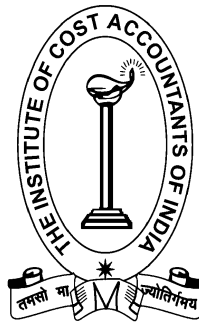


FINAL
Paper 17

Cost and Management Audit

Study Notes
SYLLABUS 2022



The Institute of Cost Accountants of India

CMA Bhawan, 12, Sudder Street, Kolkata - 700 016

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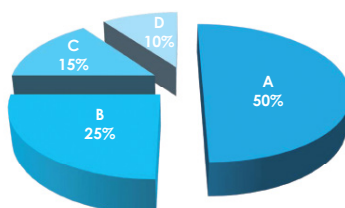
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PAPER 17: COST AND MANAGEMENT AUDIT

Syllabus Structure:

The syllabus in this paper comprises the following topics and study weightage:

Module No.	Module Description	Weight
Section A: Cost Audit		50%
1	Basics of Cost Audit	5%
2	Companies (Cost Records and Audit) Rules, 2014 (as amended)	10%
3	Cost Auditor	10%
4	Overview of Cost Accounting Standards and GACAP	10%
5	Cost Auditing and Assurance Standards	
6	Cost Audit Programme	5%
7	Cost Audit Documentation, Audit Process and Execution	5%
8	Preparation and Filing of Cost Audit Report	5%
Section B: Management Audit		25%
9	Basics of Management Audit	5%
10	Management Reporting Issues and Analysis	5%
11	Management Audit in Different Functions	5%
12	Evaluation of Corporate Image	5%
13	Information Systems Security Audit	5%
Section C: Internal Control, Internal Audit, Operational Audit and Other Related Issues		15%
14	Internal Control and Internal Audit	5%
15	Operational Audit and Internal Audit under Companies Act, 2013	5%
16	Audit of Different Service Organisations	5%
Section D: Forensic Audit and Anti-Money Laundering		10%
17	Forensic Audit	5%
18	Anti-Money Laundering	5%



Learning Environment

Subject Title	COST AND MANAGEMENT AUDIT
Subject Code	CMAD
Paper No.	17
Course Description	The subject Cost and Management Audit deals with the following four key areas: i) Cost Audit, ii) Management Audit, iii) Internal Control, Internal Audit, Operational Audit and Other Related Issues and iv) Forensic Audit and Anti-Money Laundering. It provides a thorough understanding of various contemporary issues related to Cost and Management Audit with detailed coverage on Cost Accounting Standards and Cost Auditing Standards issued by Cost Accounting Standards Board(CASB) and Cost Auditing and Assurance Standards Board (CAASB) respectively. It also provides a detailed coverage on various Management Reporting issues and analysis, evaluation of Internal Control, role of CMA's in Management Audit, Internal Audit and Operational Audit. In addition to the above, the subject provides an overview of the techniques of Forensic Audit and international standards on combating Money Laundering.
CMA Course Learning Objectives (CMLOs)	<ol style="list-style-type: none"> 1. Interpret and appreciate emerging national and global concerns affecting organizations and be in a state of readiness for business management. <ol style="list-style-type: none"> a. Identify emerging national and global forces responsible for enhanced/varied business challenges. b. Assess how far these forces pose threats to the status-quo and creating new opportunities. c. Find out ways and means to convert challenges into opportunities 2. Acquire skill sets for critical thinking, analyses and evaluations, comprehension, syntheses, and applications for optimization of sustainable goals. <ol style="list-style-type: none"> a. Be equipped with the appropriate tools for analyses of business risks and hurdles. b. Learn to apply tools and systems for evaluation of decision alternatives with a 360-degree approach. c. Develop solutions through critical thinking to optimize sustainable goals. 3. Develop an understanding of strategic, financial, cost and risk-enabled performance management in a dynamic business environment. <ol style="list-style-type: none"> a. Study the impacts of dynamic business environment on existing business strategies. b. Learn to adopt, adapt and innovate financial, cost and operating strategies to cope up with the dynamic business environment. c. Come up with strategies and tactics that create sustainable competitive advantages. 4. Learn to design the optimal approach for management of legal, institutional, regulatory and ESG frameworks, stakeholders' dynamics; monitoring, control, and reporting with application-oriented knowledge. <ol style="list-style-type: none"> a. Develop an understanding of the legal, institutional and regulatory and ESG frameworks within which a firm operates. b. Learn to articulate optimal responses to the changes in the above frameworks. c. Appreciate stakeholders' dynamics and expectations, and develop appropriate reporting mechanisms to address their concerns. 5. Prepare to adopt an integrated cross functional approach for decision management and execution with cost leadership, optimized value creations and deliveries. <ol style="list-style-type: none"> a. Acquire knowledge of cross functional tools for decision management. b. Take an industry specific approach towards cost optimization, and control to achieve sustainable cost leadership. c. Attain exclusive knowledge of data science and engineering to analyze and create value.

