

## Quadrant II - Notes

**Paper Code** : DSE 6 CODE 122  
**Module Name** : PLANNING AND TECHNIQUES OF COST AUDIT  
**Module No** : ----

---

### **COST AUDIT TECHNIQUES**

Techniques of cost audit are the methods adopted by the Cost Auditor for the collection and evaluation of audit evidence for his audit work. It helps cost auditor to complete cost audit on time

Important audit techniques are

#### **1. Vouching**

Vouching is the examination of the evidence offered in substantiation of the entries in the books including in such examination the proof so far as possible that no entries have been omitted from the books. To substantiate an entry in the books, the auditor has to examine the supporting documentary evidences such as vouchers, receipts, invoices, minutes, contracts, correspondence etc.

#### **2. Check Marks and Ticks**

To indicate that the work has been completed, some check marks and ticks with coloured pencil or ink should be adopted.

#### **3. Confirmation**

It is the technique through which an auditor communicates with outside parties. Such as Bankers, Customers (Drs), Creditors (Crds) etc. This is used to crosscheck the transaction with them. Cost Auditor may call client's bank to confirm certain transaction, similarly he may also call some customers and creditors to check some transaction recorded in the books of accounts.

#### **4. Enquiry**

Enquiry is the technique of making investigations with the responsible officials of the client and obtaining in depth information.

## **5. Reconciliation**

It is the technique of identification and explanation of the items which cause the difference between two related items. Bank Reconciliation Statement (BRS), Cost and Financial Reconciliation Statement (CFRS)

## **6. Physical examination**

It is the technique of checking actual existence of any goods or assets. Instead of believing books of accounts and records, cost auditor physical checks stock of the goods and fixed assets of the company. He may ask client's staff to even start the machines or any fixed assets to know its working conditions.

## **7. Test Checks**

These techniques may be used by cost auditor where transactions are huge, and the auditor cannot check all the transactions. Here he selects some transaction randomly and check in detail and certify that all the transaction are true and fair.

## **8. Analysis of financial statements**

Under this technique cost auditor analyze financial statement in detail. He may draw various statement required for him to analyze and interpret financial data and draw valuable conclusion.

## **9. Scrutiny or scanning**

It is the technique of making a quick and overall examination of books of accounts to verify whether the transactions are correctly and completely recorded in the books of account.

## **10. Extension verification**

It is the technique of multiplying two or more amounts to verify whether the totals have been correctly arrived at.

## **11. Posting verification**

Under this techniques cost auditor verify whether posting of transactions from one book to other books have been correctly done or not. He selects few transactions and verify its recording and posting.

### **12. Documentary examination**

Here cost auditor thoroughly verifies all the important documents, agreements, deeds, contracts, MOU, Investments Portfolios (IP), Sales Deeds (SD) etc.,

### **13. Observation**

It is the technique by which cost auditor observes or witnesses an act performed by others. Here, he will just observe minutely certain transaction carried out in the company without talking or discussing with client's staff.

### **14. Footing**

Footing is the technique of adding the columns of different accounting figures to test the accuracy of the total.

### **15. Flow charting (FC)**

It is the technique of using flow chart to describe graphically the cause of the transactions through different stages from the beginning to the end.

## **IMPORTANCE OF COST AUDIT TECHNIQUES**

1. It helps to maintain Internal quality control of the audit process
2. It detects errors and frauds as early as possible.
3. It helps auditor to know how to continue audit work and get the best results out of it.
4. It helps auditor in executing the required task among his team member
5. It helps auditor to conduct audit in smooth manner