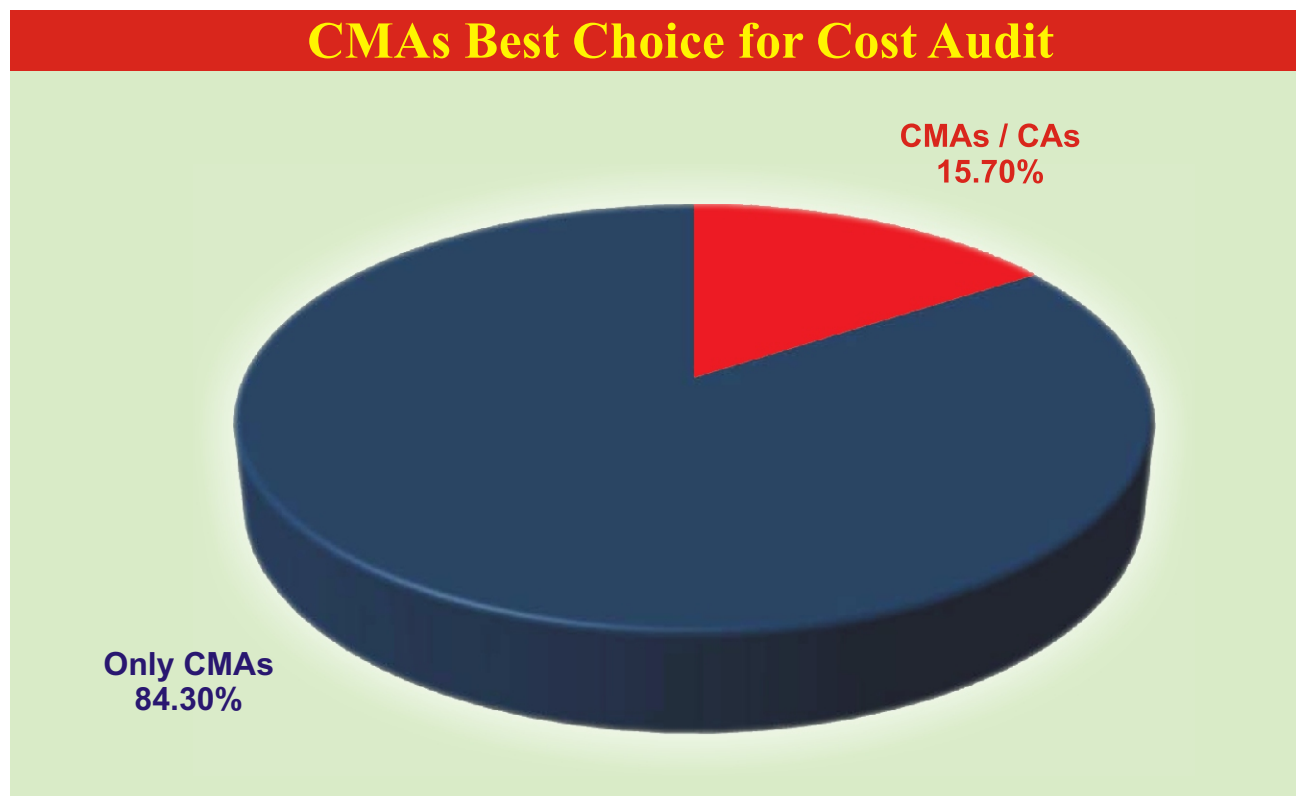


Survey Report reveals

Cost Audit of Industries shall be carried out by Management Accountants only

CMA's Best Choice for Cost Audit



“Cost Audit should be performed prior to the Financial Audit”

“Cost Audit scope need to be expanded to benefit general public and enhance government revenues”

The **Research and Publications Directorate** of ICMA Pakistan recently conducted an opinion survey to seek the general opinion of professionals and others as to whether conducting cost audit of industries is the prerogative of Cost and Management Accountants (CMAs) only or both the CMAs and Chartered Accountants. In fact, this survey was carried out as part of a new drive initiated by the Institute to promote the management accounting practices in the country, in the backdrop of industry's growing concern with regard to increased manufacturing cost and cost of doing business which is making them uncompetitive in the international export market. The survey also aims to highlight, justify and communicate the significance and excellencies of cost audit to the

manufacturing organizations and other related parties as well as regulatory bodies such as SECP that formulates strategies to implement cost audit in Pakistan.