Subject Learning Objectives [SLOB(s)]	<p>A. Cost Audit</p> <ol style="list-style-type: none"> 1. To gain in-depth knowledge about the statutory provisions of Companies (Cost Records and Audit Rules) to ensure adherence to the regulations in conducting cost audit. (CMLO 4a, b) 2. To develop detail understanding on preparation of Cost Audit Programme. (CMLO 4b) 3. To develop detail understanding of Cost Accounting and Auditing Standards to ensure appropriate evaluation of cost records maintained. (CMLO 4a, b) 4. To focus on basic cost information, appropriately computed cost centre wise, system-based cost data support for decision-making processes. (CMLO 5a) <p>B. Management Audit</p> <ol style="list-style-type: none"> 5. To obtain in-depth knowledge about management audit processes to identify the scope of improvement at various functional areas of the organisation. (CMLO 2a, b) 6. To develop detail understanding about management reporting system to facilitate preparation of reliable reports which will ensure accurate data driven cost effective decisions and will build brand image. (CMLO 5b) 7. To develop adequate knowledge on information system, its security framework to evaluate whether information systems are safeguarding corporate assets, and maintaining the integrity of stored and communicated data. (CMLO 3c) <p>C. Internal Control, Internal Audit, Operational Audit and Other Related Issues</p> <ol style="list-style-type: none"> 8. To obtain a detail understanding of the scope and structure of internal control to conduct an evaluation of the same to identify the root causes of inadequacies and thereby recommend appropriate corrective actions. (CMLO 3a, c) 9. To obtain in-depth knowledge about the existing regulatory framework for internal and operational audit to conduct effective audit procedure in organisations. (CMLO 4a, b) 10. To develop detail understanding of the audit procedure in various service organisations with an objective to facilitate risk-based performance management and maximisation of value creation or minimisation of value destruction. (CMLO 1a, b) <p>D. Forensic Audit and Anti-Money Laundering</p> <ol style="list-style-type: none"> 11. To develop detail understanding of the financial forensics and forensic audit techniques to identify the scope left for committing frauds and recommend appropriate corrective actions. (CMLO 2a, b) 12. To understand international standards on combating money laundering and provide guidance to prevent and control money laundering transactions in the business operations. (CMLO 2c)
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<p>Subject Learning Outcome [SLOC(s)] and Application Skill [APS]</p>	<p>A. Cost Audit</p> <p>SLOCs:</p> <ol style="list-style-type: none"> 1. Students will be able to guide the management in maintaining appropriate cost accounting records to ensure adherence to existing regulations. 2. Students will be able to prepare effective cost audit programme with due consideration to the regulatory requirements relating cost audit after elaborately identifying the scope of audit in a given assignment. <p>APSs:</p> <ol style="list-style-type: none"> 1. They will develop appropriate skills to maintain Cost Records as per Statutory Regulations and Generally Accepted Cost Accounting Principles. 2. They will be skilled to draft Cost Audit Programme and Cost Audit report with accuracy and fairness. <p>B. Management Audit</p> <p>SLOCs:</p> <ol style="list-style-type: none"> 1. Students will be able to effectively guide a management audit process to identify inadequacies in various functional areas and recommend possible means to rectify them. 2. Students will be able to guide an information system audit and identify possible threats due to system inadequacies. <p>APSs:</p> <ol style="list-style-type: none"> 1. Students will develop necessary skills to conduct management audit procedures at various functional areas of the organisation. <p>C. Internal Control, Internal Audit, Operational Audit and Other Related Issues</p> <p>SLOCs:</p> <ol style="list-style-type: none"> 1. Students will be able to guide the management in ensuring regulatory compliance relating to internal control and audit. 2. Students will be able to guide an internal control evaluation process to identify the root causes of inadequacies and thereby recommend appropriate corrective actions. <p>APSs:</p> <ol style="list-style-type: none"> 1. Students will be able to develop appropriate skills to conduct an all-round evaluation of the internal control system of the organisation. 2. They will be able to prepare detail audit programme with due consideration to the industry concerned. <p>D. Forensic Audit and Anti-Money Laundering</p> <p>SLOCs:</p> <ol style="list-style-type: none"> 1. Students will learn to identify organised financial frauds through application of various techniques. 2. Students will be able to identify non-adherence to financial regulations resulting into money laundering cases and thereby guide the management in avoiding such instances. <p>APSs:</p> <ol style="list-style-type: none"> 1. Students will be able to equip themselves with necessary skills for detection of financial frauds and money laundering instances and guide the management in devising appropriate measures to avoid the same.
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Module wise Mapping of SLOB(s)

