



Time Allowed: 3 Hours

Full Marks: 100

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

SECTION – A (Compulsory)

1. (a) Choose the correct option from the four alternatives given in each case: [2×10=20]
- (i) The report on the audit of cost records is submitted by the cost auditor to:
- (A) Finance Director
  - (B) Audit Committee
  - (C) Managing Director
  - (D) Board of Directors
- (ii) Cost Audit Report is to be filed in Form \_\_\_\_\_ on MCA portal.
- (A) CRA 1
  - (B) CRA 2
  - (C) CRA 3
  - (D) CRA 4
- (iii) A Cost Auditor found guilty of deliberately providing false report and certificate will be Liable for punishment under Section \_\_\_\_ of the Companies Act,2013.
- (A) Section 447
  - (B) Section 437
  - (C) Section 448
  - (D) Section 427
- (iv) Which of the following is not part of the Employee Cost as per CAS-7?
- (A) Leave with pay
  - (B) Medical benefit to the Employees and dependants
  - (C) Compensation for Lay Off period
  - (D) Cost of Employees' Stock option
- (v) Overall Objectives of the Independent Cost Auditor and conduct of an Audit in accordance with Cost auditing Standard is dealt in
- (A) Cost auditing Standard 101
  - (B) Cost auditing Standard 102
  - (C) Cost auditing Standard 103
  - (D) Cost auditing Standard 101
- (vi) 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.
- (A) Audit Process
  - (B) Audit Working Paper
  - (C) Audit File
  - (D) Audit Documentation



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- (vii) Which of the following is a pre-requisite before filing the Cost Audit Report and Compliance Report on MCA Portal?
- (A) Validating the instance document
  - (B) Pre-scrutiny of the instance document
  - (C) Use available tool to convert the instance document in a human readable pdf format
  - (D) Attaching the instance document to the e-Form and filing on MCA portal.
- (viii) Main purpose of evaluating internal control in cost audit?
- (A) Detect tax fraud
  - (B) Reduce audit scope
  - (C) Assess data reliability
  - (D) Verify shareholding pattern
- (ix) Test Checking is done when there is an effective of \_\_\_\_\_
- (A) Internal Control
  - (B) Internal Audit
  - (C) Internal Check
  - (D) Both (a) and (b)
- (x) When intellectual property is stolen, or private client information is illegally distributed, this constitutes -----.
- (A) Corporate Espionage
  - (B) Corporate Scandal
  - (C) Corporate Negligence
  - (D) Corporate Malpractice

(b) Choose the Correct Option:

[2×5=10]

PQR Ltd., has planned for an investment of ₹1,000 lakhs with a 60% loan from Banks at 10% interest. Direct Cost for the year ₹600 lakhs and 50% of which is Material Cost. Other expenses are at ₹90 lakhs. The goods will be sold at 150% of the direct cost. The tax rate is assumed at 30%.

(i) The Gross Profit Margin of PQR Ltd.:

- (A) 33.33%
- (B) 50.00%
- (C) 40.00%
- (D) 25.00%

(ii) The Net Profit Margin of PQR Ltd.:

- (A) 33.33%
- (B) 11.67%
- (C) 15.00%
- (D) 25.00%



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(iii) Return on Assets of PQR Ltd.,

- (A) 10.50%
- (B) 12.50%
- (C) 15.00%
- (D) 25.00%

(iv) Return on Equity of PQR Ltd.,

- (A) 25.00%
- (B) 26.25%
- (C) 32.00%
- (D) 22.50%

(v) Asset Turnover of PQR Ltd.,

- (A) 0.80
- (B) 0.70
- (C) 0.90
- (D) 1.00

Answer:

1. (a)

(i)	D
(ii)	D
(iii)	A
(iv)	C
(v)	C
(vi)	D
(vii)	A
(viii)	C
(ix)	C
(x)	A

1. (b)

