FINAL EXAMINATION SET 1

MODEL ANSWER TERM – JUNE 2023

PAPER - 17

COST AND MANAGEMENT AUDIT

Time Allowed: 3 Hours **Full Marks: 100**

The figures in the margin on the right side indicate full marks.

Where considered necessary, suitable assumptions may be made and clearly indicated in the answer.

GROUP – A : Cost Audit [50 Marks]

SECTION – A

Question No. 1 and 5 are compulsory and answer any two from Question No. 2, 3 & 4.

1. (a)

Sl. No.	Answer	Justification
(i)	(b)	In 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.
(ii)	(d)	In case Royalty and technical know-how fee is not directly traceable to a cost object then it shall be assigned on any of the following basis, namely: - (i) Units produced (ii) Units sold (iii) Sales value
(iii)	(d)	Section 2(38) of the Companies Act, 2013, defines the term 'expert' which includes an engineer, a Valuer, a Chartered Accountant, a Company Secretary, a Cost Accountant and any other person who has the power or authority to issue a certificate in pursuance of any law for the time being in force.
(iv)	(b)	Remuneration payable to Managerial Personnel including Executive Directors on the Board and other officers of a corporate body under a statute will be considered as part of the Employee Cost of the year under reference whether the whole or part of the remuneration is computed as a percentage of profits. Explanation: Remuneration paid to Non-Executive directors shall not form part of Employee Cost but shall form part of Administrative Overheads.
(v)	(d)	The cost auditor should fully understand the (1) Objectives of cost audit (2) Area, nature and scope of audit (3) Number of cost auditors appointed (4) The applicable reporting framework (5) The reporting period (6) The statutory deadlines

SECTION – B

2. (a) **The objectives** of 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.

The purpose of promulgating such standards is to verify the correctness of cost accounts. 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. These standards are designed to achieve uniformity and consistency in cost accounting principles and practices.

(b) Annexure to Cost Audit Report:
Part D-3: Value Addition & Distribution of Earnings (For **Sanghamitra Ltd.** as a whole)

(Amount in ₹ lakhs)

SI. No.	Particulars	Current	Previous
		Year 2021-22	Year 2020-21
	Value Addition:		
1.	Net Sales	14,240	11,400
2.	Add: Export incentives	160	120
3.	Add/(Less): Adjustment In Finished Stocks	60	30
		14,460	11,550

	Less: Cost of bought out input: (a) Cost of Raw materials consumed (b) Consumption of stores and spares (c) Power & Fuel (d) Other overheads (1290+108+780+60+750+180) = 3168 (1110+90+660+48+600+150) = 2658	 5,280 480 720 3,168	 4,320 420 576 2,658
	Total cost bought out inputs	**9,648**	**7,974**
4.	**Value Added:**	4,812	3,576
5.	Add: Other income	900	600
6.	Add: Extra ordinary income	---	-----
7.	**Earnings available for distribution**	**5,712**	**4,176**
(a)	Distribution of earnings to: Employees as salaries and wages, bonus, gratuity etc.	1,428	1,146
	Directors- Salaries and commission	144	120
(b)	Shareholders as dividend	1260	690
(c)	Company as retained funds (including depreciation)	1,352	1200
(d)	Government as taxes		
	Dividend Distribution Taxes	220	120
	Income taxes paid (including provisions)	948	600
		1,168	720
(e)	Providers of Capital/Fund as Interest on Debentures: Interest on Debentures: Interest on Fixed Loans from IDBI	90 270 360	90 210 300
	Total distribution of earnings	**5,712**	**4,176**

3. (a) The duties of a Cost Auditor to report Fraud as per Section 143 of the Companies Act, 2013 are as follows:

(i) According to Section 143(12) of the Companies Act 2013, if an auditor of a company, in the course of the performance of his duties as auditor, has reason to believe that an offence involving fraud is being or has been committed against the company by officers or employees of the company, he shall immediately report the matter to the Central Government within such time and in such manner as may be prescribed.

(ii) Sub-Section 13 specifies that no duty to which an auditor of a company may be subject to shall be regarded as having been contravened by reason of his reporting the matter referred to in sub-section (12) if it is done in good faith.

(iii) Sub-Section 14 makes it clear that the provisions of this section shall mutatis mutandis apply to the cost accountant in practice conducting cost audit under section 148.

