FINAL EXAMINATION

GROUP IV

(SYLLABUS 2008)

SUGGESTED ANSWERS TO QUESTIONS

JUNE 2015

Paper-17: COST AUDIT & OPERATIONAL AUDIT

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Time Allowed : 3 Hours **Full Marks : 100**

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

PLEASE: (1) Answer all bits of a question at one place.

(2) Open a new page for answer to a new question.

(3) Attempt the required number of questions only.

Wherever necessary, suitable assumptions should be made and indicated.

Working notes should form part of answer.

Answer* Question No. 1 *and* Question No. 5 *(carrying 14 marks each) which are compulsory and* any two *(carrying 18 marks each) form each of the remaining question of Section I and Section II

SECTION I (50 Marks)

(Cost Audit)

Answer Question No. 1 which is compulsory and any two from the rest in this Section.

1. (a) State whether the following statements based on the quoted terms are 'True' or 'False' with justifications for your answer. No credit will be given for any answer without justification: 1x6=6

(i) Cost Accounting Standard on Packing material cost is dealt in CAS-11.

(ii) Cost Accounting Record Rules, 2011 is applicable to Foreign companies engaged in production, processing, manufacturing or mining activities in India.

(iii) If the company has more than one factory producing the same product, during the cost audit, it need not be shown in separate annexure for each factory.

(iv) M/s. SSG Company Ltd. situated in Kolkata is planning to file a single form 23C by appointing RRD Associates, a Cost Audit firm for all three different types of products covered under Cost Audit.

(v) CAS-2 deals with determination of capacity of a unit.

(vi) Two companies simply having a common director shall not be deemed as'Related Party Relation'.

(b) In each of the case/statements given below, one out of four alternatives is correct. Indicate the correct answer (only indicate A or B or C or D as you think correct): 1x4=4

(i) Abnormal loss of material are charged to

(A) Prime Cost

(B) Production Overhead

(C) Material Cost

(D) Costing Profit and Loss Account

(ii) Form A XBRL is used for

(A) Compliance Report of a company

(B) Annual Accounts of a company

(C) Cost Audit Report of a company

(D) Annual Report of a company

(iii) Para (14) of the annexure to the Cost Audit Report deals with

(A) Royalty and Technical know-how

(B) Research and development expenses

(C) Pollution control expenses

(D) Abnormal non-recurring expenses

(iv) Systematic examination, analysis and appraisal of management's overall performance is done in

(A) Cost Audit

(B) Efficiency Audit

(C) Management Audit

(D) Financial Audit

(c) Fill in the blanks in the following sentences by using appropriate word(s)/phrase(s)/ number(s): 1x4=4

(i) The standard CAS-8 is not applicable to the organization primarily engaged in ___________ of utilities.

(ii) Responsibility centre is a ___________ group of control centre.

(iii) The ___________ will be the Secretary of Cost Accounting Standard Board (CASB).

(iv) Cost Accounting standard on cost of service cost centre is dealt in ___________.

Answer:

1. (a)

(i) False, The Cost accounting standard on Packing material cost is dealt in CAS-9

(ii) True, Cost Accounting Record rules 2011 is applicable to Foreign companies engaged in production, processing , manufacturing or mining activities in India.

(iii) False, Separate annexure in respect of each factory should be prepared in respect of each factory for the Cost audit.

(iv) False, The Company would be required to file individual Form 23C for each product under cost Audit even if M/S RRD Associates Cost Audit Firm is appointed for all products.

(v) True, CAS-2 deals with determination of capacity.

(vi) True, If during reporting period one party is in the control of other party or exercise significant influence over other party in making final decision then the parties are deemed as related party.

