

Cost Audit Programme

6

This Module includes:

- 6.1 Introduction**
- 6.2 Factors in Planning Cost Audit Assignment**
- 6.3 Cost Audit Programme**

Cost Audit Programme

SLOB Mapped against the Module

To develop detail understanding on preparation of Cost Audit Programme.
(CMLO 4b)

Module Learning Objectives:

This module enumerates the important factors which are considered in planning the Audit Assignment and also discusses about the overall checklist of the Cost Audit Programme to audit the various cost elements. After studying this module, the students will be able to –

- ▲ Learn about the Cost Audit Programme
- ▲ Understand the Factors in Planning Cost Audit Assignment

A cost accountant in practice should observe certain principles in planning and performing the cost audit in hand. The work should be planned with professional care recognising that circumstances may exist to cause the cost statements to be materially misstated. Therefore, the audit assignment should be so programmed to provide reasonable assurance that the cost information provided is free of material misstatements.

Factors in Planning Cost Audit Assignment

6.2

In planning the audit assignment certain important factors are taken into consideration viz.

- (a) Requirement of audit personnel for the assignment
- (b) Documentation of the audit procedures and of evidences
- (c) Quality control exercised over performance of the assignment etc.

We describe each one of these factors in planning the audit programme for the students to understand them, in the following paragraphs.

Audit personnel for the assignment

Experience and training of audit personnel engaged for the assignment should be considered particularly keeping in view the relevant industry. Prior practical experience of the industry helps in carrying out the study of the system and procedures in vogue. For this purpose, two pronged approaches may be adopted by the cost auditors. First, a study of the industry and the second, study of the Annual Reports of the auditee company for the past at least 5 years.

The cost audit team to whom the assignment is to be delegated need appropriate direction and supervision. It is therefore, essential that they accomplish the following tasks:

- (i) Physical inspection of the activities and the area where they are performed;
- (ii) Knowledge of the key personnel responsible for the activities and for the maintenance of cost records;
- (iii) Physical inspection of the cost accounting records and other records relating to activities;
- (iv) Study of the statements of budgets, plans and strategies relating to activities;
- (v) Study of the Cost Accounting system used and the basis according to relevant CAS.

The audit personnel should be asked to collect the documentary evidences for the above tasks and file in the relevant cost audit file for future reference.

Documentation of the audit procedures and of evidences

The cost auditor should document all matters which are important in providing evidence to support the opinion given in the report. Documentation means the working papers prepared by and for, or obtained and retained by the cost auditor in connection with the performance of the audit or compliance function. Working papers record the evidence resulting from the work performed, to support the cost auditors' opinion. It is important to remember that the documents may include issues beyond accounting data as other information such as production schedule, quantitative and statistical data etc. may be required for preparation of performance analysis.

The daily worksheets should include all queries raised, with it was discussed and how, and if they were satisfied. Use of standardised working papers such as, checklists, confirmation forms, standard letters etc. may improve the efficiency with which such working papers are prepared and reviewed. Schedules, statements, analyses and other documents prepared by the entity may be utilised and treated a part of the working papers, only after being satisfied that the materials have been properly prepared with due care.

Working paper management improves the productivity of the audit assignment undertaken. The essentiality is that of quick retrieval of information from the files of working papers. Working paper file contains details relating to the financial year under reference. This file should be properly indexed and divided into convenient sections.

The cost auditor and his team should adopt appropriate procedures for maintaining the confidentiality and safe custody of the working papers and for retaining them for a period sufficient to meet the needs of the practice and in accordance with legal and professional requirements of retention of records.

Quality control over performance of the assignment

Supervision and control involves direction, review and monitoring of the audit assignment in hand. The personnel carrying out these responsibilities generally perform the following functions during the course of audit.

- (a) Monitoring the progress of the preparation / maintenance of cost accounting records;
- (b) Reviewing that the audit assistants do have necessary skill and competence to understand the system and procedure to carry out the assigned tasks as per the overall plan;
- (c) Being aware of the cost accounting and auditing questions raised during carrying out of the assignment and assessing their significance and modifying the plan and programme, as considered necessary; and
- (d) Removing the differences of professional judgement between the personnel and deciding the level which is appropriate for reference purpose.

Checklist to Audit various Cost Elements

Before discussing the overall checklist of the cost audit programme, it is prudent to go through the checklists to audit various cost elements as mentioned below:

1. Audit of production - Product wise
2. Audit of raw material cost
3. Audit of key raw materials inventory status
4. Audit of electricity cost
5. Audit of cost of electricity generated by DG set
6. Audit of demineralised water cost
7. Audit of steam cost
8. Audit of stores and spares cost
9. Audit of repairs and maintenance cost
10. Audit of employee cost
11. Audit of insurance cost
12. Audit of depreciation cost
13. Audit of administrative overhead cost
14. Audit of selling and distribution overhead cost
15. Audit of packing material cost
16. Audit of sales value

6.3.1 Audit of Production - Product Wise

Following checklist should be considered to audit production - product wise:

- ⊙ Ensure that there is proper inventory balancing for each of the finished product, for example, $\text{Opening Stock} + \text{Production} = \text{External Sales} + \text{Internal Transfers} + \text{Closing Stock}$
- ⊙ Ensure that closing stock of previous year is correctly considered as opening stock of current year

- ⦿ Check the capacity utilisation of previous 5 years - product wise
- ⦿ For any abnormal under utilisation of production capacity the auditor should seek the reasons from the management and what steps management has proposed to undertake to overcome under utilisation of capacity. Under utilisation of capacity should merit attention and focus where either product is profitable or the product has substantial positive contribution
- ⦿ Check whether there is any circumstance where there is addition to capacity for any product during the year but actual production achieved is either equal to or less than that of previous year. Reasons for the same should be sought from the management
- ⦿ The cost auditor should ask for MIS Reports as shown in Table 1 & 2.

Table 1

Inventory Balancing of Each of Finished Product

Products	Unit	Opening Stock	Production	External Sales	Internal Transfers	Closing Stock
1	MT					
2	-do-					
3	-do-					
4	-do-					
5	-do-					

Table 2

Product wise Capacity Utilisation of Previous 5 Years

Products	Capacity Utilisation	F.Y. 2018-19	F.Y. 2019-20	F.Y. 2020-21	F.Y. 2021-22	F.Y. 2022-23
1	%					
2	-do-					
3	-do-					
4	-do-					
5	-do-					

6.3.2 Audit of Raw Material Cost

Following checklist should be kept in view to audit raw material cost during cost audit:

- ⦿ Ensure that proper quantitative inventory balancing is carried out for all the raw materials, for example, Opening Stock + Purchases – Consumption = Closing Stock (Refer Table 3).
- ⦿ Work out Input / Output Ratios for key raw materials for previous 3 to 5 years. (Refer Table 5). Least of these 3 to 5 years Input / Output Ratio can be considered as Benchmark Input / Output Ratio. Consumption of current year should be compared against this Benchmark Ratio. There should be proper justification for any significant increase.

