

**COST AND MANAGEMENT AUDIT****Time Allowed: 3 Hours****Full Marks: 100**

The figures in the margin on the right side indicate full marks.

SECTION – A (Compulsory)**1) Choose the correct option:****[15 × 2=30]****a)****(i) Cost Accounting Standards (CAS) are relevant in cost audit because they:**

- a) Are legally binding on all companies without exception
- b) Provide a uniform basis for cost measurement and disclosure for comparability
- c) Replace generally accepted accounting principles entirely
- d) Are only relevant for financial audit

(ii) The form in which the cost records shall be maintained:

- a) CRA-1
- b) CRA-2
- c) CRA-3
- d) CRA-4

(iii) A factory pays basic ₹8,00,000, DA ₹2,00,000, bonus ₹80,000, and PF ₹96,000. What is total employee cost as per CAS-7?

- a) ₹ 10,00,000
- b) ₹ 11,06,000
- c) ₹ 10,80,000
- d) ₹ 11,76,000

(iv) CAS 10 deals with direct expenses. Which of the following expenses can be classified as direct expenses?

- a) Royalties on production
- b) Salaries of factory security staff
- c) Rent of office building
- d) Power used in administration

(v) A cost auditor must submit his report to:

- a) Shareholders directly
- b) Board of Directors
- c) Registrar of Companies
- d) Audit Committee only

(vi) Which of the following is least likely to be part of a cost audit programme?

- a) Verification of cost records
- b) Checking compliance with CAS
- c) Cross-verification of inventory valuation



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d) Calculation of EPS

(vii) The responsibility to ensure timely filing of the cost audit report with the Central Government lies with:

- a) Cost Auditor
- b) Company Secretary
- c) MD or Whole-time Director
- d) Audit Committee

(viii) The main objectives of investigation are: .

- a) To discover errors and frauds.
- b) To prevent errors and frauds.
- c) To verify statements.
- d) All the above.

(ix) Who appoints the auditor for the Government Company?

- a) Board of Directors
- b) Audit Committee
- c) C&AG
- d) CBDT

(x) Various frauds in the banking sector are:

- a) Appraisal fraud.
- b) Mortgage fraud.
- c) Shot gunning.
- d) All of the above.

b) ABC Co. has planned for an investment of ₹800.00 lakh with a 50% Loan from Banks at 10% interest. Direct Cost for the year ₹480.0 lakhs and 50% of which is Material cost. Other expenses are at ₹80.0 lakh. The goods will be sold at 150% of the direct cost. The tax rate is assumed at 50%.

Answer the following five questions based on the above case study

(xi) What is the net profit margin?

- a) 8.33%
- b) 6.45%
- c) 12.33%
- d) 10.19%

(xii) Calculate the Return on Assets.

- a) 5%
- b) 7.5%
- c) 9.4%
- d) 10%

(xiii) Determine the assets turnover.

- a) 0.7
- b) 0.8
- c) 0.95



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d) 0.9

(xiv) What is the Return on owners' equity?

- a) 12%
- b) 15%
- c) 18%
- d) 20%

(xv) What is the Inventory turnover?

- a) 14.45%
- b) 28.24%
- c) 33.33%
- d) 42.19%

Answer:

(i)	(ii)	(iii)	(iv)	(v)	(vi)	(vii)	(viii)	(ix)	(x)	(xi)	(xii)	(xiii)	(xiv)	(xv)
b	a	d	a	b	d	c	d	c	d	a	b	d	b	c

SECTION – B

Answer any 5 questions out of 7 questions given. Each question carries 14 marks. [5 × 14 = 70]

2) (a) Explain the concept of Cost Accounting Standards (CAS). [7]

(b) Analyse the key requirements for maintenance of cost records under the Cost Accounting Records Rules, 2014, and list the major types of records to be maintained by a company. [7]

Answer:

(a) Cost Accounting Standards are set of standards that are designed to achieve uniformity and consistency in cost accounting principles and practices.

The Institute of Cost Accountants of India, recognising the need for structured approach to the measurement of cost in manufacture or service sector and to provide guidance to the user organisations, government bodies, regulators, research agencies and academic institutions to achieve uniformity and consistency in classification, measurement and assignment of cost to products and services, has constituted Cost Accounting Standards Board (CASB) with the objective of formulating the Cost Accounting Standards.