(iv) According to Sub-Section 15 if any auditor, cost accountant or company secretary in practice do not comply with the provisions of sub-section (12), he shall be punishable with fine which shall not be less than one lakh rupees but which may extend to twenty-five lakh rupees.

(v) Matter are required to be reported immediately but not later than 2 days of his knowledge specifying:
   (a) Nature of Fraud with description;
   (b) Approximate amount involved; and
   (c) Parties involved.

(vi) Following disclosures are required to be made in Board's Report:
   (a) Nature of Fraud with description;
   (b) Approximate Amount involved;
   (c) Parties involved, if remedial action not taken; and
   (d) Remedial actions taken.

(b)

Particulars	**2019-20**	**2020-21**	**2021-22**
Installed Capacity – Ton	250	250	250
Production – Ton	240	230	125
% of Capacity Utilisation	96	92	50
Cost per Unit (₹/Ton)	10,000	10,770	16,600
Escalation factor	100	105	107
Cost at base year price	10,000	$\left(10770 \times \frac{100}{105}\right)$ i.e. 10,257	$\left(16600 \times \frac{100}{107}\right)$ i.e. 15,514
Total cost of production (₹)	24,00,000	23,59,110	19,39,250
Variable Cost/Ton (₹)	4,089	4,089	3,999
Fixed Cost/Ton	5911	6,168	11,515
Fixed Cost @ 100% utilisation (₹)	$\left(5911 \times \frac{240}{250}\right)$ 5,675		

Hence, increase in Fixed Cost/Ton due to poor capacity utilization in 2021-22
= (11,515 – 5,675) = ₹5,840

(i) Total abnormal cost due to power cut = 5,840 × 125 = ₹7,30,000

(ii) The abnormal cost must be excluded from computation of cost and has to be shown under Para 7 of the Cost Audit Report as "Abnormal Non-Recurring Cost".

The 50% under-utilisation of capacity being due to power-cut only, Priyangshu Ltd. should consider possibility of captive generation, if the power-cut is likely to persist. Accordingly, the investment needed, potential savings, etc. must be computed to determine the viability of such a decision.

Working Notes:

Particulars	**2020-21**	**2021-22**
Difference in Total Cost	[24,00,000 – 23,59,110] = 40,890	[23,59,110 – 19,39,250] = 4,19,860
Difference in production	10	105
Hence, Variable Cost	**4089**	**3999**

4. (a) Following checklist should be kept in view to audit sales revenue of manufactured products:

1. More focus should be on products of A category and B category in terms of sales value.
2. 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.
3. Check whether efforts have been made to procure more orders for product/products having higher contribution.
4. Check whether company has diverted resource allocation from high volume/low contribution products to high contribution products.
5. Check whether there is any expansion of production capacity for product/products enjoying higher contribution.
6. 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.
7. Check that any increase in production capacity has resulted in increase in sales quantity without affecting corresponding sales realisation.

(b) (i) The above requirements are to accomplish the objectives of cost audit:

(1) To verify that the cost accounting records (or costing books) are accurate.

(2) To certify that costing principles have been fully adhered to in maintaining cost accounts.

(3) To find out whether the predetermined cost accounting procedures and processes have been strictly followed by the management.

(4) To detect errors and frauds, which might have been committed intentionally or otherwise in preparing cost accounts.

(5) To check whether each item of expenditure involved into the relevant components of goods manufactured has been properly incurred.

(6) To see how far the existing practices of cost records are helpful for the management to take decisions etc..

(ii) Audit Documentation means the material including working papers prepared by and for, or obtained and retained by the cost auditor in connection with the performance of the audit.

Preparation of some suggestive list of documents for conducting cost audit

1. Letter from the company along with a set of completed cost statements for auditing the same.
2. Approved /signed copy of annexures and date of Board meeting (circular resolution) approving the same.
3. Cost accounting policy
4. Basis of Inventory Valuation.
5. A note on budgetary control system etc.

Cost Audit Procedures comprise the following three steps:

1. Review
2. verification
3. Reporting

SECTION – C

5. (a)

To
The Managing Director
M/s Super Star Manufacturing Limited

Dear Sir/Madam,
This has reference to query vide your letter dated __________ seeking opinion on applicability of the provisions of maintenance of cost records and audit thereof.