- ⦿ In case of chemical based industries, some chemicals tend to evaporate during their storage. Being normal loss, it should be shown as consumption for that product. In case of multiple products, this normal loss need to be appropriated among products based on consumption quantity.
- ⦿ In some cases it may happen that residue of some particular raw material is not reusable but has to be sold out in the market, say for example, raw material X is used in Product A & Product B. It may be the case that residue of Product A is saleable but that of Product B is not saleable. In such case, sale value of residue of raw material X will be reduced from raw material consumption of X for Product A only. Other case may be that residue of both the Products A & B is saleable. In such case, sale value of residue of raw material X will be reduced from raw material consumption of X for Product A as well as Product B.
- ⦿ If R & D Department has carried out some process improvement for reducing the consumption of some key raw material then it needs to be checked how much raw material consumption has reduced.
- ⦿ For charging raw material cost to product/products, both FIFO & Weighted Average rates can be applied. A company can follow any method but it needs to be ensured that it is applied consistently.
- ⦿ Usually, a company prepares expense control chart where raw material is shown by different cost centres like production cost centres and utilities cost centres like filtered water, DM water, boiler, cooling water etc. The total of all these cost centres should agree with total raw material consumption as per Trial Balance.
- ⦿ If some raw material is produced in-house, then the company would have created separate cost centre for that raw material. So its valuation should be done as per costs which are booked against this cost centre.
- ⦿ Sometimes it may happen that both imported & local raw materials are used in various products. In such case it is prudent to show consumption of both imported & local raw materials in the same proportion in all the products to avoid distortion of that particular raw material cost in various products.
- ⦿ Similarly, it may happen that both local & self manufactured raw materials are used in various products. In this case also it is better to show consumption of both local & self manufactured raw materials in the same proportion in all the products to avoid distortion of that particular raw material cost in various products.
- ⦿ Distillation loss of a manufactured product can be explained by citing the example, say, a company is making product A which can either be sold as product A or which can be converted into product B and can be sold as product B. Now, sometimes product A is required to be distilled either (i) before selling it as product A or (ii) before its conversion into product B. In case of (i) above, it will form part of cost of production of product A and in case of (ii) above, it will form part of cost of production of B.
- ⦿ Sometimes a company may keep rented storage tank at port to store the material which is subsequently brought to the company premises. This rent will form part of cost of material.
- ⦿ Usage above standard may be due to unproductive plant or equipment being used in manufacture. Check and ensure that correct equipment is being used.
- ⦿ Explore the possibility to tie up the entire requirement of A category raw materials with proven manufacture at a fixed rate. This will result in no risk factor for any increase in cost of that raw material during the period of contract.
- ⦿ R & D department can carry many innovations for utilizing alternative cheaper materials without compromising on quality of output.

- ⦿ Demurrage or detention charges or any penalty levied should not form part of landed cost of raw material.
- ⦿ Examine if all the specifications and features of the product, some of which are causes for this extra spoilage, are really necessary and if insisted upon then they are paid for by the customer.
- ⦿ Ensure that at the end of the year all raw materials dispatched by suppliers through the public or private carriers where ownership of goods has been passed on to the company are shown either in transit or as receipts.
- ⦿ Check that the opening balance is correct after adjustment of results of physical stock verification. Similarly closing balances should be checked to ensure that adjustments on stock verification have been carried out.
- ⦿ Check up whether all the receipts have been correctly valued after taking into account freight and other incidental charges.
- ⦿ Statement of over-usage of raw materials should be prepared regularly and it should be given to concerned departmental head for necessary action.
- ⦿ R & D department should suggest how to reduce/eliminate wastages.
- ⦿ Check the trend of rates of key raw materials for previous 4 years (Refer Table 4).

Table 3
Balancing of Key Materials in MT

Particulars	Opening Stock	Purchases	Total Available	Consumption	Transfer to other plant	Closing Stock
Raw Material 1						
Raw Material 2						
Raw Material 3						
Raw Material 4						
Raw Material 5						

Table 4
Rates of Key Raw Materials for Previous 4 Years

Particulars	Unit	F.Y. 2019-20	F.Y. 2020-21	F.Y. 2021-22	F.Y. 2022-23
Raw Material 1	₹/MT				
Raw Material 2	-do-				
Raw Material 3	-do-				
Raw Material 4	-do-				
Raw Material 5	-do-				

Table 5
Consumption of Key Raw Materials per MT of Finished Products

Particulars	Finished Products	Unit	F.Y. 2019-20	F.Y. 2020-21	F.Y. 2021-22	F.Y. 2022-23
Raw Material 1	Finished Products 1	MT / MT				
Raw Material 2	Finished Products 2	-do-				
Raw Material 3	Finished Products 3	-do-				
Raw Material 4	Finished Products 4	-do-				
Raw Material 5	Finished Products 5	-do-				

6.3.3 Audit of Key Raw Materials Inventory Status

Following list of control points should be kept in view for audit of key raw materials representing significant inventory value.

List of control points:

- ⊙ Obtain information about current stock position
- ⊙ Assess how the stock position is keeping pace with consumption pattern
- ⊙ Check whether unnecessary increase in the volume of inventory results in more and more cost locked up in inventory (Refer Table 6)

Table 6
List of Key Raw Materials Inventory Dominating Total Inventory Value of Raw Materials

Key Finished Products	Average Monthly Consumption Previous Year (MT)	Average Monthly Consumption Current Year (MT)	Closing Stock of the Month (MT)	Closing Stock as Months' Cover
Raw Material 1				
Raw Material 2				
Raw Material 3				
Raw Material 4				
Raw Material 5				

6.3.4 Audit of Electricity Cost

Following checklist should be kept in view to audit electricity cost during cost audit:

- ⊙ Focus on A Category cost centres (Refer Table 7)
- ⊙ Any increase in consumption without any corresponding increase in output requires explanation from the management as it is a matter of concern (Refer Table 7 & 8)

- ⦿ Check the trend of electricity cost for previous 5 years (Refer Table 9, 10, & 11)
- ⦿ Check whether proper meters are installed
- ⦿ Check whether meters are regularly calibrated
- ⦿ Monthly report showing cost centre wise allocation of electricity as submitted by electrical department should be the basis for ascertainment of cost centre wise/product wise electricity cost (Refer Table 7 & 12)
- ⦿ A company may have more than one source of electricity. Therefore, check and verify the effect of different sources of electricity on overall cost of electricity
- ⦿ Check that optimum electricity is procured from the cheaper source (Refer Table 13)

Table 7**Trend of Consumption of Electricity for Previous 5 Years – Cost Centre wise**

Cost Centres	Unit	F.Y. 2018 - 19	F.Y. 2019 - 20	F.Y. 2020 - 21	F.Y. 2021 - 22	F.Y. 2022 - 23
Production Cost Centres	KWH					
1	-do-					
2	-do-					
3	-do-					
Total 1	-do-					
Utility Cost Centres						
Filtered Water	-do-					
DM Water	-do-					
Steam	-do-					
Air Compressor	-do-					
Nitrogen	-do-					
Cooling Water	-do-					
Chilled Water	-do-					
Total 2	-do-					
Others						
Stores	-do-					
Warehouse	-do-					
Office	-do-					
Total 3	-do-					
Total 1 + 2 + 3	-do-					

Table 8
Consumption of Electricity per MT of Finished Products for 5 years
(For A Category & B Category Products)

Products	Unit	F.Y. 2018 - 19	F.Y. 2019 - 20	F.Y. 2020 - 21	F.Y. 2021 - 22	F.Y. 2022 - 23
1	KWH/MT					
2	-do-					
3	-do-					
4	-do-					
5	-do-					

Table 9
Trend of Cost of Electricity for Previous 5 Years

Particulars	Unit	F.Y. 2018 - 19	F.Y. 2019 - 20	F.Y. 2020 - 21	F.Y. 2021 - 22	F.Y. 2022 - 23
Cost of electricity	₹/KWH					

