AUDITING

By:

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Chapter -1Introduction

Concept of Auditing

- The accumulation and evaluation
- Of evidence about information
- To determine and report on
- The degree of correspondence between
- The information and established criteria.
- Auditing should be done by
- A competent and independent person

Chapter -1Introduction (Contd.)

Classification of Audits

1. Financial Statement Audits
   - Evaluates correspondence between financial statements and GAAP
2. Operational Audits
   - Evaluates correspondence between org's procedures and methods and criteria of efficiency and effectiveness
3. Compliance Audits
   - Evaluates correspondence between org's operations and specific procedures or rules
4. Comprehensive Audits

Chapter -1Introduction (Contd.)

Accounting vs. Auditing

1. Accounting
   - Recording, classifying and summarizing of economic events for the purpose of providing financial information for decision making
   - Requires understanding of GAAP
2. Auditing
   - Determining whether recorded information properly reflects the economic events of the period
   - Requires understanding of GAAP AND of accumulation and interpretation of audit evidence.

Chapter -1Introduction (Contd.)

Objectives of Financial Audit

The objective of the audit of financial statements is to express an opinion whether the financial statements present fairly, in all material respects, the financial position, results of operations and changes in financial position in accordance with generally accepted accounting principles.

Chapter -1Introduction (Contd.)

FUNDAMENTAL CONCEPTS

- **Materiality**
  - **Something is material if, in auditor's judgment, its omission or misstatement would probably affect a user's decision.**
- **Audit risk**
  - **The risk that the auditor may unknowingly provide a "clean" opinion on financial statements that are materiality misstated. "Presents fairly" means that this risk is at an appropriately low level.**

Chapter -1Introduction (Contd.)

Benefits of Auditing

1. Operational Audits
   - Improves efficiency and effectiveness
2. Compliance Audits
   - Reduces cost of non-compliance
   - Reassures external parties
3. Financial Statement Audits
   - May be mandatory
   - Reduces cost of capital.

Chapter -1Introduction (Contd.)

<u>Business Risk vs. Information Risk</u>

1. Business Risk
   - Risk that organization will fail to achieve its objectives
2. Information Risk
   - Risk that the information upon which a business decision was made is inaccurate

The financial stakeholders of a firm face both types of risk. A financial statement audit reduces information risk, but not business risk.

Chapter -1Introduction (Contd.)

<u>Sources of Information Risk</u>

- ✓ Remoteness of Information
- ✓ Voluminous Data
- ✓ Complex Exchange Transactions
- ✓ Bias and Motives of Information Provider

Chapter -1Introduction (Contd.)

<u>Who Performs Audits?</u>

1. Public Accounting Firms
   - Independent as external to audit client
   - Primarily f/s audits, but can be hired to perform other types of audits
2. Internal Auditors
   - Employees of org. Less independent: depends on org structure
   - Primarily operational and compliance audits

Chapter -1Introduction (Contd.)

3. <u>Who Performs Audits? (Contd.)</u>
4. Government Auditors
   - Often perform comprehensive audits, but depends on mandate
5. Revenue Canada Auditors
   - Compliance audits

Generally Accepted Auditing Standards (GAAS) - General Standard

- The General Standard
  - "The examination should be performed and the report prepared by a person or persons having adequate technical training and proficiency in auditing, with due care and with an objective state of mind" [Sept 1975]
- General Standard therefore emphasizes:
  - Competence
  - Objectivity
  - Due Professional Care

Chapter -1Introduction (Contd.)

Generally Accepted Auditing Standards (GAAS) - General Standard (Contd.)

- Sufficient Understanding of Internal control
  - (ii) A sufficient understanding of internal control should be obtained to plan the audit. When control risk is assessed below maximum, sufficient appropriate audit evidence should be obtained through tests of controls to support the assessment.

Chapter -1Introduction (Contd.)

Internal Control

- Control comprises those elements of an organization (including it resources, systems, processes, culture, structure and tasks) that, taken together, support people in the achievement of the organization’s objectives.
- Objectives:
  - effectiveness and efficiency of operations, including safeguarding of assets
  - reliability of internal and external reporting
  - compliance with applicable laws, regulations, and internal policies

Chapter -1Introduction (Contd.)

GAAS Reporting Standards

- (i)The report should identify the financial statements and distinguish between the responsibilities of management and the responsibilities of the auditor.
- (ii) The report should describe the scope of the auditor's examination.
- (iii) The report should contain either an expression of opinion on the financial statements or an assertion that an opinion cannot be expressed. In the latter case, the reasons there for should be stated.