Answer:

1. (b)

(i) D — Costing Profit and Loss Account

(ii) A — Compliance report of a company

(iii) A — Royalty and Technical know-how

(iv) C — Management Audit

Answer:

1. (c)

(i) generation and sale

(ii) personalized

(iii) Director (Technical)

(iv) CAS-13

2. (a) The following is the abridged Balance Sheet of Shrijani Ltd., a single product manufacturing Company:

Year ended March, 31	**2015 (₹ lakhs)**	**2014 (₹ lakhs)**
Liabilities		
Share Capital	**900**	**900**
Reserves and Surplus:		
Debenture Redemption Reserve	**75**	**90**
Capital subsidy from State Govt.	**90**	**90**
Revaluation Reserve	**375**	**420**
General Reserve	**480**	**360**
Profit and Loss A/c	**144**	**96**
Secured Loan	**825**	**885**
Unsecured Loan	**369**	**351**
TOTAL	**3258**	**3192**
Assets		
Gross Block	**2175**	**2040**
Accumulated Depreciation	**945**	**870**
Net Block	**1230**	**1170**
Capital Work in Progress	**129**	**111**
Investments	**45**	**45**

	2015 (₹ lakhs)	2014 (₹ lakhs)
Current Assets, Loans and Advances		
Inventories	1251	1323
Sundry Debtors	546	585
Advance for equipments	72	51
Other Loans and Advances	432	411
Cash and Bank Balances	63	57
Current Liabilities and Provisions		
Sundry Creditors for Capital Expenses	(51)	(63)
Sundry Creditors (Others)	(555)	(591)
Provision for Taxes	(192)	(213)
Miscellaneous Expenditure	288	306
TOTAL	**3258**	**3192**

Following additional information are provided:

(i) Term Loan repayable in 12 months included under Secured Loans are ₹ 288 lakhs in 2015 (Previous year ₹ 252 lakhs).

(ii) Profit before Tax (PBT) for the year ended March 31, 2015 is ₹ 240 lakhs (Previous year ₹ 261 lakhs).

You are required to compute the following items/ratios for the year ended 31st March, 2015 to be provided in Annexure to Cost Audit Report:

(i) Capital Employed (ii) Net Worth (iii) Debt Equity Ratio (iv) PBT to Capital Employed and (v) PBT to Net Worth. 5+3+2+1+1=12

(b) How are Cost Accounting Standards different from Cost Accounting Record Rules? 6

Answer:

2. (a)

(i) Capital Employed

			In ₹ lakh 31.3.2015	31.3.2014
Gross block			2175	2040
Less Depreciation			945	870
Net Block			1230	1170
Less Revaluation Reserve			375	420
Net Fixed Assests			855	750
Current Assets (A)				
Inventories	1251	1323		
Sundry Debtors	546	585		
Loans & Advances	432	411		
Cash and Bank	63	57		
	2229	2376		

Current Liabilities (B)				
Creditors (others)	555	591		
Prov. For Taxes	192	213		
Term Loan (due in 12 months)	288	252		
	1035	1056		
Net Working capital (A) – (B)			1257	1320
Capital Employed			2112	2070

Average Capital Employed (2112 + 2070)/2 = ₹ 2091 lakhs

(ii) Net Worth	**31.3.2015 (₹ lakh)**
Share capital	900
Debentures Redemption reserve	75
Capital Subsidy	90
General Reserve	480
Profit and Loss A/c	144
	1689
Less Miscelleneous Expenses	288
	1401

(iii) Debt – Equity ratio

Secured Loans	825
Unsecured Loans	369
	1194
Less Due in 12 months	288
	906

Ratio = 906/1689 × 100 = 53.64% or 0.5364:1

(iv) PBT to capital Employed (240/2091) × 100 = 11.485

(v) PBT to Net worth (240/1401) × 100 = 17.13%

Answer:

2. (b)

Cost Accounting Standards (CAS) are set of standards designed to maintain uniformity and consistency in cost accounting practices. Those re-prescribed by Cost accounting standard board (CASB) set up by The Institute of Cost Accountants of India.

Cost Accounting Record Rules are applicable to all companies production processing manufacturing and mining activities under rules. And where –

(a) The aggregate value of net worth as on the last date immediately preceeding year exceeds ₹ 5 Crore rupees or

(b) the aggregate value of turnover made by the company from sale or supply of all products or activities immediately preceeding financial year exceeds ₹ 20 Crore

(c) the Company's equity or debt securities are listed or are in process of listing on any stock exchange, whether in India or outside India.

Any company meeting the above criteria required to maintain cost accounting records. These rules are not applicable to a company which is a body corporate governed by a special act.