Module No.	Topics	Additional Resources (Research articles, books, case studies, blogs etc.)	SLOB Mapped
Section A: Cost Audit			
1	Basics of Cost Audit	<ol style="list-style-type: none"> 1. Cost and Management Audit - CMA Abhishek Jain, Himalaya Publishing House 2. Cost Audit and Management Audit - Saxena & Vashist, Sultan Chand Publishers 3. The Institute of Cost Accountants of India's Publication relating to Cost Accounting Record Rules, The Institute of Cost Accountants of India's Publication 4. Practical Guide to Cost Accounting Records and Cost Audit – CMA Kunal Banerjee, Taxmann 5. Cost Audit and Management Audit - A.R. Ramanathan, Tata McGraw – Hill 6. Practical Guide to Cost and Management Accounting and Auditing - CMA, CS Rajesh Kapadia, Notion Press 7. Guide to Cost Accounting Records and Cost Audit - Srinivasan Anand G, Taxmann 	1. To gain in-depth knowledge about the statutory provisions of Companies (Cost Records and Audit) Rules to ensure adherence to the regulations in conducting cost audit.
2	Companies (Cost Records and Audit) Rules, 2014 (as amended)		2. To develop detail understanding of Cost Accounting and Auditing Standards to ensure appropriate evaluation of cost records maintained.
3	Cost Auditor		1. To develop detail understanding on preparation of Cost Audit Programme.
4	Overview of Cost Accounting Standards and GACAP		1. To gain in-depth knowledge about the statutory provisions of Companies (Cost Records and Audit) Rules to ensure adherence to the regulations in conducting cost audit.
5	Cost Auditing and Assurance Standards		2. To develop detail understanding of Cost Accounting and Auditing Standards to ensure appropriate evaluation of cost records maintained.
6	Cost Audit Programme		1. To gain in-depth knowledge about the statutory provisions of Companies (Cost Records and Audit) Rules to ensure adherence to the regulations in conducting cost audit.
7	Cost Audit Documentation, Audit Process and Execution		2. To develop detail understanding of Cost Accounting and Auditing Standards to ensure appropriate evaluation of cost records maintained.
8	Preparation and Filing of Cost Audit Report		3. To focus on basic cost information, appropriately computed cost centre wise, system-based cost data support for decision-making processes.

Section B: Management Audit

9	Basics of Management Audit	<ol style="list-style-type: none"> 1. Cost and Management Audit - CMA Abhishek Jain, Himalaya Publishing House 2. Cost Audit and Management Audit - Saxena & Vashist, Sultan Chand Publishers 	To obtain in-depth knowledge about management audit processes to identify the scope of improvement at various functional areas of the organisation.
10	Management Reporting Issues and Analysis	<ol style="list-style-type: none"> 3. Cost Audit and Management Audit - A.R. Ramanathan, Tata McGraw – Hill 4. Management Audit - Dr. Mahesh Kulkarni, Dr. Suhas Mahajan, Nirali Prakashan 5. The Management Audit – Leonard 	To develop detail understanding about management reporting system to facilitate preparation of reliable reports which will ensure accurate data driven cost effective decisions and will build brand image.
11	Management Audit of Different Functions	<ol style="list-style-type: none"> 6. Efficiency Auditing - Walley, Macmillan Publishers 	To obtain in-depth knowledge about management audit processes to identify the scope of improvement at various functional areas of the organisation.
12	Evaluation of Corporate Image		To develop detail understanding about management reporting system to facilitate preparation of reliable reports which will ensure accurate data driven cost effective decisions and will build brand image.
13	Information Systems Security Audit		To develop adequate knowledge on information system, its security framework to evaluate whether information systems are safeguarding corporate assets, and maintaining the integrity of stored and communicated data.