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Chapter -1Introduction (Contd.)

GAAS Reporting Standards (Contd.)

- (iv) Where an opinion is expressed, it should indicate whether the financial statements present fairly, in all material respects, the financial position, results of operations and changes in financial position in accordance with an appropriate disclosed basis of accounting, which except in special circumstances should be generally accepted accounting principles. The report should provide adequate explanations with respect to any reservation contained in such opinion.“

Chapter -2 Company Audit

APPOINTMENT/RE-APPOINTMENT OF AUDITORS

- ❖ **Chapter X of the Companies Act, 2013 (Section 139 to 148) deal with Audit and Auditors**

  SECTION 139:-

- ❖ **FIRST AUDITOR:** First Auditor to be appointed in a Board Meeting within 30 days of registration of the Company else within 90 days in an EGM.
- Every company shall, at the first annual general meeting, appoint an individual or a firm as an auditor who shall hold office from the conclusion of that meeting till the conclusion of its **sixth** annual general meeting and thereafter till the conclusion of every sixth meeting. **AUDITOR ALREADY APPOINTED BY THE BOARD CAN BE APPOINTED BY THE SHAREHOLDERS AT THE FIRST AGM**
- *The company shall place the matter relating to such appointment for ratification by members at every annual general meeting.

Chapter -2 Company Audit (Contd.)

TERM OF APPOINTMENT: Sec 139(2) & Rule 5

- Listed company or a company belonging to such **class or classes** of companies as may be prescribed in **S.139(2) & Rule 5 of Companies (Audit & Auditors) Rules, 2014** shall not appoint or re-appoint—

➢ an individual as auditor for more than one term of 5 consecutive Years ; and

➢ an audit firm as auditor for more than two terms of five consecutive years.

Provided that:

✓ an individual auditor who has completed his term **shall not be** eligible for **reappointment** in the same company for next five years .

✓ Similarly, an audit firms which completed its terms **shall not** be eligible for **reappointment** in the same company for five years

✓ 3 years transition period will be given to comply this requirement. However, according to the rules, period of 5 years will be calculated from retrospective effect

Chapter -2 Company Audit (Contd.)

Class or Classes of Companies (Rule 5)

For the purposes of S.139, the classes of companies shall mean the following classes of companies excluding one person companies and small companies :-

a) **All unlisted public companies having paid up capital of Rs. 10 crore.
b) All private limited companies having paid up share capital of Rs. 20 crore.
c) All companies having paid up share capital of below threshold limit mentioned in (a) & (b) above, but having public borrowings from financial institutions, banks or public deposits of Rs. 50 crores or more.

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Chapter -2 Company Audit (Contd.)

Other Provisions regarding re-appointment of Auditor:

❖ **A retiring auditor may be re- appointed at an AGM, if: [Sec 139(9)]**

- He is not disqualified for re-appointment,
- He has not given the company a notice in writing of his unwillingness to be re-appointed,
- A special resolution has not been passed at that meeting appointing some other auditor or providing expressly that he shall not be appointed.
- **Where at an AGM, no auditor is appointed or re-appointed, the existing auditor shall continue to be the auditor of the Company.**
- **In case of Death**: Casual Vacancy to be filled by BOD within 30 days. He shall hold office till the conclusion of next AGM.

Chapter -2 Company Audit (Contd.)

<u>Other Provisions regarding re-appointment of Auditor:</u>

- **In case of Resignation**: Casual Vacancy to be considered by BOD **within 30 days** and the same should be approved by the members in a general meeting to be convened within 3 months of the recommendation of the Board. He shall hold office till the conclusion of next AGM.
- Where a company is required to constitute an Audit Committee **u/s 177** all appointments including the filing of casual vacancy shall be made after taking into account the recommendations of such committee.(**Sec 139(10).**
- A company which does not have audit committee, the Board shall take into consideration the qualifications and experience of the individual or the firm proposed to be considered for appointment as auditor and whether experience are commensurate with the size and requirements of the company.

Chapter -2 Company Audit (Contd.)

Mandatory rotation of Auditors:

- Compulsory rotation of auditors by listed companies and classes of companies as prescribed :

a) Audit firm including LLP – not more than 2 terms of 5 consecutive years

b) Individual auditor – not more than 1 term of 5 consecutive years

c) During the cooling period (of 5 years) even any audit firm having one or more common partners with the audit firm being rotated is not eligible to be appointed auditor of the same company.

Chapter -2 Company Audit (Contd.)

