

# UNIT V - COST AUDIT

**Prepared by: Miss.M.Debora**

## **MEANING OF AUDITING**

Auditing is the task of **careful and in detail checking or examining of cost & financial statements** of the company or organization to make sure that they are correct and complete

## **MEANING OF FINANCIAL AUDIT**

Financial Audit is the **examination of financial records** by an independent body which is conducted for compliance, taxation or for disclosure purposes and ensures **high accuracy** in the given reports

## **MEANING OF COST AUDIT**

Cost Audit is thorough **examination of Cost Accounting Records** and adherence to Cost Accounting Plan.

It is an **effective tool of control** in the hands of management

It provides reliable **Cost data which can used by management for decision making**

## **DEFINITION OF COST AUDIT**

The Institute of Cost and Management Accountants (ICMA), U.K. defines cost audit as "the verification of cost accounts and a check on the adherence to the cost accounting plan. It comprises of

1. **verification of the cost accounting records**
2. To ensure **whether cost accounting principles, plans, procedures and objectives have been adhered to by the organization**

## **TOPIC: OBJECTIVES OF COST AUDIT**

1. Accuracy of Cost Data
2. To see whether cost accounting principles have been properly applied.
3. Detect errors, fraud or malpractice
4. better utilization of resources
5. facilitate price fixation
6. Check on working of costing department and to make suggestions for improvement
7. Helps management in taking correct decision

8. To facilitate inter-firm and intra-firm comparison of cost and business performance.
9. Bringing out inefficiencies in the matter of utilization of materials, payment to labourers and incurrence of overheads and direct expenses.

## **TOPIC: ADVANTAGES OF COST AUDIT**

### **I. To the Management**

(refer above objectives)

### **II. To the Shareholders**

1. Ensure that proper records are maintained
2. determine whether they are getting return on their investment or not
3. Presents true picture of companies affairs

### **III. To Society/ Customers**

1. to check the cost of products purchased.
2. improves the efficiency of the organization and contribute towards economic progress of country

#### **IV. To Government**

- 1. basis to fix prices of commodities**
- 2. fixing up tax or duty on the cost of finished products.**
- 3. To take decision on tariff protection.**
- 4. To know fraud intentions of management**
- 5. To make measures to improve sick industrial units**
- 6. To control prices**

#### **TOPIC: DISADVANTAGES OF COST AUDIT**

- 1. It is unnecessary.**
- 2. create unnecessary hindrance in day-to-day office work.**
- 3. cost auditor may be a qualified person, but he may not be always right in his Judgement**
- 4. may not suit small organizations.**

## **TOPIC: TYPES OF COST AUDIT**

- 1. Cost Audit on behalf of Management**
- 2. Cost Audit on behalf of Customer**
- 3. Cost Audit on behalf of Government**
- 4. Cost Audit by Trade Association**

Trade Association may ask its member units to submit detailed cost information for verification . Cost audit helps member units to take appropriate decision and make representation to government for survival & growth of particular industry.

### **5. Statutory Audit**

Conducted as per the provisions of section 148 of companies act 2013

**Note: points 1 to 3 refer advantages**

## TOPIC : SCOPE/ ASPECTS OF COST AUDIT

### 1. Proprietary or Higher Audit

It judges the soundness of managerial decision and checks waste expenditure. Cost auditor will be able **to find out whether expenditure incurred has shown best result or not.**

### 2. Efficiency or Performance Audit

It involves **comparison of actual performance with planned results** and thorough investigation into the variances to identify areas of inefficiency and mismanagement

## **TOPIC: DIFFERENCES BETWEEN FINANCIAL AUDIT AND COST AUDIT**

### **Financial Audit**

- 1. Compulsory as per Companies Act**
- 2. Financial Auditor has to report whether balance sheet and profit and loss account represent true & fair view of state of affairs of company**
- 3. Reveals whether correct profit has been arrived or not**
- 4. Concerned with financial aspects**
- 5. Financial auditor has to check or examine carefully and in detail the exact value of closing the stock for the purpose of balance sheet.**

### **Cost Audit**

- 1. Not Compulsory except companies engaged in production of goods or services under section 148 of Companies act 2013**
- 2. Cost Auditor has to certify whether expenditure has been incurred wisely or not**
- 3. To suggest ways to eliminate wastage and increase profits**
- 4. Concerned with Cost aspects**
- 5. Cost auditor has to see whether there is sufficient stock maintaining in order to fulfill the needs of the business concern**

## **Financial Audit**

- 6. It serves interest of shareholders**
- 7. Financial audit is mandatory to be conducted every year**
- 8. finance auditor submits the report in annual general meeting organized by shareholders.**
- 9. Financial audit is done or conducted as per the demand of the shareholders.**

## **Cost Audit**

- 6. Serves the interest of management**
- 7. It is conducted in a year in which audit is required by the government**
- 8. Cost auditor submits the report to the company and central government within 180 days from the end of financial year**
- 9. Cost audit is done when government or industrial organization proposes to make an audit**

## **TOPIC: FEATURES OF COST AUDIT**

- 1. compliance by the company with the cost accounting records rules**
- 2. the books and records maintained by the Company are in conformity with the Cost Accounting Standards (CAS) & Generally Accepted Cost Accounting Standards (GACAPS)**
- 3. system of internal audit of cost records exists in the Company**
- 4. Company keeps detailed unit-wise and product/ activity-wise cost statements**
- 5 . Evaluation of the operating and other efficiencies of the organisation**
- 6. Submission of Cost Audit Report**

**(Prepared by: Miss.M.Debora)**