



CMA FINAL

P17 CMAD

**HANDWRITTEN
NOTES**

By CA CMA Rohit Grover



CA CMA ROHIT GROVER

COST AUDIT

1. Basics of Cost Audit

A) Genesis of cost Audit:

- Concepts of Costing and its principles are introduced pre-independence when Govt was offering cost plus agreements/contracts to different companies during World War II because of its increased demand.
- But certain companies were involved in scams & scandals in form of unjustified increase in cost of production due to which so many Commissions like Vivian Bose & Dutta Commission were organised to look into matters due to which Govt realised that costing is a unique and important concept like financial Accounting and auditing practices.

B) History & Background of Introduction of Cost Audit & Rules:

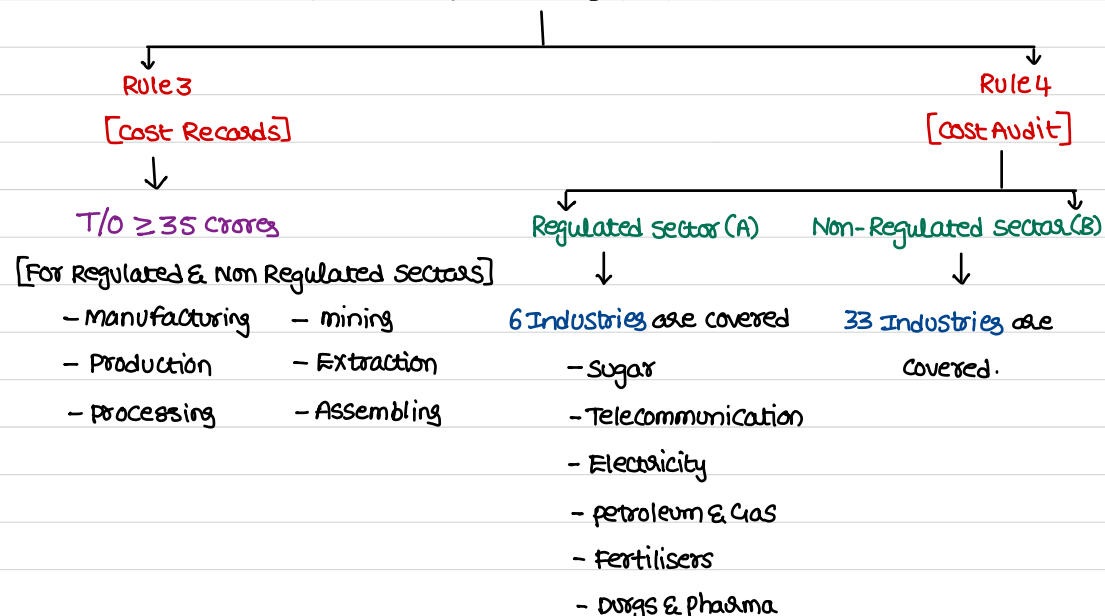
- 1944 → The ICWAI was incorporated under Companies Act, 1913.
- 1959 → The ICWAI Act, was enacted under Act of parliament.
- 1965 → Cost Audit was introduced in 1965 on the turnover based limits.
- 1965 - 2008 → 44 industries covered under Cost Audit & Cost Records maintenance.
- 2008 → Expert group was made to Analyse the existing Systems.
- 2009 → Reports submitted by Expert group.

2011 → Final set of CRA Rules framed.

2014 → CRA Rules, 2014 under Companies Act, 2013 were introduced.

C. Section 148:

1. Cost Audit is not a statutory Audit, rather it is in addition to statutory Audit.
2. Industries covered are - Manufacturing - mining
- Production - Extraction
- Processing - Assembling
3. Cost Audit is not a Regular Audit (Periodical Audit / yearly Audit).
4. Who can do Cost Audit: only practicing CMA.
5. There are 6 Rules under CRA Rules, 2014





Regulated Sector (A)

Non-Regulated Sector (B)

a) over all Annual T/O from production from Goods & Services $\geq 50\text{cr}$ (Immediately preceding FY)

a) over all Annual T/O from production from Goods & Services $\geq 100\text{cr}$ (Immediately preceding FY)

AND

AND

b) Aggregate T/O of which Individual Goods & Services $\geq 25\text{cr}$ for which Cost Records to be maintained

b) Aggregate T/O of which Individual Goods & Services $\geq 35\text{cr}$ for which Cost Records to be maintained

6. What Cost Auditor consider ?

Financial Auditor (PCA)

Cost Auditor (PCMA)

Management FS \rightarrow AS (Accounting standards)

management cost of production \rightarrow CAS (Cost Accounting standards)

Auditor standards \rightarrow SA (Standards on Auditing)

Auditor standards \rightarrow CAAS (Cost Audit & Assurance standards)

Auditing of FS \rightarrow GAAP (Generally Accepted Accounting principles)

Auditing of FS \rightarrow GACAP (Generally Accepted cost Accounting principles)

7. What a cost Auditor can not perform ?

- \rightarrow Statutory Audit
- \rightarrow GST Audit
- \rightarrow Tax Audit
- \rightarrow Internal Audit.



8. Who Appoints / Qualifications & Disqualifications / completion period / Intimation:

a) Appointment:

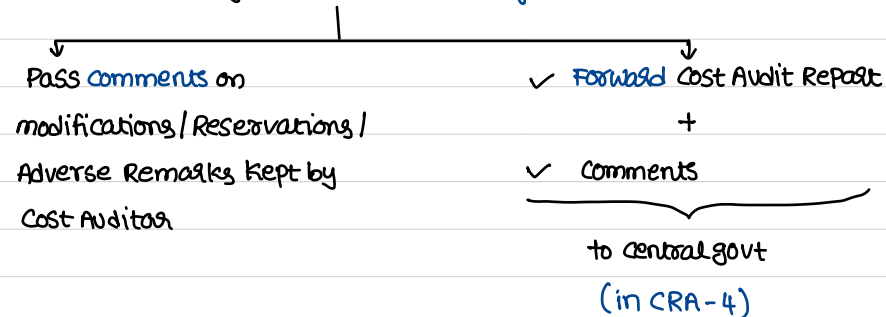
- \rightarrow By BOD within 180 days from commencement of FY.
- \rightarrow BOD after appointment of Cost Auditor, shall intimate C4 in CRA-2 within 30 days

CRA-1 \rightarrow Cost Records

\rightarrow If Cost Auditor $\left\{ \begin{array}{l} \text{Resigned} \\ \text{Died} \\ \text{Removed} \end{array} \right\}$ Again BOD shall appoint Cost Auditor [CRA-2 \rightarrow C4 (30 days)]

b) Completion of Time period (for Audit)

- \rightarrow Within 180 days from end of FY
- \rightarrow After completion of Audit, Cost Auditor shall forward Cost Audit Report in Form CRA-3 to BOD along with Modifications & Reservations.
- \rightarrow BOD after receiving Report within 30 days



Note: If AUM delayed/postponed - what ever extension ROC has given. (This Extended period shall be added to 30 days).

c) powers/duties/Rights/qualifications/disqualifications

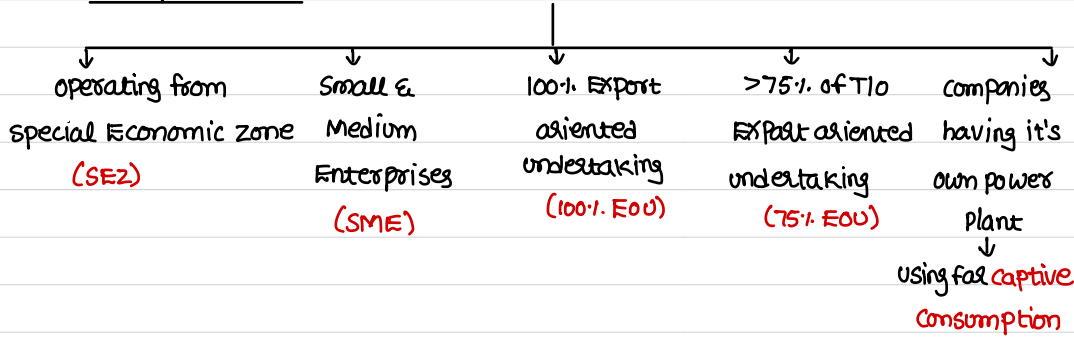
Same as Financial Auditor (sec 139 to 147)



d) Removal

- By BOD
- After giving OBH
- By way of passing Board Resolution.

9. Exemption u/s 148



D. Miscellaneous Topics:

1. Cost Records applicability



2. Declarations

- a) The individual / Firm is not disqualified u/s 141.
- b) The individual / Firm is qualified to be a Cost Auditor (also cop)
- c) They are qualified to accept this Cost Audit as it is within their limits of doing Audit.
- d) The firm/individual/partners are not having any pending cases & litigations in statutory Authority / courts in India (or) outside India.

E. List of Cost Records:

1. Production

- a) material consumption Records
 - material wise
 - Product wise
- b) Wastage & Scrap Reports / Records

2. Machinery

- a) machine utilisation reports i.e Running hours, idleness etc.

3. WIP & FY

- a) WIP costs in related to
 - centre wise
 - Product wise
- b) FY costs in related to
 - product wise
 - pack wise
 - type wise

4. Repairs & maintenance

- a) material, Spares and labour
- b) Additional Records when it is workshop.



5. utilities

- a) Input, Output Records.
- b) Centre wise cost Consumption Records.
- c) source wise power generation Records.

F. Section 141: Disqualifications

1. Body corporate & company except LLP.
2. officer / Employee of the company.
3. In employment and in partnership with officer / employee of the company.
4. Holding an security of any value in the company



5. You/ partner/ Relatives → Indebtness for goods & services > ₹ 5 lakhs

6. You/ partner/ Relatives → Indebtness for guarantee & security > ₹ 1 lakh



7. Breaching / violating ceiling limit of company Audit (>20 Audits)

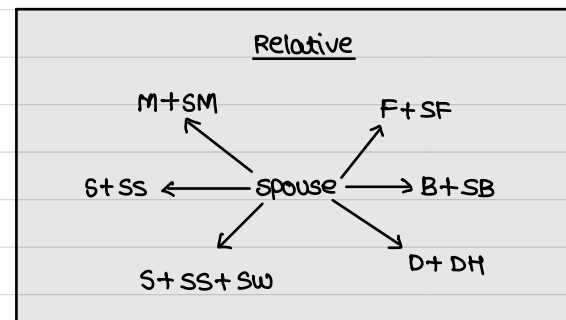
<u>Inclusions</u>	<u>Exclusions</u>
- public co	- OPC
- Govt co	- Small co
- Sec 8	- Dormat co
- Joint Audit	- Pvt co (PUSC < 100 cr)
- Guarantee co. having share capital	
- Pvt co (PUSC ≥ 100 cr)	

Note: It's a limit of practicing

- Professionals
- A single practicing partner can sign all Audit Reports (Tax Audit & co. Audit) other than you, your practicing partner can sign.

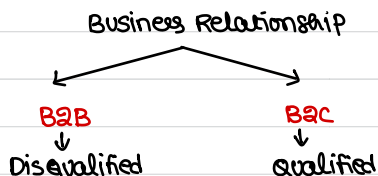
8. Relatives Disqualifications

	<u>You/ partner</u>	<u>Relative</u>
Employee	Disqualified	Qualified
officer / KMP	Disqualified	Disqualified





9. you / partner / Relative shall not establish business relationship with client. [Professional relationship is allowed]



10. you / partner / Firm found guilty of offence of fraud by govt and convicted for same and 10 years of such period have not elapsed.

Disqualifications = 10 years (or) Service of Imprisonment } which ever is later.

NCLT → 5 years Ban + Sec 447 penalty

NFRA → 6 months to 10 years + Fine Min. ₹ 5 Lakhs
Max. 10 X Remuneration Received.

11. providing prohibited services u/s 144

- | | |
|---------------------------|-----------------------------------|
| a) Internal Audit | g) Investment Banking |
| b) Accounting System | h) Investment Advisory |
| c) Book keeping system | i) Financial services outsourcing |
| d) Financial Info system | j) portfolio mangt |
| e) Actuarial services | underwriting |
| f) Management Consultancy | Brokersage |
- } services

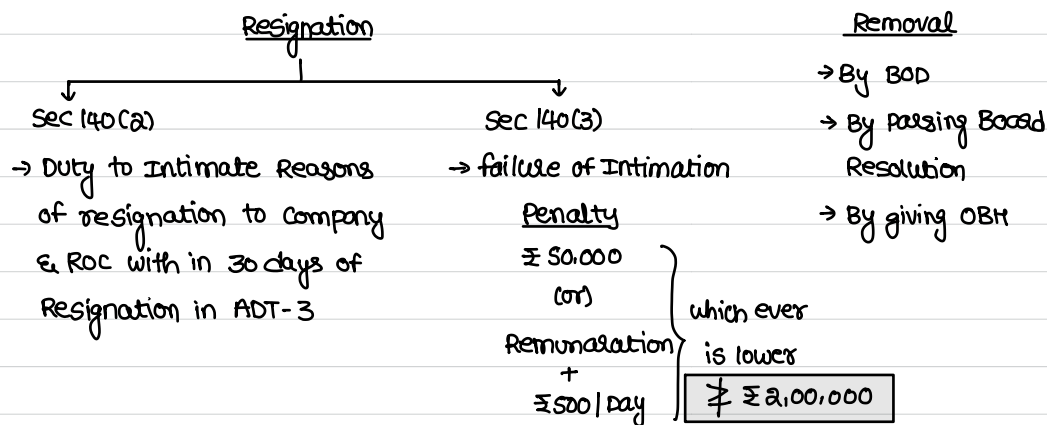


4. Qualifications:

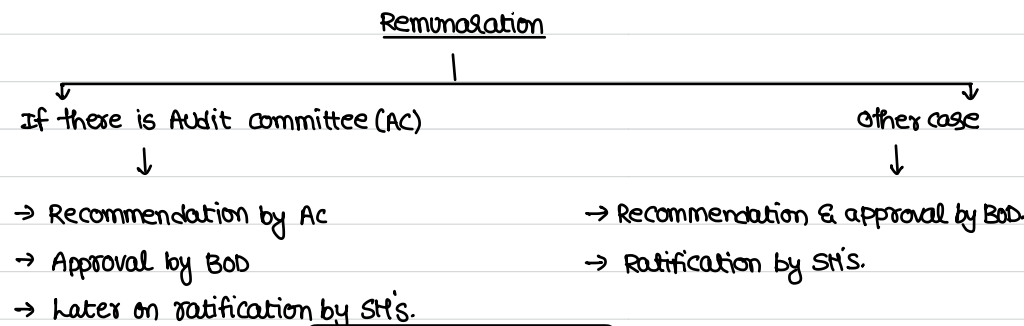
In all cases "Firm Registration Number" (FRN) to be generated.

- sole proprietorship Firm (single person holding cop)
- Partnership Firm
 - Majority of partners must be practicing in India
 - There is no upper limit
 - Multi-disciplinary P.Firm with CA/CS/LLB/MBA/AS/BE/B.Tech | B. Arch
(professionals from foreign country not allowed)
- LLP (India).

H. Section 140:



I. Section 142:

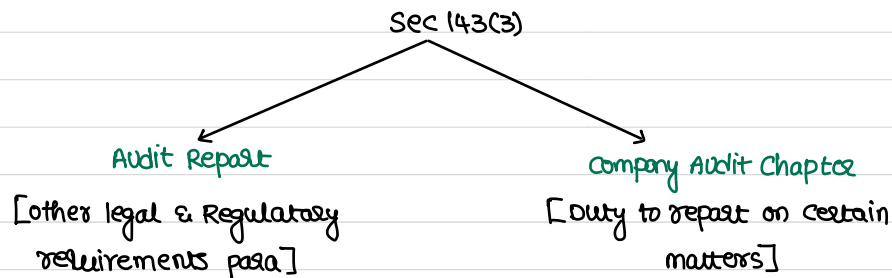




J. Section 143(1): Duty to Inquire

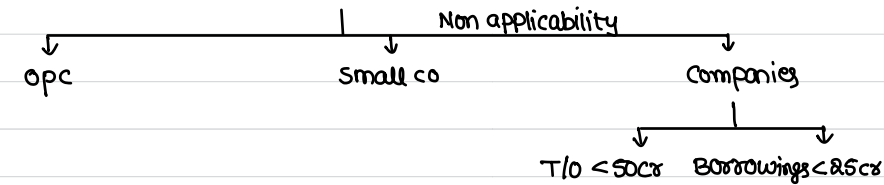
1. whether loans & advances granted
 - properly secured?
 - Proper T&C?
2. whether sales & purchases are mere book entries?
(Checking bogus / Fake sales & purchases)
3. whether personal expenses debited to
 - Revenue A/c?
 - P&L A/c?
4. whether loans & advances categorised as deposits?
5. Being Non-Investment Company → Investments in shares and securities shall not be disposed / sold below its cost.
6. whether P&S is fully received (or) not?

K. Section 143(3):



clauses:

- a) whether information and explanation received from company as to our knowledge & belief, if not what is its impact on financial statements of company.
- b) whether BoA & Cost Records are properly maintained (or) not?
- c) whether Branch reports received (or) not?
- d) whether FS are in agreement with BOA?
- e) whether FS are prepared in accordance with AS?
- f) whether Any Adverse / negative remarks on companies functioning has been given?
- g) whether any director has been disqualified u/s 164(2)?
- h) whether any Adverse remarks has been given on BOA of company?
- i) whether company has installed an efficient & effective Internal Financial control system (IFCS)



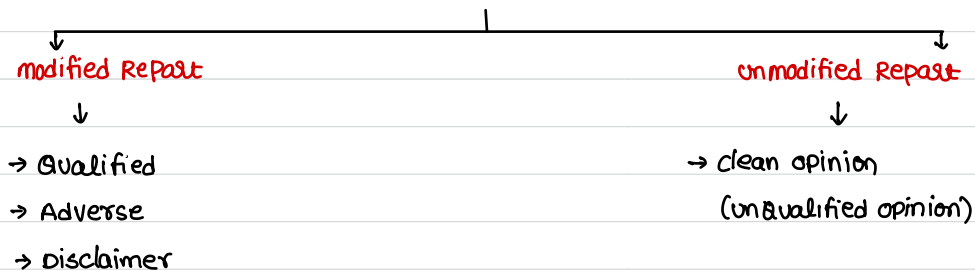


J) Other matters:

- 1) Impact of pending litigations on Companies Financial position.
- 2) provisions on derivative contracts.
- 3) Delay in transferring unpaid dividend Amount to IEPF
[Investor Education & Protection Fund]
- 4)
 - obtaining management representation that management has not financed / loaned any other party other than mentioned in notes to Accounts
 - obtaining management Representation that management has not borrowed any loan from any other party other than mentioned in notes to Accounts.
 - Auditor has no reason to doubt in above two points.
- 5) Dividend is paid / declared as per sec 183.
- 6) Accounting software has feature of "Audit Trail" con nat.