RESIGNATION/REMOVAL **OF AUDITORS**

- The auditor can be removed before the expiry of his term by passing a special resolution, provided previous approval of the Central Government in **Form ADT-2** is obtained. So be compliant and have all backups**.(Rule 7)**
- The auditor who has resigned from the company shall file within a period of **30 days** from the date of resignation, a statement in the **Form ADT – 3** with the company and the Registrar. In the case of non-compliance, the auditor shall be punishable with fine which shall not be less than **Rs.50,000 to Rs.5,00,000. (Rule 8)**
- Appointing as auditor a person other than a retiring auditor or specifically providing that retiring auditor shall not be reappointed.

Special notice as per **section 115** shall be required for a resolution at

an annual general meeting. Auditor has a right to give representation.

Chapter -2 Company Audit (Contd.)

DISQUALIFICATIONS

Ensure before giving consent and certificate that:

- You are not a Body corporate other than LLP
- You are not an Officer or employee of the Company
- You are not a partner of a person who is in the employment, of the company.
- **Neither you or your relative or partner—**

- is holding any security or indebtedness or guarantee or provided any security in connection with the indebtedness of any third person to the company or its subsidiary, or of its holding or associate company or a subsidiary of such holding company exceeding Rs.1 Lakh.

Chapter -2 Company Audit (Contd.)

POWERS & DUTIES OF AUDITORS

a) Ensure compliance of all auditing standards

b) Consolidation of accounts Exercise your right to access to the records of all its subsidiaries if required.

c) Ensure you have sought the desired information. Keep all backups preferably certified copies.

d) The auditor's report shall state any qualifications, reservation or adverse remark relating to the maintenance of accounts and other matters connected therewith.

e) The auditor's report to state whether company has adequate internal financial controls systems in place and operating effectiveness of such controls.

POWERS & DUTIES OF AUDITORS (Contd.)

f) If an auditor of a company, in the course of the performance of his duties as auditor, has reason to believe that an offence involving fraud is being or has been committed against the company by officers or employees of the company, he shall immediately report the matter to the Central Govt immediately but **not later than thirty days** of his knowledge or information, with a copy to the audit committee or in case the company has not constituted an audit committee, to the Board.

g) If the auditor does not report the fraud committed or being committed, he shall be punishable with fine which shall be less than Rs. 1 lakhs but may extend to Rs. 25 lakhs

Chapter -2 Company Audit (Contd.)

PUNISHMENT FOR CONTRAVENTION

- **If any of the provisions of S.139 to S.146** is contravened, the company shall be punishable with fine which shall **not be less than Rs.25000** but which may **extend to Rs.5 lakhs** and every officer of the company who is in default shall be punishable with imprisonment for a term which may **extend to one year** or with **fine** which shall **not be less than Rs.10000** but which **may extend to Rs.1 lakhs or with both.**

- If the **contravention** by the auditor is **willful** or with intention to deceive the company or its shareholders or creditors or tax authorities, he shall be **punishable with imprisonment for a terms which may extend to 1 year and with fine not less than Rs. l lakhs to Rs. 25 lakhs**

- The auditor who has been convicted shall refund the remuneration and pay for damages to company or the statutory bodies.

OTHER PENALTIES ON AUDITOR

- **Class action suit against the Auditors U/s 245**

  To protect investor interest, Section 245 of Companies Act 2013 has introduced the concept of class action suits, through which shareholders, depositors can initiate legal action against the company and auditors in the event of fraudulent activity. A class of shareholders or deposit holders can now claim damages or compensation or demand other suitable action against the auditor, including the audit firm, by filing an application with the NCLT.

OTHER PENALTIES ON AUDITOR (Contd.)

Prosecution by NFRA (National Financial Reporting Authority) U/s 132

NFRA may investigate either suomoto or on a reference made to it by the Central Government on matters of professional or other misconduct committed by any member or firm of chartered accountants, registered under the Chartered Accountants Act, 1949 chartered accountants. If professional or other misconduct is proved, NFRA has the power to make order for

(A) imposing penalty of—

(I) not less than one lakh rupees, but which may extend to five times of the fees received, in case of individuals; and

OTHER PENALTIES ON AUDITOR (Contd.)

(II) not less than ten lakh rupees, but which may extend to ten times of the fee received, in case of firms;

(B) debarring the member or the firm from engaging himself or itself from practice as member of the Institute of Chartered Accountant of India referred to in clause (e) of sub-section (1) of section 2 of the Chartered Accountants Act, 1949 for a minimum period of six months or for such higher period not exceeding ten years as may be decided by the National Financial Reporting Authority.