It would not be out of context to mention here that an earlier survey carried out by the Research and Publications Department in May 2015, revealed the emerging role of management accountants in the business and industry in Pakistan. The survey indicated that management accountants are now being actively involved in the operational as well as strategic decision making process of companies Boards in view of their technical and professional skills in cost efficiency and management. More than 90 percent organization who participated in this

survey pointed out that management accounting skills are quite helpful to them in reducing costs and setting prices of products and services.

Before analyzing the outcomes of this survey, it would be worthwhile to first understand what 'cost audit' means; what are the relevant laws and regulations on cost audit; who are the main stakeholders and what role the Institute has played in supplementing the efforts of the government to introduce and expand cost audit regime in Pakistan.

Cost Audit

'Cost Audit' is defined as a mechanism of systematic examination of costing systems, techniques and cost accounts to verify their accuracy to comply the objectives of maintaining cost accounting in the manufacturing organization. Cost audit contributes greatly towards the effective control of organizations and assists the management by providing useful information for cost control and profit maximization. Cost audit gives advance signals for cost control to avoid industrial sickness by identifying grey areas of cost efficiency including inherent visible losses.

The financial audit does not evaluate the performance of the company with regard to cost of production. It has greater emphasis on compliance of law. On the other hand, cost audit lays emphasis on performance evaluation. The manufacturing as well as services organizations can greatly benefit from the application of cost audit techniques and practices, some of which are summarized below:

- o It reduces costs and wastages for the organization and maximize utilization of scarce resources
- o It helps detect reasons of visible and invisible losses, inefficiencies, unusual wastages, etc.
- o It helps analyse cost variances with past performance as well as with industry averages
- o It provides accurate and reliable information for decision making of the management
- o It improves operational efficiency leading to profitability and increase in employees remuneration
- o It reduces production cost thereby reducing the prices of products for the benefit of consumers
- o It leads to added competitive advantage and profit optimization
- o It provides reliable and valid information for the financial institutions
- o It enhances trust for the investors who based on cost audit report makes decisions for investment
- o At macro-level, it improves tax collection, counter inflation and spur investment and economic growth.

Methodology

The Opinion survey was uploaded on Institute's website on 10th August 2015 and placed on Google Drive as well to provide an opportunity to respondents to submit their responses online. The responses were also invited via email to participate in this opinion poll and provide their feedback as to who, in their opinion, should be entitled to perform cost audit of industries. The survey was closed on 1st September 2015 after receiving an encouraging response.

Survey Statistics

There were total 1284 responses received online as well on R&P Directorate's official email address. Out of this figure of 1284, it was found that 41 respondents have submitted their responses more than once (even 3, 4 or 5 times). After removing these 52 repeated as well as 4 other redundant responses, the actual number of feedback came to 1228 on which this survey report is based upon.

Survey Responses

The respondents were asked to provide opinion on only one question i.e. "In your Opinion, who should be entitled to perform 'Cost Audit' of Industries?". Two options were provided i.e. Option 1 : CMAs only, and Option 2: Both CMAs and CAs. Majority of the respondents have favoured Option 1 that cost audit of industries should be done by CMAs only as this is their prerogative, despite the fact that Section 258 of the Companies Ordinance, 1984 entitles both firms of CMAs as well as CAs to carry out cost audit of companies, provided the firm of CA must appoint a cost and management accountant to work with them on the cost audit assignments.