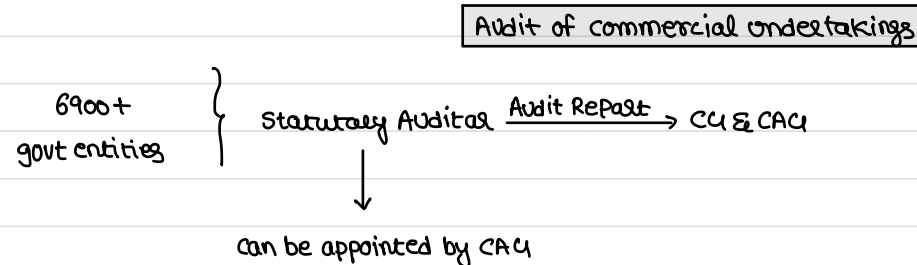
L. Section 143(2): Duty to Express an opinion
[Reasonable Assurance]

M. Section 143(4): Duty to give Reason in case of modified / Adverse / qualified / Disclaimer of opinion



Situations	Auditor's Judgement	
	Material but not Pervasive	Material & Pervasive
Auditor does have sufficient & appropriate Audit Evidence (SAAE)	Qualified	Adverse
Auditor does not have SAAE	Qualified	Disclaimer

N. Section 143(5), (6), (7): Duty to follow instructions of C4 & CAC in Govt Audits.

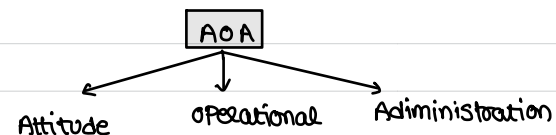


O. Sec 143(6): supplementary Audit (on specific dept)

ordered by CAC with in 60 days

P. Sec 143(7): Test Audit

Internal control system Audit (ICS) of gov't entities within 60 days.





Q. Sec 143(8): Duty to Verify Accounts of Branches
(Branch Audit)

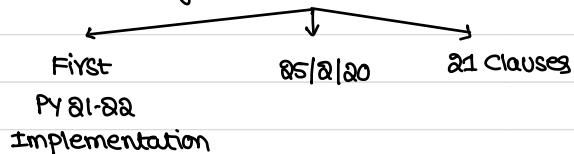
→ Generally Ho Auditor only gets appointed as Branch Auditor unless specified otherwise.

→ Foreign Branch - Audit shall be done by the accountant of that country - forward the report to Ho Auditor.

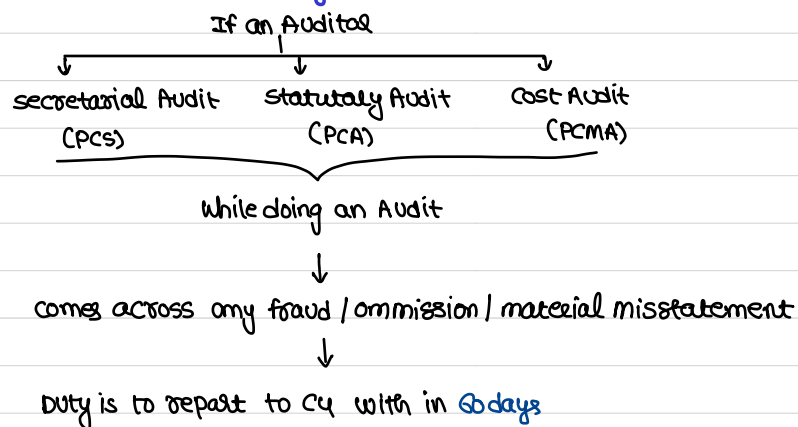
R. Sec 143 (9), (10): Duty to follow standards on Auditing (SA)
↓ 38 SAs

S. Sec 143 (11): CARO, 2020

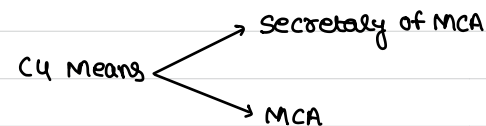
Auditor Duty to report under CARO Requirements.



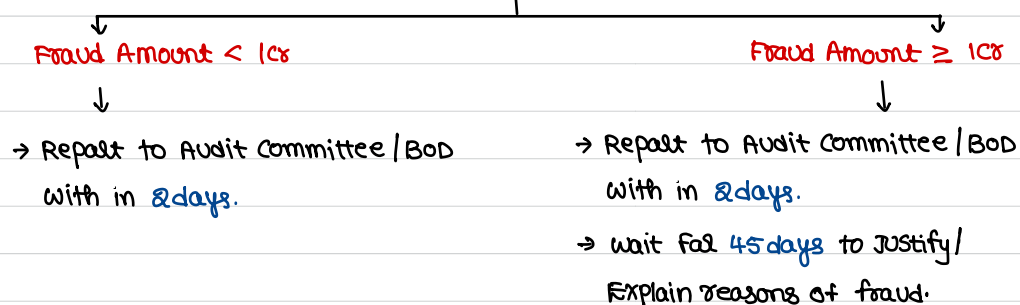
T. Sec 143 (12), (13), (14), (15): Duty to Report fraud



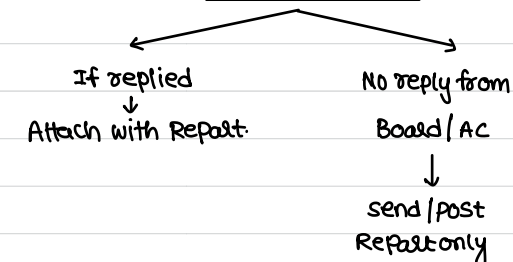
Note:



Rule 3 of CAAR, 2014 (When to report fraud)

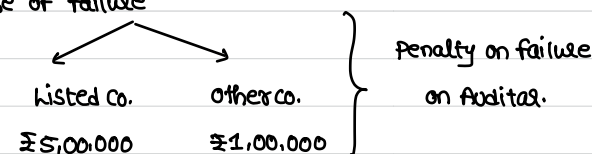


Reasons of fraud



→ In the next 15 days

- Report must be prepared.
- as per ADT-4
- on Auditor's Letter head
- posted via registered post with acknowledgement due / speed post
- In case of failure

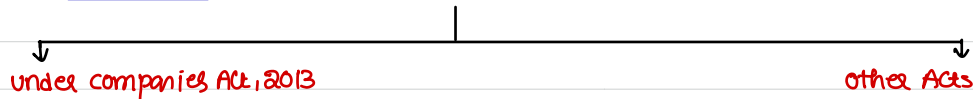




U. Roles of a practicing & Non practicing CMAs

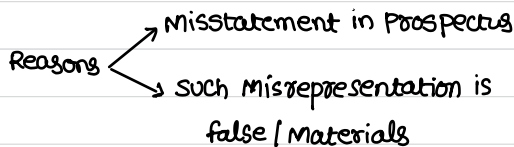
1. As an Independent director
2. can be appointed as KMP
3. can be Technical Member in
 - NCLT (10 years of Practice)
 - NCLAT (25 years of employment/ Practice)
4. can be appointed as company liquidator (10 years of exp)
5. As an Administrator → as specified by Cx
6. Included in the definition of expert vis 2(38)
7. can be Assistant to senior fraud investigation officer (SFIO)
8. can be appointed as registered valuer.
9. can be appealed before NCLT/NCLAT for winding up/revival of sick company cases.
10. can be Mediator/conciliator → Not yet Notified.

V. Liabilities



1. section 34 (Criminal liability)

Penalty vis 447



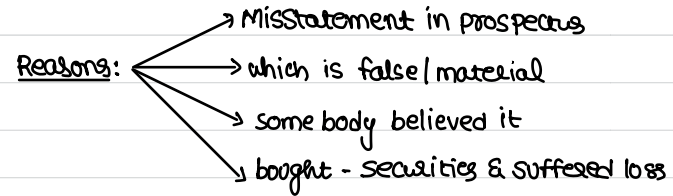
- Income tax Act
- RBI Act
- LIC Act
- Banking regulation Act
- Indian contract Act

↓
Penalties as per Respective Act.



2. section 35 (Civil liability)

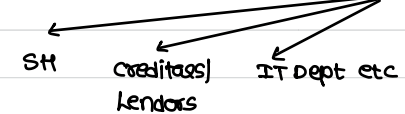
↓
Penalty vis 447 + unlimited compensation



3. Violation of sec 139/144/145

Fine - min ₹25,000
Max ₹5,00,000 (or) 4 x Remuneration Received. } ↓

4. section 147: If Auditor found guilty of deceiving/cheating of



Fine - min ₹5,00,000
Max ₹85,00,000 (or) 4 x Remuneration Received } ↓
(or)

Imprisonment - up to 1 year (or) Both

5. Fails to provide documents

Fine - Min ₹25,000
Max ₹1,00,000

&

Imprisonment upto 6 months (+) ₹2000 per day of default.



6. Involvement in fraudulent winding up

Fine - ₹1L - ₹3L

&

Imprisonment - 3 to 5 years

7. Provides false statement

Penalty vis 447

Imprisonment extend to 5 years

(or)

Fine extended to ₹25 Lakhs / Both.

8. Provides false evidence

Imprisonment - 3 to 7 years

&

Fine upto - ₹10,00,000



2. Professional Ethics

A) principles of professional Ethics / code of Ethics / Ethical Requirement

→ Integrity: A professional is expected to be
 } in his Duties
 Honest
 Sincere
 Straight forward

→ objectivity: A professional shall always maintain
 } attitude
 Impartial
 unbiased

→ Confidentiality: A professional is Expected to maintain Confidentiality on sensitive / secretive Information of his employer / client, which was acquired during his employment / practice.

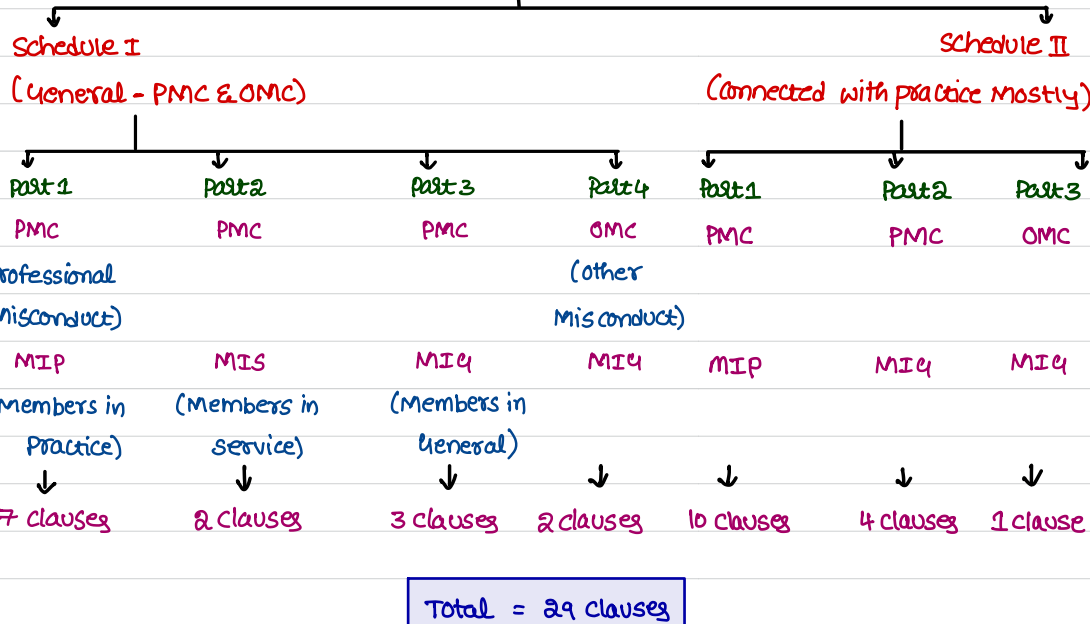
Exception: can be disclosed only if
 }
 prior permission of employer / client
 there is a statutory requirement / obligation

→ Competence: ^(capability) Must be updated & upgraded with New Skills & competence to serve his profession in the best possible manner.

→ professional Behaviour: Expected to always maintain reputation of profession / himself / council.



Schedules under CWA Act



Schedule I

*PART 1: professional Misconduct in relation to MIP

Clause 1: Allowing any person other than your own employee / partner to practice in your name / practice in firm's name.

Allowing clause

Explanation 1: A PCMA shall allow only his
 { employee } to practice in his name / firm name,
 { practicing partner }
 otherwise guilty of professional Misconduct.

Explanation 2: Employee } PCMA
 Partner } { practicing employee
 { practicing partner.

Clause 2: → pays / Agrees to pay & Allow / Agrees to allow
 → to share profits / fees / commission / brokerage from professional work

Sharing clause

→ Directly / Indirectly
 → with persons other than
 { Another member of Institute
 { Partner
 { Retired Partner
 { Legal Representative of deceased partner

Explanation: AS a PCMA, you are allowed (or) can allow your partner to share fees / profits with
 ↓ Any other member of Institute ↓ Retired Partner ↓ partner (any other PCMA) ↓ Legal Representative of deceased partner (If deed provides)



Clause 3: → Accepts / agrees to accept
 → profits / fees / commission from another professionals

Accepting clause → other than members of Institute.

Clause 4: → Enters into partnership with
 → other than

Partnership clause → Members of Institute
 → Such other professionals whose qualification is recognised.

Explanation: A PCMA can enter into partnership with
 ✓ CA/CMA/CS ✓ Actuarial Scientist
 ✓ MBA/LLB ✓ BE/B.Tech/B.Arch

Explanation: In case of foreign Residents, their qualifications must have been approved by
 → C.A.
 → Council (Institute).

Clause 5: → securing professional work from persons

Securing clause → other than
 → Employee
 → Partner
 → People mentioned under clause ---

Clause 6: → soliciting clients (or) professional work
 → directly / indirectly

Soliciting clause → via
 → Personal Interview
 → Personal Communication
 → Advertisement
 → circular
 → Allowed
 → soliciting work from another PCMA
 → Responding to tenders inviting professional services.



Clause 7: → Advertising
 → Professional attainments
 → Using designation other than Cost Accountant

Advertising clause

→ Allowed: a) other qualifications are allowed but in shall suffixes like CA/CS/JP/MP/MLA/B.COM

b) In advertisement, base statement of facts
 Eg: change in office address,
 Telephone Numbers,
 Advertisement for Articles.

c) Website shall be on "pull technology."

*) PART 2 : professional Misconduct in relation to MIS

Clause 1: pays / Allow to pay emoluments / salaries / benefits to another person

Sharing clause

Clause 2: Receives / agrees to Receive emoluments from Broker / Cost Accountant / any other person

Accepting clause



*) PART 3 : professional Misconduct in relation to MIE

Clause 1



Not a fellow, but acting as a fellow member of Institute



Non member → FCMA → Guilty

Member → No COP → FCMA → Guilty

Member → COP → not completed → FCMA → Guilty
5 years

Clause 2



Not provided / supplied info

by - Institute / Council

- Committees

- Director (Discipline)

- Board of Discipline

- Appellate Authority

- Quality Review Board

Clause 3



solicited work from another PCMA &

Responding to tenders (Clause 6)

&

Advertised as per guidelines (Clause 7)



But given info knowing it to be false.

*) PART 4 : Other Misconduct in relation to MIE

Clause 1

→ guilty of civil / criminal activity

&

→ convicted by a court with imprisonment not exceeding 6 months (≤ 6M)

Clause 2

→ done an Act which bring disrepute profession &

Institute / Council.



Schedule II

*) PART 1 : professional Misconduct in relation to MIP

Clause 1:

discloses confidential info acquired during his professional capacity without



Clause 2:

Reports (or) certifies any Cost Audit Report (or) Cost Certificate without getting it examined by

- either himself (or)
- his partner (or)
- his employee (or)
- Any other PCMA.

Clause 3:

Engaged in project works & Reports and vouching accuracy of contingent transactions and future forecast.

Note: In these kind of Assignments, MIP shall disclose

- Assumption
- Basis of Assumption
- Sources of Info

Clause 4:

Express an opinion on entity





Clause 5

Fails to disclose material facts
(Important info) known to him



Which was very much needed
to disclose in FS.

Clause 6

Fails to report material misstatement
known to him (fraud & errors)



Which was very much need for users for
their attention.

Clause 7: Didn't apply due diligence and mostly was (grossly) negligent
while discharging his professional duties.

Note: This clause can be expressed with all other clauses.

Clause 8: Failed to obtain sufficient & appropriate information & explanation
required for expression of opinion (mandatory for drawing conclusions).

Clause 9: Failed to draw attention on material departures from generally
accepted cost audit practices (CIACAP) [Didn't perform the
procedures properly (effectively)].

Clause 10: Fails to keep clients money in a separate bank A/c other than
→ Payments made in short time
→ Advance Fees / Remuneration.



***PART 2 : professional misconduct in relation to MIE**

Clause 1



violation/
contravention to
sections/guidelines/
regulations made by
Institute/Council.

Clause 2



Discloses confidential
info acquired during
course of employment
without employer's
permission

Clause 3



Provided info to
- Institute
- Council
- D.D
- BOB
- DC
- AA
- GRB
knowing to be false

Clause 4



defalcates/
embezzles the
money received
in professional
capacity

***PART 3 : other misconduct in relation to MIE**

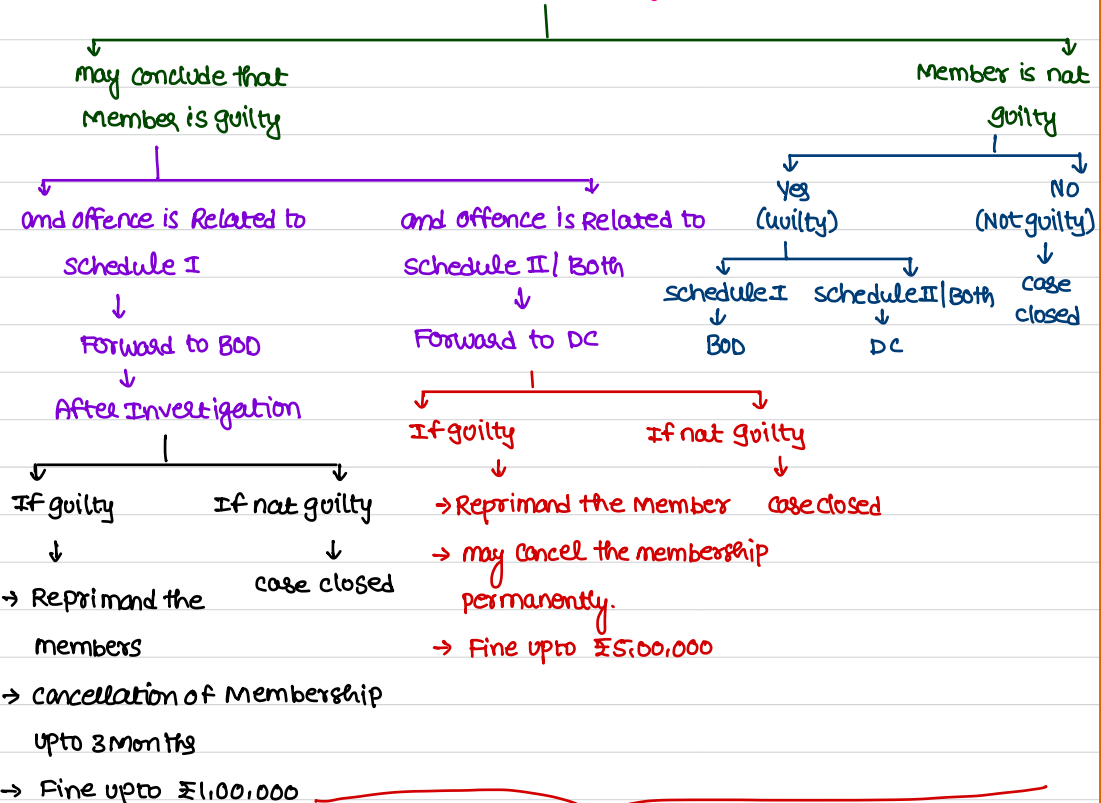
Clause 1: Convicted for civil/criminal offence with imprisonment
exceeding 6 months (> 6m)



B) Disciplinary Mechanism under CMA Act, 1959

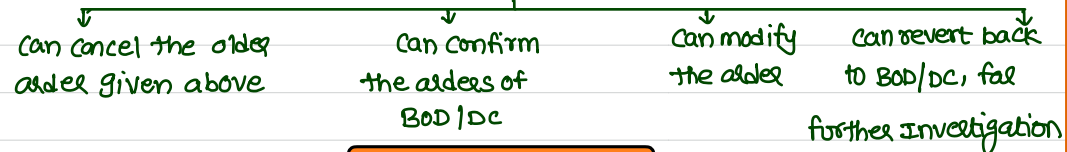
Disciplinary Directorate: The Authority where complaint related to schedule I / II / Both offences are made.