(i)	A
(ii)	B
(iii)	A
(iv)	B
(v)	C



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**SECTION – B**

Answer any 5 questions out of 7 questions given. Each question carries 14 marks. [5×14=70]

2. (a) In the light of the liberalization of the economy and consequential globalization there is enhanced need for providing authentic data to the government to regulate the demand and supply in the country through a price control mechanism. List the benefits of cost information highlighted by the Expert Committee formed by the Government of India to study the Cost Audit Scenario. [7]
- (b) In the Cost Audit Report (Form CRA-3), the cost auditor specifically certifies compliance with the Cost Accounting Policy. Identify the areas which are covered by the cost accounting policy. [7]

**Answer:**

- (a) The liberalization of the economy and consequential globalization has further enhanced the need for authentic data. The Expert committee formed by the Government of India to study the Cost Audit scenario in the country, highlighted the following benefits of cost information:
- (i) Cost information enables the organisation to structure the cost, understand it and use it for communicating with the stakeholders.
  - (ii) Costing is an important tool in assessing organisational performance in terms of shareholder and stakeholder value. It informs how profits and value are created, and how efficiently and effectively operational processes transform input into output.
  - (iii) It contributes to the data input on economy level parameters like resources efficiency, waste management, resources allocation policies etc.
  - (iv) Costing includes product, process, and resource-related information covering the functions of the organisation and its value chain.
  - (v) Costing information can be used to appraise actual performance in the context of implemented strategies.
  - (vi) Good practice in costing should support a range of both regular and non-routine decisions when designing products and services to:
    - meet customer expectations and profitability targets;
    - assist in continuous improvements in resources utilisation; and
    - guide product mix and investment decisions.
  - (vii) Working from a common data source (or a single set of sources) also helps to ensure that output reports for different audiences are reconcilable with each other.
  - (viii) Integrating databases and information systems can help to provide useful costing information more efficiently as well as reducing source data manipulation.

- (b) Cost Accounting Policy shall cover the following areas:

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- (i) Identification of cost centres/cost objects and cost drivers.
- (ii) Accounting for material cost including packing materials, stores and spares etc., employee cost, utilities and other relevant cost components.
- (iii) Accounting, allocation and absorption of overheads.
- (iv) Accounting for depreciation/amortization.
- (v) Accounting for by-products/joint-products or services, scraps, wastage etc.
- (vi) Basis for Inventory Valuation.
- (vii) Methodology for valuation of Inter-Unit/Inter Company and Related Party transactions.
- (viii) Treatment of abnormal and non-recurring costs including classification of other non-cost items.
- (ix) Other relevant cost accounting policy adopted by the Company.

3. (a) **Explain the Cost Auditor's Eligibility criteria under Section 141 of the Companies Act, 2013 read With Rule 10 of the Companies (Audit and Auditors) Rules, 2014 and Section 148 of the Companies Act, 2013.** [7]
- (b) **What are the stages of Audit? Explain analysing the stages.** [7]

**Answer:**

(a) **Cost Auditor's Eligibility**

Eligibility criteria under Section 141 of the Companies Act, 2013 read with Rule 10 of the Companies (Audit and Auditors) Rules, 2014 and Section 148 of the Companies Act, 2013. The following persons are not eligible for appointment as a cost auditor:

- (i) A body corporate. However, a Limited Liability Partnership registered under the Limited Liability Partnership Act, 2008 can be appointed. [Section 141(3)(a)]
- (ii) An officer or employee of the Company. [Section 141(3)(b)]
- (iii) A person who is a partner, or who is in the employment of an officer or employee of the company. [Section 141(3)(c)]
- (iv) A person who, or his relative or partner is holding any security of or interest in the company or any of its subsidiary or of its holding or associate company or a subsidiary company or a subsidiary of such holding company. [Section 141(3)(d)(i)]
- (v) Relatives of any partner of the firm holding any security of or interest in the company of face value exceeding ₹1 lakh. [Section 141(3)(d)(i) and Rule 10(1) of Companies (Audit and Auditors) Rules, 2014]
- (vi) A person who or a relative or partner is indebted to the company or its subsidiary, or its holding or associate Company or a subsidiary or such holding company, for an amount exceeding ₹5 lakhs. [Section 141(3)(A)(ii) and Rule 10(2) of Companies (Audit and Auditors) Rules, 2014]
- (vii) A person who or whose relative or partner has given any guarantee or provided any security in connection with the indebtedness of any third person to the company or its subsidiary, or its holding