3. (a) In a factory producing industrial alcohol, biogas is generated from waste wash. Along with conventional Fuel Oil, the biogas is used as a fuel in generating steam. The high pressure steam is first sent to the steam turbine and the exhaust steam is used in the process of manufacturing alcohol.

The following information are available for the year ended March 31, 2015:

		Boiler ₹	Steam Turbine ₹
Costs			
Cost of water		20,96,350	
Fuel Oil		18,37,70,900	
Biogas Plant Expenses		5,16,03,260	
Stores and Chemicals		5,14,150	1,31,390
Salaries and Wages		59,16,500	14,65,650
Repairs and Maintenance		1,31,28,310	5,15,240
Depreciation		34,49,480	12,99,050
Other Expenses		79,87,140	2,41,320
High Pressure Steam Generated	35,500 MT		
Power Generated		25,50,900 kWh	

(*Note:* To calculate cost of Power Generated, credit for exhaust steam to be taken as 90% of cost of steam, as the fall in enthalpic value of steam is 10%.)

You are required to prepare two separate cost sheets for Steam and Power as per Companies (Cost Records and Audit) Rules 2014 for the year ended March 31, 2015.

4+4=8

(b) The following figures are extracted from the Financial Accounts of ABL Ltd. for the year ended 31.03.2013: ₹

	Sales (20,000 units)	50,00,000
	Materials	20,00,000
	Wages	10,00,000
	Factory Overheads	9,00,000
	Administrative Overheads	5,20,000
	Selling and Distribution Overheads	3,60,000
	Finished Goods (1,230 units)	3,00,000
Work-in-progress:		
	Materials	60,000
	Labour	40,000
	Factory Overheads	40,000
Goodwill Written off		4,00,000
Interest paid on capital		40,000

In the costing records, Factory Overhead is charged at 100% of Wages, Administration Overhead 10% of factory cost and Selling and Distribution Overhead at the rate of ₹ 20 per unit sold. Prepare a statement reconciling the profit as per Cost Records with the profit as per Financial Records. 10

Answer:

3. (a)

(i) Cost Sheet for Steam generated for the year ended March 31, 2015

Cost of Steam generated	Total Amount	Cost/Mt of steam
Particulars		**Steam Generated- 35,500 MT**
	₹	₹
Water	20,96,350	59.05
Fuel Oil	18,37,70,900	5,176.65
Biogas Plant Expenses	5,16,03,260	1,453.61
Stores and Chemicals	5,14, 500	14.49
Repairs and maintenance	1,31,28,310	369.81
Salaries and wages	59,16,500	166.66
Depreciation	34,49,480	97.17
Other Expenses	79,87,140	224.99
	26,84,66,440	**7,562.43**

(ii) Cost Sheet of Power Generated by Steam Turbine for the year ended March 31, 2015

Cost	Total Amount	Cost /KWH
		Power Generated 25,50,900 KWH
	₹	₹
Steam	26,84,66,440	105.24
Stores and Chemicals	1,31,390	0.05
Repairs and Maintenance	5,15,240	0.20
Salaries and Wages	14,65,650	0.58
Depreciation	12,99,050	0.51
Other Expenses	2,41,320	0.10
	27,21,19,090	**106.68**
Less: Credit for exhaust steam 90% of ₹ 26,84,66,440	24,16,19,796	94.72
	3,04,99,294	**11.96**

Answer:

3. (b)

ABL Ltd

Profit & Loss Account

Dr. (For the year ended 31st March, 2013) Cr.

Particulars	₹	**Particulars**	₹
To Opening Stock	Nil	By Sales (20,000 units)	50,00,000
To Materials	20,00,000	By Closing Stock (1,230 units)	3,00,000
To Wages	10,00,000	By Work-in-progress	1,40,000

To Factory Overheads	9,00,000		
To Administrative Overheads	5,20,000		
To Selling & Distribution Overheads	3,60,000		
To Goodwill written off	4,00,000		
To Interest on Capital	40,000		
To Net Profit	2,20,000		
	54,40,000		54,40,000

Cost Profit & Loss Statement
(For the year ended 31st March, 2013)