Disciplinary Directorate (DD)
After further investigation



If member / DD not satisfied with BOD / DC Decision
↓ within 90 days + 90 days [Extension with Sufficient Reason]

File an Appeal to AA
Powers of AA (order is final & conclusion)



Cost Records & Audit Rules, 2014

A) Meaning:

- These Rules are framed by central govt in relation to cost Records and audit as per sec 148.
- It was framed in Companies Act, 2013 which got later on Amended in the year 2019.
- There are total 6 Rules as per CRA, 2014.

Rule I: Short title & Commencement

Companies (CRA) Rules, 2014 - Commencement (30th June, 2014).

Rule II: Definitions

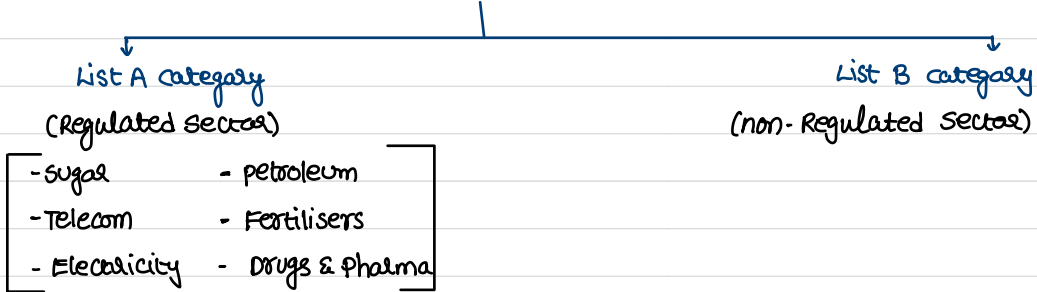
- Cost Records
- Form
- Institute
- IAS
- Customs Tariff Act heading
- Cost Accountant in practice
- Cost Auditor
- Cost Audit Report

Rule III: Cost Records applicability

- Be it Regulated / unregulated sectors
- The threshold to maintain cost if Annual T10 in preceding FY is ≥ 35%
- Being micro / small Enterprise, they are exempted under Rule 3.



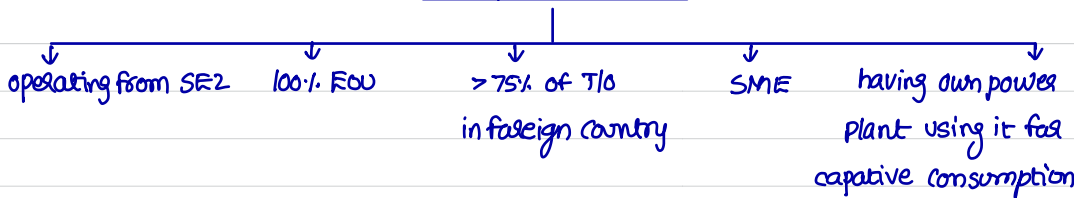
Rule IV: Cost Audit Applicability



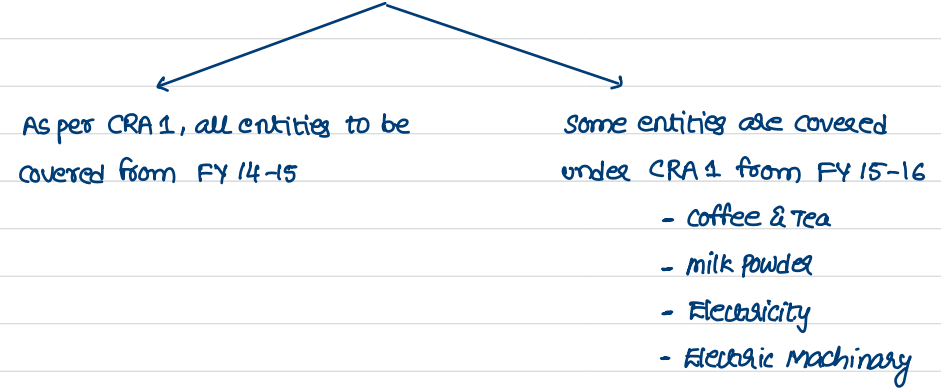
Conditions: Both conditions to be satisfied

1. Annual Tlo from production of goods & services ≥ 50 crs ≥ 100 crores
- (And)
2. Tlo from such goods & services Individually for which cost records to be maintained ≥ 25 crs ≥ 35 crores

Exempted Industries



Rule I: maintenance of cost Records



Rule III: cost Audit provisions

- only PCMA can do Audit.
- To be appointed by BOD with in 180 days from commencement of FY.
- To be Intimated to C4 with in 30 days in CRA 2
- To complete Audit with in 180 days from end of FY.
- In case of

}	<ul style="list-style-type: none"> → death → Removal → Resignation
---	---

 casual vacancy → with in 30 days by BOD (CRA 2)
- cost Audit Report in CRA 3
- CAR with Board comments & Explanations to C4 in CRA 4 within 30 days from it's Receipt.

Amendment: The above 30 days will be extended with extension period allowed by ROC to conduct AUM as per Sec 137.



FORMS

a) CRA 1: Cost Records shall be maintained under 31 headings

- | | |
|-----------------------------|--|
| 1) Material Cost | 17) Any other Items of Cost |
| 2) employee cost | 18) capacity determination |
| 3) utilities | 19) WIP & Fu |
| 4) Direct Exp | 20) captive consumption |
| 5) Repairs & maintenance | 21) By products & Joint products |
| 6) FA & Dep | 22) Adjustment of cost variances |
| 7) OH | 23) Reconciliation of cost & Fin A/c's |
| 8) Admin. OH | 24) Related party transactions (Sec 188) |
| 9) Transportation Cost | 25) Expenses / Incentives on Emps |
| 10) R&D | 26) production Records |
| 11) Royalty & Tech Know How | 27) sales Records |
| 12) Quality control Exp | 28) cost statements |
| 13) pollution control Exp | 29) Statistical Records |
| 14) service Dept Exp | 30) Records of physical verification |
| 15) Packing Exp | 31) units of measurement |
| 16) Finance Cost | |

b) CRA 2: Intimation of Cost Auditor & company details to C4

1. Corporate Identity Number / Foreign company Registration Number
2. General Info
3. products / services to which cost Audit is related to
4. details of cost Audit / Auditors appointed
5. FY to which cost Audit is concerned
6. Details of previous cost Auditor who has not been reappointed.

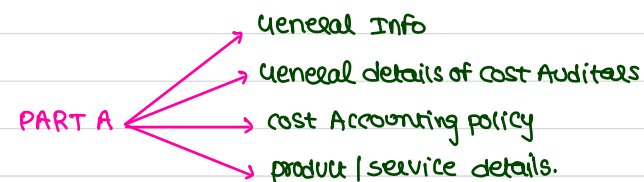


7. Attachments
- BR copy (Appointment of Cost Auditor)
 - Any other optional attachments.

c) CRA 3: Cost Audit Report

- 1) Para giving detailed info on cost Auditor "that they have Audited cost statements" & following below statements
 - a) we have received info & explanation to best of their knowledge.
 - b) In their opinion, whether cost Records are maintained properly (or) not.
 - c) whether adequate returns from branches received (or) not.
 - d) whether books & Records give info required under Companies Act, 2013 (or) not.
 - e) whether cost of production of products / services, cost of sales, margin & other info is true & fair.
 - f) whether adequate internal Audit of cost Records have taken place / not.
 - g) detailed unit wise & product wise / service wise cost statements & schedules have been duly Audited & certified by us.

Annexures to CAR:





PART B In case of manufacturing sector

- Quantitative Info
- Abridged Cost Statement
- Details of materials consumed
- Details of Utilities consumed
- Details of Industry specific operating expenses

PART C In case of service sector

- Same as Manufacturing sector

PART D Other

- product & service profitability statement
- profit Reconciliation
- value addition & Distribution of Earnings
- Financial position & Ratio Analysis
- Related party transactions
- Reconciliation of Indirect taxes

d) CRA 4: contains following disclosures

1. Corporate Identity Number (CIN) / FCN of company
2. General Information (Particulars of the company including FY to which this report belongs)
3. Details of Industries / sector / product / service (whether Regulated / non regulated) covered in this report.
4. Details of Industry / sector / product / service (whether Regulated / non regulated) not covered in this report.
5. Details of Cost Auditor Appointed.
6. Details of observation kept by cost Auditor.



7. Attachments

- XBRL Document in respect of the CAR & Company Info & Explanation on every qualification & Reservation contained.
- Any other (optional) attachments.



CAAS

Cost Auditing and Assurance standards

CAAS / SCA 101: Planning & Audit of cost statements

1. Planning is the preliminary step what an Auditor shall take before execution of his Audit.
2. It includes coordination with the Auditee, thinking about Resources, deciding the scope and Audit procedures to achieve audit objectives.

3. Objective of planning: To do Audit
- Timely
 - Effectively
 - Efficiently

4. Scope: cost Auditorial scope is
- Cost statements
 - Cost Records
 - Related Cost documents
 - Strategy
 - Audit plan

5. Definitions:

⇒ Audit:

An Independent & systematic examination of financial & cost info of entity, whether profit oriented (or) not, irrespective of its size, nature & structure with only objective of expressing an opinion.

⇒ Audit partner:

- a) The one who is a member of Institute holding full time COP
- b) Responsible for Audit & its performance
- c) Issues report on behalf of firm
- d) Having appropriate Authority from Regulatory bodies.



⇒ Audit plan:

It's a Record of planned Risk Assessment procedures (RAP) and planned further Audit procedures (FAP) in response to risks identified.

⇒ Audit Risk:

- a) It is an Act of cost Auditor giving wrong (or) inappropriate opinion when cost statements are materially misstated.

- b) Therefore, Audit Risk is a function of

$$RMM \times \text{Detection Risk}$$

where as RMM is due to irresponsible management activities which bring Inherent Risk \times Control Risk.

$$AR = \underbrace{(IR \times CR)}_{\text{mangmt}} \times \underbrace{DR}_{\text{Auditor}}$$

- c) IR = Misstatements which will occur due to "No ICS"
 CR = Misstatements which will occur due to "Poor ICS"
 DR = Those Misstatements not detected by Auditor due to "Poor PFTs" (Procedures, Evidences, Techniques)

- d) There is inverse relationship b/w $(IR \times CR)$ with DR

Explanation:

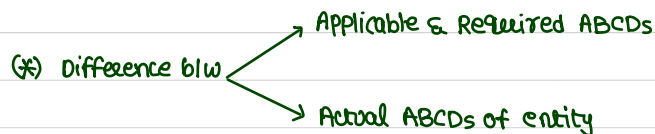
Higher $(IR \times CR)$ means \rightarrow Higher sample size
 \downarrow
 More Coverage
 \downarrow
 Less DR



⇒ Audit Team: It includes

- a) Engagement partner (main lead)
- b) Audit Manager
- c) Paid Assistants
- d) Senior & Junior Audit Assistants
- e) Employees
- f) Auditee - The client on which cost Audit is conducted.

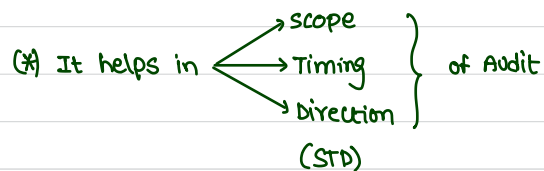
⇒ Misstatement:



(*) Which is either due to fraud / Error.

- A → Accounts (Amount)
- B → Balances (presentation)
- C → classification
- D → Disclosures.

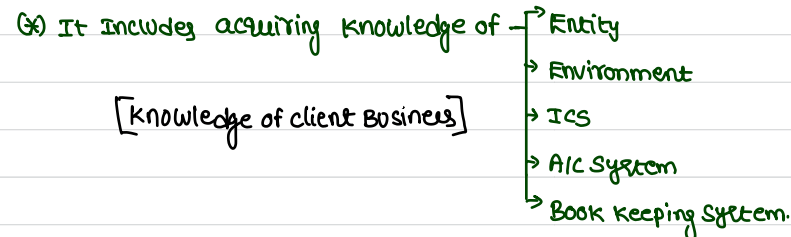
⇒ Overall Audit Strategy:



(*) Audit strategy guides the detailed development of Audit plan.



⇒ Risk Assessment:



(*) To identify & Assess the ROMM.

Requirements:

⇒ Before planning & Audit, these are preliminary activities:

- 1) obtain letter of appointment & ensure appointment has legally happened.
- 2) Ethical requirements of ICAI (professional ethics)
- 3) There should always be participative approach while planning & strategizing the Audit.

⇒ Following Factors to be considered while making Audit strategy:

- 1) Results of the preliminary Activity.
- 2) Knowledge from previous Audits
- 3) Knowledge of client business
- 4) Statutory deadlines
- 5) Nature, timing & Extent of resources available.



6) DRS (Direction, Review & supervision) over the team.

7) Nature & Scope of Audit:

⇒ once Audit is completed, Auditor shall document the following

- 1) Audit planning
- 2) Audit strategy
- 3) changes in plan & strategy
- 4) Reasons for such changes

⇒ It is mandatory that incoming cost Auditor must communicate in writing with outgoing cost Auditor (or) previous Auditor to consider his issues & objections.

⇒ Both planning & strategies should be continuous & flexible in nature.

Acquiring Knowledge of client business (KOCB)

External Factors

- a) legal Framework within which clients operates
- b) regulatory framework
- c) Industry knowledge
- d) major customers & suppliers
- e) price competition
- f) Industry Norms
- g) demand & supply market for clients product & service
- h) It's opportunities & threats.

Internal Factors

- a) Identify the strategies
- b) know their objectives & goals
- c) Check investment
 ↗ Portfolio & Pattern
- d) Analyse
 ↗ Financial } Performance
 ↘ Operational }
- e) Examine A/c Policies & changes, if any
- f) verify their strengths & weaknesses.



CAAS 102: Cost Audit Documentation

Effective Date of CAAS 102: Sep 11, 2025

A) Nature & purpose / objective

Documentation provides

- (i) Evidence on the basis of which cost Auditor expressed his opinion
- (ii) Evidences that cost Auditor has done his Audit in accordance with CAAS and laws & regulations.

Note: Following are additional purpose & advantages

- a) helps in planning & performing the Audit.
- b) Serves as a guide for future Audits.
- c) Acts as self defence tool.
- d) makes the team accountable
- e) Helps in DRS
- f) Helps in conducting PFER Reviews, Quality Reviews & external inspections.

B) scope:

- (i) It includes documentation which auditor maintains during Audit
- (ii) It also includes additional documents required by law & regulations.

C) Definitions

⇒ Audit documentation

- (i) Means Record either in
 ↗ Physical
 ↘ E Form
- (ii) obtained by the Auditor

(iii) In connection with his performance of Audit.

- (iv) Includes - procedures performed
Evidences collected
Techniques Adopted &
Conclusions drawn.

PETC

⇒ Audit File:

That file which includes Audit documentation, either in
 ↗ Physical
↘ E-Form
 for
specific Audit

⇒ Audit Working papers:

- (i) Those documents collected by the Auditor to support his work done.
- (ii) which also provides assurance that work is done as per laws, regulations & standards.

D) Requirements of log

Cost Auditor shall have sufficient & appropriate documentation, how to ensure it?

He shall get it Reviewed by another competent person who has no connection with that Audit, if that person is able to understand PETC of Cost Auditor it can be said that documentation is sufficient & appropriate

At the same time PEER Reviewer is also

able to understand

- i) Auditor's procedures
- ii) Standards adopted by him
- iii) Evidences collected by him
- iv) Auditor's professional judgement
- v) His conclusions

Relevant points:

- (i) Assembling Time → within 60 days from date of signing of CAR
- (ii) Preservation Time → 10 years from date of signing of CAR
- (iii) Must document every significant matters discussed with client (or) outsiders
- (iv) shall also document nature, timing & extent of his audit procedures.
- (v) document - Exceptional circumstances which made you do FAPs & draw cost Audit Report (CAR).

⇒ Contents of Audit documentation:

- a) PETC
- b) Check list of verification steps
- c) CAS used during Audit
- d) Cost Accounting standards & UACAPS verified during the Audit.
- e) Audit programmes, planning & strategies
- f) Analysis made during Audit [Ex: Ratios & trend Analysis]
- g) Audit queries raised & Responses Received
- h) Significant contracts entered by the client
- i) confirmation letters
- j) Management Representation letters [MRL]
- k) Abstracts & copies of entities Records.



⇒ Factors affecting Audit Documentation

- a) Nature, size, complexity of client business
- b) ROMM identified during the Audit
- c) Type of opinion to be drawn of Auditor
- d) Nature of Audit procedures performed
- e) Type of cost Audit methodology adopted
- f) Competency of management and adequacy of ICS.



CAAS 103: overall objectives of independent Cost Auditor & Conduct of An Audit in accordance with CAAS 103

a) Objectives:

- 1) To obtain Reasonable Assurance.
- 2) About whether cost statements are free from material misstatements, so that Auditor can express an opinion.
- 3) To report the cost Audit in an appropriate format
- 4) Also make observations & suggestions in case the need arise

b) Definitions: Same as CAAS 101

c) Additional definitions:

⇒ Non-compliance

- 1) An Act of
 - Commission (or)
 - Omission
- 2) Either done
 - Intentionally (or)
 - Unintentionally
- 3) by the entity against
 - Laws &
 - Regulations
- 4) Involving
 - Employees
 - Management
 - TCWU

Note: personal non compliance not to be Recognised by Auditor.

⇒ Criticism: (professional skepticism)

An Attitude which includes of questioning mind and alert mind towards fraud & errors with critical examination of Audit Evidence.

d) Requirements

- 1) Cost Auditor shall comply with ethical requirements of the institute
- 2) Not only CAS he has to follow, he shall also follow other Laws & Regulations
- 3) A Cost Auditor must understand entire text of CAS
- 4) He shall not use the CAS if it is impracticable to use them
- 5) In exceptional circumstances, he may depart from CAS & must use Alternate Audit procedures instead. [But he shall document at the end why he choose departure - gone against standard]
- 6) Cost Auditor shall Always keep in mind that there is possibility of MM in cost statement.
- 7) He shall always obtain SAAE.
- 8) He shall always exercise professional judgement.
- 9) If he thinks that object is not getting achieved due to non availability of SAAE (or) due to high ROMM, he shall modify his opinion

e) Application guidance of this Standard:

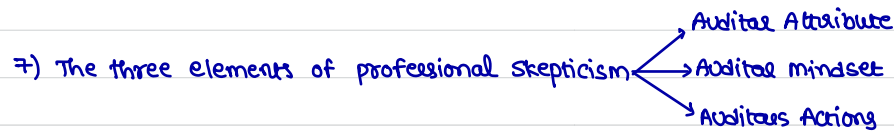
- 1) While conducting Audit, it is expected from the Cost Auditor to must comply with his ethical requirements, such as Integrity, objectivity, Confidentiality, professional due care & competence and professional behaviour. But most of all he should be independent.
 ↗ In mind
&
↘ appearance.
- 2) While conducting the Cost Audit, he is expected to follow Cost Auditing Standards but in case there is inconsistency between CAS & law/Regulations later prevails over former.
- 3) In case there is a need to depart from Relevant CAS, he shall document the Reason for the same.
- f) professional skepticism: (Not a suspicious mind)
 - 1) The attitude of skepticism means having a questioning mind on available Evidences & be Alert when the Audit Evidence obtained contradicts the Information obtained from management & TCWC.
 - 2) This skepticism attitude is required throughout the Audit.
 - 3) It helps in efficiency and effectiveness of Audit, at the same time keeps moral check on entity
 - 4) skepticism also ensures that MRL/WRL is not a substitute for obtaining SAAE to draw conclusions.