Section C: Internal Control, Internal Audit, Operational Audit and Other Related Issues

14	Internal Control and Internal Audit	<ol style="list-style-type: none"> 1. Handbook on Internal Audit - CA Kamal Garg, Bharat's 2. Internal Audit Assurance: Governance, Risk and Control - Deepjee Singhal, CCH India 3. Auditor's Practice Manual - Kamal Garg, Bharat Law House Pvt Ltd 	To obtain a detail understanding of the scope and structure of internal control to conduct an evaluation of the same to identify the root causes of inadequacies and thereby recommend appropriate corrective actions.
15	Operational Audit and Internal Audit under Companies Act, 2013	<ol style="list-style-type: none"> 4. Auditing Principles and Practice - Ravinder Kumar and Virender Sharma, PHI 	To obtain in-depth knowledge about the existing regulatory framework for internal and operational audit to conduct effective audit procedure in organisations.
16	Audit of Different Service Organisations		To develop detail understanding of the audit procedure in various service organisations with an objective to facilitate risk-based performance management and maximisation of value creation or minimisation of value destruction.

Section D: Forensic Audit and Anti-Money Laundering

17	Forensic Audit	<ol style="list-style-type: none"> 1. Forensic Audit Decoded - G.C. Pipara, Taxmann 2. Forensic Audit - CA Kamal Garg, Bharat Law House Pvt Ltd 3. Essentials of Forensic Accounting - Michael A. Crain, William S. Hopwood, Carl Pacini, George R. Young 	To develop detail understanding of the financial forensics and forensic audit techniques to identify the scope left for committing frauds and recommend appropriate corrective actions.
18	Anti-Money Laundering	<ol style="list-style-type: none"> 4. Forensic Audit – The Institute of Cost Accountants of India's Publication, Kolkata 5. Case Studies in Forensic Accounting and Fraud Auditing - D. Larry Crumbley, Wilson A. LaGraize, Christopher E. Peters, CCH Inc. 6. IT Auditing Using Controls to Protect Information Assets - Davis Chris, McGraw – Education 7. Commentary on Law on Oral and Documentary Evidence - Field C D, Delhi Law House 8. Cyber Security - Godbole Nina, Wiley 	To understand international standards on combating money laundering and provide guidance to prevent and control money laundering transactions in the business operations.

		<p>9. The Modern Law of Evidence - Keane Adrian, OUP, UK</p> <p>10. Forensic Analytics: Methods and Techniques for Forensic Accounting Investigations - Mark J. Nigrini, John Wiley & Sons.</p> <p>11. Accounting: What the World's Best Forensic Accountants and Auditors Know About Forensic Accounting and Auditing – That You Don't - Greg Shields, Bravex Publications</p> <p>12. Forensic Accounting for Dummies - Shraibman and Sampath</p>	
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SECTION - A
COST AUDIT

Basics of Cost Audit

1

This Module includes:

- 1.1 Nature and Scope of Cost Audit**
- 1.2 Genesis of Cost Audit**
- 1.3 Objectives of Cost Audit**
- 1.4 Utility and Advantage of Cost Audit**
- 1.5 Cost Accounting Standards**

Basics of Cost Audit

SLOB Mapped against the Module

To develop detail understanding of Cost Accounting and Auditing Standards to ensure appropriate evaluation of cost records maintained. (CMLO 4a, b)

Module Learning Objectives:

This module helps to know about basis of Cost Audit. Cost Audit represents the verification of cost accounts and check on the adherence to cost accounting plan and also ascertain the accuracy of cost accounting records to ensure that they are in conformity with Cost Accounting principles, plans, procedures and objective. After studying this module, the students will be able to –

- ▲ Understand the Nature and Scope of Cost Audit
- ▲ Learn about the inception of Cost Audit
- ▲ Identify the Objectives of Cost Audit
- ▲ Ascertain the Utility and Advantages of Cost Audit
- ▲ Know and interpret the Cost Accounting Standards

Nature and Scope of Cost Audit

1.1

Cost Accounting is a process of identification, classification, measurement, and assignment of costs to various cost objects. Preparation & Presentation of cost records and cost statements is the responsibility of the Management. Therefore, Cost Accounting Standards are guidelines for the companies [for the management] that specify the cost accounting treatment for various cost elements, minimum disclosure requirements and ensure the comparability, consistency, and completeness of cost records.