My opinion on your query is as follows.

As the turnover of the main product manufactured by company is more than ₹35.00 crores and the total turnover of the company is above ₹100.00 crores, the provisions of maintenance of cost records and audit thereof is applicable to the company as per the provisions of The Companies (Cost Records and Audit) Rules, 2014 (as amended). However, the same is applicable of the main product only i.e. CTA code 7405.

Further Waste and scrap are generated out of a manufacturing process. For payment of duty, it gets classified under a CTA Code. It is not a product and hence cost audit of scrap is meaningless and not applicable. Therefore, the Cost Audit is not applicable to the Waste and scrap are generated.

Same is the case with By-Product. It is not a product by itself but comes out of a manufacturing process. In case the By-Product is sold as such without any further processing, the realisable value is usually credited to cost of production of the main product. In such a case, preparation of a separate cost statement does not arise.

However, where there is further processing of the By-product before being sold, then there would be a separate cost statement to arrive at a profit/loss arising on such By-product. Such cost statement would form part of the cost audit report.

Hope you will find the above in order.

Thanking You.

GROUP – B : Management Audit; Internal Audit, Forensic Audit and Anti-Money Laundering [50 Marks]

Question No. 6 and 10 are compulsory and answer any two from Question No. 7, 8 & 9.

SECTION – A

6.

Sl. No.	Answer	Justification
(i)	(d)	The sales and collections cycle in a business refers to the set of processes that begin when a customer purchases goods or services and ends when your business receives payment in full. As part of the year-end audit of the financial statements, external accountants test sales transactions and the internal controls over those transactions to ensure the company is not materially misstating its revenues or accounts receivable.
(ii)	(a)	The first step in this analysis is to develop an in-depth understanding of the factors influencing scrap disposition decisions, so that one can predict current and future practices under existing requirements and compare them to the potential effects.
(iii)	(b)	An internal check is a continuous process of the accounting system to check for errors or fraud in bookkeeping operations for early detection and prevention. The internal check is an arrangement of the duties of the staff members of the accounting functions in such a way that another automatically checks the work performed by a person.
(iv)	(a)	The Internet of Things (IoT) links many types of data-gathering sensors and other equipment that previously ran in isolation to existing computer networks. Cyber criminals are increasingly targeting smart connected devices as entry points to corporate networks. Data security professionals now see cyber security for the Internet of Things as one of the most important aspects of their jobs. The Internet of Things is already beginning to transform consumer, business and industrial processes and practices.
(v)	(d)	Purchasing function of an organisations constitutes all the three mentioned here as placing orders, receiving purchase invoices and also goods received but decisions taken at the board level on whether to incur capital expenditure is not a constituting element of purchasing function.

SECTION – B

Answer any two questions.

7. (a) (i) Energy Audit is an effective tool in defining and pursuing comprehensive energy management programmes. It has a positive approach aiming at continuous improvement in energy utilization in contrast to financial audit which stresses maintaining regularity. An energy audit provides an answer to the question – what to do, where to start, at what cost, and for what benefits? Energy Audit helps in energy cost optimization, pollution control, safety aspects and suggests the methods to improve the operating and maintenance practices of the system. It is instrumental in coping with the situation of variation in energy cost availability, reliability of energy supply, the decision on appropriate energy mix, the decision on using improved energy conservation equipment, instrumentations, and technology.

It has been established that energy saving of the order of 15 to 30% is possible by optimising the use of energy by better housekeeping, low-cost retrofitting measures, and use of energy-efficient equipment at the time of replacements. Indian industry consumes more energy as compared to its counter parts in the developed countries.

Energy Audit is the key to a systematic approach for decision-making in the area of energy management.

Energy Audit is defined as "the verification, monitoring, and analysis of the use of energy including submission of technical report containing recommendations for improving energy efficiency with cost-benefit analysis and an action plan to reduce energy consumption".

(ii) Energy Audit can be classified into the following two types.

- Preliminary Audit.
- Detailed Audit.

Preliminary Energy Audit Methodology:

A preliminary energy audit is a relatively quick exercise to:

- Establish energy consumption in the organization.
- Estimate the scope for saving.
- Identify the most likely and the easiest areas for attention.
- Identify immediate (especially no-/low-cost) improvements/ savings.
- Set a 'reference point'.
- Identify areas for more detailed study/measurement.
- A preliminary energy audit uses existing, or easily obtained data.