5) Skepticism also means giving Reasonable Assurance not absolute assurance because of the following Reasons

- a) Sample testing
- b) Inherent weakness of Internal control
- c) Limited / non Availability of time with cost Auditor
- d) Most of the Evidences are persuasive in nature rather than Conclusive.
- e) Some of the frauds & errors due to sample checking will definitely remain undetected & unchecked.

6) The other limitations are non availability of SAAE some times, incompetence of management & unqualified staff.



These 3 put together are required for Audit Quality

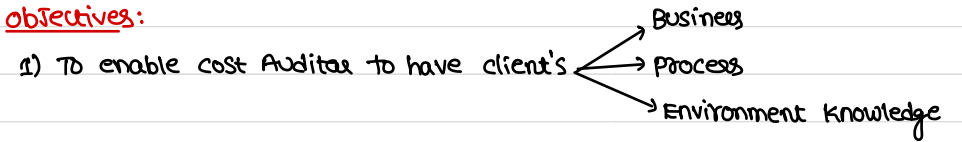
8) professional Skepticism also helps in Reducing the Risks of

- a) overlooking unusual transactions
- b) overgeneralization in drawing Conclusions
- c) using inappropriate assumptions



CAAS 104: Knowledge of Business, Its processes & Environment

a) Objectives:



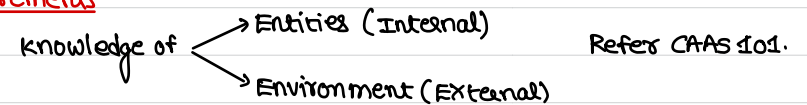
2) So as to ensure preparation of cost statements @ Regular time.

b) Scope:

- 1) Knowledge of entity, business, Environment, processes
- 2) for betterment of team & cost Auditor.

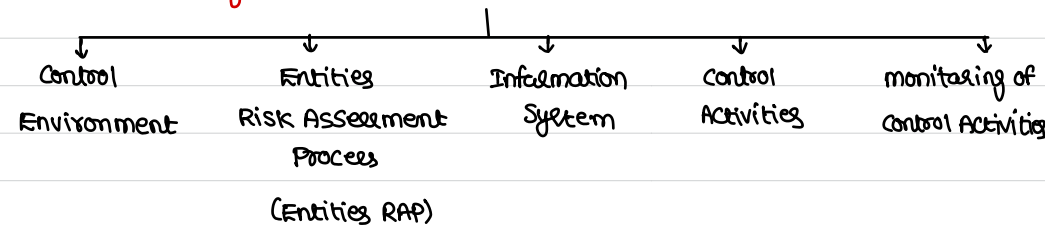
c) Definitions Same as CAAS 101

d) Requirements



e) Understanding Entities ICS

COSO - AICPA





⇒ Control Environment

Auditor shall see whether management has created culture of Ethics & honesty

⇒ Entities RAP

- a) Identifying Business Risk
- b) Assessing likelihood of it's occurrence
- c) understand it's significance of Risks
- d) Deciding Actions to address those Risks

⇒ Cost Information System

- a) There should be a quick & reliable & trust worthy Info System installed in entity
- b) Auditor should know how the operations are initiated, Recorded processed & Reported
- c) having knowledge of above is very much required

⇒ Control Activities

Auditor should understand Control Activities like physical controls, biometric controls, authorisations double approvals are existing (or) not.

⇒ Monitoring of Control Activities

- a) Ensure that entity Reviews it & Revises it at regular Intervals
- b) Like internal check system & Internal Audit system.



f) Role of Information Technology & Control systems:

Cost Auditor must evaluate and assess

- 1) IT architecture, systems and programmes used in the entity.
- 2) Also should know who has the access control.
- 3) should also know who can makes the changes in master data.
- 4) Must also know integrity of Information and security of data.

g) Documentation:

The Auditor must document the following

- 1) key elements of AKOCB.
- 2) key elements of Client's environment.
- 3) key elements of Client's ICS.
- 4) sources of Information.
- 5) Risk assessment performed.
- 6) ROMMs identified.
- 7) Responses to such identified risks.



Forensic Audit

1) Meaning:

→ It refers to analysis and review of financial records of company / a person to extract facts to be used in court.

→ Forensic Auditor must be expert in
}
Accounting
Auditing
 but most importantly they must use investigative mentality.

→ Being a forensic Auditor, one ends up attending court proceedings.

→ This type of Audit is different from financial Audit because here Auditor must gather conclusive evidence rather than persuasive evidences.

a) Definition:

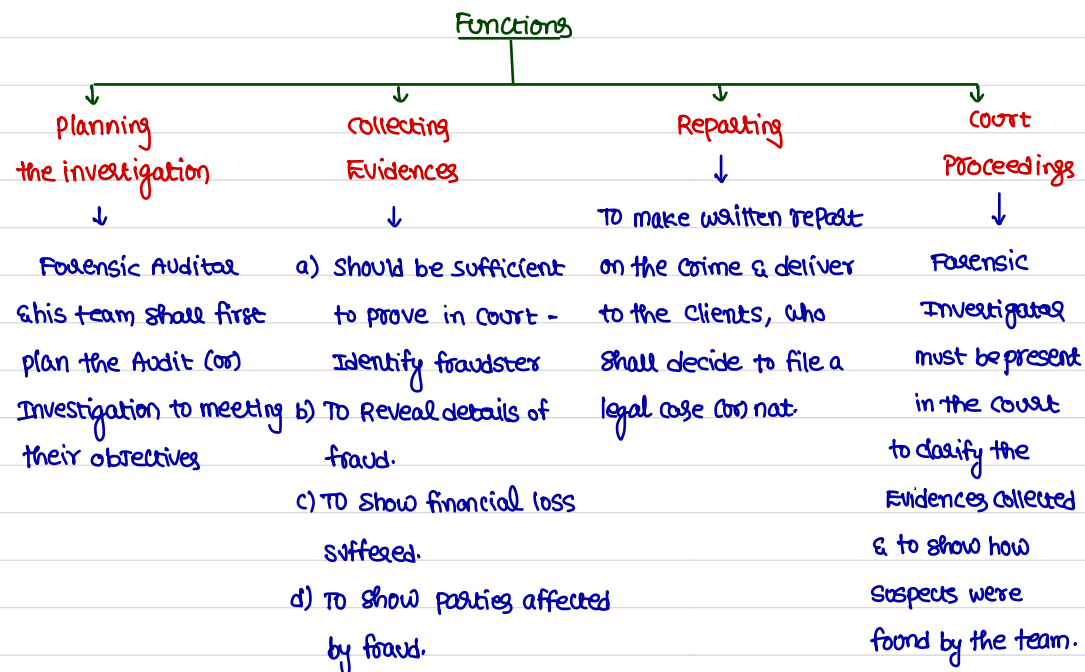
It is an Independent, Comprehensive & scientific approach towards reviewing financial statements to determine its accuracy, to see it is free from material misstatements & to collect evidences to be used in court of law.

3) Reasons for Forensic Audit:

- a) To expose (or) confirm illegal activities.
- b) To collect evidences to be used in court, so that trail can be completed.



4) Functions of forensic Audit



5) Need for forensic Audit:

Being a specialized field, forensic Auditors have emerged in the field of fraud, investigations, serious irregularities and red flags in the organisation.

There are few examples due to which forensic auditor must be hired

- a) where the business systems have been hacked.
- b) Issues identified by whistle blowers
- c) To understand material differences
- d) If there is suspicious of fraud (or) illegal activity
- e) sales are increasing but gross profit is decreasing



6) Forensic Audit procedures

- It is more of Investigation & collection of Evidences with attitude of professional skepticism.
- The procedures under Forensic Audit are known as Forensic Data Analysis and fraud Investigation techniques.
- But most commonly used tool known as "TRIANULE" (3 elements tool)

pressures / Incentives: circumstances which pushes, the person to commit a fraud.

Rationalisation / Attitude: when a person already knows that it's a dishonest Act, but still done it.

opportunity: when you know flaws & weaknesses in the system.

7) Investigation methodology

It's a Nine step method for facts findings.

- Accept the forensic audit engagement
- Evaluate suspicious (or) allegations
- conduct background checks by diligence
- complete preliminary stage of Investigation.
- Assume a prediction that there will be a litigation
- Now begin with external Investigation (collect conclusive Evidences)
- carry out Analysis on the Evidences collected
- prepare report on findings
- Attend court proceedings as an expert witness



8) Common Areas of fraud in forensic Audit:

- misappropriation of Assets
- Extortion
- corruption
- FFR - Fraudulent financial Reporting
FSF - Financial Statement fraud
- conflict of Interest

9) Business frauds (or) Corporate frauds & why do they happen?

meaning: Corporate frauds consists of illegal, unethical & deceptive actions committed by the company (or) by a person working in the company

⇒ It is carried out in such a planned & logical manner that an office full of forensic accountant months is required to detect such corporate fraud.

⇒ The victim are

- Consumers
- clients
- Creditors
- Investors
- other businesses

and ultimately Results into bankruptcy.



Why do they happen?



10) Fraud Risk management

The three main elements of fraud are

- (a) opportunities
- (b) Rationalizations
- (c) pressures

pressures

→ It can be any type of pressure on $\begin{matrix} \rightarrow \text{top} \\ \rightarrow \text{middle} \\ \rightarrow \text{lower} \end{matrix}$ levels of management which may result into fraud.

Example

- a) personal & financial problems
- b) personal additions such as $\begin{matrix} \rightarrow \text{gamblings} \\ \rightarrow \text{drugs} \end{matrix}$
- c) unrealistic deadlines & goals

opportunities

→ When one knows the weaknesses in ICS in terms of

- a) supervision & Review
- b) separation of duties
- c) management approval
- d) system controls.

Rationalizations

→ When one develops justification for his fraudulent acts.

Example

If you don't get raise/promotion, stealing the money from boss is justified.

Note: If the company wants to minimize the happening of frauds, one of the elements in triangle must be broken. Among all elements opportunities can be minimized by making effective ICS.



11) Red flags:

- a) The one who knows & should be aware of the red flags are Management & Employees
- b) Red flags means early warning signs & indicators that fraud risk is higher without any evidence of its occurrence.
- c) If one/two red flags are that, it can be ignored but if it happens offently (or) multiple times, it's better to place internal Audit Department.



- Life style changes.
- credit & personal debt problems.
- Behavioural changes like drugs, gambling, Alcohol.
- Refusal to take sick leave/ Vacation.
- Lack of segregation of duties in vulnerable Areas.

- management frequently overriding internal controls
- majority of decisions are influenced by Individual & small groups.
- Non documentation of policies & procedures
- Hiring non qualified staff for accounting department.
- decentralisation without adequate monitoring.
- more employee Tlo
- photo copies / missing documents



Note: If any dishonest, unethical, fraudulent act occurred & suspected by employee then he should not attempt to contact that suspected person because it may alert that suspected person, that investigations may take place.

12) Latest developments in SEBI Regulations (listing obligation & Disclosure requirements, 2015) LODR

a) The Amendment came on 8th october, 2020

b) The Amendment says the being a listed company, if any forensic Audit takes place, it shall be

first reported to RSE in following manner

- Intimation ✓ Facts of starting forensic Audit
 ✓ Name of Entity
 ✓ Reasons for the same.
- At End ✓ Final Forensic Audit Report
 ✓ comments of the management on the same.

Note: Forensic Audit Report shall not be furnished first to public which may leads to

- a) high level of anxiety
- b) steep fall in stock prices
- c) panic Among investee community
- Thats why it shall be 1st published to RSE.



13) Financial Forensics & Forensic Audit techniques:

Meaning

- Financial forensics means a combination of accounting & Investigative skills.
- They are the professionals who helps in preventing financial crimes & Recover the lost assets.
- Forensic professionals are very much in demand in following areas.

(i) Financial thefts: To uncover the Areas where customer, employee (or) Any other individual steal money from organisation.

(ii) Securities fraud: It is a basically a white collar crime where Some one presents false Information to investors.

(iii) Money laundering: It's a process of making money look legal but earned from illegal methods.

(iv) Corporate valuation disputes: where the companies capital & market valuation is oversized i.e no fair valuation is carried out.

(v) Tax Evasion: It occurs when a person avoids paying their taxes & hides his profit in shell corporations



14) Qualities of forensic Accountant

- Having a logical & skeptical mind
- Giving attention to every detail
- Having value towards Moral principles
- Inquisitiveness (Curiosity)
- Be spontaneous
- Having technical knowledge in accounting & it's impacts.

15) Forensic Accounting techniques

a) Reviewing public Documents & doing background checks

It is one of the easiest method to obtain public documents and doing background check on companies to see it's past dealings searching any legally available info on internet.

b) conducting Detailed Personal Interview:

In this technique, one should make the use of good combination of formal & informal communication which can transform unwilling person into a source of valuable information. It helps in looking at greater figure out \leftarrow magnitude of illegal Activity. culprit responsible.

c) Gathering Information from trust worthy sources

When a piece of information is gained from a confidential source, all the necessary precautions should be taken to hide the identity of that particular source. (Whistle Blower's policy)



d) Analysing Evidences obtained & financial statements

It helps in pointing out guilty party & also helps in understanding how secure the company is against financial scams.

e) Conducting surveillance

It may take physical & electronic shape/form by which one can monitor & track official emails & messages.

f) Going undercover

It should be the last option because even a small mistake while being an undercover can signal the offender that something is wrong & person might disappear.

It's better to leave this technique to professionals.



16) Ethical consideration & code of conduct in forensic Audit

There are various ethical issues in the business

a) Harassment & Discrimination at work place

It can take place in following different ways

- Age discrimination
- Disability discrimination
- Race / Religion / gender discrimination

b) Health & Safety at work place

various issues like

- Hazardous / harmful production activities
- Respiratory production
- Electrical wiring methods
- machine guarding.

c) Whistle blower and social media

Due to wide spread of social media, employees have become more alert and skeptical making misusage of online behavior which means blogging, face book posts etc have become mode of exploiting the unwanted opportunities.

d) Ethics in Accounting Practices

Refer why do corporates happens (different frauds)



17) Threats to Auditor's

a) Self Interest threats

It exists if the Auditor holds direct/Indirect financial interest with the client.

Example: Did not received Audit fees for 2022 Audit fees and client pressurizing to give positive report else 2023 audit fees will also not been paid.

b) Self- Review threat

It exists if Auditor has to review his own work done.

Example: In a year 2022, you were a director in company A in the year 2023 you got audit for same company.

c) Advocacy threat

It exists if Auditor is involved in promoting the client to an extent that his objectivity got compromised.

Example: Assisting the client in selling activities but at same working as an Auditor.

d) Familiarity threat

It exists if the Auditor is too personally close with the employees, officers (or) directors of the client.

Example: Auditor's wife being CEO of client's company.



c) Intimidation Threats

It exists if the Auditor is threatened by the management that he will be removed/replaced if does not compromise his objectivity.

Example: Client is unhappy with the report & threats to switch auditor next time.

18) Primary Challenges company Faces to implement Ethics Policy:

a) Resistance from employees

- Less adaptive to new technologies
- Weak corporate culture
- Not in favor of changes
- Does not want to come out of comfortable zone

b) Cost of training & implementation fees can be high

Sometimes, the cost incurred might be higher than the benefits derived due to which companies think such expenditure wasteful to spend.

c) Inability to determine Return on Investment (ROI) of ethics policy

Implementing the ethics policy does not give fruitful results immediately, it generates the return at the later stage but at the same time patience is something which is lacking.



19) Association of Certified Fraud Examiners (ACFE)

A) Standards on professional conduct (Qualities)

(i) Integrity & objectivity:

CFEs shall not sacrifice integrity to serve the client but at the same time they shall remain unbiased & impartial in discharging their duties.

(ii) Professional competence:

CFEs shall be competent & shall not accept the assignment where competence is lacking.

They shall keep on updating & upgrading their skills & competence.

(iii) Professional care:

CFEs shall be diligent, critically analytical and skeptical while discharging their responsibilities.

(iv) Understanding the client / Employer and communicating with them

CFEs while doing their work must have clear understanding of scope & limitations and if there are some changes in that it shall be communicated to client to better understanding and must communicate significant findings of fraud examination.

(v) Confidentiality

Refer professional ethics.



B) Standards on Examination

Fraud Examination

→ shall obtain conclusive evidences which should be complete, reliable, relevant.

→ shall be alert in terms of biasness of witness & tampering of evidences

Evidences collection

→ They shall obtain whatever data they can collect & carryout the data mining to get relevant info out of it.

→ their documentation shall vary from client to client.

C) Standards of Reporting

1) Report may be oral (or) written

a) Includes facts of witness & experts witness testimony.

3) No particular format / structure of reporting

4) shall not be misleading.

5) Must be based on SAAE.

6) Must have separate Para's of

a) opinion

b) conclusion

c) Recommendations

d) subject matter

e) principles followed

f) methodologies

g) Members area of knowledge

h) skills, experience, training / Education.



Note: No opinion shall be made on innocent / non-guilty party

20) Code of Ethics for CFES:

1. shall always demonstrate professionalism & diligence
2. shall not be involved in illegal (or) unethical conduct
3. Always maintain high levels of Integrity & objectivity
4. Must comply with orders of the court.
5. shall not disclose confidential information obtained
6. Always be skillful & competent.



ANTI MONEY LAUNDERING

A) Importance of understanding Anti money laundering:

1. money laundering often comes with an activities like smuggling
 - Illegal Arms sales
 - Insider trading
 - Bribery
 - Computer fraud schemes.

2. therefore, Anti money laundering is closely related to counter



3. AML Tactics are generally used by financial institutions for the following
 - compliances with Regulations
 - protection of their regulations
 - Avoidance of consent orders (Penalizing on non compliance)
 - Reduction of costs.

B) How money laundering works?



⇒ placement:

1. It means how and where illegal funds are placed.
2. It means putting small amount of money below the limits into bank accounts & credit cards and moving money into trusts (or) offshore companies using lawyers & accountants in their foreign bank accounts.



⇒ Layering:

1. It is a process of separating criminal funds from their source
2. It involves complex layers of financial transactions to hide origin & ownership.

⇒ Integration:

1. It refers to re-entry of laundered funds into the economy to make it appear normal money.
2. By Investing in Real estate & luxury assets

C) Various International Regulations & AML Standards

⇒ US: US Patriot Act, Bank Secrecy Act (BSA)

⇒ EUROPE: 4 AMLD - EU Fourth AML Directive

⇒ CANADA: PCMLTFA - proceeds of crime money - laundering & terrorist financing Act

⇒ Australia: Antimoney Laundering and Counter Terrorism Financing Act of 2006

FIU - Financial Intelligence Unit

STR - Suspicious Transaction Report

SAR - Suspicious Activity Report

FATF - Financial Action Task Force.



D) AML Requirements For financial Institutions

1. KYC

Verification of Identity & Legitimacy, in depth documentation for customers

2. Large Currency Transaction Reporting

It is a compliance in US that if a customer does make them threshold CTR in a single business day, it shall be reported.

3. Suspicious Activities Monitoring & Reporting

Making numerous cash deposits (or) withdrawals over several days to avoid the limits, makes it suspicious behaviour to be reported via SARs & STRs.

F) Technology & Anti money laundering

1. Now a days the FIs are making use of AI (Artificial Intelligence), data Analytics to detect unusual transactions.

2. It includes Next generation AML technologies to curb and effectively identify financial crimes.

⇒ following are the techniques

→ Suspicious Activity Monitoring

→ Intelligent Alert Prioritization

→ Alert/Case Enrichment

↳ to show investigator relevant images, maps, prior cases & SARs.