The Cost Accounting Standards:

- Provide a structured approach to measurement of costs in manufacturing process or service industry;
- Integrate, harmonize, and standardize cost accounting principles and practices;
- Provide guidance to users to achieve uniformity and consistency in classification, measurement, assignment, and allocation of costs to products or services;

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- Arrive at the basis of computing the cost of product, activity, or service where required by legal or regulatory bodies;
- Enable practicing members to make use of Cost Accounting Standards in the attestation of General Purpose Cost Statements; and
- Assist in clear and uniform understanding of all the related issues of various user organisations, government bodies, regulators, research agencies and academic institutions.

(b) Maintenance of records

- 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.
- 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.
- 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 utilisation of resources and these records shall also provide necessary data which is required to be furnished under these rules.

The following records (not exhaustive) would form part of Cost Accounting Records.

- Production
 - Raw Material Consumption Record – material-wise and product-wise
 - Production Report
 - Rejection/Wastage/Scrap Report
 - Machine Utilization Report/Machine Running Hours
 - Idle/Stoppage Time Report of Machines with reasons
 - Idle time of labour report with reasons
 - Details such as production hours, labour hours and machine hours
- Work-in-Progress and Finished Goods
 - Record of Work-in-Progress Stocks, cost centre-wise and product-wise
 - Record of Finished Goods Stock, Product-wise, pack-wise, type-wise etc.
- Repairs & Maintenance
 - Job order record/card showing material and spares consumed and labour utilized for repair jobs
 - In case of workshop, additional records as described under (i) above
- Utilities (Steam, Power, Water, Air Conditioning, Humidification, Effluent Treatment etc)
 - Quantitative Records of Inputs and Outputs

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- Records of cost centre-wise consumption of respective utilities
 - Separate records showing source-wise, cost of own generation of power and purchased power
- v. Other Service Cost Centres – Quality Control, Research & Development, Pollution Control etc.
- Function of each of the Departments and how it keeps track of its time and resource deployment to the products concerned
 - Basis of cost apportionment and justification for the same
- vi. Raw Materials, Process Materials, Colour and Chemicals, Consumable Stores and Spare Parts
- Goods received Record
 - Bin cards
 - Materials/Stores Ledgers in quantity and value
 - Product wise material consumption reports in quantity and value
 - Physical stock verification and shortage/excess statement, reasons for differences and its treatment in accounts
- vii. Wages & Salaries
- Attendance record and leave records
 - Wages/salary Records – cost centre-wise
 - Leave Wages, Bonus, Gratuity payments and other fringe benefits
 - Overtime, Idle Time etc. records
 - Details of VRS, Retrenchment compensation, Lay-off payment
- viii. Reconciliation of profit/ (loss) as per cost records and financial accounts
- The cost records shall be maintained on the 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) (a) Explain the duties of a Cost Auditor to report fraud as per Section 143 of the Companies Act, 2013. [7]
- (b) Discuss the steps involved in filing a Cost Audit Report in XBRL format on the MCA portal. Highlight the process from creation of the XBRL instance document to submission of Form CRA-4. [7]

Answer:

(a) Duties of a Cost Auditor to Report Fraud – Section 143 of the Companies Act, 2013:

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

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- (ii) Sub-Section 13 specifies that no duty to which an auditor of a company may be subject to shall be regarded as having been contravened by reason of his reporting the matter referred to in sub-section (12) if it is done in good faith.
- (iii) Sub-Section 14 makes it clear that the provisions of this section shall mutatis mutandis apply to the cost accountant in practice conducting cost audit under section 148.
- (iv) According to Sub-Section 15 if any auditor, cost accountant or company secretary in practice do not comply with the provisions of sub-section (12), he shall be punishable with fine which shall not be less than one lakh rupees but which may extend to twenty-five lakh rupees.
- (v) Matters are required to be reported immediately but not later than 2 days of his knowledge specifying:
- Nature of Fraud with description;
 - Approximate amount involved; and
 - Parties involved.
- (vi) Following disclosures are required to be made in Board's Report:
- Nature of Fraud with description;
 - Approximate Amount involved;
 - Parties involved, if remedial action not taken; and
 - Remedial actions taken.