According to Chartered Institute of Management Accountants, London (CIMA), cost audit is “the verification of the correctness of cost accounts and of the adherence to the cost accounting plan”. In other words, cost audit is the verification of the cost of production of any product, service or activity on the basis of accounts maintained by an enterprise in accordance with the accepted principles of cost accounting.

The Institute of Cost Accountants of India, defines cost audit as “a system of audit for the review, examination and appraisal of the cost accounting records and attendant information, required to be maintained by specified industries, as mandated by the applicable Companies Act and Rules framed thereunder.”

Cost Audit is an independent examination of cost statements, cost records and other related information of an entity, with a view to express an opinion thereon. Standards on Cost Auditing provide guidance to the cost auditor through each step of the audit process with regard to the audit procedures to be followed; responsibilities of the cost auditor; and cost reporting.

Practices, procedures and principles relating to cost accounting are covered in the Cost Accounting Standards; and practices, procedures and requirements relating to cost auditing are covered in the Standards on Cost Auditing. Standards on Cost Auditing are the best guide for the cost auditors. If followed scrupulously, the standards would help the cost auditor to streamline audit, to do better planning, better documentation, and effective implementation. Thus, these will help in improving the overall quality of audit. The cost auditor should carefully go through the standards and make best use of them. The Standards authorize the cost auditor to use the work of another auditor or expert – hence if satisfied, there is no need for checking every detail again which is already audited by another auditor or is certified by an expert. Therefore, if required & satisfied, the cost auditor can rely on the work done by another auditor/expert. The Standards are not to be remembered, but to be practiced by making these a part of the work culture and teaching these to the entire audit team.

Scope of Cost Audit

The primary objective of ‘Cost Audit’ is ensuring accuracy of cost data, accumulation and exact computation of the cost of a product. However, the vast scope of Cost Audit works as a mirror of entity’s performance. The tune is perfectly captured in the definition of ‘Cost Audit’ propagated by the professional bodies entrusted with the responsibility of regulating and monitoring Cost Audit.

The Institute of Cost & Works Accountants of India defines a cost audit as: “An audit of efficiency of minute details of expenditure ... Cost audit is mainly a preventive measure, a guide for management policy and decision ... and a barometer of performance.”

The Institute of Cost & Management UK defined cost audits as “the verification of the correctness of cost accounts and a check on the adherence to the cost accounting plan.”

In today’s dynamic business world, to become competitive in every product or services of the entity is of paramount importance. Hence, the prime mover of pricing and attached quality can only be ensured through appropriate cost structure. In view of this, ‘cost audit’ refers to the detailed verification of the correctness of costing techniques, costing systems, and cost accounts. It is necessary to ensure that records maintained for the purpose are accurate and correct to drive entity’s decision making process.

Beyond propriety, Cost Audit scope encompasses overall ‘efficiency’ and its’ improvement. The wider scope of Cost Audit can help-

- a. Control over element-wise cost
- b. Help in determining Sales Price and margin
- c. Assist Management in decision-making
- d. Necessity and results from each of the activity performed
- e. Setting of Standards and budgetary controls
- f. Minimizing wastages, if any
- g. Accuracy of inventory valuation
- h. Overall efficiency improvement of the entity

Hence, Cost Audit not only to be considered as a Compliance tool (where the same is mandatory), the outcome is far reaching to go ‘beyond compliance’.

In India, methods and techniques of cost accounting and audit of cost accounts can be traced back to pre-independence era when a large number of firms were given contracts by the Government of India on cost plus basis. The Government then started verifying and investigating into the cost structure of such firms. This trend continued on a large scale during World War II that led to the recognition of cost as a distinct concept not only in India but also in the industrial economies of the world. A phenomenon of cost consciousness started taking shape in the country and the Institute of Cost and Works Accountants of India was set up in 1944 with the objectives of promoting, regulating, and developing the profession of cost accountancy in the country. The Institute of Cost and Works Accountants of India (now The Institute of Cost Accountants of India) was later incorporated as a statutory body by an Act of Parliament in 1959.