Particulars	₹
Materials	20,00,000
Wages	10,00,000
Prime Cost	30,00,000
Add: Factory Overhead @ 100% of wages	10,00,000
	40,00,000
Less: Closing Work-in-progress	1,40,000
Factory Cost (20,000 + 1,230) units	38,60,000
Administrative Overheads @ 10% of Factory Cost	3,86,000
	42,46,000
Less : Closing Stock of Finished Goods 1,230 units (*See Note*)	2,46,000
Cost of Production (20,000 units)	40,00,000
Selling & Distribution Overhead @ ₹ 20 per unit	4,00,000
Cost of Sales (20,000 units)	44,00,000
Sales Revenue (20,000 units)	50,00,000
Profit	6,00,000

Note: Cost of 21,230 units is 42,46,000. Therefore, the cost of one unit is ₹ 200. Hence the cost of 1,230 units is ₹ 2,46,000.

Reconciliation Statement

Particulars	₹	₹
Profit as per Cost Records		6,00,000
Add: Factory Overheads over-absorbed ₹10,00,000 - ₹9,00,000)	1,00,000	
Selling & Distribution Overhead Over-absorbed - (₹4,00,000 - ₹3,60,000)	40,000	
Difference in the valuation of closing stock of finished goods (₹3,00,000 - ₹2,46,000)	54,000	
		1,94,000
		7,94,000
Less: Administrative Overhead Under absorbed (₹5,20,000 - ₹3,86,000)	1,34,000	
Goodwill written off relates to Financial Accounts	4,00,000	
Interest on Capital	40,000	
		5,74,000
Profit as per Financial Accounts		**2,20,000**

4. (a) How will you treat the following in Cost Accounting Records? 2x4=8

(i) Scrap and waste

(ii) Packing cost for captive consumption

(iii) Quality control cost

(iv) Abnormal and non-recurring cost

(b) Define direct expenses as per CAS-10. How are they identified? 5

(c) A Company under Cost Audit has three sources of Power supply like State Electric Board, Power generator and a bank of wind mills. The power cost statement of the generator power and wind mills are valued at Electricity Board energy rate which consists of maximum demand charges and energy charges. Is the method correct for cost statement for Cost Audit and also Para-7 of Cost Audit Report Rules? 5

Answer:

4. (a)

Treatment of Scrap and waste-The production process may generate scrap or waste. Realized or realizable value of scrap or waste shall be credited to the cost of production. The expenses incurred for making the scrap suitable for reprocessing shall be deducted from value of scrap or waste.

Treatment of Packing cost for captive consumption-If product is transferred / dispatched duly packed for captive consumption, cost of such packing shall be included in the cost of production. Packing cost includes both cost primary and secondary packing required for transfer / dispatch of the goods used for captive consumption.

Treatment of quality control cost-The quality control cost is the expenses incurred relating to quality control activities required for maintaining quality standard. These expenses shall include salaries & wages relating to employees engaged in quality control activity and other related expenses shall be included in the cost of production.

Treatment of Abnormal and non recurring cost-Abnormal and non-recurring cost arising due to unusual occurrence of events, such as heavy break down of plants, accident etc restricting sales below normal level. Abnormal idle capacity, abnormal process loss, abnormal scrap and wastage, payments like Voluntary retirements, retrenchment etc constitute abnormal cost shall not form the part of cost of production.

Answer:

4. (b)

Direct expenses are expenses relating to manufacture of a product or rendering a service, which can be identified or linked with the cost object other than direct material cost and direct employee cost. Examples of Direct Expenses are royalties charged on production, job charges, hire charges for use of specific equipment fox a specific job, cost of special designs or drawings for a-job, software services specifically required for a job, travelling expenses for a specific job.

Identification of Direct Expenses shall be based on traceability in an economically feasible manner. If an item of Direct Expenses does not meet the test of materiality, it can treated as part of overheads.

Answer:

4. (c)

The power bill of electricity Board consists of two elements like maximum demand charges and the energy charges. The maximum demand charges are levied and collected on total connected load multiplied by units consumed. Hence this is a fixed charge. Even if no power is drawn this charges are to be paid in full.

Hence unit cost of power generated by generator and wind mill will have to be charged to the user department only at cost of generation. This is because the profit on captive production units should not be included in cost of production when such costs are used for valuation of inventory production of finished goods & WIP. Where the cost of generation power are lower than the power supplied by Board.