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or associate company or a subsidiary of such holding company, for an amount exceeding ₹1 Lakh. [Section 141(3)(d)(iii) and Rule 10(3) of Companies (Audit and Auditors) Rules, 2014]

- (viii) A person of a firm who, whether directly or indirectly, has business relationship with the company or its subsidiary, or its holding or associate company or subsidiary of such holding company or associate company. [Section 141(3)(e) and Rule 10(4) of Companies (Audit and Auditors) Rules, 2014]
- (ix) A person whose relative is a director or is in the employment of the company as a director or key managerial personnel of the company. [Section 141(3)(f)]
- (x) A person who is in the full-time employment elsewhere or a person or a partner of a firm holding appointment as its auditor if such person or persons is at the date of such appointment or reappointment holding appointment as an auditor of more than twenty companies. [Section 141(3)(g)]
- (xi) A person who has been convicted by a court for an offence involving fraud and a period of ten years has not elapsed from the date of such conviction. [Section 141(3)(h)]
- (xii) Any person whose subsidiary or associate company or any other form of entity, is engaged as on date of appointment in providing specialised services to the company and its subsidiary companies as below:
  - (a) Accounting and book keeping services
  - (b) Internal audit
  - (c) Design and implementation of any financial information system
  - (d) Actuarial services
  - (e) Investment advisory services
  - (f) Investment banking services
  - (g) Rendering of outsourced financial services
  - (h) Management services
  - (i) Any other kind of services as may be prescribed [Section 141(3)(i) and Section 144]

**(b) Three Stages of Audit and Analysis of the Stages:**

The stages of an audit of cost statements are:

1. Planning
2. Performing
3. Reporting

**Analysis:**

Once the entity's acceptance or continuation decision has been made, the first stage is planning the audit. Broadly, the planning stage involves:

- (i) Gaining an understanding of the client,
- (ii) Identifying factors that may impact the risk of a material misstatement in the cost statements,
- (iii) Performing a risk and materiality assessment, and
- (iv) Developing an audit strategy.

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The risk of a material misstatement is the risk that the cost statements include a significant error or fraud. The execution stage (or performing stage) of the audit involves the performance of detailed testing of internal controls and substantive testing of cost accounting policies and procedures. The reporting stage involves evaluating the results of detailed testing in light of the cost auditor's understanding of the entity and forming an opinion on the fair presentation of the entity's cost statements as a whole.

**Planning an Audit- First Stage:**

“It is well said that a well-planned audit is almost half way done”

The planning stage involves determining the audit strategy as well as identifying the nature and the timing of the procedures to be performed. This is done to optimize efficiency and effectiveness when conducting an audit. Efficiency refers to the amount of time spent gathering audit evidence. Effectiveness refers to the minimization of audit risk. A well-planned audit will ensure that sufficient appropriate evidence is gathered to minimize the risk of material misstatement at the cost statement level.

**Performing an Audit- Second Stage:**

The performance, or execution, stage of the audit involves detailed testing of internal controls, material consumptions, cost accumulation, allocation, apportionment and absorption. If an auditor plans to rely on their client's system of internal controls, they will conduct tests of controls. Cost auditor will conduct detailed substantive tests of audit procedures for the period and detailed substantive tests of consumptions and balances recorded at the period end. The detailed testing provides the evidence that the cost auditor requires to determine whether the cost statements have been fairly presented.

