

## Problems and The Limiting Factors of Cost, Propriety and Efficiency Audit

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### Introduction

Many auditors struggle with problems they encounter during the audit process without understanding how to deal with them. Hopefully this work provided some solutions and insight into ways that they can make their auditing process more productive less stressful, and more beneficial. The key is knowing that the audit process is designed to help the organization find issued or nonconformities before someone else did or before they became major issues. These problems or issues could result in regulatory action by an outside agency or cost the company thousands of dollars in expenses expenditure. An issue not found during an audit of a company may even result in costly recalls.

An auditor could make work through getting management and supports preparing for an audit dealing with difficult auditees and properly reporting the audit result in a much more proficient through audit process.

To measure the efficiency a proper standard would have to be laid down regarding labour, material, machinery and overheads. In each case, a detailed study of these factors is needed. For example, to measure the labour efficiency output production rate per hour or per day quality of the labours and rate of wages have to be fixed down. In case of material, standard input of material, scrap and material wastage have to determined. Optimum production under the given circumstances, resources and machine capacity would have to be found out and compared with actual production. Overhead expenses should be broken down under various heads and be compared with the present standards. Thus the efficiency evaluation is a complex problem requiring technical skill and common knowledge.

### Limiting Factors of Cost, Propriety and Efficiency Audit

1. **High cost for installation and operation** : In order to install a system of cost, efficiency and propriety audit it is necessary to make elaborate arrangements. This required a comparatively high initial cost and operating expenses which get majority of small scale and medium scale organization scan ill afford. If the cost of companies auditing greater than its profit then there will be no relevance of cost auditing. Because cost audit is for reducing cost, if auditing cost is higher then it will be a great limiting factor for company.
2. **Lack of knowledge** : Lack of knowledge is also limitation of audit. If cost auditor have no knowledge about companies rules and policies than be couldn't do right information about company. Propriety and efficiency audit are two aspects of cost audit. If cost audits not right then these both audit will be wrong.
3. **Time** : Time is biggest limitation of audit. If auditor don't take any decision on time, its could be deprived of those benefits. If cost auditor inquiries all works of company to take care off propriety

and efficiency audit gives their report on time. Then company management can invest in benefits decisions and if cost auditors don't gives their report on time then companies management can't take right decision and by this company can go in loss.

4. **Limitations of financial and cost accounting :** Cost audit bases its reports on the data gathered even from financial and cost books of accounts. Hence any flow inaccuracy, etc. in the preparation of financial and cost books of accounts impairs the quality of reports prepared and submitted by the cost auditors. This has resulted in a situation where in some of the limitations of cost audit are due to the dependence of cost audit on financial accounting and cost accounting for the information. Hence the limitations of financial accounting and cost accounting can also be considered as the limitations of cost audit.
5. **Wide scope :** It is very difficult to prescribe the boundary for cost audit. Because it required the services of cost accounting, financial accounting, quantitative techniques, mathematical programming, production engineering, marketing aspects etc. Therefore, it is very difficult to develop a cost audit department with the people who have full knowledge about all these disciplines. This act as one of the limitations of cost audit.
6. **Lack of objectivity :** Cost audit in his reports to management, has to include the prediction about the future based on this past, present and future. Therefore the reports include both the actual and estimates and both the quantitative and the qualitative information. Further the managerial reports lay more emphasis on relevancy rather than on objectivity. The reports are therefore influenced by the personal judgments. Analysis and interpretation of financial information is also influenced by the ability of the auditors and therefore there is every likelihood of personal in analysis and interpretation which significantly influences the decisions. Hence, it is said that they are more subjective than objective.

### **Problems of efficiency and propriety audit**

Audit as is generally understood mainly aims at certifying the accuracy of financial statements of an industry. Such a certification is a statutory necessity in the case of joint stock companies. In recent year however terms like 'performance audit and efficiency audit' have come into use. Audit here is expected to be an agency for evaluating or assessing performance. The management on its own may conduct an evaluation of performance. In fact in all efficient and lively organizations, evaluation and improvement of performance is given the greatest significance. An external agency (including an audit firm) may also sometimes be employed for this purpose, but reports from such a body are meant for the management. So for as the shareholders and concerned they are only informed whether this accounts are drawn up in conformity with the law and whether they show a true and fair view of the affairs of the industry. The board of Directors may furnish reasons if the results shown by the Accounts are unlikely to satisfy the shareholders. But the judgment upon the efficiency or otherwise of business operations is left entirely to the board. The people's representatives has no direct control over the board though they could question the Government's directions in nominating it. The board presents an account of its activities to the legislature through its Annual Report which is placed before the legislature. But in the absence of any specific control over the contents of the annual report the board may not always provide a certain minimum of information in it. Much reliance cannot therefore be placed on the annual reports as a medium of necessary information about the industry.