In the mid-fifties, famous case of corporate frauds in Dalmia-Jain companies virtually jolted the then Government. It resulted in the Government appointing Vivian Bose Commission and later the Dutta Commission and Daphtary-Sastri Committee. These Commissions/ Committees observed inadequacies in the then existing system of financial accounting and audit and also in the then existing system of corporate disclosures. They recommended a more effective system of cost accounting and cost audit, to supplement the financial accounting and auditing practices. Further, in the initial phase of industrial development of the country, there was an acute shortage of goods & materials, as well as, majority of inputs and resources for the production/manufacture of various capital & consumer goods. In the face of scarcity and shortage of almost all the inputs, products and services, Government had to resort to a policy of permits and licensing. A mechanism of Cost audit and maintenance of structured cost data were considered as important instruments in the hands of the regulatory authorities to monitor, control and regulate the efficient use of scarce resources and inputs so made available and monitor cost of production and administer prices. Thus, Cost Audit as a unique feature of corporate management in India, emerged.

History of The Institute of Cost Accountants of India

1944: Institute of Cost & Works Accountants of India was established under the Companies Act 1913, as a Limited company.

1959: The Institute of Cost and Works Accountants of India (ICWAI) was established under Cost & Works Accountants Act, 1959.

2012: The Institute of Cost and Works Accountants of India (ICWAI) was renamed as “The Institute of Cost Accountants of India”

History of Cost Audit

1965: Cost Audit was first introduced in India with the introduction of Sec 233B of Companies Act 1956 for Cost Audit and Sec 209 (1) (d) for maintenance of Cost Records.

1965-2008: 44 industries covered under cost record maintenance & cost audit on a company specific basics.

2008: Expert Group set up to study the existing system of maintenance of cost accounting records and audit thereof.

2009: Expert Group submitted its report to the Central Government.

2011: Introduction of mandatory Cost Audit of Cost Records maintained by the Companies under Companies Act 1956 for Manufacturing, Mining and processing operations depending on limits of Turnover and Limits of Net Worth and issue of Compliance Certificate by the Cost Accountants

2014: New Companies (Cost Records and Audit Rules), 2014 issued under Companies Act, 2013

Section 148 of Companies Act, 2013, empowers the “Central Government to specify audit of items of cost in respect of certain companies”, as under:

1. Notwithstanding anything contained in this Chapter, the Central Government may, by order, in respect of such class of companies engaged in the production of such goods or providing such services as may be prescribed, direct that particulars relating to the utilisation of material or labour or to other items of cost as may be prescribed shall also be included in the books of account kept by that class of companies:

Provided that the Central Government shall, before issuing such order in respect of any class of companies regulated under a special Act, consult the regulatory body constituted or established under such special Act.

2. If the Central Government is of the opinion, that it is necessary to do so, it may, by order, direct that the audit of cost records of class of companies, which are covered under ‘Sub-section (1) and which have a net worth of such amount as may be prescribed or a turnover of such amount as may be prescribed, shall be conducted in the manner specified in the order.

3. The audit under sub-section (2) shall be conducted by a Cost Accountant in practice who shall be appointed by the Board on such remuneration as may be determined by the members in such manner as may be prescribed: Provided that no person appointed under section 139 as an auditor of the company shall be appointed for conducting the audit of cost records.

Provided further that the auditor conducting the cost audit shall comply with the cost auditing standards.

Explanation-For the purposes of this sub-section, the expression “cost auditing standards” mean such standards as are issued by the Institute of Cost and Works Accountants of India, constituted under the Cost and Works Accountants Act, 1959, with the approval of the Central Government.