Detailed Energy Audit Methodology

A comprehensive audit provides a detailed energy project implementation plan for a facility since it evaluates all major energy-using systems.

(i) **The main aims of Energy Audit are**:

- To finalise Energy Audit team.
- To identify the main energy-consuming areas/plant items to be surveyed during the audit.
- To identify any existing instrumentation/ additional metering required.
- To decide whether any meters will have to be installed before the audit e.g., kWh, steam, oil, or gas meters.
- To identify the instrumentation required for carrying out the audit.
- To plan with the time frame.
- To collect macro data on plant energy resources, major energy consuming centres.
- To create awareness through meetings/programmes.

(b)

Significant Gaps Observed	Recommendations/Corrective Actions
Attempt in reducing the energy expense and carbon footprint not visible	A task force with qualified Electrical Engineers need to be formed for close monitoring of energy consumptions datum to pre-empt possibility of gap mentioned
Sign boards indicating Switch OFF / ON, Danger at Electrical equipment and Power transformers in the campus was to fitted with proper illumination	HOD safety and Electrical Dept. being appraised on the possible impact on electricity consumption and unsafe areas near Power Equipment
The details as to usage/operational datum of battery operated / electric vehicles, biofuel use, exhaust fans, boiling water system, chillers and geysers on energy savings mode etc. was to be maintained	The Equipment-wise operational datum for the mentioned Equipment need to be maintained
Absence of Automatic Lighting Shutoff with occupancy Sensors and Timers, Exterior/Interior lighting control facility	Suggested relevant mechanism for implementation

Total carbon footprint divided by total Plant area population (metric tons per person) was to be captured	Suggested maintenance of relevant datum
Total electricity usage divided by total campus' population (kWh per person) was to be measured	Process of capturing appropriate datum explained for immediate action
Implications of alternative energy efficiency measures sufficient to satisfy the financial criteria of sophisticated investors needs attention	Appraised for implementation

8. (a) A Management Audit is an independent review, analysis, and assessment of the competencies and capabilities of a company's management in carrying out the corporate objectives. The purpose of a Management Audit is not to appraise individual executive performance but to evaluate the management teams in its effectiveness

A management audit is an assessment of how well an organization's management team is applying its strategies and resources. A Management audit is carried out by internal team as well as by appointing evaluates whether the management team is working in the interests of shareholders, employees, and the company's reputation. Area of Management audit is beyond conventional audit. It covers planning, organizing, coordination, processes and control, etc. Management audit detects and diagnoses the problem and suggests various means to avoid and resolve the problems. Management audits are often conducted before mergers, restructurings, bankruptcies, and succession planning etc.; they can identify weaknesses in a company's management.

Objectives of Management Audit:

- It helps management in setting appropriate decision making sound and effective targets.
- It suggests management in getting desired results and revealing any defects and irregularities in the process of management.
- Management audit helps the management in the effective discharge of their duties and responsibilities.
- It helps in identification of process gaps and strengthening of controls. the coordination of various departments.
- Appropriate cost effective implementation of plans.

Management Audit might address many important issues like:

- Appropriateness of Organization Structure and reporting
- Coordination among Departments to accomplish management objective
- Suggesting a 'risk management' structure for better governance
- Stakeholder management
- Project evaluation including growth budget and appropriation methodology

Management Audit encompasses all areas where management decision making and actions are involved.

The basic difference between Internal Audit and Management Audit lies in statutory recognition. Internal audit is a statutory obligation while Management Audit non-obligatory. To Assess performance of the Management Team, this audit procedure is resorted to. Companies Act 2013, specifies eligibility of CIA (Chief Internal Auditor) while no such qualification is attached with Management Audit Head. Both Management Audit and Internal Audit can be performed by Internal resources, Outsourced Agencies and a combination of both. CIA reports to Audit Committee while Management Audit Team reports to Chief Operating Officer/MD i.e., highest management authority. Audit Committee prescribes /approves Internal Audit Plan. Management decides on areas to be covered by Management Audit Team.