(b) Steps for filing Cost Audit Report in XBRL format on the MCA portal.**1. Creation of XBRL instance document**

The first step for creating the instance document is tagging of the XBRL taxonomy elements with the information in the Cost audit report of the company by means of mapping of the taxonomy elements with the Cost audit report. This converts the report into XBRL form. We need to have a tool to create an 'xml' file and convert it into an instance document. There are several vendors, who provide and sell this application, that has to be acquired for the purpose.

Mapping is the process of comparing the concepts in the Cost audit report to the elements in the published taxonomy, assigning a taxonomy element to each costing concept published by the company. Once the tagging of Cost audit report elements with the published taxonomy elements is done, the next step is to create the instance document. An instance document is a XML file that contains business reporting information and represents a collection of costing information and report-specific information using tags from the XBRL taxonomy. It is to be noted that no extensions to the core Taxonomy will be allowed. Separate instance documents need to be created for the Cost Audit report, for the periods prior to and beginning after 01.04.2014.

Once the instance document has been prepared, it needs to be ensured that the instance document is a valid instance document and all the information has been correctly captured in the instance document. MCA Validation Tool provides for 'human readable' PDF printable form as well as a view of the instance document.

2. Download XBRL validation tool

A separate tool has been provided on the MCA XBRL portal for validating the generated XBRL instance document. Validating the instance document with the MCA XBRL validation tool (for costing taxonomy) is a pre-requisite before filing the Cost audit report on MCA portal.

You are required to download the tool from the portal and validate the instance document before

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uploading the same. The MCA XBRL validation tool (for costing taxonomy) can be downloaded from the XBRL website of the Ministry (www.mca.gov.in/XBRL).

Before Validating an Instance document, the applicable taxonomy is to be selected by the user from the drop down option 'Taxonomy'. In case the user is under LAN network, then he/she is required to click the link 'Proxy Settings' under 'Taxonomy' menu in the tool to enter the Proxy Host and Port along with user name and password. This is to setup the Internet connection, required to download the taxonomy through the XBRL Validation Tool.

3. Load the instance document

To load the instance document, you need to click the open button, select the instance document and open it. You need not exit the tool to load another instance document just click on 'open' again in the menu bar to open the next document. The detail of the company is available under the General Information tag in the XBRL viewer.

4. Validate the instance document

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

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

In case the instance document is not properly created, then the tool will through up the list of errors, in a separate window, and they need to be corrected and validated again for successful uploading of the report. The List of common errors and interpretation of validation errors as provided in Annexures –I & II, which are given at the end of this chapter.

5. Pre-scrutiny of the instance document

Once the instance document is successfully validated from the tool, the next step is to pre-scrutinise the validated instance document with the help of the same tool using a working internet connection. In the Pre-scrutiny, the server side validations (i.e. validations which are to be validated from the MCA21 system) shall be performed, using the MCA21 data base.

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

Once the instance document has been successfully pre-scrutinized, the next step is to generate PDF by using 'Export to PDF' functionality in the tool to verify the final instance document. This step is essential to ensure that the textual information entered in the instance document is clearly readable. The company and the cost auditor/ cost accountant can use this feature to verify the accuracy of the instance document.

In case there is PDF conversion error or the size of the converted PDF is zero kilobytes, then check the textual information entered in the instance document and follow the html guidelines provided under the technical specifications to correct the instance document and validate and pre-scrutinize again.

7. Attach instance document to the Form CRA-4

Form CRA-4 is available on the MCA portal for filing in XBRL instance documents by the Company. First the Form has to be filled up correctly and thereafter, the validated and pre-scrutinised instance document for Cost Audit Report has to be attached to Form CRA-4.

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



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

- 4) (a) The following data have been available of Sunflag Dolon Limited:

	2020 - 21	2021 - 22	2022 - 23
Installed Capacity—Ton	250	250	250
Production—Ton	240	230	125
Cost Per Ton (₹)	1,000	1,077	1,660

The poor capacity utilisation in 2022-23 was due to abnormal power-cut. The escalation in costs were 5% in 2021- 22 and 7% in 2022-23 based on 2020-21

(i) Calculate the abnormal cost due to power cut.

(ii) How would you treat this abnormal cost?