Para-7 of Cost audit Report Rules and Cost Accounting Record Rules does not specify the price at which captive power are to be charged, but strict accounting principles the profit one source of generating is not to be considered.

Section II (50 Marks)

(Operational Audit)

Answer Question No. 5 which is compulsory and answer any two from the rest in this Section.

5. (a) Fill in the blanks in the following sentences by using appropriate word(s)/phrase(s)/ number(s): 1x6=6

(i) ———— is the evaluation of every resources declared in the Industry.

(ii) Salvage is considered as ———— by insurer against what is owed under the policy for an insured loss.

(iii) ———— audit is a step towards the pursuits of environment quality management.

(iv) Audit committee shall have minimum ———— no. of directors as members.

(v) ———— audit is a task to assist a corporate management at various aspects of development through systematic review and evaluation of long term strategies of the company.

(vi) Management Audit requires ———— approach.

(b) State whether the following statements are 'True' or 'False', with justifications for your answer. No credit will be given for any answer without justification: 1x4=4

(i) Audit committee should meet at least 3 times in a year.

(ii) Operational audit's focus is on effectiveness of management decisions and action.

(iii) Management audit is carried out to appraise the management of performance at top level of management.

(iv) Customs tariff act empowers the Central Government to levy anti dumping duty.

(c) What the following abbreviations stand for? 1x4=4

(i) DTA

(ii) CPSE

(iii) PCAOB

(iv) CASB

Answer:

5. (a)

(i) Productivity Analysis

(ii) credit

(iii) Environment Audit

(iv) Three Directors

(v) Corporate Development Audit

(vi) Inter disciplinery

Answer:

5. (b)

(i) False, Four Times

(ii) False, Operational audit focus is on efficiency and economy in operation.

(iii) False, at all level of management

(iv) True.

Answer:

5. (c)

(i) Domestic tariff area

(ii) Central Public sector enterprise

(iii) Pubic Company Accounting Oversight Board

(iv) Cost accounting standard Board

6. (a) What is productivity audit? Which ratios are generally used to measure productivity efficiency of the resources deployed? 6

(b) What are special features of an efficient management audit programme? 6

(c) Write briefly on Consumer Services Audit. 6

Answer:

6. (a)

The Productivity audit is an analysis of the productivity of the resources deployed by any organisation. It is generally done to get the information about the status of productivity in the organisation for the purpose determining the scale of efficiency and effectiveness of 'resource utilization. In other words, the objective of productive audit is

1. To attain optimum result
2. To improve on the benchmarks

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

1. Capital employed per capita

2. Capital employed per unit of product.
3. Gross profit to capital employed.
4. Net profit to capital employed.
5. Debt enquiry ratio.
6. Net worth and long-term debts to gross fixed assets.
7. Net worth and long-term debts to net fixed assets.
8. Debts to fixed loans.
9. Debts to floating loans.
10. Current assets to current liabilities.
11. Networking capital.
12. Total inventory to capital employed.

Answer:

6. (b)

An efficient management audit program shall comprise the following:

1. Review of the organisational objectives and plans
2. Study of the policies and practices of the management
3. A critical review of the organisational structure.
4. Study of the systems and procedures
5. Evaluation of operations
6. Study of the efficiency of the use of physical resources available.
7. Exercise of proper management control.
8. Maintain suitable monitoring system through management information system.
9. Check on adherence to the statutory obligation.
10. Above, all review the efficiency of manpower handling, which ultimately results in .the organisation's success.

Answer:

6. (c)

CONSUMER SERVICES AUDIT

The basic responsibilities of a business organization towards consumers are to make available products of the light qualities, at the right time, in right quantity, at the right place and the right price. The kind of audit, which critically examines and appraises management performance on these aspects of services, may be called as "consumer services audit". Thus, it is an audit of public, responsibility of a business enterprise in, relation to its customers and is a part of social audit.

The conceptual approach of this 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 better services.