- Automated SAR filings
- Holistic Entity view (Network Analytics)
- Alert scoring
- Client Risk Rating
- Intelligent customer segmentation
- Peer Based Anomaly detection
- Rare-event detection
- Automated Manual processes.

4) PMLA, 2002

1. It is an Act to prevent Money laundering and confiscation of illegal obtained funds
2. offence under the PMLA covers most of the instances of converting black money into white money.
3. It is basically associated with coupling proceeds of crime & punishing those who are indulged, assisted & is a party to such proceeds of crime.
4. The offences under PMLA are defined under 3 parts i.e Part A, Part B, Part C of schedule.



H) Attachment of property under PMLA

1. If assets constitutes any proceeds of crime, it can be attached by Authorities.
2. Earlier it was difficult to confiscate the properties located outside India, but under the Amendment of finance Act, 2015 even foreign Assets can be attached.
3. But ensure that attachment should be equivalent to proceeds of crime.
4. The power of attachment in hands of director / deputy director who can attach property for maximum 180 days.
5. Directors must inform reasons of attachment to AAC (Adjudicating authority).
6. The person whose properties are attached can also present his defense & can challenge attachment order.

I) Arrest under PMLA

- 1) who can? → Director
Deputy director
Assistant director (or)
Any other officer authorised



2) Why to Arrest? → Guilty of offence punishable under PMLA & Record Reasons in writing.

3) After Arrest? → Inform the grounds of Arrest. Forward the copy of arrest to AA. Produce such Arrested person before special courts within 24 hours.

Note 1: No arrest warrant is required

Note 2: If aggrieved not satisfied with order of high court & can be moved supreme court.

4) Bail under PMLA? → Non-Bailable & Cognizable

It means Investigation can be started without any warrant & without any permission of court but anticipatory bail may be given.

J) Summon, Survey & Search

1. Under PMLA, the officers have power to enter into property/ premises and power of search & seizure (attachment)
2. Their powers are
 - a. Enter & search any building, any place, vessel, vehicle, aircraft
 - b. Break & open lock of any door, box, locker, safe, almirah.
 - c. Seize any records & properties, papers.
 - d. Placement of identification marks.



e. Make a Note (or) take inventory of such Records

f. Examine any person on oath.

K) Retention of Records under PMLA

1. 180 days
2. After which it shall be returned
3. But if AA permits, can be retained beyond 180 days.

L) Interconnected Transactions

If there is a presumption that there is an existence of interconnected transactions, then enter search & seizure power can also be applied on relatives & related parties.

Onus of Proof:

1. The burden on proof lies on the person who got arrested that he/she not involved and must give his declaration in his/her own handwriting with signatures to plead not guilty.
2. special court / Adjudicating Authority may consider it & proceed accordingly.
3. There is another way to get discharged i.e by disclosing his source of income, earnings, assets.



4. The person who is investigated must give truthful statements to

- Director
- Additional Director
- Joint Director
- Deputy Director
- Assistant Director.

5. A person who is called upon to make the statement later on cannot be accused of an offense.

M) Cross border implications

1. It covers PART C of schedule offences
2. mostly connected with evasion of taxes in tax heaven nations.
3. comes under ministry of external Affairs with the help of UN security council Resolution.

N) Internal standards on combating Money laundering and the financing terrorists & proliferation

AML/CFT → Anti money laundering / countering the finance of terrorism.

CDD → Customer due diligence

IN → Interpretive Note

PEP → politically exposed persons

RBA → Risk based approach

TCSP → Trust & company service provider.



Vienna Convention → The UN convention against illicit traffic in Narcotic Drugs & psychotropic substances.

O) Countering the finance of Terrorism

There are international AML organisations which are very much involved in countering the terrorist financing because as per the IMF reports, terrorist financing is the biggest reason of getting involved into laundering activities.

And at the same time, data protection relating to national security is also covered under CFT Rules.

P) Money laundering offence under Vienna Convention & Palermo Convention:

1. It includes various offences under on which very strict vigilance is always kept.

Example: Narcotics, psychotropic substances, Terrorist financing etc.

2. under these measures, the Authorities carry out following functions.

- a) Identify, trace & evaluate the property
- b) freezing & seizing to prevent any dealings.
- c) Take steps that will prevent/void the actions.
- d) carry out appropriate investigation.

3. There are countries which has criminalised terrorist financing & proliferation but still there are some nations which are not working in such direction completely.



Q) ways of doing terrorist financing & Proliferation

By Npos posing as legitimate entities.

direction of funds from legitimate purposes to terrorist financing.

R) Customer due diligence & Record Keeping

under CDD, following measures have taken by institutions

1. Identifying customer & checking his documentation for reliability purpose.
2. checking the nomination details exhaustively.
3. scrutinising the transactions & verifying the source of funds.
4. In case of any suspicion, effective measures can be taken by the institution to stop such laundering activities by their customers.

Record keeping:

1. To be preserved & maintained all the records of CDD for atleast 5 years after the relationship with institution ended. (after closing of account in bank).
2. It can be made any time available to domestic competent authority



S) politically Exposed persons (PEP)

In addition to CDD, following steps shall be taken in case of PEPs.

1. carryout appropriate Risk management assessment
2. obtain senior management approvals for such business relationships
3. Always monitor their source of wealth & source of funds
4. After carrying out all these initiatives, it shall be determined if it is a high Risk business relationship, it is to be reported.

T) Money (or) Value Transfer services & New Technology in AML

MVTS

1. various countries are providing MVTS in compliance with FATF Recommendations
2. It is about giving license (or) Registration for money transfer services but if it is legal (or) Natural person having a good record of monetary transactions, such license is not required.
3. At the same time New technologies are getting developed by the FIs to tackle unauthorized laundering activities & money transfers.



U) Reliance on 3rd party to Perform CDD

1. Some countries are permitting FIs to rely upon third parties to obtain CDD information
2. The F. Institutions should take adequate steps to ensure that 3rd party is reliable, regulated, supervised and monitored.
3. The Record keeping of 3rd party will also be maintained for atleast 5 years.

V) Reporting of suspicious transactions

1. If the FIs suspects any suspicious transactions, it shall be immediately reported to FIUs.
2. The directors/officers & employees of FIUs will be protected under law from any similar criminal liability for disclosing such information.
3. such Act is also known as Tripping-off.

W) Designated Non financial business & Professionals (DNFBPs)

It is being made mandatory for DNFBPs to keep CDD and Record keeping in the following situations.

1. If they are Real Estate agents
2. Involved in casino activities



3. Dealers in precious metals & precious Stones.
4. Lawyers, legal professionals & Accountants maintaining accounts of their clients.
5. NGOs, Trusts, Societies doing charity activities
6. Any other customer to whom they believe / to have been involved in laundering activities.

X) Transparency & Beneficial ownership of legal persons

1. Risk of misuse of legal persons for money laundering, terrorist financing etc.
2. therefore. countries should ensure that information on the legal persons can only accessed by Authorized authorities & shall not made available to any authority which is neither authorised nor competent.

Y) Powers & Responsibilities of Competent Authorities to ensure

1. FIs of the country must be regulated & supervised to ensure effective implementation of FATF Recommendations
2. They should be licensed & Registered
3. They should Regularly monitored whether they are following AML Requirements (or) not



4. The supervisors of FIs should be given adequate power to conduct inspection.

5. They should have power to impose disciplinary action (or) suspend FIS license.

2) Regulations & Supervisions of DNFBPs

1. They should also be under supervision & Regulation of competent authorities like

- operational casinos must be licensed
- Real estate agents must be registered
- professionals & accountants must have registered membership Numbers
- NCIOS must also be registered

2. The supervisors must have power to impose action (or) cancel their license if anything found suspicious.

(* Operational & Law enforcement

A) Financial Intelligence Unit (FIU)

1. They serve as a National center for Receipt of STRs, SARs and other Info relating to ML & Terrorist financing.
2. Their responsibility is to counter such offences, trace it, initiate actions to freeze & seize the properties.
3. While prosecuting & bringing actions, they should have sufficient



evidences to bring action on it.

4. In addition they should ensure the protection of legal & natural persons whose accounts are being misused.

B) Cash courses:

1. Detection of physical cross border transportation of currency, so suspected transactions of proceeds of crime can be avoided.
2. If it is relating to ML & T financing, it shall be confiscated.

(* International cooperation:

Countries should become the members of any of the following conventions.

- Vienna convention, 1988
- The Palermo convention, 2000
- United Nations convention against corruption, 2003
- Terrorist financing convention, 1999
- Council of Europe convention on cybercrime, 2001
- The Inter-American convention against terrorism, 2002
- Europe convention on laundering, search, seizure & confiscation of proceeds from crime & terrorist financing, 2005.

(* Mutual Legal Assistance:

1. Countries should constructively & effectively provide possible range of mutual assistance regarding
 - a. money laundering
 - b. Terrorist financing investigation
 - c. prosecutions



d. Related Proceedings.

2. They should not refuse while share the info about these activities.
3. They should not prohibit such mutual legal assistance agreements.
4. After getting information, there should be timely execution & prioritization.
5. They should maintain confidentiality of mutual legal assistance and if they cannot maintain it, they should immediately inform the another country.
6. It is also known as Helping in countering dual criminality nation Activities.

→ Freezing, Confiscation & Extradition

Under mutual legal assistance agreements, the nations must have right to freeze, confiscate the properties laundered and at the same time should also have arrangements of sharing of confiscated assets.

Extradition means legalizing the proceedings of criminal of one country in another and do not provide safe heavens for such individuals who are charged with terrorist financing.

Each country should come forward to enhance mutual legal assistance arrangements to make it more effective.

(*) PMLA Rules in India

Indian laws → PMLA, 2002

PML maintenance of Records Rules, 2005

By SEBI → Guidelines on AML & CFT

By IRDA → Guidelines on AML programme for insurers.

(*) Scheduled offences

Indian penal code, 1860

Narcotic Drugs & Psychotropic substances Act, 1985

Explosive substance Act, 1908

Unlawful Activities prevention Act, 1967

Arms Act, 1959

Wildfire protection Act, 1972

Prevention of Corruption Act, 1988

The Companies Act, 2013

Customs Act, 1962

(*) Punishment(*) Appropriate Authority

1. Enforcement Directorate of Revenue Department, ministry of finance
2. FW-IND under Department of Revenue, ministry of finance.



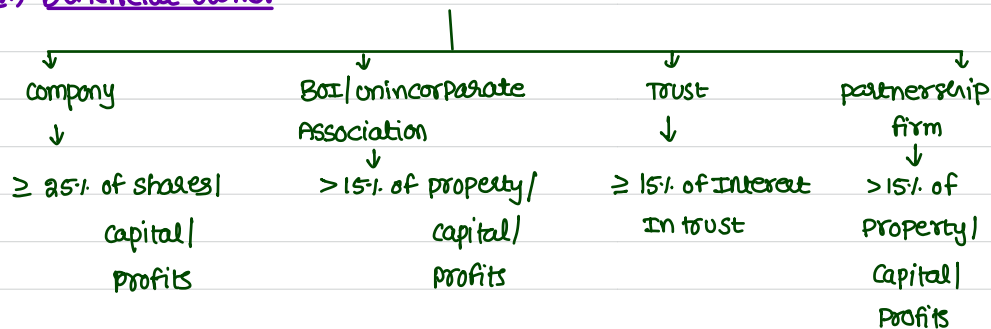
(*) persons carrying on a designated business / profession

1. persons involved in casino games
2. Real estate agent having TLO > 20,00,000
3. Dealers in precious metals & stones in cash transactions of $\geq 10,00,000$ in single/multiple.
4. Any other Notified by C.Y.

(*) Mandatory KYC

- specially on transactions $\geq ₹ 50,000$ in domestic operations
- But in case of international money transfer, always compulsary irrespective of limits.

(*) Beneficial owner



(*) Nature of Records and preservation

- | | |
|---|---|
| <p>↓</p> <ul style="list-style-type: none"> Nature of transaction Amount of transaction currency in which it was denominated date of transaction parties to transaction. | <p>↓</p> <ul style="list-style-type: none"> at least 5 years after closure of A/c
or
Business Relationship |
|---|---|
- } OWILL



(*) Type of Information to be furnished & to whom & when

To whom → Director of FIU-IND

<u>Type of transaction</u>	<u>Due date</u>
1. All cash transactions $\geq 1,00,000$ in foreign currency	15 th day succeeding month
2. series of transactions $\leq 1,00,000$ but integrally connected with each other (monthly)	15 th day succeeding month
3. All cash transactions which are forged using counterfeit currency Notes / security / document	15 th day succeeding month
4. Receipts of NCO fee ≥ 1 lakh in foreign currency	15 th day succeeding month
5. wire transaction of cross borders ≥ 5 lakh in foreign currency	15 th day succeeding month
6. purchase & sale of immovable property ≥ 5 lakhs in foreign currency	15 th day of month succeeding the quarter
7. Any suspicious transaction to be reported	Not later than 7 working days.



(*) Format in which Info is to be reported

1. By Registering on <https://finnet.gov.in>
2. By Designated Director/principal whom officer of Reporting authorities

penalties on Reporting Authorities

1. Warning in writing (or)
2. Warn them to comply with instructions (or)
3. send the required Reports
4. Min 10,000 - Max 1,00,000 fine each failure.

(*) Appealing Authority

- If Reporting Authority not satisfied with FIU-IND, it may Appeal to Appellate Tribunal within 45 days.
- If not satisfied with Appellate Tribunal order, may Appeal to High Court within 60 days (+ 60 days with sufficient Reason)
- Central govt has designated some special courts in consultation with Chief Justice of High Court for money laundering.



COST AUDIT PROGRAMME

A) pre Requisites of Cost Audit Assignment

1. Requirement of Audit Personnel for Assignment:

- a. Experienced & Trained Audit Staff will be engaged considering the nature of the industry
- b. For this purpose, one should acquire the knowledge of clients business & Industry for which there are two approaches
 - By studying Annual Reports of atleast 5 years
 - By Study of Industry on your own
- c. There has to be a proper DRS on engagement in team in the following ways.
 - Did they do physical Inspection (or) not?
 - Did they check cost Records (or) not?
 - Are they aware about budgets, Plans & Strategies?
 - Did they study CAS (or) not?

2. Documentation:

Auditor shall document everything such as

- a. His Audit procedures
- b. Evidences collected
- c. Techniques adopted
- d. Accounting data collected
- e. His statistical data
- f. Queries raised
- g. Checklist of verification steps.



h. All other important verification steps.

NOTE: Auditor is under an obligation to keep safe custody to maintain confidentiality and to preserve it for prescribed time period (10yrs)

3. Quality control:

Quality control can be ensured by following ways

- a. Having DRS on the Audit team
- b. Monitoring their progress of work
- c. Giving them enough liberty to insert/Remove relevant/irrelevant things
- d. Removing differences Among team members
- e. Review, update & Revise - QCP (Quality control policies & procedures) at regular intervals
- f. Get it reviewed by engagement quality control Reviewer (SA 820)

B) Cost Audit programme in manufacturing sector

[Examine that]

1. Audit of Production

- a. There shall be proper inventory balancing system
- b. Compare current year production with previous year to find out variances
- c. Proper carry forward of current year closing stock to next year's opening stock.
- d. Capacity utilisation for the last 5 years must be checked.
- e. Pin point if there is any abnormal under utilisation.
- f. Check if there is any addition to production capacity, but production has not increased.
- g. Obtain MIS report (Mgt Info system Reports).



2. Audit of Raw material cost

- a. Proper quantitative inventory balancing system should be present.
- b. Examine Input-output ratios for at least last 3 years.
- c. Compare CY consumption with benchmark & see if any differences.
- d. Examine the content of normal loss during consumption of RM
- e. See if any Residue (scrap) of one RM used for any other process.
- f. Verify if any R&D department installed (or) not.
- g. Check which method of issue of RM is used (FIFO/LIFO)
- h. Examine the Cost Centers of RM.
- i. Verify if any in house RM produced and check its valuation
- j. Ensure that scrap RM should be stored separate from main RM.
- k. Verify if innovations/inventive alternate RM is found in market/not.
- l. Examine its landed cost, if any.
- m. Verify if there is any over usage of RM.
- n. Examine the rates of key RM for the last 4-5 years.

3. Audit of Key Raw material Inventory

- a. Obtain confirmation about current stock position.
- b. Verify its consumption pattern.
- c. Identify the cases of unnecessary increase in volume/stocking - Results into blocking of working capital.

4. Audit of electricity cost

- a. Check if there is any increase in consumption due to increase in output but in otherwise situation obtain explanation from management.
- b. Verify trend of electricity cost for last 5 years.



c. check whether proper electricity meters are installed & they are regularly checked for any manipulation.

d. Company must have more than one source of electricity to ensure that it is obtained from a cheaper source.

5. Audit of cost of Electricity generated by D/G (Diesel generating)

Set

a. Monthly report of D/G set prepared by officer in charge should be kept as a basis for its cost.

b. Monthly report must contain

→ Number of hours it is operated

→ Quantity of diesel used

→ No. of electricity units generated.

c. proper meters should be installed and regularly checked.

d. Ratio of units of electricity produced to diesel used should be prepared for last 5 years

e. Ensure employee cost is booked with D/G cost.

f. verify its repairs & maintenance, depreciation & insurance.

g. Examine MIS reports.

6. Audit of Demineralised Water cost

a. Monthly report shall be prepared for its cost

b. Report must contain

→ Quantity of filter water used

→ chemicals used

→ demineralised water generated.

→ demineralised water allocated

→ Electricity units used.



c. proper meters must be installed & shall verify

d. Employee cost shall also be added to DM water cost.

e. check repairs & maintenance of DM plant, depreciation & insurance.

f. cost sheet of DM water should show actual & correct cost of filtered water

g. check MIS reports.

7. Audit of Steam cost:

a. prepare monthly report for basis of the cost.

b. monthly report includes

→ Running hours of boiler

→ steam generated.

→ DM water consumed

→ Power consumed

→ Fuel consumed

→ Diesel, coal, furnace oil consumed

→ line losses

→ steam consumed by manufacturing

c. following Ratios for last 5 years must be checked

→ Qty of steam generated per unit of fuel.

→ Qty of steam consumed to total steam generated

→ Qty of line losses to total steam generated.

→ Qty of steam per metric ton of finished product

→ Cost of steam for MT of finished product.

d. proper meters should be installed & verified.

e. Examine its repairs & maintenance, depreciation & insurance

f. Examine the reasons for line losses (i.e. leakages in pipe lines)



g. Cost Auditor should go through stream cost for last 5 years.

8. Audit of Stores & Stocks

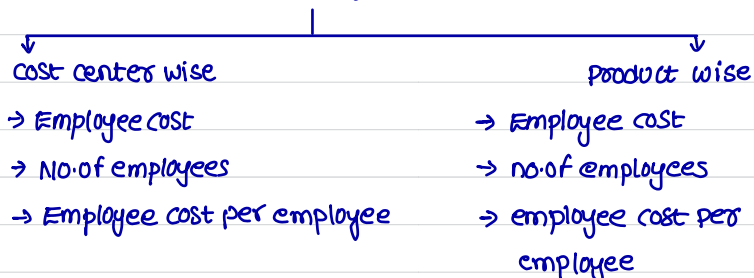
- Auditor shall obtain year wise, cost center wise expenditure on stores & stocks.
- If there is substantial increase in such expenses, shall be enquired from head of such cost center.
- It will advantage to management, if they carryout cost control and cost reduction to stores & spares.
- Examine the cases of duplication of such expenses.
- Bringing it to the notice of management if there is lower capacity utilisation
- Auditor shall go through expense control chart and Reconcile it with trail balance.

