

to be added

Dec. 1977

\* "Perspective in Internal Auditing"

1977

(Synopsis of a Talk Given at the Seminar)



whatever you incur from your pocket, as a deduction. Because this is wholly and exclusively for the purpose of your employment.

Membership fees of professional bodies are not incurred for the purposes of your employment. In any case you would incur the expenditure even if you are not employed. Now in that case it is alright. If you having passed an Internal Auditor exam or Institute of Company's Secretary's exam, Institute of Chartered Accountant Exam, and you have to give your membership fee in that case it cannot be claimed as a deduction because that in any case you have to pay in order to hold the position. But if there are certain other bodies—professional bodies of which you are made a member like I will give you another English case—An Englishman had to go to London very often. Because hotel accommodation is expensive in London he was made a member of the club because staying in a club is much cheaper than staying in the hotel. So the club fees were paid by the company and the Court held that it was not taxable as a perquisite even though by being a member of the club, he got certain personal benefit like he got right to swim, he got right to play golf etc. So the Court held that because he was made a member of the club at the instance of the Company in order to save money for the company the club membership fees were not to be treated as perquisite.

Regarding Compensation recovered under a group insurance policy, say one of the employees is injured and the insurance company pays a certain amount to the Company, the Company thereafter pays it to the employee. The first question is whether that would be treated as income of the Company. The answer is no—it will not be treated as the income of the Company. Secondly when the Company pays it to the employee it will not be treated as the income of the employee also. It is a personal accident benefit. It has no relation to the services rendered by the employee and the third is the question of claiming a deduction by the company does not arise because in any case it was not treated as its income.

Further, if a certain amount is not liable to tax in your opinion then you should not deduct tax at source, why should you. There is one decision where it has been held that where a Company borrows money at a certain rate and thereafter gives a loan tax-free, that tax-free loan has to be treated as a perquisite. But normally I don't think for employees that should be the case because I can tell you that Central Government employees are entitled to loan upto Rs. 2 lakhs free of tax, free of any interest. If the Income-tax Department want to tax this benefit, you must resist it. This is like any other Company giving its product at a concessional rate to its employees.

\* \* \* \*

**SYNOPSIS OF A TALK GIVEN AT THE SEMINAR  
ON  
"PERSPECTIVES IN INTERNAL AUDITING"  
HELD BY THE BOMBAY CHAPTER  
ON 16TH & 17TH DECEMBER 1977  
AT HOTEL PRESIDENT**

**COST AUDIT**  
By Mr V. R. Iyer

Cost Audit is a new term introduced for the first time in India. Cost Audit is not considered separately in the advanced countries like U.S.A., U.K., Germany etc. This work is carried on by the internal auditor since Cost Accounting is considered an important tool for Management.

In India, the idea of Cost Accounting was born around 1920 in Government. It was used during the world wars to ensure that the Government Contracts were fixed at fair prices. Like many legacies of the war, Cost Accounting stayed on and was used for fixation of prices by the Tariff Commission. In the 1960's due to large-scale mismanagement in the corporate sector, the introduction of audits was considered necessary. It was at that time that the idea of Cost Audit was born. In fact one of the textbooks state "The Companies Act was amended in 1965 to strengthen the provisions relating to investigation into the affairs of companies and to provide more effective audit in dealing with cases of dishonesty and fraud in the corporate sector". The commentary on the present Section 209 (i) (d) of the Companies Act reads: "To ensure that in respect of companies engaged in production, processing, manufacturing or mining activities which may be specified by notification by the Central Government, proper records relating to utilisation of material and labour are available which would make the efficiency audit possible". In other words, this section was introduced in the statute book with the idea of something called "Efficiency Audit". At that time the concept of Efficiency Audit was not very clear but the possibility was thought of. Section 233 of the Act now requires an Audit of Cost but even this Section does not envisage the Efficiency Audit. In fact, there is no reference in the Act to Efficiency Audit.

The Institute of Cost and Management Accountants, London seems to feel that Cost Auditing is the verification of the correctness of cost accounts and the adherence to cost accounting principles, plans and procedures. This is a narrow view of cost audit. The other view which is gaining prominence in the last few years is the one which equates Cost Audit with Efficiency Audit. According to this, Cost Audit comprises of —

- (1) Proprietary Audit
- (2) Audit of Efficiency

Proprietary Audit generally means an audit of executive action and plans which have a bearing in the finance and expenditure of the organisation. The auditor endeavours to judge whether the company derives desired result from the expenditure planned and whether the size, quantum and type of expenditure would produce the best