The following are some of the important aspects/questions, which the auditor must address:

- Do the products manufactured meet the needs of the customers of-different classes, different tastes and different purchasing power?
- Are the product prices reasonable and consistent with the quality variations, efficiency variations and reasonable profit margin?
- Is the share of 'added value' through increased profitability reasonably passed down to the consumer?
- Whether after-sales service, spare parts facility, etc., enable the customers to derive maximum use and pleasure?
- What are the efforts made to constantly improve the product and its use value, esteem value?
- Are the company policies and practices in regard to the distribution of products among different sections of customers fair and equitable?

7. (a) What is ERP environment? How is the audit under ERP different from other audit? 6

(b) When is safeguard duty imposed? 6

(c) What is due diligence audit? Why is it undertaken? 6

Answer:

7. (a)

Enterprise Resource Planning (ERP) is the activities supported by multi-module application software, which helps the business in the management. It is a business management system that integrates all area of the business, including planning, purchasing, manufacturing, sales and marketing etc., which may be located at different locations. It serves the information needs of an organisation of each department to know what is happening in each of the departments. They seek to combine the separate records relating to the same subject at one place making them completely reliable and comprehensive.

ERP is the software solution to address the enterprise needs taking the process view of an organisation by tightly integrating all functions like inventory control, order taking, customer service etc into unified system. It facilitates the enterprise wide integrated information system covering all functional areas. A key ingredient of most ERP systems is the use of a unified database to store data for the various system modules. The common database allows every department to store and retrieve information in real time. It allows information to be more reliable, accessible and easily shared.

The major Characteristics of ERP systems necessitating change in audit approach are:

1. On-line real time processing.
2. All transactions are stored in one common database.
3. System usually resides on multiple computers.
4. Optimum co-ordination is a challenge.
5. Traditional "batch" controls and audit trails not available.
6. Data bases can be accessed by any module.
7. System modules are transparent to the user.
8. Significant increase in number of users.
9. Network and database access security is required is most important.

Answer:

7. (b)

Central Government is empowered to impose 'safeguard duty' on specified imported goods. When Central Government satisfied that the goods are being imported in large quantities and under such conditions that they are causing injury to domestic industry. Such duty is permissible under WTO agreement. The only condition under WTO is that it should not discriminate between imports from different countries having Most Favoured Nation (MFN) status.

Safeguard duty is a step in providing a need based protection to domestic industry for a limited period for restoring free and fair competition within the domestic market. Safeguard duty is targeted at remedying or preventing serious injury to domestic industry with a view to making it competitive and to enable it to stand on it's own.

Government has to conduct an enquiry and then issue a notification. The safeguard duty is valid for four years, unless revoked earlier. This can be extended by Central Government, but total period of 'safeguard duty' cannot be for more than ten years. The duty, is in addition to any other customs duty being imposed on the goods. In case of imports from developing countries, such safeguard duty can be imposed only if import of that article from that country is more than 3% of total imports of that article in India.

Answer:

7. (c)

Due Diligence primarily means "background checking" or examination of a target asset for an acquisition by a prospective buyer. It is the performance of an act with certain standard of care and caution/precaution to protect the health, It is described as fact-finding to assist in taking the final decision, Whether to buy the target asset or how much to be offer for the acquisition. The main objective of Due Diligence Audit is to verify the correctness of the data disclosed by seller to identify if any material fact that may not have been disclosed by the seller. In a nutshell, the buyer determines through Due Diligence Audit that the proposed bought out acquisition contains all the assets and liabilities that have been paid for-

Although Due Diligence Audit Varies in each case based on its own merit but the broad areas of investigation include finance, legal, personnel, taxation, environmental and other market commercial consideration.

A comprehensive Due Diligence Audit involves the investigation in the following fields:

1. Compatibility audit
2. Financial audit
3. Macro environmental audit
4. Marketing audit
5. Production audit
6. Management audit
7. Information system audit.
8. Legal environmental audit
9. Reconciliation audit

8. Write short notes on *any three* out of the following: 6x3=18

(a) Difference between Financial and Operational Auditing

(b) Corporate Image and Branding and the relation between them

(c) Functions of Audit committee

(d) Check list for carrying Central Excise Audit under 14AA of Central Excise Act

Answer:

8. (a)

Differences between Financial & Operational Auditing

The major differences between financial and operational auditing can be described as follows:

(i) Purpose - The financial auditing is basically concerned with the opinion that whether the historical information recorded is correct or not, whereas the operational auditing emphasizes on effectiveness and efficiency of operations for future performance.