9. Audit of Repairs & maintenance

↳ same as Audit of stores & stocks.

10. Audit of Employee Cost

a. Auditor shall verify following information for previous 5 years



b. Shall also verify product wise employee cost per MT of product for last 5 years.



- If there is increase in employee cost due to lower capacity utilization, bring it to notice of management
- Ensure that list of employees regularly updated in employee Payroll cost center.
- If employees are shifted from one cost center to other, ensure that such transfers are timely and correctly reflected.
- If there is increase in employees for particular cost center/ product, reasons for such obtained from management.

11. Audit of insurance cost

↳ same as stores & spares subject to a,b,c,d

12. Audit of depreciation cost

↳ same as stores & spares subject to a,b,c,d.

Note: If an asset has reduced to substantially low value / small scrap value it shall be brought down to "zero"

13. Audit of Administration overheads

a. Examine the last 4 years trend of administrative expenses

such as

- | | |
|------------------------|-------------|
| → stationary | → donations |
| → Travelling | → Penalties |
| → uniform | |
| → security | |
| → professional charges | |
| → Telephone | |
| → Audit fees | |



- b. Examine administrative expenditures per MT year wise & product wise.
- c. must check it's allocation & apportionment once a period of time.
- d. If there is any abnormal increase, bring it to the Notice of management.
- e. Donations & penalties shall not be considered.
- f. If there is substantial increase/decrease in per MT expenses, ask reasons.
- g. The above Rule applies for stationary expenditures, travelling expenditures and professional charges.

14. Audit of selling & distribution overhead

- a. Auditor shall check, Trend of selling & distribution expenses year wise in terms of stationary, travelling, commission, discount, advertisement, recovery charges, hire charges, telephone etc.
- b. Also shall check S&D expenses per MT, year wise & product wise
[c ↔ f] same as previous.
- g. The above Rule applies for travelling Expenditures & professional expenditure.

15. Audit of packing material cost

- a. Auditor shall check whether they are negotiated terms for high value consumption packing materials.
- b. Entity must have taken steps for reducing handling cost & wastages.



- c. If the finished product is sold in the loose form, ensure that packing cost must be less.
- d. There should be proper Quantitative Inventory balancing System.
- e. Verify method of charging packing material cost to produce (i.e. FIFO, LIFO)
- f. Ensure that company prepares Expenses control Chart & Reconciles it with trail balance
- g. Verify that packing material is produced in house & examine it's cost centers.
- h. Detention charges & demurrage charges shall not be form part of packing material
- i. verify whether packing material is returnable in nature
- j. Ensure that there is physical verification of inventory at Regular intervals.
- k. Check the trend of consumption of packing material per MT of finished product for last 5 years.

16. Audit of sale value

- a. Examine the product wise sale value & their percentage sale value on total sales value for last 5 years.
- b. Verify product wise sales quantity per MT for last 5 years.
- c. Examine product wise sale realisation per MT for previous 5 years
- d. Examine product wise realisation and variable cost of key products.
- e. Verify inventory balancing of each of finished product.
- f. Verify product wise capacity utilisation for last 5 years
- g. Check there is a proper balance between opening stock,



Production, Sales, closing Stock In order to ensure no unnecessary locking of working capital in terms of closing stocks.

c) Illustrative checklist of Information to be obtained

one time information

- manufacturing flowchart
- organisation chart
- Blue print of machine area & locations
- List of cost centers
- deployment of workers
- product details.
- Standard RM composition
- chemicals to be used
- details of packing
- pollution control measures
- product exports
- finance costs
- Cost Accounting system & policies
- Budgetary control system
- System of capturing expenses

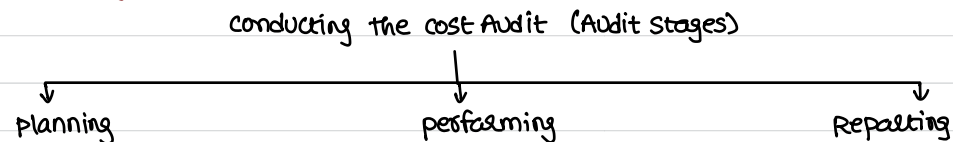
Data required for the Audit period

- Balance sheet
- Profit & loss
- Inventory details
- RM used
- Packing material used
- Quantitative details of individual product
- Stage of completion
- self produced utilities
- utilities consumed by departments
- cost center wise expense Analysis
- cost center wise machine usage
- Domestic & Export sale
- OH allocation & absorption
- subsidiary Returns of GST



COST AUDIT DOCUMENTATION

A) Audit stages:



1. planning stage:

- a. It is an initial consideration of cost Audit
- b. Where the Auditor acquires knowledge of clients business, strategise his resources & decide his RAPS & FAPS, assess Risk involved and deciding techniques to bringing it to lower acceptable level.
- c. This stage is highly important to carry out an Audit sufficiently & effectively but most importantly on timely basis.

2. performance stage (Execution stage)

- a. It involves testing of ICS.
 - Identifying weakness
 - obtaining evidences about material consumption, absorption, cost allocation etc
- b. In case of Testing of controls, gives poor results, then Auditor shall focus more on Substantive Tests.
- c. Substantive tests: means detailed testing of cost statements ie testing of balances (TOB) & testing of transactions (TOT)



3. Reporting stage:

- a. It involves drawing conclusions
 ↗ Positive
(or)
↘ Negative
 on the basis of Audit Evidences obtained.
- b. finally Expressing an opinion on the basis of conclusions.
- c. opinions shall be drawn in the form of written report.

B) Audit process & practical steps of Audit process

1) Audit Process:

Step 1: Define your objective & management outlook

Cost Auditor must know for what purpose he has been hired for Statutory objective of his Audit which is as follows.

- a) cost Reduction or optimization
- b) checking operational efficiency of a particular unit/utility
- c) Identifying profit making/loss making products
- d) Suggesting product expansion, market expansion, diversification strategies
- e) overall business strategies review.

Step 2: preconditions before accepting appointment

1. Auditor shall understand his
 - a) scope, role, responsibility, objective
 - b) AFRF - Applicable Financial Reporting Framework
 - c) No. of Cost Auditors appointed
 - d) deadlines
 - e) period of Audit
- a. Auditor must send an AE letter to make the management understand his following T&C.



- a) → cost Records
 - cost Accounting policies
 - cost Statements, Cost principles etc
- } Their performance, Preparation & Consideration is management Responsibility.

- b) management must allow cost Auditor - unrestricted access on
 - BOA
 - Records
 - Vouchers
 - People of the Co
 - KMP
 - Departments
 - If required additional info also. WRL shall always be ready to make auditor available with WRL.

- c) Finally Auditor shall decide his fees, repayment schedule & gets appointment letter.

Step 3: AKOCB

Knowing clients

Internal Environment

- company
- Nature of business
- size
- locations
- management & ownership structure
- products & services
- Joint & by products
- Related parties

External Environment

- customers
- suppliers
- Industry
- Regulated framework
- Demand & supply
- Related party transactions
- previous Auditor Report



- Sales pricing policies
- IT dependence
- KMPS
- Inventory & Storage details
- Controls

Note: The above 3 stages are known as → preliminary Engagement activities.

Step 4: Planning

1. It includes

- a. Timing & duration of Audit
- b. Engagement team
- c. Availability of Audit Engagement Partner
- d. Overall planning & Strategy in written form
- e. materiality level (What is important control?)
- f. Sampling levels (sample size & sample design)
- g. Audit procedures
 - TOC
 - TOP
 - Substantive Tests
 - Analytical Tests
 - Trend Analysis
 - Inspection
 - observation etc

2. After planning, discuss the plan with client to such an extent that it shall not reduce effectiveness of Audit.

3. Discuss that Auditor may need assistance of employees, KMPS & Internal Auditors.



4. Ensure that everything which is planned & strategized shall be documented.

Step 5: Execution

↳ Refer performance/Execution Stage in previous pages

Step 6: Audit Documentation It includes documentation of

1. → planning, strategy, program
→ changes made within them
→ Reasons for such changes
2. Working papers & Evidences
3. Discussions & observations made.
4. Procedures & techniques performed
5. final Audit report
6. preserved for
 - 10 years - PCMA
 - 7 years - PCA



MANAGEMENT AUDIT

A) Definition

- It is an Independent Review & Analysis
- Assessment of competencies & capabilities of co's management
- To Evaluate the management team effectiveness
- To maintain Interest of all Share holders.

NOTE: The main / core objective is to improvise efficiency & profitability

1. management Audit is beyond conventional audit. It's all about detection and diagnosis of problems, giving suggestions to avoid and solve the problem.

2. It is generally adopted before mergers, restructuring, bankruptcies & succession planning.

B) Objectives

1. setting up appropriate decision making.
2. Revealing defects & irregularities.
3. effective discharge of duties & responsibilities.
4. finding out process gaps and strengthening of controls.
5. Effective implementation of plans.



c) Nature & Scope

It covers

1. organisation structure.
2. checking coordination Among departments.
3. suggesting good Risk management governance.
4. Stakeholders management
5. protects evaluation.

D) Qualities of a management Auditor (General Qualities)

1. Having good knowledge and experience of All managerial functions.

2. Knowledge in
 → financials
 → costing
 → Analytical techniques

3. Having knowledge of
 → Economic &
 → Business laws.

4. Knowledge of
 - Budgets
 - Rules
 - Regulations
 - Objectives } of the entity

5. understanding, the Reasons behind the lack of coordination among departments.

6. Should be a
 → problem solver
 → solution giver & having
 → practical & participative approach.



E) Need & Advantages

Need: Neither a statutory Audit nor any specific qualification Audit (Not a mandatory Audit)

- Advantages:
1. Helps management in planning their policies objectively.
 2. Helps in achieving objectives of management.
 3. Helps in identifying loopholes & process gaps.
 4. Helps in strategising resources & improves planning.

F) management Audit programme (MAP)

Must contain

1. Study of organisational structure
2. Study of decision making & line command.
3. Discuss with top management, their plans & objectives.
4. Understand current policies of entity.
5. Check post Audit evaluation by the management
6. Get ready with Recommendations for improvements.
7. Understand & study ICS.

Areas to be covered in his report

← Identification of weakness & Recommendations for improvisations.

→ How stakeholder management can be made stronger suggestions.



G) Functions of management Audit

1. There are 2 school of thought on management Audit.
 - where one thinks that it should be inherited in the business
 - where as another school of thought thinks that is not at all required as it serves no material purpose.
2. management Audit has various favourable objectives due to which it is getting popular in corporate world now-a-days.
 - a) It helps in goal setting process.
 - b) It helps you in setting benchmarking with the best players in the market.
 - c) It helps in upholding companies reputation.
 - d) It helps in optimum utilisation of resources
 - e) Acts as a push for future performance
 - f) Helps in restructuring the organisation
 - g) Identification of weak points and managerial inefficiencies.
 - h) Helps in identifying plans & budget deviations to improve it.

Note: Highly crucial for financial department & function of the company.

H) specific qualities of management Auditor

1. understanding the problems & depth of it.
2. general understanding of organisation & it's processes.
3. knowledge of laws, compliance, legal aspects.
4. Background knowledge & subject matter expertise.
5. Focused, dynamic, tactful, pleasing, perseverance.



⇒ Management Auditor must have knowledge on following aspects

1. Code of ethics and policy framework of the co. (manuals)
2. Knowledge of decision making process.
3. Knowledge of flow of information from one department to other.
4. Should be capable of doing performance evaluation
5. Should have the knowledge of tax planning & budgeting
6. Should ensure that both internal & external communication is effective in organisation.
7. Must be a guiding factor & should be capable of doing harmonization of various functions.

Note: The major reasons for ineffective and not profit making organisation are

1. Fluctuations in workload.
2. Poor Communication channels
3. Bottle necks.
4. Low morale
5. Poor coordination
6. Lack of motivation among employees.

I) management Audit checklist (MAC)

Speciman | Format of management Audit

following Areas to be covered (common check list):

1) Administration

- a) Roles & responsibilities
- b) Are members aware of it?
- c) Is hierarchy in place?
- d) Are there any red flags & were they resolved?
- e) Do they have backup facility?



2) Finance:

- a) Budgetary process
- b) Approval mechanism
- c) cashflow statements
- d) Double Authorisations for monetary transactions
- e) Annual operating Budgets.
- f) Regular Review of budgets.

3) Insurance:

- a) Companies Assets are properly secured (or) not
- b) loss of profit, earthquake, theft etc are covered (or) not
- c) KMP's Insurance, public liability insurance
- d) contingency insurance
- e) premiums paid on time
- f) claims made & settled.

4) Policy:

- a) Rules & Regulations framed (or) not
- b) Regularly updated and Reviewed or not
- c) Policies relating to

- harassment	- coaching ethics
- Drugs	- child protection
- Alcohol	- Disabilities

 included (or) not.

5) planning:

- a) must be action oriented plans.
- b) whether Risk management plans, operational plans & marketing plans are in place (or) not?
- c) Do we have adequate resources for these plans?



- d) Review of plans regularly
- e) Emergency Evaluation Plan.

6) Personnel management (HR)

- a) HR Policy in place cor nat
- b) Do they follow code of ethics cor nat
- c) Do the members share responsibilities equally
- d) Placement box of suggestion, feedback & complaint box

7) Contracts

- a) Legal aspects of contract
- b) Financial impact Analysis of contracts
- c) If there is any breach (it can be lease, employment, membership, sponsorship).
- d) Are employees aware of it?

8) HAZARD Identification & Control

- a) Is entity prone to hazardous manufacturing process
- b) Are there any health & safety inspections taken on buildings, equipments, ground, parking
- c) Do they have safety, health & welfare measures
- d) Are they running as per govt rules
- e) Are their safety checks at regular intervals
- f) Is there any reporting of injuries, accidents & incidents?



9) Event management

- a) Are the Risks and mitigation planned for each and every Event cor nat?
- b) Are the Risks identified?
- c) What steps taken to reduce it?
- d) Do we have first aid personnel on site?
- e) Do we have contingency plans in documented form
- f) If there any manager in charge for an event?
- g) Are there Any budgets for events?
- h) Is there Any Code of behaviour for events?
- i) Are they aware of code of behaviour?

10) Legislation & Industry standards

Is the company is in compliance with corporate governance which means Auditor shall check that entity is

- a) Fair in it's dealings
- b) Accountable for it's actions
- c) Integrity in nature
- d) Reliable & trustworthy
- e) Transparent in providing information
- f) Ethically Behaved
- g) Lawful in nature

J) Steps of management Audit

- a) understand your objective and scope of Audit
- b) collect the data in relation to scope & Purpose and to be documented.
- c) Discuss about gaps, lapses with management, try to give recommendations if any
- d) Compare actual results with standard/targeted Results to find out



- whether targets are too difficult (or)
- Is it employees failure to achieve targets
- e) verify what steps have been taken by the management to improve the same, it can be
 - proper planning
 - Technology operation
 - Improvement in controls
- f) Report the findings & make Recommendation.

k) Techniques for identifying problems:

a) Identification of weakness by survey in controls

Carryout the surveys on functions & procedures, qualities & quantities to identify whether the responsible officers are using (or) abusing their power.

b) Making use of MIS reports of various functional Areas

Also known as Internal Reports prepared by management itself by Auditor comes to about progress and status & gets valuable info.

c) Using Internal Auditors Report

It's quality & In-depth report made by a professionals, becomes a valuable source of information on problematic Areas.

d) Physical Inspection

Here Auditor himself checks existence, ownership, valuation, Idleness, losses, mishandling by making Review of their operations.



e) Testing of Transactions

- selecting an operation / activity on test basis
- Doing in depth examination Right from starting point till it's ending point
- To identify weakness in operations

f) Discussions with officials & employees

- It's a source of valuable Information, better clarity and constructive enquiry.
- The source of Information may not be productive if it is under status of fear.

L) Testing procedures & practices

A management Auditor before doing in-depth examination must carryout some preliminary Review on management controls which includes following areas

- a) process flow understanding.
- b) Are policies complied with charter & authority of co.
- c) Whether Auditing through (or) Around the computer is required
- d) whether management controls are properly placed (or) not
- e) whether policies & procedures are running as per toplevel mangmt desires.

There can be so many factors / problems for which management Audit is required, it can be

- a) unauthorised use goods & services
- b) Lack of capabilities of ee's.
- c) Lack of clarity of procedures Among ee's
- d) failure to accept responsibilities.



- e) TOO tight / TOO loose (cumbersome) ICS
- f) Duplication of work & effort
- g) Improper use of funds
- h) Ineffective utilization of Resources.

M) Techniques of management Audit

1) Accounting and Economic techniques

- a) Break Even Analysis
- b) Budgetary control
- c) Standard & marginal control
- d) Activity based costing
- e) cost benefit Analysis

2) Scientific techniques

- a) linear programming
- b) Transportation & Assignment Theory
- c) mathematical programming
- d) Computer model
- e) Network Analysis.

3) Statistical Techniques

- a) Activity Sampling
- b) Monte Carlo simulation (Random selection)
- c) Exponential smoothing (prediction method)
- d) Inter firm comparison



4) Personnel techniques

- a) Interview
- b) Attitude survey
- c) Profitability & Productivity measurements
- d) Ergonomic (Man-machine relationship)
- e) Training methods.

5) General Techniques

- a) Brain storming
- b) Transfer pricing
- c) Management by exception
- d) Corporate planning
- e) Information Theory

N) Management Audit Evidence

a) Unlike financial Audit, there will be no fixed evidences in case of management Audit.

b) It may take many steps / forms like

- oral Evidences
- visual Evidences
- Documentary Evidences
- Internal
- External

c) In management Audit, more than evidences he/she should rely more on their experience & knowledge.



d) There are various techniques of collecting management

Audit evidences like

- Test examinations
- Physical inspections
- Internal Audit Report
- Minutes
- Personal observations

e) In management Audit, there is no restriction on evidence collection

Q) Management Audit programme (MAP)

↳ Refer previous topic

P) Management Auditor's Qualifications

↳ Refer Qualities of management Auditor

Q) Management Audit Team

1. Some times handling large organisations/doing several Audits may demand building up of competent team of people having required qualifications, skills and will to work with management Auditor.
2. As management Audit is concerned with multidisciplinary approach, which means a competent management Audit team should be represented by seniors having good exposure in different ranging from production to marketing.
3. All shall work towards attaining same objectives.



R) Audit checklist

(Areas to be reviewed in every department)

1. Planning
2. Organising
3. Staffing
4. Coordinating
5. Communicating
6. Directing
7. Motivating
8. Innovating
9. Controlling

Note: There can be weakness in any of the above areas which may result into overlapping and following weaknesses

1. Directorial weakness
2. Management weakness
3. System weakness
4. Financial weakness
5. Functional weakness
6. Industrial Relations weakness
7. Security lapses
8. Social responsibility weakness.



S) Management Audit Report

[characteristics & contents]

1. Characteristics

- a. Relevant
- b. Less technical in nature
- c. Comprehensive (detailed)
- d. precise & to the point
- e. timeliness
- f. motivating
- g. Reliable (appropriate) & Reasonable
- h. Evidential to support outcome.

2. Contents

It includes

- a. Deviations
- b. unauthorised activities
- c. Value destruction activities
- d. Bench marking
- e. Industry Norms
- f. good practices
- g. Top level management is always interested in
 - Facts
 - persons responsible
 - deviations
 - effect of such deviation on financial & physical status.
- h. other relevant contents
 - Comparisons
 - departmental weaknesses



→ Reputational risks

→ system & control lapses

- Note:
1. It can change the management mind set & make the management to come alive again
 2. management Audit report is not about only discussing problems and solutions, rather it's a time bound recommendation to improvise the governance and to have a progressive management.