4. An audit conducted under this section shall be in addition to the audit conducted under section 143.
5. The qualifications, disqualifications, rights, duties and obligations applicable to auditors [under this Chapter] shall, so far as may be applicable, apply to a cost auditor appointed under this section and it shall be the duty of the company to give all assistance and facilities to the cost auditor appointed under this section for auditing the cost records of the company:

Provided that the report on the audit of cost records shall be submitted by the cost accountant in practice to the Board of Directors of the company

6. A company shall within thirty days from the date of receipt of a copy of the cost audit report prepared in pursuance of a direction under sub-section (2) furnish the Central Government with such report along with full information and explanation on every reservation or qualification contained therein.
7. If, after considering the cost audit report referred to under this section and the information and explanation furnished by the company under sub-section (6), the Central Government is of the opinion that any further information or explanation is necessary, it may call for such further information and explanation and the company shall furnish the same within such time as may be specified by that Government.
8. If any default is made in complying with the provisions of this section,-
 - (a) The company and every officer of the company who is in default shall be punishable in the manner as provided in sub-section (1) of section 147;
 - (b) The cost auditor of the company who is in default shall be punishable in the manner as provided in sub-sections (2) to (5) of section 147.

Objectives of Cost Audit

1.3

Cost Audit has both general and social objectives.

General Objectives:

- ⦿ Verification of cost accounts with a view to ascertaining that these have been properly maintained and compiled according to the cost accounting system followed by the enterprise.
- ⦿ Ensuring that prescribed procedures of the cost accounting records rules are duly adhered to.
- ⦿ Detection of errors and fraud.
- ⦿ Verification of the cost of each “cost unit” and “cost center” to ensure that these have been properly ascertained.
- ⦿ Determination of inventory valuation.
- ⦿ Facilitating the fixation of prices of goods and services.
- ⦿ Periodical reconciliation between cost accounts and financial accounts.
- ⦿ Ensuring optimum utilization of human, physical and financial resources of the enterprise.
- ⦿ Detection and correction of abnormal loss of material and time
- ⦿ Advising management, on the basis of inter-unit/inter-firm comparison of cost records, as regards the areas where performance calls for improvement.
- ⦿ Promoting corporate governance through various operational disclosures to the directors.
- ⦿ Helping the entity in matters of Anti Dumping Duty, valuation of cost of production of goods and services, anti-profiteering (e.g. GST), price controls (e.g. Pharma industry in the past), etc.

Socials Objectives:

- ⦿ Verifying whether the pricing of the products are justified as per the product and quality are concerned,
- ⦿ Removing the disparities, if any, in the pricing of products and/or services.
- ⦿ Looking into that no cost based economic imbalance may occur in product and /or services.
- ⦿ Facilitating in the global market cost competitiveness of the products.
- ⦿ Ensuring the efficient utilization of resources.

Utility and Advantage of Cost Audit

1.4

In the initial years, Cost Audit was taken merely as a tool for price control mechanism for consumer and infrastructure industries in India. The main objective of Cost Audit when statutorily introduced under the provisions of the Companies Act, 1956 was to meet the Government requirements for regulating the administered price mechanism in some core industries. The objective was to provide an authentic data to the Government to regulate the demand and supply in the country through a price control mechanism.

The liberalization of the economy and consequential globalization has further enhanced the need for authentic data. The Expert committee formed by the Government of India to study the Cost Audit scenario in the country, highlighted the following benefits of cost information:

- (a) Cost information enables the organisation to structure the cost, understand it and use it for communicating with the stakeholders.
- (b) Costing is an important tool in assessing organisational performance in terms of shareholder and stakeholder value. It informs how profits and value are created, and how efficiently and effectively operational processes transform input into output. It contributes to the data input on economy level parameters like resources efficiency, waste management, resources allocation policies etc.
- (c) Costing includes product, process, and resource-related information covering the functions of the organisation and its value chain. Costing information can be used to appraise actual performance in the context of implemented strategies.
- (d) Good practice in costing should support a range of both regular and non-routine decisions when designing products and services to:
 - meet customer expectations and profitability targets;
 - assist in continuous improvements in resources utilisation; and
 - guide product mix and investment decisions.
- (e) Working from a common data source (or a single set of sources) also helps to ensure that output reports for different audiences are reconcilable with each other.
- (f) Integrating databases and information systems can help to provide useful costing information more efficiently as well as reducing source data manipulation.

As per International Federation of Accountants (IFAC) cost audits help to ascertain whether an organisation's cost accounting records are so maintained as to give a true and fair view of the cost of production, processing, manufacturing, and mining of a product. Therefore, cost audits can be used to the benefit of management, consumers and shareholders by (a) helping to identify weakness in cost accounting systems, and (b) to help drive down costs by detecting wastage and inefficiencies. Cost audits are also of assistance to governments in helping to formulate tariff and taxation policies.

