

UNIVERSITY OF TOLEDO INTERNAL AUDIT DEPARTMENT

PLAN AND DEPLOY COST TARGETS

Control practices

The following control objectives provide a basis for strengthening your control environment for the process of planning and deploying cost and quality targets. When you select an objective, you will access a list of the associated business risks and control practices. That information can serve as a checklist when you begin reviewing the strength of your current process controls.

This business risk and control information can help you assess your internal control environment and assist with the design and implementation of internal controls. Please note that this information is at the generic business process level and many companies will need to go beyond generic models to address the specific business processes that support the financial and nonfinancial disclosures being made. You can combine the insight of this business risk and control information with your industry-specific knowledge and understanding of your company's environment when conducting internal control assessments and designing and implementing recommendations.

Effectiveness and efficiency of operations

- A. Reliable information necessary for effective target costing is available when needed.
- B.

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B. Personnel are committed to the process of establishing and achieving cost targets.

Business risks

- Established cost targets will not be achieved.
- Inaccurate cost targets will be established.
- Low employee morale will result from misunderstanding of company objectives.

Control practices

1. Ensure performance measures are relevant and achievable and are set at the level that achieves the objective of cost control.
2. Link recognition and rewards to achievement of performance measures and to the success of the product being developed.
3. Ensure all personnel understand the target costing process and that they are knowledgeable about such factors as qualities of the product or service, desired market share, desired profit, maximum allowable cost, and necessary steps to achieve that cost.

C. Cost targets are consistent with market demands and company strategy.

Business risks

- Target costs will result in product prices exceeding competitive levels.
- Company profitability objectives will not be achieved.
- Target costs will be set too low for sufficient investment in the product to meet customer demands.

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1. Establish costs based on the product's intended market price and the company's profit requirements.
2. Establish target costs prior to product design and development and represent the desired lend

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D. Management involves suppliers in the target costing process.

Business risks

- Cost targets will not be as accurate as possible.
- The company will lose competitive advantage to competitors that cooperate with suppliers to reduce costs and increase profitability.

Control practices

1. Involve suppliers early in the product development process (design stage) to allow the company and supplier to work toward common objectives.
2. Work with suppliers to create joint performance measures that provide incentives for quality, reliability, and improvements.