84 percent respondents think Cost audit is prerogative of CMAs

Around 84 percent of the respondents have singled out CMAs as the specialist in conducting 'cost audit' whereas only 16% think that both CMAs and CAs be allowed to do cost audit of industries. Those who favoured that cost audit is an exclusive domain of the cost and management accountants, and that ICMA Pakistan should protect its brand and unique position in the market, based their arguments on the following facts:

- o CMAs have specialized education and training in cost and management accounting
- o CMAs are specialists in costing whereas CAs have not much knowledge about cost accounting and its implications
- o Cost audit needs specialized skills and knowledge which is delicately covered in ICMAP syllabus and practice
- o In India, only Cost Accountants are authorised under the law to act as the sole cost auditors of companies

“ Cost Audit reduces the cost of production and ultimately the benefits will pass on to general public as the prices will tend to reduce if cost of production will reduce. ”

- o As CAs solely enjoy perquisites of statutory financial audit, hence costing audit privileges be awarded to CMAs only
- o CMAs can conduct cost audit more independently because CMAs have no role in financial audit.
- o The objective of 'CMA Act 1966' is to regulate the profession of Cost and Management Accounting in Pakistan, that is specifically concerned with 'manufacturing industries', whereas objective of 'CA Ordinance, 1961' is to regulate the Auditing and Accounting profession in Pakistan, which is particularly concerned with the financial aspects only.
- o Quality of audit will hamper if CAs are allowed for cost audit in addition to financial audit, because CA firms are already in shortage of qualified CAs to adequately address issues pertaining to statutory financial audit.
- o Cost audit should be conducted prior to financial audit
- o ICMA Pakistan should establish close co-ordination with government officials and industry leaders specially textile industry, pharma industry and ghee industries etc.
- o ICMA Pakistan should focus on costing and cost audits by introducing case studies related to costing and cost audits in final stages of CMA program.
- o ICMA Pakistan should promote and increase the number of cost audit firms in Pakistan.

Enhancing Cost Audit Scope will benefit General Public as well increase government revenues

Those who favoured that both CMAs and CAs be allowed to conduct cost audit presented these arguments:

- o CMAs are not exposed enough with audit and lack adequate data to generate industry standards.
- o CMAs need to be trained to acquire specific analytical skills and industry data to perform cost audit
- o CMA firms are quite few in Pakistan which might hamper the cost audit procedure
- o Cost audit by both CMAs and CAs would facilitate integration of two top national accounting bodies in Pakistan
- o Both CMAs and CAs must have equal opportunity of cost audit as well as financial audit
- o It should be mandatory for CA firms to conduct cost audits by only using services of qualified CMAs
- o CMAs be also allowed Financial Audit of Public Limited companies on equal basis.
- o By providing CMAs with the sole right for cost audit and considering enhancement in scope of cost audit in Pakistan shall ultimately provide benefits to whole nation. The following arguments may be considered by the government:
- o Cost Audit reduces the cost of production and ultimately the benefits will pass on to general public as the prices will tend to reduce if cost of production will reduce.
- o One can argue that with reduction in sales price, the amount of sales tax will also reduce that would in turn tend to decrease the revenues of the government. This argument is not based on actual facts as reduction in sales tax would automatically be compensated by increase in the amount of Income Tax due to increase in profits (if half of the benefit arises due to reductions in cost is transferred to general public).
- o Reduction in prices will lessen the inflation and ultimately accelerate the economic activities, reduce unemployment and increase the government revenues.

The survey is conducted by ICMA Pakistan in the supervision of Mr. Mohammad Iqbal Ghori, FCMA, Chairman Research & Publications Committee facilitated by Mr. Muhammad Kamran Jamil, Director Research & Publications and Mr. Shahid Anwar, Joint Director, Research & Publications and assisted by Mr. Saad Husain, Research Assistant.

The following suggestions were also put forward by the respondents for consideration by ICMA Pakistan in order to promote the scope of cost audit in the country :

Disclaimer: This report is based on the personal observations and perception of members and other professionals and does not necessarily reflect the views of the Institute and therefore should not be taken as such.