**Concluding and Reporting on an Audit- Final Stage:**

The final stage of the audit involves drawing conclusions based on the evidence gathered and arriving at an opinion regarding the fair presentation of cost statements. The Cost auditor's opinion is expressed in the cost audit report. At this stage of the audit, a cost auditor will draw on their understanding of the client, their detailed knowledge of the risks faced by the client, and the conclusions drawn when testing the entity's controls, transactions, cost heads, item of cost and related disclosures.

4. (a) Standard Material requirement to produce 1,000 units of Product X is 1,200 units of material at a standard price of ₹ 70 per unit. The Standard allows for reject of 25% of input. It is estimated that one third of rejects can be reworked at an additional cost of ₹15 per unit. Scrap units can be sold at ₹ 6 per unit. During a particular period, units produced were 19,500 with 24,000 units of materials at standard cost of ₹ 70 per unit. 6,000 units were rejected out of which 1,500 units were reworked at a cost of ₹ 54,000. The balance units were sold as scrap for ₹ 6 per unit.  
Calculate Material Quality Variance, Usage and Scrap Variance. [7]
- (b) ABC Ltd. Manufactures two products AA and BB. The following information is provided for the two products for the year ended March 31, 2026





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**Material Quality Variance = Actual Material Cost- Actual Quantity x Std. Rate**

$$= 17,07,000 - (19,500 \times 84.30)$$

$$= 17,07,000 - 16,43,850$$

$$= ₹ 63,150 (A)$$

**Material Usage Variance = Actual Quantity x Standard Rate - Standard Quantity x Std. Rate**

$$= \text{Standard Rate (Actual Quantity - Standard Quantity)}$$

$$= 70 \times (24,000 - 19,500 \times 6/5)$$

$$= 70 \times 600 = ₹ 42,000 (A)$$

**Scrap Variance:**

Actual Scrap - ₹ 27,000

Scrap Value as per Standard =  $19,500 \times 200/1000 \times 6 = ₹ 23,400$

**Scrap Variance = 27000 - 23400 = ₹ 3,600 (F)**

(b)

**ABC Ltd.**

**Compilation of Direct Expenses (as per CAS 10)**

	Product AA Rs.	Product BB Rs.
Royalty paid on Sales	5,25,000	4,50,000
Add: Royalty paid on Units produced	2,50,000	1,75,000
Add: Hire charges of Equipment used in producing of product BB		75,000
Add : Design Charges	1,60,000	1,90,000
Add: Software Development charges	2,50,000	3,00,000
Direct Expenses (Total)	<u>11,85,000</u>	<u>11,90,000</u>

5. (a) The financial profit and loss account for the year 2024-25, of a company shows a net profit of ₹35,60,000. During the course of Cost Audit, it was noticed that:
- The company was engaged in trading activity by purchasing goods at ₹ 7,00,000 and selling it for ₹8,50,000 after incurring repacking cost of ₹ 50,000
  - Some discarded assets sold off with no scrap value for ₹ 1,00,000
  - Some renovation of machinery was carried out at a cost of ₹ 7,00,000, having a productive life of five years, but entire amount was charged to financial accounts.
  - Interest was received amounting to ₹ 1,50,000 from outside Investments.
  - Voluntary Retirement payment of ₹ 4,00,000 was not included in the Cost Accounts.
  - Insurance claim of previous year was received to the extent of ₹ 3,50,000 but was not considered in the Cost Accounts
  - Opening Stock of raw materials and finished goods was overvalued by ₹ 3,40,000 and Closing Stock of finished goods was overvalued by ₹ 1,20,000 in the financial accounts, and



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(viii) Donation of ₹ 90,000 towards CSR commitment was not considered in the Cost Accounts.