(b) Qualities of Management Auditor:

The management auditor should have the following qualities:

- A management auditor should have good knowledge and experience of all Managerial Functions.
- An Auditor should have good knowledge of financial, cost statements analysis techniques.
- He who knows about economics and business laws, etc.
- Understanding of Organization structure and decisions taken by management the working of the organization and its problems is also required.
- Through understanding of all processes and control aspects.
- He should know and understand the objectives of the organization very well.
- He should understand planning, budgets, rules, and procedures to be applied in management reviews.
- He should be well-versed with the entire production process.

- He should have enough knowledge and experience to understand the reason behind the lack of coordination between different departments.
- He should have the quality of giving practical and achievable solutions to the problems in the organization.

To summarise the desired quality expectations, we can use 8 Cs -

- Clarity.
- Courtesy.
- Credibility.
- Consistency.
- Competency.
- Comprehension.
- Communication.
- Certified professionalism.

9. (a) Management Audit Report (MAR) is the reflection of the quality of review performed in various areas. It is important to prepare a good MAR. A good MAR can motivate the management and get the required results.

Essential features of the Management Audit Report (MAR):

The detailed features of a good management audit report can be summarized as follows:

(i) Pertinence
(ii) Comprehensiveness
(iii) Brevity
(iv) Timeliness
(v) Motivating
(vi) Appropriate
(vii) Data based to support outcome

The management audit report should create awareness among the management of prudent management practices that can make the organization come alive. It is a very important function of management audit to help the change management mindset.

Report discussion with management and buying in of suggestions for implementation in time bound manner improves governance and a hallmark of progressive management and Organization. The report should be drafted and structured so that it makes a logical presentation to the management and makes it easily readable. management audit report relies heavily on accepted managerial practices and feasible solutions.

Salient features for these special reports are briefly discussed below:

(1) Reports for banks and creditors.

The form and content of financial statements and schedules are important to the lender but explanatory notes to the statements and schedules are perhaps more important to them. The reliability of the report is an important factor. All statements by the auditor should be clear and positive.

(2) Report to shareholders

The report is read by financial experts, bankers, tax authorities, public officials, and research people. The report should, therefore, be useful in analytical details for its user, and give full facts about the organization's business. Experts read "between the lines" of the auditor's report. It will ultimately reflect in the auditor.

(3) Reports to employees

Reports for employees are mainly prepared for a better understanding of the business, to dispel any misconceptions, counter charges by unions, or explain the need for continuance of the business in times of strike, competition, or sickness.

(4) Reports for small business

The form of annual accounts and other requirements under the Companies Act is the same for a large or a tiny private company. A great deal of reporting for small businesses is subjective, due to a lack of adequate data. This poses problems in analyzing and comparing data. Suggestions in the report must be based on a proper appraisal of the problem.

The report of the management auditor will leave a permanent impact on the user regarding his competence, integrity, and honesty.

(b) Objectives of Environmental Audit

Prime objective of Environment Audit is to protect 'mother nature' and minimize the negative impact on environment for undertaking industrial activities. The aim is to ensure that the natural resources are utilized for industrial development and national progress and at the same time, to see that proper steps have been undertaken for maintaining the health, the welfare of the community, and also for dispersal of harmful wastes and social risks.

At the corporate level, there are some environmental responsibilities facing companies like meeting regulatory requirements, cleaning up pollution that already exists, properly disposing of the hazardous material, disclosing to the investors the amounts and nature of the preventive measures taken by the management, operating in a way that environmental damage does not occur, and promoting a company-wide environmental attitude.

The following are major objectives of environmental auditing:
(i) Determine and document compliance status.
(ii) Help to improve environmental performance at operational facilities.
(iii) Assist facility management.
(iv) Increase the overall level of environmental awareness.
(v) Accelerate the overall development of the environmental management control system.
(vi) Improve the risk management systems.
(vii) Protect the corporation from potential liabilities on breaches.
(viii) Conservation policy and application guidance.
(ix) Fund allocation and utilization w.r.t environment protection.
(x) Develop a basis for optimizing environmental resources.

Features of Environmental Audit
The following are the features of environmental audit:

(i) Role of Management tool: Internal assessment through IA Team. Environmental audit is generally considered as one of the management tools which is a part of the internal control system and is mainly used to assess, evaluate and manage the environmental performance of a company.