MANAGEMENT AUDIT IN DIFFERENT FUNCTIONS

Corporate objectives & cultures

A) Corporate objective vs goal

1. There is a difference between objectives and goals, where as goals are general in nature, future oriented, broad in nature and on the other hand objectives are specific, present and time frame oriented.
2. What we plan for our business in future is goal but actual steps taken to achieve are objectives.
3. Example: A CEO of company is making a statement "we want to become largest makes of bicycles in the world" → goal

where as the same CEO making a statement that "we will increase our sales of bicycles by 25% each quarter" → objective

4. following are the every business objectives:
 - a. profit maximisation vs wealth maximisation
 - b. survival & stability of business
 - c. growth & efficiency in the business in terms of T/O, Profits, customer loyalty, Employee satisfaction etc.
5. But some times one objective may clash with another
EX: Corporate governance vs Profitability
6. Every business must have a good corporate culture

It means having values, beliefs & traits right from the bottom to top of management



7. There can be different organisational environment but every entity must ensure that there should be efficiency, effectiveness & appropriate emotions existing.

8. There can be different type of organisation cultures & organisational values:

organisational cultures

- Aggressive
- customer centric
- Focused
- Innovative
- Ethical
- Research driven
- Technology driven
- Risk taking & family friendly

organisational values

- outcome oriented
- people oriented
- Team oriented
- Details oriented
- Stability
- Innovative
- Praising failure
- Aggressiveness

9. There shall always be

- degree of hierarchy - an appropriate channels of Authority
- degree of promptness & urgency - dynamic & innovative

10. An organisation must also be

- People oriented
- Task oriented
- functional oriented

11. sub-cultures in the organisation do exist some times which may cause serious problems at later stage - specially in case of newly acquired companies.



18. creating, managing, developing and sustain

- a. over a period of time every organization creates its own organisational cultures, leaders & management.
- b. The culture basically build up by customers, tradition, rituals, customers handling & general way of doing business.
- c. Founders have a typical role to play to develop a culture.
- d. But sustaining a culture over a period of time after their founders & leaders is a different task, therefore following should be done
 1. Identify your traits & values of your entity
 2. organise a meeting of all representatives of all functional departments
 3. convey them your values, beliefs and traits with additional insights and solicit them to follow it
 4. create a culture management action plan which supports growth, advancement & effectiveness without compromising your beliefs, culture.



Corporate service Audit

Definition: It is a systematic appraisal system taken into account, the level of contribution a business enterprise is making towards.

- a) Consumers: in terms of quality, products, quantity at Right Place /time/ price.
- b) employees: in terms of payment, safety, welfare, industrial regulations.
- c) Shareholders: safety of investment, satisfactory rate of return capital appreciation.
- d) community: social cost, social benefits, social audit (society)
- e) follow business man: business ethics, relationships, fair trade policies
- f) State government: compliance with spirit of law, fair trade practices, payment of taxes, services in times of emergencies.

Conclusion

So, Basically corporate service audit is scrutiny & critical evaluation of service oriented responsibilities of a business concern.



Corporate development Audit

a) Meaning:

It is a continuous and endless process of evaluation and monitoring of internal & External environments of a business enterprise.

→ There are following dimensions to be considered in development Audit

1. Regularity: Things under constant watch.
2. Systematic check: changing environment & forces impacting the business.
3. Review: performance, quality & contribution shall be reviewed from time to time so as to understand deviations & suggest measures.
4. Appraisal: Examining & comparing actual results with benchmark results and suggesting future course of action.

b) scope of Development Audit



finance, personal etc

Economic development
Plans.

1. for long term strategy, Audit checks survival & for short term strategies Audit checks continuity & performance.
2. Its all about doing R&D, financial Analysis, financial management and understanding your past achievements, present attainments & future potential.

c) Corporate Externalities

e) Corporate Internalities

- ↓
- Areas covered as
- Economic
 - Technological
 - Political
 - legal
 - Eco logical
 - Socio - cultural environment

- ↓
- Areas covered are
- personal development
 - management development
 - organisation development
 - Strengths & weakness.

d) Features of corporate development

1. multi directional & multi disciplinary team with good exposure & experience.
2. Reduced gap b/w planning & implementation
3. Review of its strengths, weakness, threats, failures, inefficiencies.
4. Communication to be rooted through point of contact (appropriate person involved in activity).



Performance evaluation



* The main objective of above process is evaluate the performance of ee.



Consumer service Audit

A) Specifics for consumer service Audit

- Whether Complaint Registration process exists or not?
- Are there dedicated group of people for customer service?
- Do they have written policy for customer service?
- Do they consider customers view (wish on worth)?
- Is there any legal action filed by customer?
- Do they have systems to track customer complaints?

B) Role of Internal Auditor in consumer service Audit

- He shall use customer service indicators to understand complaints, resolution and taken to resolve the complaints.
- He must consider that customer complaint is risky for business prospects.
- Ensure that good ICS is placed to address customer complaints.
- Obtain data on customers satisfaction & customer behaviour.
- Verify if there is any cost of poor quality (COPQ) to highlight a scope for product development.

C) Reasons for failure of consumer service Audit (Challenges faced)

- Non availability of customer data
- Lack of clarity over legal positions & implications
- Failure to judge customers requirements.



Audit of Environmental Pollution Control

A) Environmental Audit:

→ meaning: It is independent evaluation of policies, principles, system, procedures of an entity and evaluation of its performance and other elements relating to environment

→ There are various National & International bodies which have provided definition of environmental Audit

EX: According to US EPA, Environmental Audit means systematic, documented, periodic and objective review by a regulated entity relating to its environmental requirements.

B) Features of Environmental Audit

1. Role of management:

It is also part of ICS to be performed by Internal Audit team, Expenditures on this Audit incurred by entity are treated as capex (capital expenditure)

2. Environmental Impact Assessment (EIA)

It is a tool to predict & evaluate the impact of activities on the environment. generally conducted in case of upcoming projects and expansion plans to understand the Risk.

3. Systematic

To be carefully planned, structured & organised, end to end checking and evaluation.



4. Documented

Like other Audits if Auditor finds any negative Areas (or) impactful Areas, to support his findings, he must collect proper evidences to be documented.

5. Continuous Review

Being the continuous process, there will be regular collection of data, Review & finding out root causes so that timely actions can be taken.

6. Objective evaluation

It should be taken up in a impartial and unbiased way by independent Audit team.

7. Environmental performance

To check whether it's creating a favorable impact (or) meeting with standards and regulatory requirements (or) not

C) Objectives of EA

1. To improve environmental performance
2. To assist facility management
3. To increase awareness about damages
4. To improve risk management system
5. To avoid penalties & punishments
6. Fund Allocation (blw capex and opex - operational exp).



d) Benefits of EA

1. Improves efficiency of environmental management system (EMS)

By coming across deficiencies & implementing improvement plans.

2. compliance with laws & standards

It ensures less interface by the government and authorities.

3. Risk mitigation

It is a very successful tool in reducing environmental risk including Reputational damage.

4. meeting Stakeholders expectation

5. Increases Environmental benefits, reduces cost & helps in improving efficiencies

6. Linking operating process and environmental impacts

helps in SWOT Analysis of a project

7. make employees, society more aware about health hazards & Risks

8. It assists in decision making

Relating to investments and managing Stakeholders expectation.



e) process / Stages

Stage 1: pre Audit (or) planning stage

1. collect background information about entity

Laws applicable, governing Authorities and persons responsible.

2. define objectives of Audit

Goal setting.

3. define scope

location to be covered, facility to be covered, period of coverage.

4. choose Audit criteria

with the help of which performance will be evaluated.

5. select Audit Engagement team

having
 → knowledge
 → expertise
 → experience.

6. Develop Audit plan & protocols

written guidelines, protocol relating to sharing of information.

7. Desktop Review



Stage 2: on site / field Audit

1. application of desktop Review outcome / Query listing
initial meetings with client, initial understandings, facility walk through.
2. Facility TOUR
To make some additions / deletions in the plan
3. Facility Inspection / Evidence collection
obtaining relevant Evidences and documents from appropriate site incharge, doing comprehensive inspection, using sampling techniques
4. Evidences collected must be sufficient, appropriate & reliable

↓	↓
Quantity	Quality
Wise	Wise
5. Discussion with Jobholders:
To avoid miscommunication
6. Sharing findings, data, non compliances, experience of visual inspection with Auditee and finalizing site visit report.
7. closing / exit conference
To identify and correct any kind of misunderstandings



Stage 3: Post Audit

It includes Feed backs, sharing site visit outcome, having Comments from Audit Committee, Risk management Committee, environment monitoring committee and finally making a Note of those deficiency areas which were presented in the previous Audit but not get corrected.

Stage 4: followup / Review stage

Technically it is not part of Audit (or) Audit manager to implement the measures, our duty is only to check whether management has taken recommendations seriously (or) not.

f) contents of Audit Report

1. Executive Summary
2. Introduction / Background Para
3. Object and scope Para
4. Audit observations Para
5. Recommendations Para
6. Actions Agreed upon with target & ownership
7. Audit Criteria plan
8. Evidences used.

(*) What is Audit observations Para?

1. It Includes status of good environmental practice.
2. Also Includes all significant environment costs, benefits, assets & liabilities.
3. Includes Identification of contingencies & Risk Relating to environment
4. Includes level of staff awareness.
5. overall status of environmental performance.



Audit of Energy and utilities

a) Meaning:

1. It's all about Identifying saving opportunities, consumption monitoring, process improvement
2. Energy Audit is an approach for decision making in the given area of energy management.
3. It refers to verification & Analysis of use of energy in the form of technical report containing
 - a. Recommendations for improving energy efficiency
 - b. cost benefit Analysis
 - c. An action plan to reduce energy consumption.

b) Need for Energy Audit:

It gives various Advantages

1. helps in energy cost Reduction
2. helps in preventive maintenance
3. gives us an opportunity of Alternatives to be adopted
4. giving solutions for stuck Areas
5. provides you with the bench marking of Industry.
6. Helps in reducing energy consumption

c) Types of Energy Audit

It depends upon

- a) function & type of Industry
- b) Extent of cost Reduction



d) Stages of Energy Audit (Detailed Audit)

Phase I - Pre Audit phase

1. Initial site visit is required to understand procedures, generally to be carried out in one day by meeting all the concerned responsible parties.
2. Initial site visit includes following actions
 - a. meet site's senior management and discuss the aims of energy Audit with them.
 - b. make them understand economic guidelines associated with the Audit.
 - c. Analyse the past energy consumption data with responsible person.
 - d. obtain drawings (blue print), relating to site, layout, steam distribution & Electricity distribution
 - e. Tour the site with experts and engineers.
3. The whole purpose of site visit was to
 - (i) Identify energy Consuming Areas
 - (ii) Identify the measuring units.
 - (iii) To Identify instrumentations required.
 - (iv) To Identify the time frame to complete Audit
 - (v) To Create awareness of lowering consumption.

Phase II - Detailed energy Audit

1. check out the plant operations to understand their working hours
2. do the preliminary assessment for cost-improvement.
3. collect the following information
 - a. Energy consumption data - Type wise
 - source wise
 - department wise



- process wise
 - utility wise (Plant wise)
- b. Energy cost & tariff data
 - c. It is self generated / taken from the grid
 - d. potentials for fuel substitution, process modifications, cogeneration systems.
 - e. Training awareness programs within the establishment.

e) preliminary Energy Audit methodology

It Includes

- Identifying most likely and easiest areas for attention
- Identifying immediate improvements & saving Areas
- Identifying Areas for detailed study
- Identifying scope for saving
- Set a reference point (criteria with in which we measure)



productivity Audit

- a. This Audit is all about finding deficiencies in idleness in and wastages in various resources like Men, machine, material, capital, energy, organisation etc
- b. It is also known as efficiency Audit & factorial Productivity Audit
- c. It is a critical examination of efficiency ratio and activity Ratio.

* MAJOR problems occur in productivity Audit

- a. Every factorial input have different units of measurement
- b. Due to inter relation, interdependence between factorial input, doing the audit of single Input is not possible without considering other inputs.
- c. Being professional judgement involved, it will be just a reasonable assurance which cannot replace unique mathematical solution.



Propriety Audit

1. The Term propriety means investigating the Justifications & Necessities
2. This Audit is all about investigating the decisions of executives with respect to stake holders interest & financial discipline.
3. It refers to identification of needless, Avoidable, Wasteful Expenditure.

* principles of propriety Audit

- a. spending shall not more than benefits derived
- b. public money should not be utilised for benefits of particular section of community unless it is a part of policy, insignificant in Amount and adopted by court of law.
- c. sanctioning Authority should not spend any Expenditure which directly / Indirectly benefits to them.
- d. Amount of Allowances should be regulated so that it should not become source of profit.

* purpose

- a. To Identify losses
- b. Wasteful Expenditure due to lack of coordination
- c. serious avoidable delays which increase cost of scheme.
- d. Cases of inefficient handling, wastages, excess, delays etc
- e. To check whether physical targets have been achieved within sanctioned time.
- f. To compare performance and cost with similar schemes in other Areas.



Corporate Social Responsibility Audit

1. Meaning

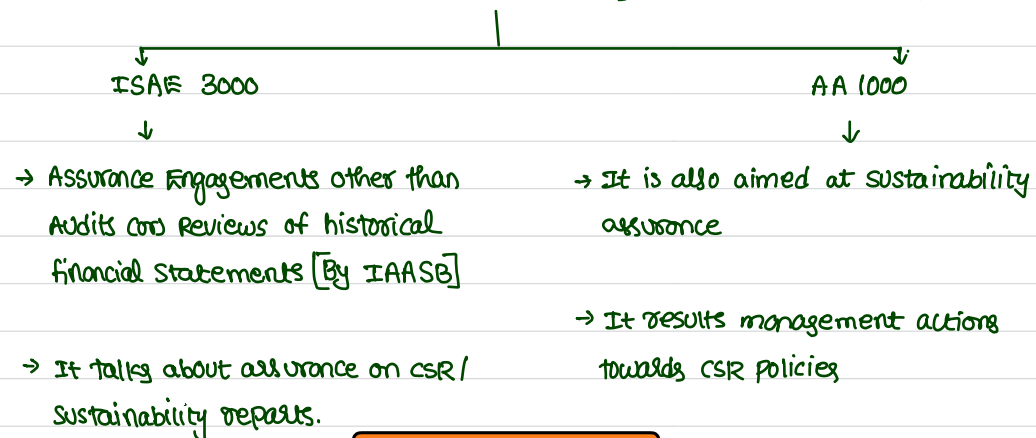
It is understood as an initiative by the companies to do some social welfare and contribute towards environmental protection.

2. It is a built in function now-a-days and self regulatory mechanism to ensure that compliances are carried out properly.
3. Basically in the CSR Audit the idea is to set the impact of such activities on stake holders, communities, employees, environment etc.

* Non CSR Activities

- a. Anything done within object clause of MOA
- b. Any contribution to political party directly or indirectly
- c. Anything done for benefit of your own employees.
- d. Expenditure spent outside India
- e. sponsoring marathons, seminars.

There are some International standards for CSR sustainability





* Role of Internal Auditor in CSR

- a) may advise the management on CSR allocation
- b) Also helps in deciding proposed Expenditures.
- c) helps in value additions to the CSR programmes
- d) Assist in designing and Implementation of CSR management system.
- e) may do limited scope audits requested by top management.
- f) may perform compliance Audits (sec 135)



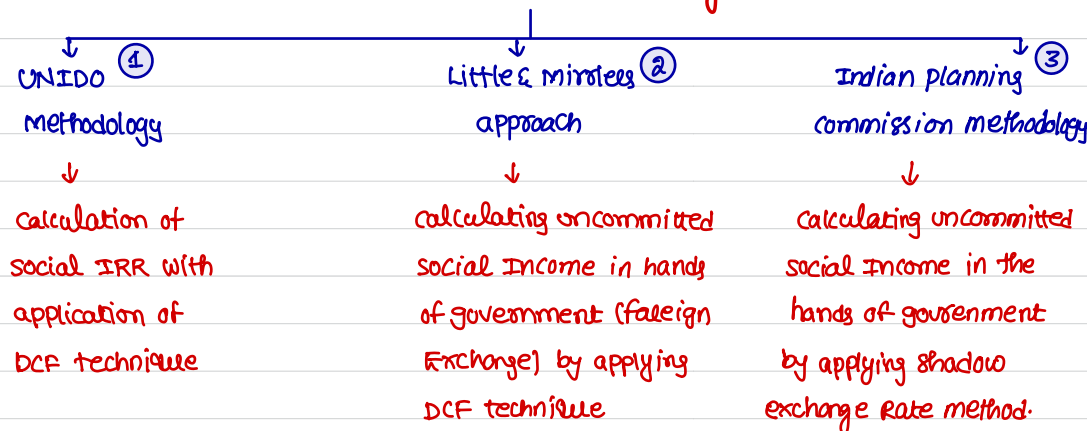
Social Cost Benefit Analysis Audit

1. It's a method of Identifying, evaluating and assessing the benefits and also the costs associated with the activities to understand whether economic targets and social goals are accomplished (or) not.
2. It's a New concept and in case of this Analysis most of the time financial aspects, commercial aspects, technical aspects will be well taken care of but socio economic aspects will be ignored.
Ex: cost to the society can be best defined by the benefits of an industrial sector.

* Purpose of SCB Analysis

- a) To measure expected future economic and social cost
- b) To measure future economic and social cost
- c) To ascertain net benefits (a-b)
- d) To finally decide which project activities are yielding maximum benefits and contributing to national economy

Techniques of SCB Analysis





Evaluation of corporate image

1. Corporate image:

It is a reflection of organisation in the minds of stakeholders and society at large towards companies reputation.

2. Companies always actively attempts to shape its image via promotions, branding, publicity etc.

3. The major elements of a corporate image are

- Its core business & financial performance
- Its brand equity & reputation
- Its Innovation and technological advancement.
- policies towards its employees.
- External relationships with stakeholders
- level of public satisfaction
- Role of promoters and leadership skills.

4. Image vs Images:

a company never enjoys the same reputation in everyone eyes which means different communities may have different point of views for the same organization, it is due to their experiences with the organisation

Example: A company may be highly appreciated by customer in terms of quality & having a poor reputation among suppliers for late payments & non loyalty etc.



ESG Audit

[Environment, Social, Government Audit]

1. Applicable from: FY 22-23

2. on whom: Top 1000 listed entities based on market capitalisation.

3. Reporting Format: Business Responsibility & sustainability (BRSR)

4. It was introduced in Companies Act, 2013 under section 135, made voluntary 21-22 and compulsory from 22-23.

5. Came in replacement of Business responsibility Reporting (BRR).

6. There are 9 principles included in "National guidelines on Responsible Business Conduct" (RBC guidelines)

7. RBC guidelines are influenced by UN guiding principles on business and human rights, Paris agreement, ILO, UN sustainable development goals.

Principles

principle 1: Business should conduct and govern themselves with integrity, ethically, transparent and accountable [C4 principles]

particulars

→ RBC guidelines for the Board, Senior managers & employees.

→ Anti corruption, Anti bribery policies

→ RBC guidelines for value chain partners.

principle 3 & 5: Business should respect well being employees, value chain partners and promoting Human Rights.

→ gender equality, social diversity, measures for differently abled ees.

→ Turnover rates, reasonable wages, welfare, safety, health measures & trainings.



Principle 6: Business should respect, protect, & restore the environment

- conservation of energy & water resources
- Air pollution Emissions
- limiting green house gas emissions
- Impact on bio-diversity
- waste generation and management

Principle 8: Business should promote equitable development and growth to the society

- checking social impact Assessment
- Rehabilitation & resettlement
- CSR

Principle 9: Business should providing values to their consumers in responsible manner

- product labelling
- Resolving customer complaints
- Data security & privacy
- Cyber security
- product recall.