Calculate the profit as per the Cost Accounts by preparing a Reconciliation Statement. [7]

(c) What do you mean by Forensic Audit? What are the Common Areas of Forensic Audit. Explain. [7]

Answer:

**Profit Reconciliation as per Cost and Financial Records for the year 202**

S.No.	Particulars	Amount (₹)	
1.	Profit as per Financial Accounts		35,60,000
2.	Less: Income not considered in the Cost Accounts		
	a) Trading Profit (8,50,000 - 7,00,000 - 50,000)	1,00,000	
	b) Profit on Sale of Old Assets	1,00,000	
	c) Interest received from Outside Investments	1,50,000	
	d) Insurance Claim for previous year received	3,50,000	(7,00,000)
3.	Add: Expenses not considered in the Cost Accounts		
	a) Donation towards CSR commitment	90,000	
	b) VRS Expenses	4,00,000	
	c) Renovation (4/5 th outlay of ₹ 7,00,000)	5,60,000	10,50,000
4.	Valuation of Stock (3,40,000 - 1,20,000)		2,20,000
	[overvaluation of opening stock and closing stock in financial accounts]		
	<b>PROFIT AS PER COST ACCOUNTS</b>		<b>41,30,000</b>

**(b) Forensic Audit:**

A forensic audit is an evaluation and examination of an individual's or a firm's financial records to stem up evidence that can be used in legal proceedings or court of law.

Forensic auditing is a specialization within the accounting field, and most large accounting firms have a forensic auditing department. Forensic audits necessitate auditing and accounting procedures as well as expert knowledge about the legal outline of such an audit.

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Generally, Forensic audits cover a wide range of investigative activities. A forensic audit may be directed to secure a party for embezzlement, fraud, or additional financial crimes. Moreover, the auditor may also be called to help as an expert witness during trial proceedings of a forensic audit. Forensic audits could also involve situations such as disputes related to business closures, bankruptcy filings, and divorces that do not involve financial fraud.

Forensic audit investigations may interpret, or confirm, numerous kinds of illegal activities. In general, a forensic audit is used if there is a possibility that the evidence collected would be used in court in its place of a normal audit.

The forensic audit process is similar to a traditional financial ‘audit accepting investigation, planning, assembling evidence, and writing a report with the added steps of a potential appearance in court. The lawyers offer evidence that the crime is one or the other discovered or disproved, which agrees with the harm sustained. In this procedure, they will explain their conclusions to the respondent should the case go to trial in front of the judge.

**Common Areas of Forensic Audit:**

The Forensic Auditor may be asked to investigate many different areas of fraud.

It is useful to categorise these investigations into following groups to provide an overview of the wide range of investigations that could be carried out.

The 3 categories of frauds are corruption, asset misappropriation, and financial statement of fraud.

**1) Corruption**

There are 3 types of corruption fraud.

**a) Conflict of Interest**

In a conflict of Interest fraud, the fraudster exerts their influence to achieve a personal gain which detrimentally affects the company.

The fraudster may not benefit financially, but rather receives undisclosed benefit as a result of the situation.

For example, a manager may approve the expenses of an employee who is also a personal friend in order to maintain that friendship. Even if the expenses are inaccurate.

**b) Bribery is when money(or something else of value) is offered in order to influence a situation****c) Extortion is the opposite of bribery, and happens when money is demanded (rather than offered) in order to secure a particular outcome.****2) Asset Misappropriation**

By far the most common fraud are those involving asset misappropriation, and there are many different types of fraud which fall into this category.

**For example:**

Cash Theft —

The stealing of physical cash, for example petty cash, from the premises of the company Fraudulent disbursements

Company funds being used to make fraudulent payments.

Common examples include billing frauds, where payments are made to fictitious supplier, and payroll frauds where payments are made to fictitious employees (often known as ghost employees )

Inventory Frauds — the theft of inventory from the company

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Misuse of Assets — employees using company assets for their own personal interest

**3) Financial Statement Fraud**

It is also known as fraudulent financial reporting.

It is a type of fraud that causes a material misstatement in the financial statements.

It can include deliberate falsification of financial statements which shall include omissions of:

Transactions, balances or disclosures

From the financial statements or

The misapplication of financial reporting standards.