[7]

- (b) Burnet Ltd., a manufacturing unit, provides the following extracts from its records for the year ended March 31, 2025:

The Company's specifications capacity for a machine per hour	1,500 units
No. of shifts (each shift of 8 hours) per day	3 shifts
Paid Holidays in a year (365 days):	
(i) Sunday	52 days
(ii) Other holidays	12 days
Annual maintenance is done within these holidays	—
Preventive weekly maintenance for the machine is carried on during Sundays	—
Normal idle capacity due to lunchtime, shift changes etc. per shift	1 hour
Production based on sales expectancy in past 5 years (units in lakh):	
Year 1	75.70
Year 2	87.42
Year 3	65.38
Year 4	77.97
Year 5	76.08
Actual Production for the year (units in lakh)	81.50

You are required to calculate:

- Installed Capacity
- Practical Capacity
- Actual Capacity (%)
- Normal Capacity
- Idle Capacity (%)



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(vi) Abnormal Capacity

Keeping in view of the relevant Cost Accounting Standard (CAS-2).

[7]

Answer:

(a)

	2020-21	2021-22	2022-23
Installed Capacity – Ton	250	250	250
Production – Ton	240	230	125
% of Capacity Utilisation	96	92	50
Cost per Unit (₹/Ton)	1,000	1,077	1,660
Escalation factor	100	105	107
Cost at base year price	1,000	$[1077 \times (100/105)]$ i.e. 1,026	$[1660 \times (100/107)]$ i.e. 1,551
Total cost of production (₹)	2,40,000	2,35,980	1,93,875
Variable Cost/Ton (₹)	402	402	401
Fixed Cost/Ton	598	624	1,150
Fixed Cost @ 100% utilisation (₹)	574		

Hence, increase in Fixed Cost/Ton due to poor capacity utilization in 2022-23

$$= (1,150 - 574) = ₹576$$

(i) Total abnormal cost due to power cut = $576 \times 125 = ₹72,000$

(ii) The abnormal cost must be excluded from computation of cost and has to be shown under Para 7 of the Cost Audit Report as “Abnormal Non-Recurring Cost”.

The 50% under utilisation of capacity being due to power-cut only, the Company should consider possibility of captive generation, if the power-cut is likely to persist. Accordingly, the investment needed, potential savings, etc. must be computed to determine the viability of such a decision.

Working Notes:

	2021-22	2022-23
Difference in Total Cost	$[2,40,000 - 2,35,980] = 4,020$	$[2,35,980 - 1,93,875] = 2,105$
Difference in production	10	105
Hence, Variable Cost	402	401

(b) Calculation of different capacities

Burnett Ltd.

(i) Installed Capacity: days in year \times working hours per day \times unit per hour $365 \times 8 \times 3 \times 1500 = 131.40$ lakh units(ii) Practical capacity: days available \times available hour per shift \times shifts \times units per hour $(365-52-12) \times (8-1) \times 3 \times 1500 = 94.815$ lakh units(iii) Actual capacity Utilization: Current production / Installed capacity $(81.50 / 131.40) \times 100 = 62.02\%$ (iv) Normal capacity: $(75.70+87.42+65.38+77.97+76.08) / 5 = 76.51$ lakh units



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(v) Idle Capacity: $\text{Installed capacity} - \text{Actual capacity} (131.40 - 81.50) = 49.90 / 131.40 = 0.3798 = 37.98\%$

(vi) Abnormal Idle capacity: $(94.815 - 81.50) = 13.315$ lakh units

5. (a) In the Financial Accounts of Chemicals & Fertilizers Ltd. for the year ended March 31, 2025 the profit was ₹8,98,07,500. The profit as per Cost Accounting records for the same period was less. The following details are extracted from the accounting schedules and Cost Accounting records of the company.

	Financial Accounts ₹'000	Cost Accounts ₹'000
Opening : Semi Finished Goods	31700	35210
: Finished Goods	83220	78590
Closing : Semi Finished Goods	35260	39420
: Finished Goods	89320	80450
Urea & Transport subsidy	348	
Expenses on CSR	56	
Profit on sale of Fixed Assets	150	
Chemical used internally	382	365
Favourable Exch. Rate variation	294	
Post-retirement Medical grant	584	
Purchase Tax Refund	453	
Litigation Recovery-Prior year	125	

You are required to prepare a Reconciliation Statement and arrive at the Profit as per Cost Records for the year ended March 31, 2025. [7]

- (b) Explain the major threats to auditor independence in the auditing profession. Discuss each type of threat with suitable examples and discuss how these threats can compromise the auditor's objectivity and professional ethics. [7]

Answer:

- (a) Chemicals & Fertilizers Ltd.