(ii) Environmental Impact Assessment (EIA): Risk and impact is the basis for any mitigation plan. EIA is a tool used to predict, evaluate and analyse environmental impacts w.r.t upcoming Projects, mostly before a project commences, expansion plans etc. It assesses the potential environmental effects of a proposed facility. Whereas environmental audit looks at environmental performance for an existing operation or activity with impact assessment on account of non-conformity.

(iii) Systematic: audit is a systematic process that must be carefully planned, structured, and organized. As it is a part of a long-term process of evaluation and checking, it needs to be a repeatable process so that over time, it can be easily used by different teams of people in such a way that the results are comparable and can reflect the change in both quantitative and qualitative terms.

(iv) Documentation: Like any other audit, the base of any environmental audit findings also need to backed-up is that its findings are supported by documents and verifiable information. Management need to ensure appropriate methods for environment related data collection and preservation, so that same can be perused for review purposes.

(v) **Continuous Review Periodic:** Monitoring of environmental performance against regulations and/or benchmarking the same is a continuous activity. Regular collection of actual measurement datum and review, finding out 'root cause' for deviations from norms set can help in taking steps on timely basis. Environmental audit is generally conducted at pre-defined intervals.

(vi) **Objective Evaluation:** Other than environmental performance and compliance against specific regulatory matters, at times accreditation, certification, taking part in environmental survey etc. also comes up with enhanced objectivity. In addition to internal environmental audits, service of independent audit teams having specialized skills for repeat audits also resorted to. This is also required under many certification guidelines (e.g., ISO 14001).

(vii) **Environmental Performance:** As mentioned before, the essence of any environmental audit is to find out how well the environmental organization, environmental management, and environmental equipment are performing. The ultimate aim is to ensure that organization's environmental performance meets the goals set in its environmental policy and also to ensure compliance with standards and regulatory requirements.

SECTION – C

10. Room Sales and Cash Collections

A. **Receipt and Payment verification:**

(a) Consumption shown in various physical stock accounts must be traced to the customers' bills to ensure that all issues to the customers have been billed.

(b) All payments to the foreign collaborator, it any, are to be checked. Agency commission agreements and spent validation. Payment made to Brand Owner as per arrangement

(c) Expenses and receipts are to be compared with figures of the previous year, having regard to the average occupancy of visitors and changes in rates.

(d) Special receipts on account of letting out of auditorium, banquet hall, spaces for shops, boutiques, and special shows, marriage parties etc. should be verified with bookings and the arrangements made.

(e) In depth check should be carried out on the customers' ledgers to verify that all charges have been properly made and recovered.

The occupancy rate should be worked out, and collection made against the same. Benching of rates with other similar hotels and same quality of services, and with previous year. Material deviations should be investigated.

(g) Expenses for painting, decoration, renovation of building, etc. are to be properly checked.

(h) It is common that hotels get their bookings done through travel agents. The auditor should ensure that the money is recovered from the travel agents as per credit terms allowed. Commission paid to travel agents should be checked by reference to the agreement on that behalf.

(i) Apart from control over stock of edibles, control over issue and physical stock of linen crockery, cutlery, glassware, silver, toilet items, etc. should be verified.

(j) The auditor should verify the restaurant bills with reference to KOT (Kitchen order Ticket).

(k) The auditor should ensure that all taxes have been included in the client's bills.

(l) Computation and payment of salaries and wages vis-a-vis number of employees must be checked.

Stock:

A. Utensils purchased, records for issue to Housekeeping/Kitchen etc. to be regularly updated and periodically verified. The stocks in a hotel like all saleable items, food and beverages need to be compared with Kitchen and other relevant records, consumption of raw items etc. These should be physically verified (with or without surprise element) at periodic intervals.

B. The following may be noted in this regard:

  (a) Food procurement and Issue to Kitchen, KOT validation process with Guest Orders. Stale, outdated food to throw Bin also be recorded for reference. All movement and transfer of stocks must be properly documented.

  (b) Store Keeper is responsible for all movement records to justify stock at hand. Areas where stocks are kept must be kept locked and the key retained by the departmental manager. A key holding register (shift-wise) to be maintained to fix responsibility w.r.t noticing mishandling at the time of verification, if any.

(c) Unauthorized persons should not be permitted in the stores area without specific permission.

C. Many hotels use specialized professional valuers to count and value the stocks on a continuous basis throughout the year.

