

6TH CHAPTER: NEW AREAS OF AUDIT

6.1. NEW AREAS OF AUDITING:

In this competitive environment every manufacturer puts every efforts to reduce the cost of product so as to provide their product or services at possible lowest cost.

6.2. COST AUDIT DEFINITION:

WALTER W. BIGG : “ Cost audit is the verification of the correctness of cost accounts and a cheque on the adherence to the cost accounting plan “

6.3. OBJECTIVES OF COST AUDIT:

- To evaluate with the actual performance with predetermined targets with regards to all components of costing.
- To examine and confirm the system of cost reporting and contributing towards achieving organisational goals.
- To examine and confirm the costing principles, plans ,procedures and programmes, methods and techniques set for operation in general and to verify the budget of costing department in particular.

ADVANTAGES OF COST AUDIT:

MERITS OF COSTING TO MANAGEMENT:

- Control on system
- Cost control
- Efficiency enhancement
- Comparison
- Comparison b/w different firm
- Identifiers inefficiency
- Quality decisions

MERITS TO SHAREHOLDERS :

- Assures optimum use of resources
- Reliable information
- Capital appreciation

MERITS TO THE GOVERNMENT :

- Subsidy
- Tarrif protection
- Ceiling on price
- Sales price
- Taxation
- Contact price
- Sick units

MERITS TO CONSUMER :

- Quality goods
- Competitive price
- Improves the standard of life

MERITS OF THE SOCIETY :

- Industrial growth
- Protection of interest
- Prevents the exploitation
- Reduced cost of living
- Improves the health of society

DIFFERENCE BETWEEN COST AUDIT AND FINANCIAL AUDIT

FINANCIAL AUDIT	COST AUDIT
1.Object : its object to determine the true and fair view of company affairs reflected in financial statements.	1.object of cost audit is to confirm whether the object of costing minimax has been achieved or not.
2.It is compulsory for every company form of business.	2. It is compulsory only certain specified companies like processing, manufacturing, mining.
3. Scope : it has wide range of coverage applicable to different types of companies.	3. it is applicable to only limited number of companies where cost accounting is in practice.
4. It is concerned with financial aspects of accounts.	4. it is concerned with costing aspect of the company.
5. Test checking : financial auditor may apply sample checking in expidiating the audit work.	5. cost auditor examines costing records exhaustively to confirm the correctness of every expenditures incurred in the process.
6. Appointment : Financial auditor is appointed by shareholders in the interest of shareholders.	6. Cost auditor is appointed by the management in the interest of management or government.
7. Reporting : Financial auditor submits his reports to share holders through company.	7. Reporting : Cost auditor submits his report t o the management.

QUALIFICATION OF COST AUDITOR :

- Section 233(B) of the companies act of 1956 , the cost auditor of a company should be an cost accountant and member of cost and works accountant of India.
- Amendment of companies act of 1974, in absence of cost accountants a qualified chartered accountant can also be appointed as a cost auditor for specific period.

DISQUALIFICATIONS OF COST AUDITOR :

- Disqualification of cost auditor are similar to that of financial auditor as specified in section 226(3) and (4) of companies act 1956.
- A corporate body
- An officer or employee of the company
- A person who is a partner, or who is in the employment of an officer or an employee of the company.
- A person who is indebted to the company for the amount exceeding Rs. 1000, or given guarantee for the similar amount.

DISQUALIFICATIONS OF COST AUDITOR :

- Section 226 (3)(b) of the company act, a person appointed as a statutory auditor of a company cannot be appointed as cost auditor of a company.
 - a. Appointment of cost auditor
 - b. Powers and duties of cost auditor
 - c. Reporting
 - d. Remuneration of cost auditor
 - e. Removal of cost auditor

COST AUDIT PROGRAMME :

Before commencement of cost audit, it is better to consider the following points :

- Appointment
- Technical terms
- Costing system
- Principles and policies
- COST audit programme

AN EFFECTIVE AUDIT PROGRAMME SHOULD COVER THE FOLLOWING :

MATERIALS :

- Inventory / purchase policy
- Inventory receiving and storage of inventory
- Issue of materials
- Books , registers and other records
- Stock levels
- Standards
- Issue pricing
- Economic order quantity
- Inventory valuation
- Provision for loss
- Classification and codification
- Stock verification and valuation
- Rotation of staff
- Reporting

COST AUDIT OF LABOUR :

- Labour budget
- Wage system
- Labour records
- Over time system
- Idle time
- Incentive scheme
- Standards
- Variance analysis
- Control measures

COST AUDIT OF OVERHENCE EXPENSES :

- Classification
- Allocation
- Comparison
- Under / over recovery of overhead
- Recording and Reporting

COST AUDIT OF DEPRECIATION :

- Property / plant register
- Method of depreciation
- Rate of depreciation
- Allocation of depreciation
- Additional depreciation
- Abnormal expenses
- Depreciation schedules

COST AUDIT OF WORK IN PROGRESS:

- Following points needs be consideration in cost audit of work in progress.
- Valuation
- Principles of allocation of overhead
- Comparison
- Overhead allocation
- Rate of overhead

COST AUDIT OF STROES AND SPARE PARTS:

- Books/Registers/Records
- Authentication
- Classification and codification
- Issue register
- Periodical verification
- Spare parts written off

MANAGEMENT AUDIT:

Definition: According to T.G TOKHE," The management has been defined has a comprehensive critical review of all aspects or process of management.