Reconciliation of financial profit and costing profit for the year ended March 31, 2025

Amount in ₹ thousand

Particulars		
Profit or loss as per Financial Accounts		89807.50
A. Less: Incomes not considered in Cost Accounts:		
Profit on sale of Fixed Assets	150	
Urea & Transport Subsidy	348	
Litigation Recovery-Prior year	125	
Favorable Exch. Rate Variation	294	
Purchase tax Refund	453	
Own consumption (chemicals) valuation difference (382-365)	17	(1387.00)
B. Add: Expenses not considered in Cost Accounts		
Expenses on CSR	56	
Post-retirement medical grant	584	640.00

**FINAL EXAMINATION****SET - 2****MODEL ANSWERS****TERM – DECEMBER 2025****PAPER – 17****SYLLABUS 2022****COST AND MANAGEMENT AUDIT**

C. Less: Difference in Valuation of stock between Financial Accounts and Cost Accounts (9660-6070) (workings)		(3590.00)
Profit as per Cost Accounts		85470.50

Workings:**Current Year (2024-25)****(Amount in ₹thousand)**

	Financial Accounts	Cost Accounts
Opening Semi finished	31700	35210
Finished	83220	78590
Total	114920	113800
Closing semi finished	35260	39420
Finished	89320	80450
Total	124580	119870
Variation in inventory	9660	6070

Increase in Difference of stock valuation towards financial accounts = ₹3590**(b) Major Threats in Auditing Profession:**

In the auditing profession, major threats may compromise an auditor's independence. Before an audit engagement, it is each member of the audit team must review five threats to independence. If an auditor is exposed to a certain threat, he or she should either develop safeguards to reduce the threat to an acceptable level or resign from the audit engagement.

The following are that can potentially compromise the independence of auditors:

- **Self-Interest Threat:** A self-interest threat exists if the auditor holds a direct or indirect financial interest in the company or depends on the client for a major fee that is outstanding.
Example: The audit team is preparing to conduct its 2020 audit for ABC Company. However, the audit team has not received its audit fees from ABC Company for its 2019 audit.
Issue: The audit team might be tempted to issue a favourable report so that the company can secure a loan to settle the fees outstanding for their 2019 audit.
- **Self-Review Threat:** A self-review threat exists if the auditor is auditing his work or work that is done by others in the same firm.
Example: The auditor prepares the financial statements for ABC Company while also serving as the auditor for ABC Company.
Issue: By having the auditor review his or her work, the auditor cannot be expected to form an unbiased opinion on the financial statements.
- **Advocacy Threat:** An advocacy threat exists if the auditor is involved in promoting the client, to the point where their objectivity is potentially compromised.
Example: The auditor is assisting in selling ABC Company while also serving as the auditor for the company.

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Issue: The auditor may issue a favourable report to increase the sale price of ABC Company.

- Familiarity Threat: A familiarity threat exists if the auditor is too personally close to or familiar with employees, officers, or directors of the client company.

Example: ABC Company has been audited by the same auditor for over 10 years and the auditor regularly plays golf with the CEO and CFO of ABC Company.

Issue: The auditor may have become too familiar with the client and, thus, lack objectivity in their work.

- Intimidation Threat: An intimidation threat exists if the auditor is intimidated by management or its directors to the point that they are deterred from acting objectively.

Example: ABC Company is unhappy with the conclusion of the audit report and threatens to switch auditors next year. ABC Company is the biggest client of the auditor.

Issue: The auditor's independence may be compromised, as ABC Company is their biggest client and they, quite naturally, do not want to lose such a client. Therefore, the auditor may issue a report that appeases ABC Company.

6. (a) Explain the Power of Search and Seizure under Section 17 of the Prevention of Money Laundering Act (PMLA), 2002. Who is authorized to exercise these powers, and what actions can be taken during such search and seizure operations? [7]
- (b) Discuss the scope of Corporate Development Audit. [7]

Answer:

- (a) Section 17 of the PMLA deals with the power of search and seizure by the authority.