This is often carried out with the intention of presenting the financial statements with a particular bias, for example, concealing liabilities in order to improve any analysis of liquidity and gearing.

6. (a) **Summarise the steps for Prevention of Anti Money Laundering compliance process.** [7]
- (b) **Explain Energy Audit and its role as a part of Management Audit.** [7]

**Answer:**

- (a) Anti-money laundering (AML) compliance adhering to PMLA Act, 2002, requires financial institutions and other entities to prevent the transformation of illegal funds into legitimate ones. The key aspects of compliance includes:
- Implement a risk-based approach to identify, assess, and manage money laundering risks specific to the business, clients, and operation.
  - Conduct thorough client identification (KYC) and due diligence in order to identify and verify the identity of the clients and ensure that they are not dealing with individuals or entities involved in money laundering.
  - Monitor transactions for suspicious activity and create a system to detect and flag potentially suspicious transactions.
  - Maintain detailed transaction records, and preserve these records for the minimum period specified under the Act, ensuring they are stored securely and accessible for audit
  - Report suspicious activities to the Financial Intelligence Unit-India (FIU-IND).
- In addition, keep abreast of changes in AML regulations and best practices to ensure ongoing compliance and
- Provide comprehensive training to staff on money laundering risks and compliance procedure.
  - Establish internal controls, and
  - Periodically review their AML policies to align with evolving regulations and international standards.
- (b)
- An energy audit or utility audit is an audit of utility expenses. It is part of overall Management audit with an object of energy cost reduction and better control.

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- It is a systematic assessment to identify how and where energy is used and wasted within a facility, providing a roadmap with recommendations to reduce consumption and costs.
- Apart from cost optimization, it lays stress on pollution control, safety aspects, variation in energy costs, energy mix, reliability of energy supply, conservation.
- Like every process of Management Audit, a systematic energy audit can be broken into four phases: planning, investigating, implementing and sustaining.
- In the preliminary stage of audit, an exercise is done to
  1. Estimate the scope of saving,
  2. Identify ‘most easy areas’ for attention.
  3. Identify low-cost improvements.
  4. Use existing and easily collectible data.
- The detailed energy audit will assess
  1. The cost of improvements,
  2. Collect macro data on plant energy resources
  3. Capital investments and estimated payback.

Management Audit is aimed to bring about increased efficiency and profitability in the organization.

The Energy Audit will through the various steps as described above will be an integral part of Management Audit.

7. (a) **Discuss the various approaches to be taken by the Management Auditor to evaluate the Corporate Image of the Company and the techniques available.** [7]
- (b) **Explain Performance Analysis and List out the specific metrics or goals, a company might consider during a Performance Analysis.** [7]

**Answer:**

**(a) Evaluation of Corporate Image:**

Evaluation of Corporate Image is a very complex process and it involves a critical examination of events and trends concerning business environment-both internal as well as external.

The various approaches to be taken by the Management Auditor to evaluate the Corporate Image of the company are as follows:

1. He should prepare a list of desirable attributes
2. The attributes should be classified into main groups and each group dovetailing the specific qualifications
3. Weights should be assigned to the attributes according to relative importance or priority.
4. Involve experts in the respective field in rating the qualifications and attributes

Based on facts, judgements and technical studies made by experts in respective fields

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5. The ratings are summarised under the selected groups
6. Present a composite evaluation to the management giving a comparative picture between actual and anticipated results.

The Techniques available to the management auditor for carrying out the evaluation of corporate Image are as follows:

1. Graphical Method: Upto date graphs are maintained for each of the attribute of a public under evaluation. (i.e. product, consumers, shareholders, lenders)
2. Point Method: Points are attached to each attribute
3. Index Method: Ideal indices are developed and actual attributes are compared with them.
4. Survey Method: It indicates questionnaires to elicit information
5. Ratio Method: Analysis of events and trends will help ratios
6. Position Analysis: Position of an enterprise with regards to market size, market share, market stability
7. Method of Comparison: Comparison of actual with budget on quantifiable attributes.