Table 10
Cost of Electricity (₹/MT) for Key Products for 5 Years

Products	Unit	F.Y. 2018 - 19	F.Y. 2019 - 20	F.Y. 2020 - 21	F.Y. 2021 - 22	F.Y. 2022 - 23
1	₹/MT					
2	-do-					
3	-do-					
4	-do-					
5	-do-					

Table 11
Total Electricity Cost for the Company for Previous 5 Years

Particulars	Unit	F.Y. 2018 - 19	F.Y. 2019 - 20	F.Y. 2020 - 21	F.Y. 2021 - 22	F.Y. 2022 - 23
Electricity Cost	₹ Lakhs					

Table 12
Consumption of Electricity – Product wise

Products	Unit	F.Y. 2018 - 19	F.Y. 2019 - 20	F.Y. 2020 - 21	F.Y. 2021 - 22	F.Y. 2022 - 23
1	KWH					
2	-do-					
3	-do-					
4	-do-					
5	-do-					
Total	-do-					

Table 13
Procurement of Electricity & its Average Cost – Source wise

Source	F.Y 2020 - 21			F.Y. 2021 - 22			F.Y. 2022 - 23		
	KWH	₹ Lakhs	₹ / KWH	KWH	₹ Lakhs	₹/ KWH	KWH	₹ Lakhs	₹/ KWH
1									
2									
3									
4									
5									
Total									

6.3.5 Audit of Cost of Electricity Generated by DG Set

Following checklist should be remembered to audit the cost of electricity generated by DG set:

- ⊙ Monthly report of Diesel Generating Set prepared by officer in-charge of DG set should be the basis for ascertainment of cost of electricity generated
- ⊙ Ensure that monthly report contains the following information:
 - (a) No of hours DG set is operated
 - (b) Quantity of high speed diesel used
 - (c) Total units generated

- ⦿ Proper meters should be in place to quantify the total units generated and units allocated to various cost centres
- ⦿ Meters should be regularly calibrated
- ⦿ There should be proper system to quantify quantity of diesel used
- ⦿ Ratio of units (KWH) generated to diesel used should be studied for previous 5 years
- ⦿ Ensure that allocation of units to various cost centres are in line with the output of respective cost centres
- ⦿ Ensure that employee cost is properly booked and it pertains to only those employees who are really employed for DG set and actually working for DG set
- ⦿ Ensure that cost of consumable stores and repairs is properly allocated and it pertains to cost actually incurred for DG set
- ⦿ Ensure the correctness of depreciation and insurance booked against DG set
- ⦿ Ensure that proper cost centre is allocated to DG set
- ⦿ Generally, CMA Department prepares expense control chart which lists out all the expenses incurred for DG set and its allocation to various cost centres. The cost auditor should also go through this expense control chart
- ⦿ Cost auditor should ask for MIS reports as shown in Table 14, 15 & 16

Table 14
Trend of Cost of Electricity Generated for Previous 5 Years

Particulars	Unit	F.Y. 2018 - 19	F.Y. 2019 - 20	F.Y. 2020 - 21	F.Y. 2021 - 22	F.Y. 2022 - 23
Cost of Electricity Generated	₹ / KWH					

Table 15
Trend of Cost of Electricity per MT of Product 1 for Previous 5 Years

Particulars	Unit	F.Y. 2018 - 19	F.Y. 2019 - 20	F.Y. 2020 - 21	F.Y. 2021 - 22	F.Y. 2022 - 23
Cost of Electricity per MT of product 1	₹ / MT					

Table 16
Trend of Consumption of Electricity for Previous 5 Years – Cost Centre wise

Cost Centres	Unit	F.Y. 2018 - 19	F.Y. 2019 - 20	F.Y. 2020 - 21	F.Y. 2021 - 22	F.Y. 2022 - 23
Production Cost Centres	KWH					
1	-do-					
2	-do-					
3	-do-					
Total 1	-do-					
Utility Cost Centres						
Filtered Water	-do-					
DM Water	-do-					
Steam	-do-					
Air Compressor	-do-					
Nitrogen	-do-					
Cooling Water	-do-					
Chilled Water	-do-					
Total 2	-do-					
Others						
Stores	-do-					
Warehouse	-do-					
Office	-do-					
Total 3	-do-					
Total 1 + 2 + 3	-do-					

6.3.6 Audit of Demineralised Water Cost

Following checklist should be kept in view to audit demineralised water cost during cost audit:

- ⦿ Proper cost centre should be allocated to DM water plant
- ⦿ Monthly report prepared for demineralised water plant should form the basis for ascertainment of cost of demineralised water plant
- ⦿ Ensure that monthly report so prepared contains the following data
 - (a) Quantity of filtered water used
 - (b) Quantity of chemicals used

- (c) Electricity units used (KWH)
- (d) Quantity of demineralised water generated
- (e) Quantity of demineralised water allocated to production cost centres, boiler etc
- ⊙ There should be proper system in place to quantify quantity of demineralised water generated and quantity allocated to various cost centres
- ⊙ It is recommended to have proper meters which should be regularly calibrated
- ⊙ Ensure that quantity of DM water allocated to production cost centres and boiler are in line with output of respective cost centres
- ⊙ Ensure that employee cost allocated pertains only to those employees who are looking after DM water plant
- ⊙ Ensure that cost of consumables and repairs allocated to demineralised water plant actually pertains to DM water plant only. It should be ensured that expenses pertaining to other cost centres are not booked against DM water cost centre
- ⊙ Ensure correctness of depreciation and insurance
- ⊙ Cost of electricity should be as per work sheet prepared by CMA department
- ⊙ Cost of chemicals consumed should be as per priced stores ledger
- ⊙ Generally, company prepares expense control chart which shows compilation of element wise cost of DM water and its allocation to various cost centres. The cost auditor should collect and go through this expense control chart
- ⊙ Ensure that cost sheet of DM water shows correct applicable cost of filtered water
- ⊙ Cost auditor should ask for the MIS report as shown in Table 17, 18 & 19

Table 17

Cost of Demineralised Water for Previous 5 Years

Year	Unit	F.Y. 2018 - 19	F.Y. 2019 - 20	F.Y. 2020 - 21	F.Y. 2021 - 22	F.Y. 2022 - 23
Cost	₹ / KLT					

Table 18

Cost of Demineralised Water per MT of Product 1 for Previous 5 Years

Year	Unit	F.Y. 2018 - 19	F.Y. 2019 - 20	F.Y. 2020 - 21	F.Y. 2021 - 22	F.Y. 2022 - 23
Product 1	₹ / MT					

Table 19
Cost of Consumption of DM Water for Previous 5 Years – Centre wise

Particulars	Unit	F.Y. 2018 - 19	F.Y. 2019 - 20	F.Y. 2020 - 21	F.Y. 2021 - 22	F.Y. 2022 - 23
Production Cost Centres	MT					
Boiler						

6.3.7 Audit of Steam Cost

Following checklist should be considered to audit steam cost during cost audit:

- ⊙ Generally boiler house prepares monthly report which becomes the basis for ascertainment of cost of steam. Ensure that monthly report for boiler contains the following information:
 - (a) Running hours of boiler
 - (b) Quantity of steam generated (MT)
 - (c) DM water consumption (KL)
 - (d) Electricity consumption (Kwh)
 - (e) Fuel consumption
 - (f) Furnace oil, LSHS, Light Diesel oil, coal, Lignite etc.
 - (g) Steam consumption in boiler auxiliary
 - (h) Line losses
 - (i) Steam consumed by manufacturing plants, labs etc
- ⊙ The cost auditor should check the following ratios for previous 5 years:
 - (a) Cost of steam generated for previous 5 years (Refer Table 20)
 - (b) Quantity of steam generated per unit of fuel used (Refer Table 21)
 - (c) Quantity of steam consumption in boiler auxiliary to total steam generated
 - (d) Quantity of line losses to total steam generated
 - (e) Quantity of steam per MT of finished product (Refer Table 22)
 - (f) Cost of steam per MT of finished product for previous 5 years (Refer Table 23)
- ⊙ Focus on A category cost centres (Refer Table 24)
- ⊙ Proper steam meters should be in place to quantify steam generation and its allocation to various cost centres
- ⊙ Steam meters should be regularly calibrated
- ⊙ Line losses may be due to leakages in pipe lines. So all pipe lines should be properly insulated
- ⊙ Ensure that employees cost is correctly worked out and cost of only those employees is considered who are really employed for boiler house
- ⊙ Ensure that cost of consumable stores and repairs is properly booked against boiler

- ⊙ Ensure that depreciation and insurance are correctly worked out
- ⊙ Cost auditor should go through steam cost of previous 5 years
- ⊙ Generally CMA department prepares expense control chart which lists out all expenses for boiler and its allocation to various cost centre. The auditor can study this expense control chart

Table 20

Cost of Steam Generated for Previous 5 Years

Particulars	Unit	F.Y. 2018 - 19	F.Y. 2019 - 20	F.Y. 2020 - 21	F.Y. 2021 - 22	F.Y. 2022 - 23
Cost of Steam Generated	₹ / MT					

Table 21

Input / Output Ratio at Steam Generation Stage for Previous 5 Years

Particulars	Unit	F.Y. 2018 - 19	F.Y. 2019 - 20	F.Y. 2020 - 21	F.Y. 2021 - 22	F.Y. 2022 - 23
Coal	MT					
Steam	-do-					
Input /Output Ratio	MT / MT					

Table 22

Consumption of Steam per MT of Finished Product for Previous 5 Years

Particulars	Unit	F.Y. 2018 - 19	F.Y. 2019 - 20	F.Y. 2020 - 21	F.Y. 2021 - 22	F.Y. 2022 - 23
Steam	MT					
Product 1	-do-					
Steam per MT of Product 1	MT / MT					

Table 23

Cost of Steam per MT of Product 1 for Previous 5 Years

Particulars	Unit	F.Y. 2018 - 19	F.Y. 2019 - 20	F.Y. 2020 - 21	F.Y. 2021 - 22	F.Y. 2022 - 23
Product 1	₹ / MT					

Table 24
Consumption of Steam (in MT) for Previous 5 years – Cost Centre wise

Sr. No.	Production Cost Centres	F.Y. 2018 - 19	F.Y. 2019 - 20	F.Y. 2020 - 21	F.Y. 2021 - 22	F.Y. 2022 - 23
1	1					
2	2					
3	3					
4	4					
5	5					
	TOTAL					

6.3.8 Audit of Stores and Spares Cost

Following checklist should be kept in view to audit cost of stores & spares during cost audit:

- ⊙ The cost auditor should obtain information as shown in Table 25 from either CMA department/Finance department or through prevailing ERP system in the company. It provides at a glance year wise, cost centre wise expenses on stores & spares. If there is any substantial increase in expenditure with respect to any particular cost centre/cost centres then reasons for the same should be discussed with the head of that cost centre(s) so that appropriate action can be taken to prevent such recurrences. Through this table, cost auditor will come to know A category of cost centres which will account for 70% to 75 % of total stores & spares expenses incurred. It is always advisable to focus on these A category cost centres to monitor, control and reduce expenses on stores & spares. This is because even a small step taken by the management with respect to these A category of cost centres will result in far greater advantage to the management regarding cost control and cost reduction with respect to stores & spares
- ⊙ Similarly, cost auditor should obtain information as shown in Table 26 from either CMA department/Finance department or through prevailing ERP system in the company. It provides at a glance year wise, product wise expenses on stores & spares. If there is any substantial increase in expenditure with respect to any particular product then reasons for the same should be discussed with the head of concerned cost centre(s) so that appropriate action can be taken to prevent such recurrences
- ⊙ The cost auditor can pick up few major items of stores & spares and ensure that they have been booked against correct cost centres
- ⊙ The cost auditor should ask for information as shown in Table 27. The higher per MT expenses can be due to lower capacity utilization which he needs to highlight to the management
- ⊙ The cost auditor should also go through expense control chart which shows plant wise expenses duly tied up with Trial Balance

Table 25
Expenses Incurred on Stores & Spares for Previous 5 Years – Cost Centre wise

Cost Centres	Unit	F.Y. 2018 - 19	F.Y. 2019 - 20	F.Y. 2020 - 21	F.Y. 2021 - 22	F.Y. 2022 - 23
Production Cost Centres						
1	₹ Lakhs					
2	-do-					
3	-do-					
Total 1	-do-					
Utility Cost Centres						
Filtered Water	-do-					
DM Water	-do-					
Steam	-do-					
Air Compressor	-do-					
Nitrogen	-do-					
Cooling Water	-do-					
Chilled Water	-do-					
Total 2	-do-					
Others						
Stores	-do-					
Warehouse	-do-					
Office	-do-					
Total 3	-do-					
Total 1+2+3	-do-					

Table 26
Cost of Stores & Spares for Previous 5 Years – Product wise

Products	Unit	F.Y. 2018 - 19	F.Y. 2019 - 20	F.Y. 2020 - 21	F.Y. 2021 - 22	F.Y. 2022 - 23
1	₹ Lakhs					
2	-do-					
3	-do-					
4	-do-					
5	-do-					
TOTAL	-do-					

Table 27

Cost of Stores & Spares (₹/MT) for Previous 5 Years – Product wise

Products	Unit	F.Y. 2018 - 19	F.Y. 2019 - 20	F.Y. 2020 - 21	F.Y. 2021 - 22	F.Y. 2022 - 23
1	₹ / MT					
2	-do-					
3	-do-					
4	-do-					
5	-do-					
TOTAL	-do-					

6.3.9 Audit of Repairs and Maintenance Cost

Following checklist should be taken into account to audit cost of repairs & maintenance during cost audit:

- ⊙ The cost auditor should obtain information as shown in Table 28 from either CMA department/Finance department or through prevailing ERP system in the company. It provides at a glance year wise, cost centre wise expenses on repairs & maintenance. If there is any substantial increase in expenditure with respect to any particular cost centre / cost centres then reasons for the same should be discussed with the head of that cost centre(s) so that appropriate action can be taken to prevent such recurrences. Through this table, the cost auditor will come to know A category of cost centres which will account 70% to 75% of total expenses on repairs & maintenance incurred. It is always advisable to focus on these A category cost centres to monitor, control and reduce expenses on repairs & maintenance. A little step taken by the management with respect to these A category of cost centres will result in far greater advantage to the management regarding cost control and cost reduction with respect to repairs and maintenance.
- ⊙ Similarly, the cost auditor should obtain information as shown in Table 29 from either CMA department/ Finance department or through prevailing ERP system in the company. It provides at a glance year wise, product wise expenses on repairs & maintenance. If there is any substantial increase in expenditure with respect to any particular product then reasons for the same should be discussed with the head of concerned cost centre(s) so that appropriate action can be taken to prevent such recurrences.
- ⊙ The cost auditor can pick up few major items of repairs & maintenance and ensure that they have been booked against correct cost centres.
- ⊙ The cost auditor should ask for information as shown in Table 30. Higher per MT expenses can be due to lower capacity utilisation which he needs to highlight to the management.
- ⊙ The cost auditor should also go through expense control chart which gives plant wise expenses duly tied up with Trial Balance.

