

In short, the two functions share one word in their names, but are otherwise quite different. Larger organizations typically have both functions, thereby ensuring that their records, processes, and financial statements are closely examined at regular intervals.

# Internal Check vs Internal Audit

## auditing



**Similarities:** Both Internal Check and Internal Audit are part of the whole system of internal control, as such both are complementary and go together.

**Dissimilarities:** There is a lot of difference b/w Internal Check and Internal Audit. Both differ from each other in the following respects:

**1. Meaning:** Internal Check is an arrangement of duties allocated in such a way that the work of one person is automatically checked by another. Internal Audit is an independent appraisal of the operations and records of the company.

**2. Object:** The purpose of Internal Audit is to detect the errors and frauds which have already been committed.

The purpose of Internal Check is to prevent or minimize the possibilities of errors, frauds or irregularities.

**3. Need for separate staff:** for carrying out Internal Audit, a separate staff of employees is engaged for the purpose.

For internal check, no new appointment is made. It, in fact represents only the arrangement of duties of the staff in a particular way.

**4. Nature of work:** The work involved in the Internal Audit is just like that of a watch man. Internal auditor has to report, from time to time, to the management about the various inefficiencies and suggest improvements. It is also his duty to see that the internal check system does not become static.

Internal Check, on the other hand, represents a process under which the work goes on uninterruptedly and the checking too is more or less automatic.

**5. Timing of work:** Internal Audit starts when the accounting process of different transactions is finished.

Internal Check is an operation during the course of transaction.

**6. Internal audit:** It is a device for checking the work, whereas internal check is a device for doing the work.

**7.** In Internal Audit Errors and Frauds are detected after the completion of work, whereas in Internal Check the Errors and Frauds are discovered during the course of work.

**8. Scope of work:** The scope of Internal Check is very limited. The scope of Internal Audit is comparatively board.

**9. Involvement:** A large number of employees are needed for the implementation of Internal Check System.

Whereas, a much smaller number of persons are needed for implementing Internal Audit implementation.

## **Appointing Authorities of Cost Audit**

A cost auditor may be appointed by:

1. Internal authorities, i.e., the management of the company.
2. External authorities, i.e.,:
  1. The Government.
  2. The Customer.
  3. Trade association or tribunal.

Based on these appointing authorities the corresponding types of Cost Audit are listed below.

## **What is the Qualification of Cost Auditors?**

As per the Rule 2 Clause C of the 2014 Cost Records and Audit Rules, a Cost Auditor means a Cost Accountant in practice as defined in Clause B who is appointed by the Board.

Cost Accountant in practice means that the person should hold a valid certificate of practice as defined under the section 6 sub-section 1 of that Act and who is deemed to be in practice under section 2 sub-section 2 and includes a firm or **LLP** of Cost Accountants.

Thus, only a Cost Accountant as defined under section 2 sub-section: 28 of the 2013 Companies Act with valid certificate to practice is qualified to get appointed as a Cost Auditor.



## Costs for Cost Auditing:

As defined and decided by the ICMAI Institute the minimum fees for Cost Audit is summarized in the table below:

Turnover in Crore (Rs.)	Cost Audit Fees	Cost Records/ Compliance Fees
Below 5	20,000	
5-10	40,000	
10-20	50,000	
20-50	75,000	25,000
50-75	1,00,000	35,000
75-100	1,25,000	50,000
100-150	1,75,000	75,000
150-250	2,50,000	1,00,000
250-500	4,00,000	1,50,000
500-750	5,00,000	2,00,000
750-1000	6,00,000	2,50,000
1000-2500	7,50,000	3,50,000
2500-5000	8,50,000	4,50,000
5000-2000	10,00,000	5,00,000



## **Applicability of Cost Audit**

Rules 1-6 are defined for determining the applicability of Cost Audit as per the Cost Records and Audit Rules 2014, but describing each rule in detail in this article of 1500 words is not possible hence only a brief is mentioned below:

Regulated sectors and Non-Regulated sectors are the categories and a general threshold of turnover of INR 35 Crore or more has been prescribed for companies covered. Micro or Small enterprise as per the 2006 MSMED Act has been taken out of the purview.