**(b) Performance Analysis:**

A performance Analysis is an evaluation of how a business or individual has performed within the limited timeframe against set parameters. Any variations from projected metrics, need to be under focus to understand the next course of action to pre-empt the possibility of any future/shortcoming.

Here are some specific metrics or goals a company might consider during a performance analysis:

- Parameters against which performance to be measured
- Past parameters and measuring yardstick
- Ensuring no change in parameters and yardstick
- Measurement of actual delivery
- Assumptions used for both micro and macro conditions with impact thereon.
- Adjustment at base level for the actuals at different point of time
- Process of monitoring and review of parameters and actuals against the same
- Equal period or timeframe for evaluation and period of appraisal
- 'root cause' analysis for deviations from expected performance
- Feedback to employees on business performance improvement.

8. (a) **What are the Objectives of Internal Control? Distinguish the key differences between Internal Audit and Internal Control.** [7]
- (b) **You are appointed as a Cost Auditor of an Educational Institution. Develop an Audit Programme for the audit of Educational Institution.** [7]



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**Answer:**

**(a) Objectives of Internal Control:**

- Examining whether the transactions are executed as per the management's authorization/policies set out.
- Accounting period, to which it belongs
- Ascertaining assets are protected from unauthorized access and use
- Comparing recorded assets with the existing ones, at various time intervals and taking actions in case of differences observed.
- To evaluate the efficiency of performance in all aspects of business activities and to highlight the weaknesses.

**Key Differences Between Internal Audit and Internal Control:**

1. Internal Control refers to the methods and procedures implemented by the entity's management to control the operations, so as to help the organisation in achieving the desired goals. On the contrary, Internal Audit reviews the existence and effectiveness of controls. The Internal auditing program perused to review its financial and operational activities, the gaps, if any, and suggest corrective actions to mitigate the same.
2. While Internal control is combination of 'Internal Check' and 'Internal Audit' system designed, implemented and maintained in an organisation. Internal Audit function is designed by those charged with governance, to keep a check on the activities of the entity.
3. In the internal control system, checking is performed simultaneously, while carrying out work. On the contrary, in internal audit system work is checked after it is performed.
4. The basic objective of the internal control system is to ensure compliance with management policies. In contrast, internal audit aims at detection of fraud.
5. The scope of internal control is wider than that of internal audit, as the former includes the latter.

**(b) Audit of Educational Institution:**

The special steps involved in the audit of an educational institution are the following:

- (i) Examine the Trust Deed, or Regulations in the case of school or college and note all the provisions affecting accounts. In the case of a university, refer to the Act of Legislature and the Regulations framed thereunder.
- (ii) Read through the minutes of the meetings of the Managing Committee or Governing Body.
- (iii) Check names entered in the Students' Fee Register for each month or term.
- (iv) Check all type of fees received by comparing counterfoils of receipts granted with entries in the cash book and tracing the collections in the Fee Register to confirm that the revenue from this source has been duly accounted for.
- (v) Confirm that hostel dues were recovered before students' accounts were closed and their deposits of caution money refunded.



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- (vi) Verify rental income from landed property with the rent rolls, etc.
- (vii) Vouch income from Government grants, endowments and legacies, as well as interest and dividends from investment; also inspect the securities in respect of investments held, donations received.
- (viii) Verify that the Provident Fund money of the staff has been invested in appropriate securities.
- (ix) Vouch all capital expenditure in the usual way and verify the same with the sanction for the Committee as contained in the minute book.
- (x) Vouch in the usual manner all establishment expenses and enquire into any unduly heavy expenditure under any head.
- (xi) See that increase in the salaries of the staff have been sanctioned and minuted by the Committee.
- (xii) Verify the inventories of furniture, stationery, clothing, provision and all equipment, etc. These should be checked by reference to Stock Register and values applied to various items should be test checked.