Cost Accounting Standards

1.5

Cost Accounting Standards are set of standards that are designed to achieve uniformity and consistency in cost accounting principles and practices.

The Institute of Cost Accountants of India, recognising the need for structured approach to the measurement of cost in manufacture or service sector and to provide guidance to the user organisations, government bodies, regulators, research agencies and academic institutions to achieve uniformity and consistency in classification, measurement and assignment of cost to products and services, has constituted Cost Accounting Standards Board (CASB) with the objective of formulating the Cost Accounting Standards.

The Cost Accounting Standards:

- Provide a structured approach to measurement of costs in manufacturing process or service industry;
- Integrate, harmonize, and standardize cost accounting principles and practices;
- Provide guidance to users to achieve uniformity and consistency in classification, measurement, assignment, and allocation of costs to products or services;
- Arrive at the basis of computing the cost of product, activity, or service where required by legal or regulatory bodies;
- Enable practicing members to make use of Cost Accounting Standards in the attestation of General Purpose Cost Statements; and
- Assist in clear and uniform understanding of all the related issues of various user organisations, government bodies, regulators, research agencies and academic institutions.

Exercise

A. Theoretical Questions

⊙ Multiple Choice Questions

1. Cost Audit was first introduced in the year _____.
 - A. 1959
 - B. 1965
 - C. 1949
 - D. 1975
2. Cost Audit was first introduced for _____ industry.
 - A. Cement
 - B. Iron & Steel
 - C. Jute
 - D. Sugar
3. Govt. of India has issued order with respect to introduction of mandatory Cost Audit of Cost Records maintained by the Companies in the year _____.
 - A. 2008
 - B. 2009
 - C. 2011
 - D. 2014
4. The report on the audit of cost records is submitted by the cost auditor to _____.
 - A. Managing Director
 - B. Finance Director
 - C. Audit Committee
 - D. Board of Directors
5. The cost auditor of the company who is in default in compliance with section 148 shall be punishable in the manner as provided in _____.
 - A. Section 139 of Companies Act, 2013
 - B. sub-sections (1) to (3) of section 148 of Companies Act, 2013
 - C. Section 143 of Companies Act, 2013
 - D. sub-sections (2) to (5) of section 147 of Companies Act, 2013

⊙ **State True or False**

1. The Defense contract during the World war-II were mostly given based on Cost Plus 15% margin basis.
2. The Institute of Cost and Works Accountants of India was set up in 1944 with the objectives of determining cost of production.
3. A company shall submit cost audit report to the Central Government within thirty days from the date of signing of the same.
4. Cost Accounting Standards has formulated by Cost Auditing and Assurance Standards Board.
5. The auditor conducting the cost audit shall comply with the Cost Accounting Standards.

⊙ **Fill in the Blanks**

1. The Institute of Cost Accountants of India was set up in the year _____.
2. The Cost Accounting system was initially developed based on recommendation of _____ Commission.
3. The company and every officer of the company who is in default in compliance with Section 148 shall be punishable under Sub-section _____ of Section _____.
4. The Institute of Cost and Works Accountants of India (ICWAI) was renamed as “The Institute of Cost Accountants of India” in the year _____.

⊙ **Short Essay type Questions**

1. What are the objectives of Cost Audit?
2. What is the Genesis of Cost Audit?

Answer:

Multiple Choice Questions

1.	B. 1965
2.	A. Cement
3.	C. 2011
4.	D. Board of Directors
5.	D. Sub-sections (2) to (5) of section 147 of Companies Act, 2013

State True or False

1.	(False) - The Defence contract during the World War-II were mostly given based on Cost Plus margin basis.
2.	(False) - The Institute of Cost and Works Accountants of India was set up in 1944 with the objectives of promoting, regulating, and developing the profession of cost accountancy in the country.
3.	(False) - A company shall submit cost audit report to the Central Government within thirty days from the date of received of the same.
4.	(False) - Cost Accounting Standards has formulated by Cost Accounting Standards Board.
5.	(False) - The auditor conducting the cost audit shall comply with the Cost Auditing Standards.

Fill in the Blanks

1.	1944
2.	Vivian Bose.
3.	Sub-section (1) of section 147
4.	2012