Table 28

Expenses Incurred on Repairs & Maintenance for Previous 5 Years – Cost Centre wise

Cost Centres	Unit	F.Y. 2018 - 19	F.Y. 2019 - 20	F.Y. 2020 - 21	F.Y. 2021 - 22	F.Y. 2022 - 23
Production Cost Centres						
1	₹ Lakhs					
2	-do-					
3	-do-					
Total 1	-do-					
Utility Cost Centres						
Filtered Water	-do-					
DM Water	-do-					
Steam	-do-					
Air Compressor	-do-					
Nitrogen	-do-					
Cooling Water	-do-					
Chilled Water	-do-					
Total 2	-do-					
Others						
Stores	-do-					
Warehouse	-do-					
Office	-do-					
Total 3	-do-					
Total 1 + 2 + 3	-do-					

Table 29

Cost of Repairs & Maintenance (₹/Lakhs) for Previous 5 Years – Product wise

Products	Unit	F.Y. 2018 - 19	F.Y. 2019 - 20	F.Y. 2020 - 21	F.Y. 2021 - 22	F.Y. 2022 - 23
1	₹ Lakhs					
2	-do-					
3	-do-					
4	-do-					
5	-do-					
TOTAL	-do-					

Table 30
Cost of Repairs & Maintenance (₹ / MT) for Previous 5 Years – Product wise

Products	Unit	F.Y. 2018 - 19	F.Y. 2019 - 20	F.Y. 2020 - 21	F.Y. 2021 - 22	F.Y. 2022 - 23
1	₹ / MT					
2	-do-					
3	-do-					
4	-do-					
5	-do-					
TOTAL	-do-					

6.3.10 Audit of Employee Cost

Following checklist should be kept in view to audit employee cost during cost audit:

- ⦿ The cost auditor should verify the following information:
 - (a) Employee cost for previous 5 years – cost centre wise
 - (b) Number of employees for previous 5 years - cost centre wise
 - (c) Employee cost per employee for previous 5 years - cost centre wise (Refer Table 31, 32 & 33)
- ⦿ The cost auditor should also verify the following information:
 - (a) Employee cost for previous 5 years – product wise
 - (b) Number of employees for previous 5 years – Product wise
 - (c) Employee cost per employee for previous 5 years – product wise (Refer Table 34, 35 & 36)
- ⦿ The cost auditor should also verify product wise employee cost per MT of production for previous 5 years (Refer Table 37)
- ⦿ Increase in per MT employee cost may be due to lower capacity utilisation of the product. This needs to be properly brought out to the management
- ⦿ The cost auditor should verify that cost centre wise list of employees is regularly updated in employee payroll so that cost centre wise employee cost gives correct reflection of employee cost
- ⦿ Generally, employees are transferred from one cost centre to another cost centre. The cost auditor should ensure that pay roll of employees reflect all such transfers correctly and timely
- ⦿ Increase in number of employees for particular cost centres or product should be looked into. The reasons and justification should be obtained from the management

Table 31
Employee Cost for Previous 5 Years – Cost Centre wise

Cost Centres	Unit	F.Y. 2018 - 19	F.Y. 2019 - 20	F.Y. 2020 - 21	F.Y. 2021 - 22	F.Y. 2022 - 23
Production Cost Centres						
1	₹ Lakhs					
2	-do-					
3	-do-					
Total 1	-do-					
Utility Cost Centres						
Filtered Water	-do-					
DM Water	-do-					
Steam	-do-					
Air Compressor	-do-					
Nitrogen	-do-					
Cooling Water	-do-					
Chilled Water	-do-					
Total 2	-do-					
Others						
Stores	-do-					
Ware House	-do-					
Office	-do-					
Total 3	-do-					
Total 1 + 2 + 3	-do-					

Table 32
Number of Employees for Previous 5 Years – Cost Centre wise

Cost Centres	Unit	F.Y. 2018 - 19	F.Y. 2019 - 20	F.Y. 2020 - 21	F.Y. 2021 - 22	F.Y. 2022 - 23
Production Cost Centres						
1	No.					
2	-do-					
3	-do-					
Total 1	-do-					

Utility Cost Centres						
Filtered Water	-do-					
DM Water	-do-					
Steam	-do-					
Air Compressor	-do-					
Nitrogen	-do-					
Cooling Water	-do-					
Chilled Water	-do-					
Total 2	-do-					
Others						
Stores	-do-					
Warehouse	-do-					
Office	-do-					
Total 3	-do-					
Total 1 + 2 + 3	-do-					

Table 33

Employees Cost per Employee for Previous 5 Years – Cost Centre wise

Cost Centres	Unit	F.Y. 2018 - 19	F.Y. 2019 - 20	F.Y. 2020 - 21	F.Y. 2021 - 22	F.Y. 2022 - 23
Production Cost Centres						
1	₹ Lakhs / No.					
2	-do-					
3	-do-					
Total 1	-do-					
Utility Cost Centres						
Filtered Water	-do-					
DM Water	-do-					
Steam	-do-					
Air Compressor	-do-					
Nitrogen	-do-					
Cooling Water	-do-					
Chilled Water	-do-					
Total 2	-do-					

Others						
Stores	-do-					
Warehouse	-do-					
Office	-do-					
Total 3	-do-					
Total 1 + 2 + 3	-do-					

Table 34
Employee Cost for Previous 5 Years – Product wise

Products	Unit	F.Y. 2018 - 19	F.Y. 2019 - 20	F.Y. 2020 - 21	F.Y. 2021 - 22	F.Y. 2022 - 23
1	₹ Lakhs					
2	-do-					
3	-do-					
4	-do-					
5	-do-					
TOTAL	-do-					

Table 35
Number of Employees for Previous 5 Years – Product wise

Products	Unit	F.Y. 2018 - 19	F.Y. 2019 - 20	F.Y. 2020 - 21	F.Y. 2021 - 22	F.Y. 2022 - 23
1	No.					
2	-do-					
3	-do-					
4	-do-					
5	-do-					
TOTAL	-do-					

Table 36

Employee Cost per Employee for Previous 5 Years – Product wise

Products	Unit	F.Y. 2018 - 19	F.Y. 2019 - 20	F.Y. 2020 - 21	F.Y. 2021 - 22	F.Y. 2022 - 23
1	₹ Lakhs / No.					
2	-do-					
3	-do-					
4	-do-					
5	-do-					
TOTAL	-do-					

Table 37

Employee Cost for Previous 5 Years – Product wise

Products	Unit	F.Y. 2018 - 19	F.Y. 2019 - 20	F.Y. 2020 - 21	F.Y. 2021 - 22	F.Y. 2022 - 23
1	₹ / MT					
2	-do-					
3	-do-					
4	-do-					
5	-do-					
TOTAL	-do-					

6.3.11 Audit of Insurance Cost

The insurance premium paid by company may cover various kinds of insurances. Insurance of Plant & Machinery, buildings and equipments, furniture & fixtures usually covers risks of general loss and fire. Following checklist should be kept in view to audit cost of insurance during cost audit:

- ⊙ The cost auditor should obtain information as shown in Table 38 from either CMA department/Finance department or through prevailing ERP system in the company. It provides at a glance year wise, cost centre wise expenses on insurance. Through this table, a cost auditor will come to know A category of cost centre(s) which will account for 70% to 75% of total insurance expenses incurred.
- ⊙ Similarly, the cost auditor should obtain information as shown in Table 39 from either CMA department/Finance department or through prevailing ERP system in the company. It provides at a glance year wise, product wise expenses on insurance. If there is any substantial increase in expenditure with respect to any particular product then reasons for the same should be discussed with the insurance department. It may be due to allocation of insurance expenses to wrong plant / wrong cost centre. The cost auditor can pick few major items and ensure that they have been booked against correct cost centres.
- ⊙ The Cost auditor should ask for information as shown in Table 40. Higher per MT expenses may be due to lower capacity utilisation which he needs to highlight to the management.