Periodical physical verification and documented valuation process need to be adhered. The auditor should ensure his presence at least for part of the time during verification process to strengthen vigil. The Auditor to considered that all stocks are valued at the year end.

E. Fixed Assets Register with all necessary noting as to installation date, cost, description, life class etc. to be maintained and depreciation on reporting dates to be computed. The fixed assets should be properly depreciated, and the Fixed Assets Register must be updated.

(v) Section-wise/Cost Centre-wise detail e.g., manpower deployed, maintenance spent, wages, managerial expenses etc. to be maintained on regular basis for cost analysis and necessary help in decision making.

a. Casual Labour: In case the hotel employs a casual Labour, the auditor should consider, whether adequate and accurate records have been maintained in this respect. Automated time recording facility is now available in most of the hotels and time clocked there collected for considering attendance.

b. The wages payment of the casual Labour must also be checked thoroughly.

b. Cost – Revenue comparison facility-wise (Swimming Pool, Golf Course, Spa etc.) to be monitored for service level assessment with recovery rate /change required to maintain service level.

c. The compliance with all statutory provisions, and compliance with the Foreign Exchange (FE) Regulations must also be verified by the auditor, especially because hotels offer facility of conversion of foreign exchange to rupees/Receiving FE from foreign travelers.

(b) **Mock Discussion**

Audit Team Lead : Good evening Sir

QC Head : Hi, Fine. Gone through your points. I have another meeting lined-up and hope we will be able to conclude by next half an hour.

Audit Team Lead : Sure. But major issue on authority structure for approval of coal samples and sample collection process requires a detail modus of operation disclosure from your side.

QC Head : Mr. Agile, You know I have three Quality Managers manned in each of the shift. They are basically scientist. How they can sign-off 30 results per eight hour shift after thorough scrutiny. Hence, I instructed the casual workmen who are involved in sample collection and testing to sign-off within specification ones and outliers are approved by the Scientists.

Audit Team Lead : Yah, Mr. Worthless. That is why, we have suggested auto sampling and a 'process note' also appended with our recommendation. This will reduce the risk of manipulation in manual sampling, ,if any. The Augur will number the sample and will carry out online test and outliers will be identified for rejection/reduction of rate. This will help the scientists to perform in a better way.

QC Head : Understand. But what will happen to the Contract workforce.

Audit Team Lead : Sir to run the Augur , two workmen is required in each shift . They need to be trained before deployment. Rest can transferred on wherever required basis. But, that's HR baby.

QC Head : Fine, but what about investment in machinery, Computers etc. to get on-line results.

Audit Team Lead : You can place a 'Growth Budget' and capital investment will surely more than compensate the cost of contractual deployment.

QC Head : Yes, the extra workmen can be deployed for heaping, shifting , placement of rakes etc. where numbers are required.

Audit Team Lead : Sir, SOP is also silent on GCV (Gross Calorific Value)and NCV (Net Calorific Value) parameters for imported Coal. We strongly feel, the same to be specified.

QC Head : Look, we can't reject and return the imported material and hence putting a parameter is of no use. Moreover, we have started using imported coal only from last two years. Managing production requirement is more important and challenging due to break out of Pandemic.

Audit Team Lead : Sir, but we can always ask for compensation due to lower GCV, NCV of the coal supplied. The Lab Team to point out acceptable level in SOP.

QC Head : That's fine. Will do. I have just sent an SMS , that the other meeting to be re-scheduled. Next point please.

Audit Team Lead : Our User Plant at 'zero' , tests Iron Ore coming from our own 'Poor Mines' , but we do not have Quality testing facility at the Mines. Unless test laboratory is there, how are sure that contamination not happening en-route? Once, we compare results of both the ends, can conclude on what went wrong.

QC Head : Again it's cost issue. Setting a lab facility at 'poor mines' will cost approx. Rs.25 Lacs.

Audit Team Lead : Agreed Sir. But the expert who worked with us, opined that Ores mined are better than what we are getting here, considering the distance between the two places i.e., 500 Km. contamination by Transporters is possible. Hence, we suggest, Lab facility at both the ends, one side test is not anyway helping us.

QC Head : Thanks a ton. Your supportive role for enhancing business interest is appreciable and we are going to take-up the issues with MD and COO for help in implementing your suggestions.

Audit Team Lead : Thanks , it's your thought on business excellency.