auditor shall:

- (1) Identify risks including relevant controls that relate to the risk of material misstatements or risk of fraud;
- (2) Assess whether the risk is related to recent significant economic, accounting or other developments and, therefore, requires specific attention;
- (3) Assess whether the risk involves significant transactions with related parties;
- (4) Assess the degree of subjectivity in the measurement of information related to the risk.
- (5) Assess whether there arises a need for revising the assessment of risk based on additional audit evidence obtained.