Indian companies contributing towards ESG

Malico

vedanta

Tata Group Companies

Welspun

Tech mahendra

Infosys

WIPRO

Reliance

venture capitalist supporting startups.

International Companies

UK: To be reported under corporate governance, 2012.

EU: To be reported under non-financial & Diversity Information (2013)

US: made it mandatory for all companies under NYSE by SEC

China: For large listed companies in Shanghai Stock Exchange under Environmental Information Disclosure Act.



Information systems Security Audit

a) IT Audit

It is also known as ISSA (Information system & security Audit) which gives us an answer to the following critical questions about

- a) weakness & vulnerabilities
- b) process that do not perform
- c) security threats & Recover business capabilities
- d) concrete actions to Rectify the security flaws.

b) steps in IT security Audit

Step 1 - define the objectives

1. IT Auditor must know about what purpose he has been hired for, to complete his Audit timely & successfully.
2. following can be purpose (or) coverage
 - a. Testing & evaluation
 - b. Physical and automated controls
 - c. Disaster Recovery Initiatives
 - d. Identifying IT Risks (or)
 - e. Is it a Compliance Audit.

Step 2 - planning the Audit

1. understanding roles & responsibilities of management
2. understanding their ICS including IT controls.
3. Deciding schedules (or) methodology of doing Audit.
4. Document planning, strategy and methodology.



Step 3 - Performing the Audit

1. Conducting Audit according to plans & methodologies
2. Running scans on their IT Systems
3. Checking their data base servers
4. Examining user access Rights
5. Inspecting their data centers against natural disasters and other vulnerabilities.

Step 4 - Reporting the Results

1. Compile a formal report in written form to be given to management, Stakeholders & Regulatory agency.
2. It Includes weak spots, security risks, vulnerabilities detected.
3. Remedial actions to mitigate IT Risks.

Step 5 - Take necessary Action (management responsibility)

1. Fixing flaws & weakspots
2. Training employees in data security compliance
3. Adopting best practices to Avoid data theft and handling sensitive data
4. updating technologies & IT Systems on regular intervals.

C) Differences b/w Security Audit vs Risk Assessment

Security Audit

1. It is performed on existing IT & Infrastructure to test and evaluate it's efficiency at regular intervals.

Risk Assessment

1. Risk assessment is carried out before security Audit.
2. It is performed every time whenever there is a internal & External threat.



2. To have a best security Audit, following needs to be done

- a. clear objective
- b. support from top level of the organisation
- c. define clear action audit Results in the form of report
- d. Recommending security Audit solutions for better compliance.

3. major objectives are

- a. Identify IT Risks
- b. Evaluate / Assess it's significance
- c. Respond to such Risks.

Conclusion: The difference b/w them is their timing & scope.



RBI IT Audit

Under CSITE cell (Cyber Security & Information Technology Examination), following details are required by RBI from every bank, relating to IT Systems.

- a. Gap Analysis (variance) Report.
- b. Information Security (IS) Controls.
- c. effectiveness of such controls
- d. plans to Reduce Risks
- e. Role of CISO (Level 4 Banks).

a) why & How it is conducted

1. It's an Indepth technical assessment.
2. Includes Information Security process Audit
3. checking Cyber Security Controls.
4. collecting logon servers evidences
5. checking technical requirements of RBI.

b) RBI Audit Report

1. Detailed gap Analysis
2. What to be done to have compliance with RBI.
3. What exactly needs to be done, by whom, by which team.

c) Controls specified by RBI on different levels of Banks

Level I Banks:

1. Vendor/outsourcing Risk management
2. Cyber security checks.

Level II Banks:

1. Same as level I
2. Security configuration



3. Network management & security
4. Change management
5. Pre Audit testing
6. Anti-phishing
7. User access controls
8. Customer Authentication controls
9. Application security life cycle (ASLC)
10. Data leakage prevention strategy
11. Audit logs
12. Incident Response & management.

Level III banks

1. Same as level II
2. Risk based transaction monitoring
3. User / Employee / management awareness
4. Advanced Real time threat defense & management.

Level IV banks

1. Same as level 3
2. Cyber drills
3. Continuous surveillance
4. CISO
5. Information security committee
6. Audit committee of Board.



Cyber security & Cyber Forensics

Cyber security

1. Focus is on preventing on data loss
(as) Cyber crimes
2. Cyber Security is professional discipline.
3. It's a defensive measure to protect against cyber attacks, main objective is preventing breach & protecting information with in the network.
4. It's a proactive technique.
5. Cyber security professionals are the service providers relating providers relating prevention of data loss.

specialisation

Are system architecture, software security, access management, ethical hacking & vulnerability Assessment

Cyber/computer forensics

1. Focus is on Recovering the lost data and uncovering the encrypted data.
2. It's an Investigative discipline.
3. main objective is Recovering data, uncovering criminal activities, assessing in investigation by having access on suspects device.
4. It's a Reactive technique.
5. Computer forensic experts are mostly connected to the services of investigations.

specialisation

Are criminal Investigation, Recovering loss data, decrypting encrypted data.



IT Audit in Banking Sector

a) objectives of IT Audit in Banking sector

1. Safeguarding of Information system assets and Resources
 - a. It Includes protection of hardware, software facilities, data files and Suppliers
 - b. Focus is to ensure that IT infrastructure is adequate enough to prevent hardware damages, stealing of data files and unauthorised alterations and modifications in data.
2. Maintaining data Integrity
 - a. It ensures checking safeguards against additions, deletions, modifications done unauthorisedly.
 - b. It also focuses on

i. Data accuracy	v. Reliability
ii. Confidentiality	vi. Availability
iii. Completeness	vii. Timeliness
iv. updation	viii. Effectiveness
3. Maintaining system effectiveness & system efficiency
 - a. The main objective of IS Audit here is whether clients IT is adequate enough enough and effective enough to achieve it's goals by matching standard performance with actual performance
 - b. effectiveness more than 100% is also treated as ineffectiveness.



c. major objectives regarding system effectiveness are

- improved task accomplishment
- improved quality
- operational effectiveness
- Economic efficiency

d. Information System efficiency means as and when the bottleneck appears, the systems shall be updated and upgraded in terms of machines, computer peripherals and softwares.

e. The ratio of output to its input is known as "efficiency"

f. If the output is more than actual input, it means systems are efficient else inefficient.

b) other objectives:

1. To Identify Risks.
2. To check implementation of IT.
3. To check security policies & procedures
4. To check awareness among system administrators, system maintainers & system operators.
5. To ensure minimum abuse of computers.
6. To suggest improvements in security controls.
7. To act as an Auditor for improvisation
8. To follow ethics and professional standards.



c) scope of IS Audit:

To cover all

- i. computerised departments
- ii. offices
- iii. achievement of objectives
- iv. checking process
- v. checking system securities
- vi. Examining IS specialist staff & non specialised staff.

d) Approaches of doing IS Audit

Audit Around the Computer

1. IS Auditor may have less technical expertise in doing such Audit.

2. In this Audit inputs & outputs might be visible but process is completely invisible.

3. This approach is used where softwares used are simple, standard, logics are straight-forward and Audit trail exists.

4. Here more trust is on users controls rather than computer controls

Audit through the computer

1. He must be possessing technical expertise in doing this Audit.

2. In this approach complete visibility becomes possible.

3. It is used where software used are special and customized in nature and Audit trail is less visible.

4. Here more trust is on computer controls rather than on user controls.



5. Audit may (or) may not use his "CAAT" techniques.

5. must use his CAAT techniques.

6. Less time consuming.

6. more time consuming.

7. Evidence obtained are more PERSUASIVE than CONCLUSIVE

7. Evidence obtained more CONCLUSIVE than PERSUASIVE

8. It is also called as "Black box" approach

8. It is also called as "White box approach".

c) Auditing with the computer

1. Under this approach computer system & it's programmes are used as Audit tools.

2. Audit uses the computer to retrieve the data in independent Environment.

3. where large volume of inputs & outputs are present

4. Where the logic of system is complex and where Audit trails is completely invisible.

Notes:

1. Audit programmes can be

- Packaged Programme - Standardised
- special purpose programmes



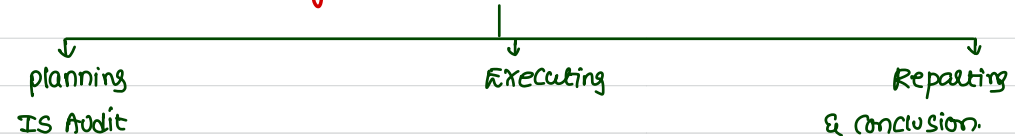
- utility programmes

2. General Audit software includes Audit Command language (ACL)

And it's Advantages are

- Creates flexible reports
- No need of technical experts
- Increases Audit coverage
- saves time, money, effort
- Increases confidence in Audit Results.
- But not useful at application level.

f) Audit methodologies



→ planning IS Audit:

IS Auditor should obtain understanding of clients

- a) IT Environment
- b) IT Control system
- c) Back ground Information
- d) Risk profile
- e) management staffing
- f) Their skills & aptitude
- g) Areas with high Risk
- h) Clients Risk Assessment process.



→ Executing stage

- TOC
- TOT
- TOB

a) TOC - Testing of controls

1. In this phase, controls are tested to check their effectiveness & reliability
2. The idea is to identify weaker areas in controls, so that recommendations can be given to improve the same.
3. Following things are tested in controls
 - occurrence of controls
 - Implementation of controls
 - Existence
 - Adequacy
 - Documentation
 - Maintenance
 - monitoring

b) TOT - testing of Transactions

Apply CAAT techniques to find out material misstatements in financial information in terms of

- Completeness
 - correctness
 - Accuracy
 - validity
 - occurrence
- } Assertions.

c) TOB - Testing of balances

Under this TOB, Auditor tests their Assets and liabilities, their debts and investments, creditors, loans etc, to find out material misstatements in terms of



- Existence
 - ownership
 - valuation
 - Nature
 - extent & disclosure
- } Assertions.

→ Reporting & conclusion

1. In this final stage of IS Audit, Auditor forms his opinion indicates his findings shows his Analysis and provides recommendations to management
2. All above things done by the Auditor must be supported with SAAE
3. Auditor shall prepare draft Audit Report first and later on after receiving Auditee's response he shall convert it into final report.
4. Working papers used in IS Audit must be well organized, clearly written and well documented.

9) Broader framework for conducting IS Audit

1. safeguarding Assets:

The Assets are safeguarded in the following areas.

- a. Environmental security: Taking care of server rooms by keeping special coolant equipments
- b. uninterrupted power supply: providing stabilized power to computer equipment all the time and ups shall be maintained properly.



- c. Better installation of electrical lines, data cabling, fire protection equipment
- d. Insurance & Annual maintenance contract: All critical computer equipment shall be fully insured and they shall be AMC, shall be renewed on timely basis.
- e. logical security: Access controls, user ID passwords, controls, Access Rights, Allocation to users, termination of controls on completion, log IDs, master IDs.

2. Data Integrity

Following examinations are very important in relation to data integrity.

- a. data input controls
- b. data processing controls
- c. patch programmes
- d. logging of data files: who used and accessed the computer, how many times and what times (logfiles).
- e. Data back up: Includes Harddisk, CDs, DVDs, onsite and off-site backups.
- f. Restoration of data: downloading the data a fresh from magnetic media (or) cloud storage.

3. Business continuity planning (BCP)

- a. due to

- power failure	- server failure	}	minor failure
- ups failure	- storage failure		



- b. In both cases disruption can occur due to which entity must install BCP to recover from such disruptions.
- c. under this, there can be involvement of different types of Repairs.
 - Output Repair: UIUO (Garbage in Garbage out) Repair which means if the to the system is garbage, output will also be a garbage.
- d. version control & virus protection.

4. System effectiveness & efficiency



Audit of Different service organisations

a) General Considerations of Cooperative Society Audit

1. under cooperative societies Act, 1912 (Central Act)
2. popular states: west-bengal / orissa / maharashtra
3. Industries: Milk (Dairy products), Pulp Industries, Weaving, Water distillation, sugar
4. objectives: Elimination of middleman
Elimination of exploitation by outside forces

Audit provisions

1. Who can be an Auditor
 - PCA
 - Govt diploma holder in course of Cooperative A/c.
 - Experience in working as Auditor of an govt cooperative dept.

2. Who appoints - By Roc's [Registrar of cooperative societies]

3. Whom Auditor reporting
 - To → Roc
 - To → Society

4. Remuneration: By Roc based upon category / class / Rank of cooperative societies.

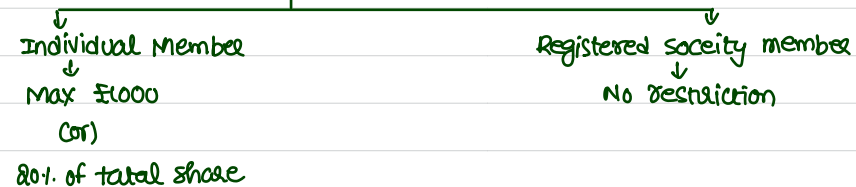
5. What to Audit: General considerations.



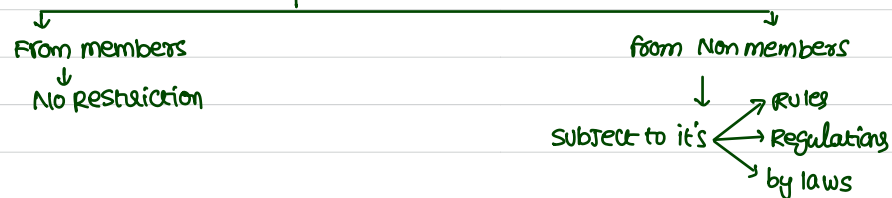
a. BoA → As per Sec 128 of companies Act, 2013
↳ Assets / liabilities / exp / income / sales / purchases



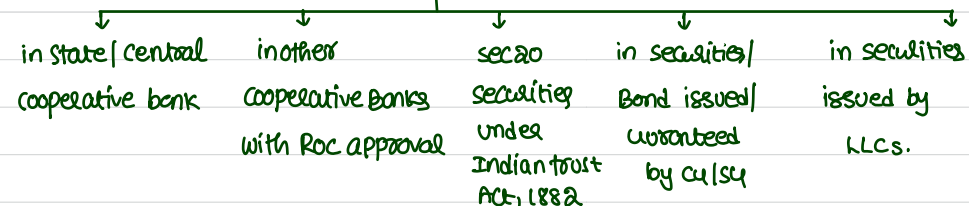
b. Restriction on Share holding



c. Restriction on borrowings

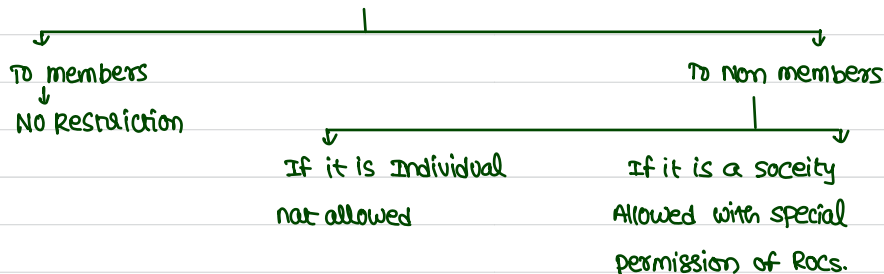


d. Restriction on investments





e. Restriction on granting loans & advances



f. Restriction on dividend / bonus / charity

Before declaring any dividend / bonus to member they shall be compulsary transfer to reserve funds and charity can be made Maximum 10% of post transfer profits.

g. Restricted use of Reserve fund.

- Towards working capital requirement
- Investment as per above criteria
- To meet it's objectives
- Compulsary Annual transfer / Contribution towards education fund under state federal society.

h. Education fund Contribution

Annually some of profits shall be contributed towards Education fund under state federal society.



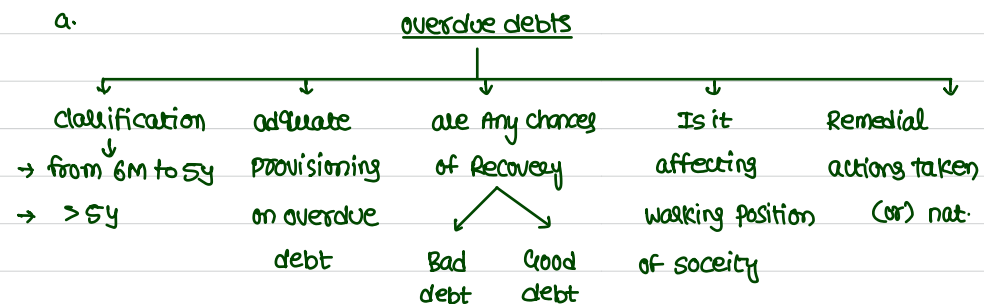
6. Special Audit Report

In case there are serious irregularities found while doing Cooperative Society Audit, it shall be brought to the Notice of RocS for immediate / necessary Actions to be taken.

Examples

- a. personal Profiteering by members of management committee
- b. over pricing of closing stock
- c. Evasion of taxes.
- d. Reckless advancing.
- e. Non Recovery of loans from borrowers.
- f. Non checking of credit worthiness
- g. over pricing of purchases / expenses / assets & stores
- h. Non absense to society principles.

7. special considerations of cooperative society Audit



b. Overdue Interest

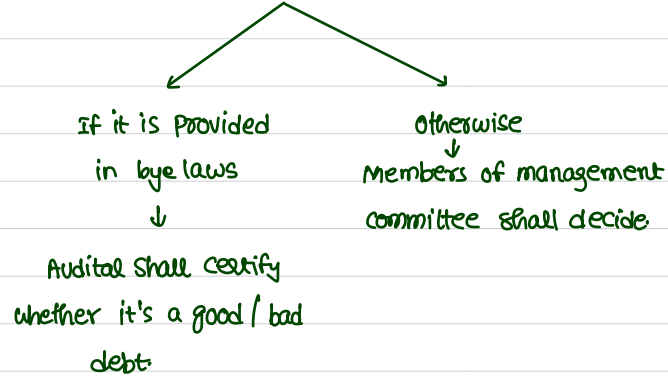
- to be credited to it's revenue statement only if it is Recovered (NO accrued system).
- If already credited - shall be reversed / adequate provision.



c. Adherence to guidelines/byelaws/provisions of Act

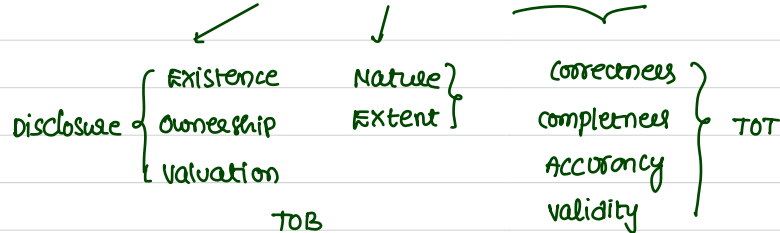
Auditor shall verify whether cooperative society is running as per it's byelaws, provisions/nat.

d. certification of Baddebts/write off



[Maharashtra cooperative society Act]

e. verification of Assets/liabilities/Incomes/Expenses



f. members passbook

Auditor needs to check that on every repayment, necessary entries of settlement must have been passed.

g. Draft Audit Report

Auditor shall prepare preliminary Audit Report & shall discuss the same with management committee for any objections/minor



issues to be resolved before finalising main Audit report.

h. Increase of Rank/class/category awarded by An Auditor is not satisfactory to M.C of C.S, then must have appeal to it with ROC who may inform ask Auditor to Reconsider it again.

It finally going to be decided by An Auditor of C.S.

shikharā TUTORIALS