Table 38

Expenses Incurred on Insurance for Previous 5 Years – Cost Centre wise

Cost Centres	Unit	F.Y. 2018 - 19	F.Y. 2019 - 20	F.Y. 2020 - 21	F.Y. 2021 - 22	F.Y. 2022 - 23
Production Cost Centres						
1	₹ Lakhs					
2	-do-					
3	-do-					
Total 1	-do-					
Utility Cost Centres						
Filtered Water	-do-					
DM Water	-do-					
Steam	-do-					
Air Compressor	-do-					
Nitrogen	-do-					
Cooling Water	-do-					
Chilled Water	-do-					
Total 2	-do-					
Others						
Stores	-do-					
Warehouse	-do-					
Office	-do-					
Total 3	-do-					
Total 1 + 2 + 3	-do-					

Table 39

Cost of Insurance (₹/Lakhs) for Previous 5 Years – Product wise

Products	Unit	F.Y. 2018 - 19	F.Y. 2019 - 20	F.Y. 2020 - 21	F.Y. 2021 - 22	F.Y. 2022 - 23
1	₹ Lakhs					
2	-do-					
3	-do-					
4	-do-					
5	-do-					
TOTAL	-do-					

Table 40
Cost of Insurance (₹/MT) for Previous 5 Years – Product wise

Products	Unit	F.Y. 2018 - 19	F.Y. 2019 - 20	F.Y. 2020 - 21	F.Y. 2021 - 22	F.Y. 2022 - 23
1	₹ / MT					
2	-do-					
3	-do-					
4	-do-					
5	-do-					
TOTAL	-do-					

6.3.12 Audit of Depreciation Cost

Depreciation is defined as the diminution in the value of a fixed asset due to use and/or lapse of time. A fixed asset such as a plant & machinery has a life span during which it renders service and on the expiry of which, the asset has either no value or has only a small value as scrap. During the period of the life of the asset, its value is thus gradually reduced till it reaches nil or a very small figure. This reduction in value is called depreciation.

Following checklist should be considered to audit cost of depreciation during cost audit:

- ⊙ The cost auditor should obtain information as shown in Table 41 from either CMA department/Finance department or through prevailing ERP system in the company. It provides at a glance year wise, cost centre wise expenses on depreciation. Through this information, a cost auditor will come to know A category of cost centres which will account for 70% to 75% of total depreciation charged in books of accounts.
- ⊙ Similarly, the cost auditor should obtain information as shown in Table 42 from either CMA department/ Finance department or through prevailing ERP system in the company. It provides at a glance year wise, product wise depreciation. If there is any substantial increase in depreciation expenditure with respect to any particular product then reasons for the same should be discussed with the central accounts section which maintains fixed asset register. It may be due to capitalisation of additions in wrong plant/wrong cost centre. The cost auditor can pick up few major items and ensure that they have been booked against correct cost centres.
- ⊙ The cost auditor should ask for information as shown in Table 43. Higher per MT expenses can be due to lower capacity utilisation which he needs to highlight to the management.

Table 41
Expenses Incurred on Depreciation (₹/Lakhs) for Previous 5 Years – Cost Centre wise

Cost Centres	Unit	F.Y. 2018 - 19	F.Y. 2019 - 20	F.Y. 2020 - 21	F.Y. 2021 - 22	F.Y. 2022 - 23
Production Cost Centres						
1	₹ Lakhs					
2	-do-					
3	-do-					

Total 1	-do-					
Utility Cost Centres						
Filtered Water	-do-					
DM Water	-do-					
Steam	-do-					
Air Compressor	-do-					
Nitrogen	-do-					
Cooling Water	-do-					
Chilled Water	-do-					
Total 2	-do-					
Others						
Stores	-do-					
Warehouse	-do-					
Office	-do-					
Total 3	-do-					
Total 1 + 2 + 3	-do-					

Table 42

Cost of Depreciation (₹/Lakhs) for Previous 5 Years – Product wise

Products	Unit	F.Y. 2018 - 19	F.Y. 2019 - 20	F.Y. 2020 - 21	F.Y. 2021 - 22	F.Y. 2022 - 23
1	₹ Lakhs					
2	-do-					
3	-do-					
4	-do-					
5	-do-					
TOTAL	-do-					

Table 43

Cost of Depreciation (₹/MT) for Previous 5 Years – Product wise

Products	Unit	F.Y. 2018 - 19	F.Y. 2019 - 20	F.Y. 2020 - 21	F.Y. 2021 - 22	F.Y. 2022 - 23
1	₹ / MT					
2	-do-					
3	-do-					
4	-do-					
5	-do-					
TOTAL	-do-					

6.3.13 Audit of Administrative Overhead Cost

A company is required to incur certain fixed expenses in order to run its business of manufacturing and selling its products. A cost auditor should ask for the following information:

- Trend of administrative expenses (₹/Lacs) – year wise (Refer Table 44)
- Administrative expenses (₹/MT) – year wise product wise (Refer Table 45)

Table 44

Trend of Administrative Expenses (₹/Lakhs) for Company/for Plant 1 – Year wise for Previous 4 Years

Particulars	2019-20 (₹ Lakhs)	%	2020-21 (₹ Lakhs)	%	2021-22 (₹ Lakhs)	%	2022-23 (₹ Lakhs)	%
(a) Stationery for computers								
(b) Stationery for other office use								
(c) Travelling – domestic								
(d) Travelling - abroad								
(e) Bus expenses								
(f) Uniform								
(g) Security								
(h) Legal and professional fees								
(i) Seminar								
(j) Telephone expenses								
(k) Book and periodicals								
(l) Audit fees – financial audit								
(m) Audit fees – cost audit								
(n) Donations								
(o) Penalties								
TOTAL								

Table 45

Administrative Expenses (₹/MT) for Previous 4 Years – Product wise

Products	Unit	F.Y. 2019-20	F.Y. 2020-22	F.Y. 2022-22	F.Y. 2022-23
1	₹/MT				
2	-do-				
3	-do-				
4	-do-				
5	-do-				

- ⊙ The above Tables (44 & 45) provide at a glance year wise trend of administrative overhead cost and year wise product wise trend of per MT administrative expenses.
- ⊙ The auditor should see that basis of allocation/apportionment to different plants/products is consistent over a period of time.
- ⊙ For any abnormal increase in any expenses, the cost auditor should ask for cost centre wise break up of all these years to enable him to analyse and discuss with the management.
- ⊙ He should see that donations and penalties are not charged to products but shown as items of reconciliation.
- ⊙ If there is any substantial increase/decrease in per MT administrative expenses as compared to any of 4 years, he should seek the reasons for the same.
- ⊙ The auditor should see whether any annual rate contract with concerned suppliers are entered into for a given period or for a given quantity to control expenses with respect to stationery for computer and stationery for other office use.
- ⊙ If there is any substantial increase either in domestic travel or foreign travel, it may be due to certain business conditions which might have necessitated either domestic travel or foreign travel. If required, the cost auditor should ask for cost centre wise analysis.
- ⊙ Incidence of legal and professional fees depends upon circumstances of that particular year. For any substantial increase, he should obtain reasons for the same. It should be ensured that the cost of litigation is not more than the benefit.