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Chapter -3: Internal Audit

NATURE AND SCOPE OF INTERNAL AUDIT

- **IA traditionally developed as an audit on behalf of the management to ensure that..**
- **a) The existing internal controls are adequate and effective**
- **b) The financial and other records and reports show the results of actual operations accurately and promptly**
- **c) Each unit of the organization follows the policies and procedures as laid down by top management**

Chapter -3: Internal Audit (Contd.)

What is an Internal Audit

- **It is an independent appraisal function established within an organization to examine and evaluate its activities as a service to management**
- **In an internal audit emphasis is given on detection of fraud and accuracy of financial records.**
- **Internal auditing is no longer considered as a mere routine review of financial and other record But it is to assist members of organization in the effective discharge of their responsibilities.**
- **Internal auditor furnishes the members of the organization with information concerning activities.**

Chapter -3: Internal Audit (Contd.)

<u>Scope of modern internal auditing</u>

- **Internal auditing is an examination and evaluation of the adequacy and effectiveness of organization's system of internal control and the quality of performance in carrying out assigned responsibilities**.
- **Internal auditing is concerned with an evaluation of both internal controls as well as the quality of actual performance**
- **Internal auditor should review Reliability and integrity of information and the means to identify, measure, classify and report such information.**

Chapter -3: Internal Audit (Contd.)

Purpose of review by Internal Auditor

- Internal auditing involves an examination to ascertain whether:
- a) Financial and operating records and reports contain accurate, reliable, timely, complete and useful information
- b) Controls over record keeping and reporting are adequate and effective.

Chapter -3: Internal Audit (Contd.)

Standards for effective Internal Audit

- IA should have statements of purpose, authority and responsibility
- It should establish the plan to carry out the audit.
- Written policies and procedures should be decided to guide the audit staff.
- Establish a programme for selecting and developing the human resources of the Internal Audit wing

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Chapter -3: Internal Audit (Contd.)

Standards for effective Internal Audit (Contd.)

- Internal Audit should co ordinate internal and external audit efforts.
- Maintain a quality assurance programme to evaluate the internal auditing department.
- IA wing should have the staff with technical
- proficiency and educational background.IA should obtained Knowledge, skill needed and Internal Audit should be properly supervised.

Chapter -4: Internal Control

Nature of Internal Control

- Similarity between Internal control and Internal Audit is that the respective staff performs the function on behalf of the management.
- Internal control is exercise in order to prevent the irregularities where as internal audit try to detect the irregularities/omission committed by the persons performing.

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Chapter -4: Internal Control (Contd.)

Scope of Internal Control

- Internal audit relate to examination accounts, it is an independent financial audit Internal control extends beyond that.
- It is a operational control such as quality control, work standards, budgetary control, periodic reporting, policy appraisal, quantitative controls.

Chapter -4: Internal Control (Contd.)

Classification of internal control

- **I.C classified in to two broad categories.**
- **(i) Accounting control and**
- **(ii) Administrative control**

Accounting controls **comprise the plan of organisation, methods and procedures that are concerned with the safeguarding assets, prevention and detection of fraud and error, accuracy and completeness of records and timely preparation or reliable financial information.**

- **Administrative control include all other managerial control concerned with the decision process.**
- **Administrative control is a system of instituting checks on day to day transactions which operates continuously as a part of routine system whereby the work of one person is complimentary to another.**

Chapter -4: Internal Control (Contd.)

Objects of Internal Control

- The object of IC being the prevention and early detection of fraud or error.
- Procedures are so designed that no single person is authorized to carry out all the stages involved in transaction.
- No single individual should have an exclusive control over any one transaction or a group of transactions.

Chapter -4: Internal Control (Contd.)

<u>Difference between scope of Internal Audit & Internal Control</u>

- **The scope of internal audit in an enterprise may be confined to reviewing whether accounting and other records are properly maintained.**
- **The scope of Internal control may be wide enough to include a review of whether the resourse utilisation in the enterprise is efficient and effective.**
- **Internal Audit is essentially a post transaction review to evaluate the records, controls, and operations in an organisation.**
- **Internal Control is the whole system of control while internal check and internal audit are two of its constituents.**

Chapter -4: Internal Control (Contd.)

Structure of Internal Audit and Internal control

- Internal audit is conducted by the team of auditor as per objective and area decided by the management.
- Internal control looks on the day to day basis the proper authorization, prompt recording of transactions and accountability for and safeguarding of assets.

