Quadrant II – Notes

Paper Code: COD 122

Module Name: Concepts of Efficiency audit and Propriety audit

Notes:

Efficiency 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 objective.

It is the audit which ensures that every rupee invested yields optimum results. The main purpose of efficiency audit is to ensure that:

1. There is most optimum utilisation of investment &
2. That investment is channelized in most profitable lines.

Efficiency audit becomes staff functions and its successful implementation depends on the formation of organisational set up identifying their roles and responsibilities. Efficiency audit also indicates towards appraisal scrutiny of actual performance with reference to expected efficient standard.

Efficiency audit is possible only when a system of cost accounting is adopted and costing records maintained for purposes such as the following:

a) To furnish accurate cost of jobs, materials, finished products, comparing of present cost with previous experience.
b) To make accurate periodical financial statements for information and guidance of the management.
c) To help determining prices of finished products by furnishing all relevant data.
d) To determine evaluation of production processes and find out what are profitable and what are not profitable items and determine their extent.
e) To help planning, operations and controlling stock.
f) To determine efficiency of operations by furnishing data as to cost, volume of production etc.
g) To distribute overhead cost in a rational manner.
h) To help continuous study and reporting as to material costs, prices, quality of material, transportation cost, plants, idleness, production capacity, overhead cost etc.

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

The term ‘ Propriety’ means that which meets the test of the public interest, commonly accepted customs and standards of conduct. Propriety audit refers to an audit in which the various actions and decisions are examined to find out whether they are in public interest and whether they meet the standards of conduct. The audit while conducting the propriety audit should ensure compliance to the following cannons of financial propriety.

i) The expenditure should not be more than the occasion demands.

ii) The authority which has power to sanction the expenditure, should not pass order to its own advantage directly or indirectly.

iii) Public money should not be utilised for the benefit of a particular person or a section of community.

iv) It should be so arranged that allowance are not on the whole source of profit to the recipient.