

Quadrant II – Transcript

Paper Code: COD 122

Module Name: Meaning, nature and Scope of Cost Audit

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Hello Friends Myself Yashmita Yeshwant Ghatwal, Asst Professor in Commerce from CES College of Arts and Commerce, Cuncolim, Salcete Goa. During today's session I will discuss about meaning, nature and scope of Cost Audit. This topic is from Cost and Management Audit subject first unit. Course Code is COD 122. Outline of e-Module- I will cover Overview of Cost Audit, nature and scope of Cost Audit and Concluding remark. Regarding learning outcome- at the end of the session you will learn about overview of Cost Audit, nature and scope of Cost Audit. So before I proceed further with the Nature and scope of Cost Audit. Let me highlight in brief overview of cost audit.

Cost Audit:

Introduction to Cost Audit:

Audit system was initiated by the Government in general to keep the watch and control on the Business sector which includes production oriented as well as service oriented industries. In any manufacturing or in a service organisation, it is generally necessary to compute the correct cost of product or services so as to charge the customers correctly.

For this purpose costing records are maintained. In order to ascertain the true and accurate cost of products and services it is necessary to ensure that these records are accurate and correct, As such there is a need to get the costing records properly audited and checked by a properly qualified and trained professional.

The cost audit is conducted in addition to the financial audit. However unlike financial audit cost audit is to be conducted only if the Central Government makes an order for

a particular year and for a specified company. As per the section 148 of Company Act 2013 there is the provision for cost audit.

Meaning of Cost Audit:

So in addition to the background information let me highlight the concept of cost audit. Cost Audit is a system of audit introduced by Government for the review, examination and appraisal of cost accounting records. The cost audit means the examination of books of accounts and vouchers to ascertain their accuracy.

It refers to the audit of cost records and is an audit of actual performances. It ensures thorough checking and examination of the cost records. Cost Audit is a critical review undertaken for the purpose of verification of the correctness of cost accounts. Cost Audit acts as an effective managerial tool for the detection of errors, frauds, inconsistencies and irregularities in cost accounting records.

Definitions of Cost Audit:

- 1) **The Institute of Cost and Management UK** has defined Cost Audit as the verification of the correctness of cost accounts and a check on the adherence to the cost accounting plan.
- 2) The Institute of Cost and Works Accountant of India (**ICWAI**), defined cost audit as an audit of efficiency, of minute details of expenditures while the work is in progress and not a post mortem examination. It is mainly preventive guide for management's policy and decision in addition of being a barometer of performance.

Nature of cost audit:

- 1) It is not compulsory except in certain cases as provided under section 148 of the Companies Act 2013.
- 2) Cost auditor is appointed by the board of directors of the company with the previous approval of the Government of India.
- 3) It deals with the verification of the cost accounting system.
- 4) It involves the examination of cost records
- 5) The cost audit is useful for decision making.
- 6) In Cost Audit total cost and per unit cost of output is shown or verified.
- 7) It is concerned with the efficiency of the transaction.

- 8) Cost Audit work is planned properly and is performed by persons with adequate skills and competences.
- 9) Cost Audit serves a pre-requisite for Inter-firm and Intra-firm comparison.
- 10) It determines whether company is making optimum use of resources.
- 11) Advises management on important issues.
- 12) Cost audit helps in the price fixation and price control policy.
- 13) Cost Audit is product oriented.
- 14) Cost Audit verifies the value of work in progress and closing finished goods.
- 15) It is a system to verify whether there are errors in cost accounts.

Scope of cost audit:

1) Provisions of the Companies Act 1956:

Cost audit in India is conducted in accordance with section 148 of the Companies Act 2013. The cost audit of companies is not compulsory each year, but cost accounts must be maintained by companies falling under the purview of cost audit as per the legal provisions.

2) Selective checking or verification of cost accounts.

It is not possible for the cost auditor to exercise cent per cent check or verification of transactions of cost accounts. Therefore the approach of cost auditor can be based on some sort of selective checking or verification of cost accounts.

3) Concentrate on cost control techniques:

To serve as an effective tool of cost control. It helps in cost control and cost reduction. It facilitates the system of standard costing and budgetary control. Cost audit can improve the cost accounting methods as an effective tools in cost control.

4) Ensure application of principles and practices:

CA must ensures that cost accounting principles and practices are meticulously followed and the irregularities and lapses are reported and constructive suggestions for cost reduction are made.

5) Verification of Materials:

The cost audit generally helps in verifying the following items relating to materials, Goods inward procedures, Store keeping arrangement, accounting for scrap, wastage, materials transfers, materials pricing methods used, adequacy of stock checking methods, records showing the receipts, issues and balances.

6) Verification of Wages and Salaries:

The cost audit generally helps in verifying the following items relating to wages and salaries, Maintenance of employment and attendance records, overtime and idle time records, allocation of wages and salaries among various departments, Documents used in preparation of payroll.

7) Verification of Overheads:

The cost audit generally helps in verifying the following items relating to overheads, the basis of allocation of overheads like production (factory), administration, selling and distribution, fair and equitable distribution of overheads between various departments and reconciliation of the cost records with that of financial records.

8) Verification of Depreciation:

The cost audit generally helps in verifying the following items relating to Depreciation, the records of fixed assets, Maintenance of fixed assets registers with quantitative details as required under CARR, method of depreciation adopted by the company, allocation of depreciation in respect of the common assets.

9) Verification of Production:

The cost audit generally helps in verifying the following items relating to Production, Proper and adequate records showing the quantities of receipts, issues and balance of different self- manufactured components, sub-assemblies and finished goods.

10) Examine plant utilization:

Plant utilization and capacity utilization are not considered in financial audit. Under this category the cost auditor's examination covers the following total available hours, standards hours, planned hours and actual hours worked.

11) Propriety audit:

Propriety audit is concerned with audit of various activities and plans of management which have a close bearing on the finance and expenditure of the business. Propriety audit is an audit concerning the decision of the executives.

12) Efficiency audit or performance audit:

It relates to the appraisal of the performance of a plan so as to ascertain whether the plans has been efficiently and effectively executed. Efficiency denotes fulfilment of objectives with minimum sacrifice of available resources and effectiveness denotes accomplishment of objectives.

Conclusion:

Systematic and accurate examination and verification of the cost accounts, cost reports, cost statements, cost data, costing techniques. Ascertain the accuracy of cost accounting records. Ensure that they are in conformity with cost accounting principles, plans, procedures and objectives. Irregularities and lapses are reported and constructive suggestions are made for cost reduction. Acts as an effective managerial tool for the detection of errors and frauds in cost accounting records. It is useful for decision making, price determination, internal control and internal efficiency.

References used for the presentation are,

- 1) Principles and Practice of Auditing by Dinkar Pagare
- 2) Cost and Management Audit by Ramanathan, A.R.
- 3) Cost and Management Audit by Saxena, Vashist.

Thank You.