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Chapter -4: Internal Control (Contd.)

Categories of Internal Control

- Segregation and rotation of duties
- Authorization of transactions
- Maintenance of Adequate records and documents.
- Accounting for and safeguarding of assets
- Independent checks.

Chapter -4: Internal Control (Contd.)

<u>Techniques for evaluation of internal control</u>

- Flow charts
- Internal control questionnaires
- Formulating internal control scheme.
- Internal control is not one event or circumstance, but a series of actions that permeate an entity's activities. These actions occur throughout an entity's operations on an ongoing basis.

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Chapter – 5: Audit Evidence

<u>Audit Evidence Decisions</u>

- Audit procedures to use – specific procedures should be spelled out for instruction during the audit.
- Sample size – how many items should be tested for each audit procedure.
- Items to select – determine which items in the population should be selected.
- Timing – timing can vary from early in the accounting period to long after it has ended.

Chapter – 5: Audit Evidence (Contd.)

Persuasiveness of Audit Evidence

Audit evidence is any information used by the auditor to determine whether the information being audited is stated in accordance with established criteria. Two determinants of persuasiveness of evidence are:

- ❖ Competence – the degree to which evidence can be considered trustworthy.
- ❖ Sufficiency – amount of evidence is enough to form a reasonable opinion.

Chapter – 5: Audit Evidence (Contd.)

Types of Audit Evidence

A. Physical examination
B. Confirmations
C. Documentation
D. Analytical Procedures
E. Inquiries of the Client
F. Reperformance
G. Observation

Chapter – 5: Audit Evidence (Contd.)

<u>Audit Documentation</u>

Audit documentation is the principal record of auditing procedures applied, evidence obtained, and conclusions reached by the auditor.

A. Working Papers Files
B. Typical Working Paper Format
C. Storage of Working Papers
D. Ownership of Working Papers

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Chapter – 6: Audit Plan and Audit Programme

Application of Audit Testing

A. Tests of Controls

B. Testing for Monetary Misstatement

C. Reduction of Risk

D. Audit Assurance at Different Levels of Internal Control Effectiveness

E. Simultaneous Testing of Controls and Substantive Testing of Transactions

F. Timing of Audit Testing

Test of Controls

Audit procedures to test the operating effectiveness of control policies and procedures in support of a reduced assessed control risk. Some examples include:

- Matching of vendor invoices against a purchase order and receiving report before approving invoice for payment.
- Examination of employee time cards for approval of overtime.

Simultaneous Testing of Controls and Substantive Testing of Transactions

- The determination of control risk affects the type of procedures and sample size for the substantive testing of transactions.
- For purposes of convenience, the testing of controls and substantive testing of transactions will often occur simultaneously.
- In such situations the auditor will make an assumption about the results of tests of controls. If the testing of controls indicates that internal control is worst than expected, substantive testing of transactions will have to be modified accordingly.

Chapter – 6: Audit Plan and Audit Programme (Contd.)

Timing of Audit Testing

Auditors frequently consider it desirable to perform audit tests prior to year end. Certain procedures may be performed at an interim time (prior to client's year end) :

- Update depreciation schedules
- Examine new loan agreements
- Vouch transactions
- Analyze changes in client's accounting system
- Review board of director minutes
- If strong internal controls exist the auditor may also:
  - **Observe physical inventories**
  - **Confirm account balances**

Chapter – 6: Audit Plan and Audit Programme (Contd.)

Design of the Audit Program

Most audits design an audit program in the following three parts:

A. Tests of Controls and Substantive Tests of Transactions

B. Analytical Procedures

C. Tests of Details of Balances

Chapter – 7: Audit Sampling

Sampling Risk: Substantive Testing

•Risk of incorrect acceptance

•Risk of incorrect rejection

Selecting a Sampling Approach

- •Statistical sampling
- •Nonstatistical sampling

Sampling to Test Controls

- •Attribute estimation sampling

Chapter – 7: Audit Sampling (Contd.)

Substantive Sampling Considerations

Basic Steps:

- Specify audit objective
- Define a misstatement
- Define the population
- Choose sampling method
- Determine sample size
- Select the sample
- Audit the selected items
- Evaluate the sample results
- Perform follow-up work as necessary
- Document

Chapter – 7: Audit Sampling (Contd.)

Specify the Audit Objective

Combination of sampling and other audit procedures.

- Sampling used in two ways:
    - Determine reasonableness of an account balance.
    - Estimate some amount.