For Regulated sectors like Telecommunication, Electricity, Gas and Petroleums, Pharma and Drugs, Sugar and Fertilizers, Cost audit requirement has been made subject to a turnover based threshold of INR 50 Crore for all product and services and at INR 25 Crore for individual product and services. For Non-regulated sector the

threshold is INR 100 Crore and INR 35 Crore respectively for all products and services and individual product and services.

### **What are the consequences of not doing it?**

If a company fails to maintain Cost Records, the company shall be punishable with fine ranging from INR 25,000 to INR 5 Lac. Also the officer of the company who is in default is subject to one-year imprisonment or fine ranging from INR 10,000 to INR 1 Lac or both. Hence, it is the duty of the compliance officer to ensure that all the legal compliances with respect to the cost record and cost audit being complied with.

**After reading this article you will learn about the rights, powers and duties of the Cost Auditor.**

### **Rights and Powers of a Cost Auditor:**

According to Section 233B (4) of the Companies Act, 1956, the cost auditor 'shall have the same powers and duties in relation to an audit conducted by him under this section as an auditor of a company has under Section 227(1) and such auditor shall make his report to the Central Government in such form and within such time as may be prescribed and shall also at the same time forward a copy of the report to the company'.

**The rights and powers of a cost auditor may be summarised as follows:**

1. A right of access at all times to the books of accounts and vouchers of the company, whether kept at the head office of the company or elsewhere.
2. A right to require and receive from the officers of the company such information and explanations as he may think necessary for the successful performance of his duties as a cost auditor of a company.
3. A right to visit branch offices and factories of a company, and to receive proper returns therefrom as may be necessary for the conduct of his cost audit.

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4. A right to receive such cost accounting records, cost statements and other books and papers as would be necessary for cost audit within 90 days of the financial year of the company.

5. A right to seek and enjoy assistance and facilities from the company so that he can successfully complete his audit.

6. A right to receive remuneration from the company for his function as a cost auditor.

7. A right to receive notice and to attend the general meeting of the company.

8. A right to have technical and legal advice whenever necessary in connection with his work of cost audit.

9. A right to sign on the cost audit report and a right to send his report to the Central Government as well as to the company.

### **Duties of a Cost Auditor:**

The provisions of the Companies Act, the Cost Audit (Report) Rules, the Cost and Works Accountants Act and Regulations, and the different laws that are applicable on a particular company or companies govern the duties of a Cost Auditor.

**The duties may be described as follows:**

1. He should submit his Cost Audit Report to the Central Government within one hundred and eighty days from the end of the company's financial year to which such report relates, and a copy of the said report to the company.

**2. He should clearly state, in his report, that:**

(a) He has obtained all the information and explanations relating to the cost accounts which to the best of his knowledge and belief were necessary for the purposes of the cost audit.



(b) Proper cost accounting records as required under the relevant Cost Accounting (Records) Rules have been kept by the company.

(c) Proper returns adequate for the purpose of his cost audit have been received from the branches not visited by him.

(d) The books and records kept by the company give the information in the manner required by the Companies Act, and

(e) In his opinion the company's cost accounting records have been properly kept so as to give a true and fair view of the cost of production, processing, manufacturing or mining activities, and marketing of the product.

3. He should also qualify his report to the extent it differs, where he is not satisfied with any of the provisions stated above.

4. He should, if he considers it necessary after submission of his report, submit a supplementary report, to the Central Government before the date fixed for folding the annual general meeting of the company, limited to the extent of reconciliation of the cost statements with the company's financial accounts.

5. He should assist the Government in the latter's investigation process being launched for the purpose of examining the affairs of the company.

6. He should keep records of various errors or omissions and commissions done by the client staff.

7. He should give necessary advice to the company about the irregularities in the maintenance and recording of cost accounts books and statements.

8. He should understand and appraise the company's policies and procedures and systems adopted for the purpose of controlling wastages and inefficiencies.

9. He should see and ensure what other exceptional duties are cast upon him by the Articles of the company.

10. He should owe his duty of care primarily to the company, act honestly and sincerely and maintain the secrecy and confidentiality of his client, and

11. Lastly, he has a continuing duty to maintain his professional knowledge and skill at a level conducive to act as a cost auditor competently.