OBJECTIVES OF MANAGEMENT AUDIT:

- To evaluate the functioning of managerial power in the interest of company
- To review the periodical progress of managerial performance
- To stream line the managerial performance in the light of competitive environment and new challenges

PRELIMINARIES TO BE CONSIDERED BEFORE COMMENCEMENT OF MANAGEMENT AUDIT :

- Get the charter documents like memorandum of association and articles of association, examine the vision, mission, goals and objectives of the whole organisation and each department with in the organisation.
- Examine the organisational structure, delegation of authority and responsibility over different levels of management.
- Financial controls : examine the financial policies, plans and procedures on effective application of financial resources of company
- Variation analysis report and remedial measures initiated from time to time in improvement of organisational performance.
- Company policy on social responsibility, human resource accounting, environmental accounting, or green accounting.

MANAGEMENT OF AUDIT PROGRAMME :

- Organisational structure
- Objectives and action plans
- Financial management
- HR management
- Marketing management
- Purchase management
- Communication system
- Production schedule
- Sales management
- Advertisement budget
- Relationship

MANAGEMENT AUDIT REPORT :

- Management audit report is ultimate output of management audit. The management auditor will be able to discharge his duties only on submitting final report on managerial performance. There is no such prescribed proforma for management audit report specify by companies act.
- Dividend : The rate of return on investment to shareholders in comparison to market ratwe of return.

- Comparison of ROI with earlier years, with other units in the same industry in proportion to the amount of investment.
- Efficiency and effectiveness of managerial decision in different operational areas of the company.
- Healthy relationship b/w the management and the staff.
- Balanced delegation of authority and responsibility at different levels of management.
- Application of innovative methods in increasing the operational efficiency of the company.

7TH CHAPTER: PROFESSIONAL ETHICS AND MISDISCOUNT

Introduction :

There is a gap between our espoused values and what are actually demonstrated through our actions and behaviour, greed, temptation, illusion, negative attitude are some of the evils that stand in our way and prompt us to do illegal and unethical deeds.

MEANING OF PROFESSIONAL ETHICS :

The word "ethics" has been defined as "science of morals, moral principles, whole field of moral science"

ETHICAL VALUES :

Values that are based on principles of morals, rights and wrong behaviour, that apply to a specific group of people, professional field or form of human conduct interaction are called ethical values.

A set of values applicable in the work place while discharging one's duties are called professional values.

PROFESSIONAL MISCONDUCT :

Professional misconduct has been defined by section 22 of the chartered accounts act, 1949, has "for the purpose of this act, the expression 'professional misconduct' shall be deemed to include any act or omission specified in any of the schedules, but nothing in this section shall be construed to be limit or a bridge in any way the power conferred or duty cast on the council under sub section (1) of section 21 to enquiry in to the conduct of any member of the institute under any other, circumstance"

The expression "professional negligence" should not be confused with the expression. "professional misconduct".

NEGLIGENCE AND GROSS NEGLIGENCE :

These are different from one another. "negligence means carelessness or accidental or inadvertent failure to perform a duty incidental to the work of the auditor.

1) Member in practice : Earlier there was a difference b/w the members in practice and members not in practice.

- Engage himself in the practice of accountancy ;
- Offers to perform or performs services involving the auditor or verification of financial transactions, or certification of financial accounting and related statements or holds himself out to the public as an accountant ; Or
- Renders professional service or assistance in or about matters of principle or detail relating to accounting procedure or the recording, presentation or certification of financial facts or data ;

2) Entries of names in the register : Section 4 of the chartered accounts act 1949 any of the following persons shall be entitled to have his name entered in the register ,

- Any person who is a registered accountant or a holder of a restricted certificate at the commencement of this act ;
- Any person who is passed such examination and completed such training as may be prescribed for members of the institute,
- Any person domiciled in India, who at the commencement of this act, is studying for any foreign examination and is at the same time undergoing training, whether within or without India.

FELLOWS AND ASSOCIATES :

- (Section 4 of the C.A Act, 1949)
- The members of the institute shall be divided in to two classes designated respectively as associates and fellows.

DISABILITIES :

- Section 6 of the C A act,1949 provides following disabilities of a person for membership.
- A person below the age of twenty one years.
- A person with unsound mind, who has been adjudged by court.
- A person who is un discharged insolvent.
- A person who is discharged insolvent, but no certificate has been obtained from court to that effect.
- A person who has been convicted by court from offence.
- A member who has been removed from membership of the institute for professional misconduct.

PROCEDURE OR INQUIRIES TO BE FOLLOWED TO MISCONDUCT OF MEMBERS :

- Reference to the Disciplinary committee :
- Disciplinary action.