6.3.14 Audit of Selling and Distribution Overhead Cost

The main function of a manufacturing concern is to produce and sell the product(s) manufactured. Similarly, the function of a non manufacturing concern like a wholesale trade or retail business is to purchase and sell goods and merchandise. In both cases, we find that selling (and incidentally, distribution also) is a common function and thus, selling & distribution costs are incurred by all concerns, both manufacturing and non manufacturing. As most of the items of selling & distribution expenses are not identifiable with products, they are in the nature of indirect costs. The necessity for proper accounting of selling & distribution costs arises from the following:

- 1) Determination of the costs of sales of products and the extent of profitability of each. [Costs are not complete and profits cannot be worked out unless selling & distribution cost are included]
- 2) Control of selling & distribution costs
- 3) Price fixation

- ⊙ A cost auditor should ask for the following information:
 - (a) Trend of selling & distribution expenses (₹/Lakhs) – year wise (Refer Table 46)
 - (b) Selling & distribution expenses (per/MT) – year wise product wise (Refer Table 47)

Table 46**Trend of Selling & Distribution Expenses (₹/Lakhs) for Company/for Plant –Year wise**

Particulars	2019-20 (₹ Lakhs)	%	2020-21 (₹ Lakhs)	%	2021-22 (₹ Lakhs)	%	2022-23 (₹ Lakhs)	%
(a) Stationery for computers								
(b) Travelling – domestic								
(c) Travelling - abroad								
(d) Commission								
(e) Discount								
(f) Advertising								
(g) Legal cost for debt realisation								
(h) Seminar								
(i) Telephone expenses								
(j) Book and periodicals								
(k) Vehicle hire charges								
TOTAL								

Table 47**Selling & Distribution Expenses (₹/MT) for Previous 4 Years – Product wise**

Products	Unit	F.Y. 2019-20	F.Y. 2020-21	F.Y. 2021-22	F.Y. 2022-23
1	₹/MT				
2	-do-				
3	-do-				
4	-do-				
5	-do-				

- ⊙ The above information (Table 46 & 47) provide at a glance year wise trend of selling & distribution overhead cost and year wise product wise trend of per MT selling & distribution expenses.
- ⊙ He should see that basis of allocation/apportionment to different plants/products is reasonable and consistent over a period of time.
- ⊙ For any abnormal increase in any expenses, the cost auditor should ask for reasons to enable him to analyse and discuss with the management.
- ⊙ If there is any substantial increase either in domestic travel or foreign travel, it may be due to expansion of domestic market and or export market or launch of some new product. Therefore, the cost auditor should discuss with marketing department to analyse the reasons.

- ⦿ Incidence of legal and professional fees depends upon circumstances of that particular year. For any substantial increase, he should obtain reasons for the same.

6.3.15 Audit of Packing Material Cost

Following checklist should be kept in view to audit packing material cost during cost audit:

- ⦿ Efforts should be made to negotiate the rate of high value consumption packing materials.
- ⦿ Steps should be taken to reduce handling losses, wastages, etc.
- ⦿ At times, finished product is sold both in loose form and in packed form. In such cases, cost of packed material will have packing material cost which should be recovered in sales invoice. So, few sales invoices can be checked to ensure that for packed material, packing cost is recovered through sales invoices.
- ⦿ Ensure that proper quantitative inventory balancing is carried out for all the packing materials i.e. opening stock + purchases – consumption = closing stock (Refer Table 48).
- ⦿ For charging packing material cost to product/products, both FIFO and weighted average rates can be applied. A company can follow any method but it needs to be ensured that it is applied consistently.
- ⦿ Usually, a company prepares expense control chart where packing is shown for different production cost centres and total of all these cost centres will agree with total packing material consumption as per Trial Balance.
- ⦿ If some packing material is produced in-house then the company would have created separate cost centre for that packing material. So its valuation should be done as per costs which are booked against this cost centre.
- ⦿ Explore the possibility to tie up the entire requirement of A category packing materials with proven manufacture at a fixed rate. This will result in no risk factor for any increase in the cost of packing material during the period of contract.
- ⦿ Demurrage or detention charges or any penalty levied should not form part of landed cost of packing material.
- ⦿ Ensure that at the end of the year all packing materials despatched by suppliers through the public or private carriers where ownership of goods has passed on to the company are shown either in transit or as receipts.
- ⦿ Check that the opening balance is correct after adjustment of results of physical stock verification. Similarly, closing balances should be checked to ensure that adjustments on stock verification have been carried out.
- ⦿ Check up whether all the receipts have been correctly valued after taking into account freight and other incidental charges.
- ⦿ Check the trend of rates of key packing materials for previous 5 years (Refer Table 49).
- ⦿ Check the trend of consumption of key packing materials (per/MT) of finished products year wise for 5 years (Refer Table 50).

Table 48
Balancing of Key Packing Materials

Particulars	Opening Stock	Purchases	Total Available	Consumption	Transfer to other plant	Closing Stock
Packing Material 1						
Packing Material 2						
Packing Material 3						
Packing Material 4						
Packing Material 5						

Table 49
Rates of Key Packing Materials for Previous 5 Years

Particulars	Unit	F.Y. 2018 - 19	F.Y. 2019 - 20	F.Y. 2020 - 21	F.Y. 2021 - 22	F.Y. 2022 - 23
Packing Material 1	₹/Unit					
Packing Material 2	-do-					
Packing Material 3	-do-					
Packing Material 4	-do-					
Packing Material 5	-do-					

Table 50
Consumption of Key Packing Materials per MT of Finished Products for Previous 5 Years

Particulars	Finished Products	Unit	F.Y. 2018-19	F.Y. 2019-20	F.Y. 2020-21	F.Y. 2021-22	F.Y. 2022-23
Packing Material 1	Finished Products 1	₹/MT					
Packing Material 2	Finished Products 2	-do-					
Packing Material 3	Finished Products 3	-do-					
Packing Material 4	Finished Products 4	-do-					
Packing Material 5	Finished Products 5	-do-					

6.3.16 Audit of Sales Value

Following checklist should be kept in view to audit sales of products:

- ⦿ More focus should be on products of A category and B category in terms of sales value (Refer Table 51).
- ⦿ Check whether efforts have been made to increase sales realisation to absorb any increase in variable cost so that contribution of product or net margin is maintained (Refer Table 54).
- ⦿ Check whether efforts have been made to procure more orders for product/products having higher contribution (Refer Table 51 & 54).