Efficiency audit of a democratic country faces many problems. In the public sector enterprises profit or return on capital cannot be a correct measurement of efficiency. Most public enterprises have a monopoly in their respective fields. Hence this efficiency audit cannot be towards profit. Here the problem arises as to how the efficiency of any public sector enterprises can be examined. There are so many non commercial obligations which affect the profitability and they cannot be ignored while conducting the efficiency audit. Then what should be the base for conducting the efficiency audit? It is a basis problem. If the profit is accepted as the objective of the enterprises its extend would have to be stated i.e. maximum profit or the limited profit. Profitability may vary according to the nature of the enterprises, location and the price policy it has to follow and its social obligations to fulfill it is not always possible to quantify such factors and their effects. Much efforts would have to be made to evaluate the adverse and favorable impacts.

### **Propriety Audit – Problems**

Problems in propriety audit, however, arise mainly because of its distinct nature. The expression “Propriety” is moral term and can be understood by reference to the concept of morality accepted by the society at a given time. In any auditing the essential test lies in formulation of auditing propositions. In the audit of financial accounts by reference to financial and legal requirements, propositions are build up about happening of events, existence, accuracy, title, ownership compliance with law and internal regulations etc. which are all verifiable. In propriety audit the formulation of verifiable auditing propositions poses the problems. Propriety audit has an inherent element of subjectivity because it is very difficult to establish standards of public interest, commonly accepted customs, standards for conduct which are not firm basis for audit evaluation. To take care of this situation the C&AG has developed the norms of propriety for expenditure of public funds in our Country and this has been discussed in the study above. By laying down the standards of propriety for government expenditure the C&AG has really tried to tackle in a practical way the complex problem of subjectivity inherent in a situation calling for propriety consideration.

The norms so developed provide the basis of verifying expenditure occurred by various government departments. It has also been mentioned that so far s private sector is concerned, limited elements of propriety has been introduced through the provisions of section 227(1A) and 227 (4A) of the companies act with a verification base. It may however be appreciate that the norms of propriety applicable to governmental transactions may not ipso facto apply to transactions of private sector which have apply to transactions of private sector which have distinct and more limited objectives suited to them. Each private sector entity may have its unique objectives related, to its management philosophy and the transactions should be geared to achieve those. For example, a management which is operating for maximization of profits without infringing, any legal regulations may follow certain policies while another management believing in a wider measure of social justice may follow different policies. Despite these clear angularities, certain commonness can also be discerned in the policies and approaches of different managements. They include efficient operations, higher productivity and higher profit, reduction of wasteful expenditure etc. Above all, each entity has its impact on the society and building up propriety audit propositions becomes of paramount importance. It is felt that if the management of each entity, irrespective of any legal requirements, formulates norms of propriety for the entity, taking full note of wider social repercussions inherent in its operations, a formidable hurdle in the way of wider introduction of propriety audit can be removed. The element of subjectivity in propriety evaluation will get reduced.

Another dimension of the problem noticed in the application of propriety norms in the Government sector needs also to be taken into account. The norms are applied often too mechanically and create problems for expeditious and efficient working. In private sector, this attitude may prove counter productive. The element of subjectivity has caused proper discharge of duty very delicate and demands discretion, but wisdom of taking commercial decisions under dynamic environment (the economic, social and political) must be evaluated with reference to the circumstances in which these were taken and therefore, the auditor in his field must reconstruct such circumstances. The judgment of the auditor must be objective as otherwise it would dampen the initiative of management and others in taking commercial decisions and propriety audit would prove itself to be counter productive.

### Conclusion

Cost, propriety and efficiency audit is a very essential tools of management, should be used carefully and cautiously in order to get good and useful results. But there are many a limiting factor in the way of this audit and all this results in certain weaknesses and demerits in an auditor. Some of the limiting factors such as the lack of knowledge, shortage of time, and the cost are subject to improvement. The auditor should be like an indifferent report the facts dispassionately and balancingly. He should avoid conflict and undue involvement in making recommendations and showing favours. Such other qualities to be manned in an auditor are discipline, impartiality and an expert knowledge of his field and a qualities to handle the situation wisely and timely.

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