Chapter – 7: Audit Sampling (Contd.)

Choose a Sampling Method

Nonstatistical

•Probability proportional to size (PPS)

•Classical sampling methods (Appendix 10B)

- Mean-per-unit
- Ratio estimation
- Difference estimation

Chapter – 7: Audit Sampling (Contd.)

Determine the Sample Size, Select the Sample, and Evaluate the Results

Tolerable misstatement

- Expected misstatement

- **Document the Results**

Chapter – 7: Audit Sampling (Contd.)

Nonstatistical Sampling

Determine sample size

- Selecting the Sample

    Haphazard selection

- Evaluating the sample results
- Using audit software

Chapter – 7: Audit Sampling (Contd.)

Probability Proportional to Size Sampling

PPS sampling is an adaptation of attribute sampling methods to dollar value testing.

- Population definition
- Test of details risk (incorrect acceptance)
- Other substantive procedures risk (OSPR)
- Sample size and selection
- Zero and Negative Balances

Chapter – 7: Audit Sampling (Contd.)

Sampling to Test Controls

Nonstatistical sampling

- Attribute Estimation sampling
  - Define the attributes of interest and failures
  - Define the population
    - Period covered by the tests
    - Sampling unit
    - Ensuring the population is complete

Chapter – 7: Audit Sampling (Contd.)

Classical Sampling Methods

MPU Sampling

- Difference estimation sampling
- Ratio estimation sampling
- Sample Size
  - Estimation of population standard deviation
  - Desired allowance for sampling error

Chapter – 8: Cost Audit

Mechanism of Cost Record Maintenance and Cost Audit

- This mechanism was first introduced in 1965.
- This unique mechanism is very less publicized.
- It involves calculating & certifying the **true cost & margin of various products** & **services**.
- **This mechanism was revamped by Government in 2011 based on a detailed report of Expert Group appointed by Government.**
- Under 2011 Mechanism - Cost Record Maintenance and Cost Audit became applicable to All companies in India engaged in Manufacturing / Processing / Mining Operations.
- **Cost of Production of all the companies in India is reported to the GOI**, which **may be used** by the GOI for **controlling / regulating Profiteering** by capitalist sections of the society **to benefit "Common Man"**.

Chapter – 8: Cost Audit (Contd.)

Utility of Cost Record and Cost Audit

- Consumer Forums – Fair Pricing & Curtailing Profiteering
- Investor Forums - Corporate Performance and Economic Efficiency
- National Economy (Social Cost Benefits) – Optimum Utilization of Scarce Resources.
- Regulators – Control Price Mechanism
- Banks and Financial Institutions – Early Detection of NPA & Prevention of Sickness
- Government - Policy on Taxation, Policy on Subsidies for various sectors, Fight cases of Dumping , Detect Revenue Leakages & Tax Evasion
- Industry - Create Cost Consciousness, Specific benefit to SME segment, Analyze Resource Utilization, Improve Productivity and Cost Optimization, Decision Making.

Chapter – 8: Cost Audit (Contd.)

Utility of Cost Record and Cost Audit

COST AUDIT INSURES RESOURCE RECONCILIATION AND RESOURCE OPTIMIZATION:

Cost Audit and Cost Records are not only reconciliation statement in figures but it is a "Statement of Resource Cost and Resource Utilization" and is summary chain of following reconciliation statements –

a)BOM Consumption V/S. R.M. Consumed (Stores Ledger)

b)Direct Manpower and Indirect Manpower paid for and utilized.

c) Utilities Consumption – Standard V/S Actual

d) Normal Overheads V/S Abnormal

e) Assets Management & Utilization

f) Quantum of work outsourced and job work charges paid

f) Standard Loss / Rejection Percentage V/S Actual

g) Finally Profit Reconciliation in Figures to be reported

Chapter – 8: Cost Audit (Contd.)

Draft Rules After Effects

- The Companies Act 2013, Sec 148 provides for Maintenance of **Cost Records & Cost Audit** of **Production** as well as **Service Sector**.
- Draft – The Companies (Cost Record and Cost Audit) Rules 2013 are in complete contravention of the intent of The Companies Act 2013 passed by the Parliament.
- Under Draft Rules – 96% of Companies covered under 2011 are taken out from the mechanism.
- **Almost all Private Sector is sheltered and removed from Cost Audit mechanism**.
- Changes Introduced **against public interest** for the **benefit** of **specific stakeholders only**.
- Draft is introduced without any detailed study as against the comprehensive study mechanism of Expert Group.