A Director or any other officer not below the rank of Deputy Director authorised by him for the purpose of this section, on the basis of information in his possession, has reason to believe (the reason for such belief to be recorded in writing) that any person –

- has committed any act which constitutes money-laundering or
- is in possession of any proceeds of crime involved in Money-Laundering or
- is in possession of any records relating to Money-Laundering or
- is in possession of any property related to crime

then subject to the rules made in this behalf, he may authorise any officer subordinate to him to –

- enter and search any building, place , vessel, vehicle or aircraft where he has reason to suspect that such records or proceeds of crime are kept
- break open the lock of any door, box, locker, safe, almirah or other receptacle for exercising the powers conferred by clause (a) where the key thereof are not available
- seize any record or property found as a result of such search
- place marks of identification of such record or property, if required or make or cause to be made extracts or copies therefrom
- make a note or an inventory of such record or property
- examine on oath any person, who is found to be in possession or control of any record or property, in respect of all matters relevant for the purpose of any investigation under this Act.

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(b) The scope includes the following, among others:

1. Corporate Planning and Policy:

Planning is an exercise undertaken on a long-term basis even before the forecasts are drawn up. It requires examining the business enterprise and its whole environment in greater detail from the viewpoints of potential strengths and weaknesses. The possible audit areas are planning and policy issues on the product, production, finance, personnel, managerial-particularly 'succession', etc.

2. Corporate Forecasting:

Forecasts are usually medium-term and commonly short-term. The thrust of the audit is to ascertain by a review process:

- The degree of co-relationship that exists between corporate plans and total industry plans.
- The competitive market share position within that industry.
- The factors for forecasts, such as supply and demand, industry trends, enterprise's competitive performance, general economic and political trends, financial standing about the competitors, etc.
- How well the corporate forecasts match with national economic development plans.

3. Corporate Strategy:

For a long-term strategy, the auditor attempts to assess whether a corporate sector will survive as a viable entity. For short-term strategies, the auditor examines and evaluates how a firm analyses its ongoing strategy-the strategy of operations on existing lines.

Four broad dimensions are usually covered in any strategic audit, viz.:

- Product lines and basic competitive position.
- R & D and operating departments.
- Financial analysis and financial management, and
- Top management for each dimension, past achievements, present attainments, and future potential for each area are considered.

4. Corporate Externalities:

Certain elements external to a corporate firm have impacts on its policies and decisions. The audit, in this respect, seeks to evaluate the factors, such as economic environment, industry structure and corporate position, risk of technological obsolescence, socio-politico-cultural environment, etc., which affect the growth and development of an enterprise.

5. Corporate Internalities:

The areas covered are organisation development, management development, personnel development, and their detailed sub-systems- which provide internal strengths or weaknesses to a corporation.

7. (a) Summarise the objectives of management audit.

[7]

(b) A company is operating at 60% capacity with a turnover of ₹86.40 lakhs.



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- (i) If the Company works at 100% capacity, the sales-cost relation is: Factory Cost is two-thirds of sales value and Prime Cost is 75% of Factory Cost.
- (ii) Administrative and selling expenses (75% variable) are 20 % of sales value.
- (iii) Factory overhead will vary according to operating capacity as given below:

Operating Capacity	60%	80%	100%	120%
Factory Overhead (₹Lakhs)	19.80	21.60	24.00	30.00

The company has planned to operate at 80% capacity. Moreover, it has received an export order and the execution of the same will involve 40 % of capacity. The prime cost of the order is estimated as ₹12.00 lakhs and the shipping expenses involved will be ₹2.00 lakhs. Taking the same percentage of profit on the domestic sale, Identify the minimum price to be quoted for the export order. [7]

Answers:

(a) The basic objectives of management audit are given below:

- To identify the level of achievement of the objectives of the organisation.
- To identify the shortcomings and barriers to achievement.
- Putting appropriate control mechanism to pre-empt possibility of leakage or sabotage.
- To help the management to conduct efficient administration of the operations.
- To help the management executives in the effective discharge of their responsibilities.
- To suggest to the management the ways and means available to achieve the objectives.
- To guide towards improved performance.
- To improve operations and achieve operational excellency.
- To ensure the fullest extent of the management efficiency.
- To help the management executives in the effective discharge of their duties.
- To come-up with innovative ideas, solutions to improve efficiency and performance.
- To ensure openness and proper, honest feedback mechanism.
- To identify the deviations against the set standards or the benchmarks of the industry.
- To help the management in improving the communication w.r.t execution aspect of policies, objectives, etc.