(ii) Area - Financial audits are restricted to the matters directly affecting the appropriateness of the presented financial statements but the operational auditing covers all the activities that are related to efficiency and effectiveness of operations directed towards accomplishment of objectives of organization.

(iii) Reporting - The financial audit report is sent to all stockholders, bankers and other persons having stake in the Organization. However the operational audit report is primarily for the management.

(iv) End Task - The financial audit has reporting the findings to the persons getting the report as its end objective, however, the operational auditing is not limited to reporting only but includes suggestions for improvements also.

The main objective of operational auditing is to verify the fulfilment of plans, and sound business requirements. Operational auditing is considered as specialized management information tool. Operational auditing is essentially a function of internal auditing staff. Operational auditing is a systematic process of evaluating an organization's effectiveness, efficiency and economy of operations under management control and reporting to appropriate persons, the result of the evaluation along with recommendations for improvements. Operational audit concentrates on effectiveness, efficiency and economy of operations and therefore it is future oriented. It does not end with the reporting of the findings but also recommends the steps for improvements in future. Operational auditing is not different from internal auditing; it is merely an extension of internal auditing into operational areas.

While in financial auditing, the concentration is more in the financial and accounting areas to ensure that possibilities of loss, wastage and fraud are minimized or removed. In financial auditing, an auditor is called upon to review the financial statements of an enterprise to ascertain whether they reflect true and fair view.

Answer:

8. (b)

Corporate Image : The term image shows an idea or image formed in the mind of a person about an individual or an institution consciously people with whom they come into contact. In developing a corporate image an enterprise has to ensure an overall consistency, as regards the quality of products the ethics of management, employees relation attitude towards customers, quality and services provide to consumers. The public have different perception of "Corporate

(i) Customer measure it by the quality of product, prompt and courteous delivery, after sale service, regularity in maintaining supplies etc.

(ii) Shareholders measure it by consistency financial performance and growth prospect.

(iii) Suppliers measure it by the Company's liquidity and ability to honour commitments

(iv) Bank and financial institutions measure it by financial health, networth and history of servicing debts.

(v) Government looks at it from the point of view of revenue generation and honest tax payer.

(vi) Employees look at for steady career growth and smooth industrial relation.

Corporate Branding : Corporate branding is the process of creating and maintaining a favourable reputation of the Company and its constituent elements. It is an important resource that enables to create strengthen and sustain competitive advantage. It is a strategic asset that create competitive advantage and favourable climate for survival and development of organisation.

The purpose of corporate branding is to :-

(i) Make the organisation known as unique, distinct and creditable in the mind of potential

(ii) Facilitate the building of relationship and trust

(iii) Portray the benefits of organisation to the customers.

Both corporate image and branding are inter related concepts. The factors which contribute to build up a corporate image also substantially help in building corporate branding.

Answer:

8. (c)

The function of audit committee is specified are enumerated below :

1. The audit committee should have discussions with auditors periodically about the internal control systems, the scope of the audit, the audit observations and review the periodical financial statements before submission to the board and also ensure compliance with the internal control systems.
2. It shall have the authority investigate any matter in relation to the items specified in this section or reference to it by the board and shall have access to the information contained in the records of the company and external professional advice, if necessary.
3. It recommendations on all financial matters including audit report shall be binding on the board.
4. The auditors, the internal auditor, if any, and the director-in-charge of finance shall attend and participate at meetings of the Audit Committee but shall not have the right to vote.
5. To advise and check the compliance of the organisation for policy and regulation aspects.

Answer:

8. (d)

Check list for carrying our an audit under section 14AA of Central Excise Act as follows:

1. Name of the industry and method of costing adopted.
2. Principal raw materials used, the input/output ratio norms established for the industry/ company.
3. Percentage of wastage/scrap/loss-standard and actual for the previous five years.
4. Value of inputs for which CENVAT has been availed / utilized vis-a-vis the value of inputs actually consumed in production.
5. In case of consumables for which CENVAT has been availed, whether expenses charged to revenue are gross or net of CENVAT.
6. Procedures adopted for payment of duty on goods sent to subcontractors / other factories of the assessee.