- ⊙ Check whether company has diverted resource allocation from high volume/low contribution products to high contribution products (Refer Table 51, 52 & 54).
- ⊙ Check whether there is any expansion of production capacity for product/products enjoying higher contribution (Refer Table 54 & 56).
- ⊙ Check that there is a proper balance between the opening stock, production, sales and closing stock in order to ensure no unnecessary locking up of working capital in terms of closing stock (Refer Table 55).
- ⊙ Check that any increase in production capacity has resulted in increase in sales quantity without affecting corresponding sales realisation (Refer Table 52, 53, 54 & 56)

Table 51

Product wise Sales Value & % Share in Total Sales Value for Previous 5 Years

Products	F.Y. 2018-19		F.Y. 2019-20		F.Y. 2020-21		F.Y. 2021-22		F.Y. 2022-23	
	₹ Crore	%	₹ Crore	%	₹ Crore	%	₹ Crore	%	₹ Crore	%
1										
2										
3										
4										
5										
TOTAL										

Table 52

Product wise Sales Quantity (in MT) for Previous 5 Years

Products	F.Y. 2018-19	F.Y. 2019-20	F.Y. 2020-21	F.Y. 2021-22	F.Y. 2022-23
1					
2					
3					
4					
5					

Table 53

Product wise Sales Realisation (₹/ MT) for Previous 5 Years

Products	F.Y. 2018-19	F.Y. 2019-20	F.Y. 2020-21	F.Y. 2021-22	F.Y. 2022-23
1					
2					
3					
4					
5					

Table 54

Product wise Sales Realisation & Variable Cost of Key Products (In ₹/MT)

Products	F.Y. 2019-20		F.Y. 2020-21		F.Y. 2021-22		F.Y. 2022-23	
	Sales Realisation	Variable Cost	Sales Realisation	Variable Cost	Sales Realisation	Variable Cost	Sales Realisation	Variable Cost
1								
2								
3								
4								
5								

Table 55

Inventory Balancing of Each of Finished Product

Products	Unit	Opening Stock	Production	External Sales	Internal Transfers	Closing Stock
1						
2						
3						
4						
5						

Table 56

Product wise Capacity Utilisation for Previous 5 Years

Products	Capacity Utilisation	F.Y. 2018-19	F.Y. 2019-20	F.Y. 2020-21	F.Y. 2021-22	F.Y. 2022-23
1	(%)					
2	-do-					
3	-do-					
4	-do-					
5	-do-					

Overall Checklist of the Cost Audit Programme

An overall checklist of the programme is drawn up for reader's guidance:

SI. No.	Planning Phases	Action to be taken	Comments
1.	Familiarisation with the company:		
	(a) Nature of business and industry	Acquire the previous years' Annual Reports and Accounts (at least 5 years)	The specific business objectives shall also be checked and notes kept in respect thereof, as contained in the Memorandum of Association.
	(b) Objectives of the company, e.g., maximisation of profits, cost reduction, quality improvement, customised production etc. Strategies of the company like market expansion, market diversification including mergers/acquisitions, research including innovation, product diversification including product mix etc.	Keep notes	
	(c) Ownership, e.g. public or private, domestically controlled or MNC, major shareholders, management position of shareholders	Identify and keep notes on legal forms.	
(d) Corporate structure, subsidiaries and affiliates ownership percentage and dates of acquisition	Keep notes		
2.	Company records: Memorandum and Articles of Association, foreign technical collaboration & agreement, other agreement deeds or contracts including that of inter- company transactions, secretarial records and registers.	Obtain copies. Keep notes	Only material information need to be obtained/notes kept in respect of that contained in the secretariat records and registers, since these contain much detailed information relating to different statutory matters.
3.	Familiarisation with the Organisation of the Company:		
	(a) Head of Finance/ Accounts/Costing	Keep notes	
	(b) Other Directors & Key Managerial Personnel		
	(c) Delegation of Financial and Administrative Authorities;		
Organisation control systems in existence including MIS, and cost control processes			

4.	Familiarity with organisation profile: Main or Central or Head Office Administration Offices other functional managements, e.g. Purchase, Sales, Production, Finance, etc. Background of Key personnel	Obtain detailed organisation chart showing functional relationships.	
5.	Familiarity with the company policies:		
(a)	Capitalisation: Debit/Credit lines- Short-term Seasonal capital requirements, Short-term obligations, Long-term obligations, especially capital arrangements in the last five years and their life cycle profiles.	Keep notes and Identify	
(b)	Products or Services: Main Product lines, By-product lines production sites	Obtain a chart Keep notes Identify	
(c)	Inter-company transactions policies		
(d)	Other important policies		
6.	Sales policy and sales management: Pricing Policies – Home and export sales, Export Policy – Exporting countries, Export/Import Control Order –effect, Product image – place in national economy, Own country sales policy, Distribution policy, Credit and collection policy.	Keep notes and Identify	
7.	Production planning and control: Manufacturing process, factory layout, Product details, Production plans, scheduling etc. Plant capacities and other facilities.	Obtain the process flowcharts, planning scheduled, and charts for licensed and installed capacities.	
8.	Accounting systems: Financial accounting, Cost accounting, Integrated accounts, Internal control set-up, Stores accounting, Trial balance, details of Manual and/or ERP base Accounting systems	Obtain the procedures manual, if any.	
9.	Management information systems: ♦ Budgets ♦ Standard costing	Obtain an outline of the schemes adopted, if any	
10.	Internal audit system and Internal control: Systems/Internal Audit Programmes, Internal Audit Manual	Obtain Internal Auditor's Manual and reports on areas covered.	

11.	Cost records, statements and reports:		
<i>(a)</i>	Cost accounting records and other related records	Obtain them from the cost department.	
<i>(b)</i>	Cost Statements and related Statements & documents		
<i>(c)</i>	Cost Accounts Manual		
<i>(d)</i>	Previous cost auditor's reports (if any)		

An Illustrative check-list of information to be obtained

A. One Time Information:

1. Organisation chart
2. Process of manufacture with Flow Chart
3. Blueprint of production area with machine locations
4. List of cost centres – production and utilities/services
5. Machine details of individual cost centres, Capacity of each machine/cost centre
6. Cost centre-wise/machine-wise deployment of workers
7. Product details – different types and products manufactured/produced
8. Details of any product manufactured under any technical collaboration, licence agreement, Terms of payment of royalty if any
9. Standard raw material composition of products/Bill of materials
10. Details of process chemicals, Indirect materials
11. Details of packing materials, types of packing, stocking units
12. Details of utilities/services – separately for each type of utility like Water, DM Water, Steam, Power, Compressed Air etc.
13. Details of pollution control measures, effluent treatment etc.
14. Details of products exported, export incentives, if any
15. Finance Costs – types of loans (term loans, working capital loans), terms of loan arrangements
16. Budgetary control system, if any, methodology of budget preparation and variance analysis
17. Cost accounting system and policy in vogue
18. System of capturing of expenses and income and booking thereof

B. Data required for the Audit Period:

1. Balance Sheet and Profit & Loss Account with schedules and Trial Balance
2. Details of Inventories – quantity and value
3. Expense analysis cost centre-wise for individual heads of expenses
4. Details of all raw materials consumed including process materials/chemicals showing receipts, issues and balances
5. Raw material and process materials/chemicals consumption details both in quantity and value for individual products – material-wise
6. Packing material details both in quantity and value for individual products
7. Quantitative details of individual products from issue of raw material to the product till finished packed stage showing product-wise work-in-progress at each stage of production and finished stock details
8. Details of scrap/wastage generated at each stage of production. If the waste/scrap is recycled in the production process, quantitative adjustment thereof
9. Details of utilities self-produced/generated – utility-wise
10. Details of utilities consumed by user departments/cost centres in quantity including utilities purchased, if any
11. Cost centre-wise expense analysis in respect of individual heads of expenses
12. Cost centre-wise machine utilization details
 - (a) Down time details – normal and abnormal
 - (b) Product-wise running hours, production in quantity
13. Product-wise sales analysis showing domestic and export sales separately in quantity and value
14. Basis of factory/production overheads and other overheads allocation and apportionment
15. Statutory returns of GST and other statutes