(b) At 100% capacity.

Sale = $86.40 \times 100/60 = ₹144$ lakhs; Factory Cost = $1.44 \times 2/3 = ₹96$ lakhs; Prime Cost = $96 \times .75 = ₹72$ lakhs; Factory overheads = ₹24 lakhs; Selling & Distribution Exp. = ₹28.8 lakhs; Variable S/D Exp. = ₹21.6 lakhs; Fixed S/D Exp. = ₹7.2 lakhs.

Particulars	Operation 80% capacity (₹Lakhs)	Export order 40% capacity (₹lakhs)
Prime Cost	57.60	12.00
Factory Overhead (Given)	21.60	8.40
Selling & Distribution Cost Variable	17.28	-
Selling & Distribution Cost Fixed	7.20	2.00
Total Cost of Sales	103.68	22.40



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Sales Value (At 80% Capacity): 144×0.80	115.20	-
Profit	11.52	2.49
Profit %	10% on Sales	10% of Export Sales Value
Export Price to be Quoted		24.89

Let, Sales value = x, then Profit = $0.1x$

Then $0.9x = 22.40$

Hence $x = ₹24.89$

8. (a) Explain the concept of an Audit Programme. What are the factors to be considered while preparing a detailed audit programme? Discuss its advantages and disadvantages. [7]
- (b) What are the main standards for auditing government expenditure? Explain the role of C&AG in auditing a government company. [7]

Answer:

- (a) An audit program is a detailed plan of the auditing work to be performed, specifying the procedures to be followed in verification of each item and the financial statements and the estimated time required. To be more comprehensive, an audit program is written plan containing exact details with regard to the conduct of a particular audit. It is a description or memorandum of the work to be done during an audit. Audit program serves as a guide in arranging and distributing the audit work as well as checking against the possibility of the omissions.

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The below mentioned factors are considered at the time of chalking of Detailed Audit Programme

- Major observations pointed out in previous internal audit report and action taken by the auditee on these observations.
- Checklist of previous audit assignments is also referred to get insight about the areas to be focused in next assignments
- Any new changes / amendments taken place in commercial laws.
- Any special area / investigation as instructed by the top management

The Internal Audit Programme shall include the following

- The objectives of the internal audit in respect of each of the area
- The staff responsible for carrying out the particular activity
- The time allocated to each activity
- Detailed instructions to the staff as to how to carry out those procedures

Advantages of Audit Program:

- It serves as a ready check list of audit procedures to be performed.
- The audit work can be properly allocated to the audit assistants or the article clerks.
- The auditor may easily know the extent of work done at any point of time. Thus, the progress of work done can be under the supervision and control of the auditor.
- Audit program would not only be useful for the audit assistants in carrying the audit work but for the principal too as he would be in a position to account for the individual responsibilities.
- A uniformity of the work can be attained as the same program would be followed from time to time.
- It is a useful basis for planning the program for the following year.

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- It may be used as evidence by the auditor in the event when any charge is brought against him. He can prove that there has no negligence on his part and he exercised reasonable care and skill while performing the task.

Disadvantages of Audit Program:

- The auditor's task becomes mechanical and the auditors may lose interest and initiative.
- Drawing up of an audit program may be unnecessary for a small concern.
- Though audit program helps in fixing responsibilities but inefficient staff may defend themselves by stating that the matter was not contained in the audit program.
- Rigid program cannot be laid down for each type of business.

Though an audit program may suffer from the above disadvantages, but these can be removed by taking some initiatives such as consulting the audit assistants, modifying the program on the basis of experience gained during audit, etc.

(b) **Government Expenditure Audit:** 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:

- **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.
- **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.
- **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.
- **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 auditors aim 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.
- **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.

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:

- 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;
- to conduct a supplementary or test audit of the company's accounts by such person or persons as he may authorize 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.