

# THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

## COST AUDITING AND ASSURANCE STANDARDS BOARD (CAASB)



Presentation on  
**Standard on Cost Auditing**  
**Planning an Audit of Cost Statements**  
**(SCA 101)**

# Formulation of Standards on Cost Auditing

## How Standards on Cost Auditing are formulated ?

- Standards are issued by the Cost Auditing & Assurance Standards Board under the authority of the Council of the Institute of Cost Accountants of India.
- As per Section 148(3) of the Companies Act 2013, the auditor conducting the cost audit is required to comply with the “*cost auditing standards*”.
- While formulating standards, the CAASB takes into consideration the applicable laws, usage and business environment prevailing in India, relevant provisions of Cost and Works Accountants Act, Rules and Regulations, Code of Professional Ethics, Cost Accounting Standards and other Statements issued by the Institute.
- The Standards issued by the CAASB are aligned, to the extent possible, with other recognised Standards issued in India and prevailing International Practices. If a particular standard or any part thereof is inconsistent with a law, the provisions of the said law shall prevail.

# Authority of CAAS Board

***The Board is authorized to issue following literatures:***

- Standards on Quality Control
- Standards on Cost Auditing
- Standards on Review Assignments
- Standards on Assurance Assignments
- Standards on Related Services
- Guidance Notes
- Technical Guides
- Practice Manuals

# Structure of Standards on Cost Auditing

Clauses	Explanation
<b>Introduction</b>	Explains subject matter of SCA in brief, and context in which the SCA is set.
<b>Objectives</b>	Objectives to be achieved by the cost auditor in complying with the requirements of SCA keeping in mind the interrelationships among other SCAs.
<b>Scope</b>	Scope and applicability of SCA keeping in view subject matter & specific expectations from cost auditor and others in the context in which the SCAs are set.
<b>Definitions</b>	Description of terminology used in SCA. However, no definition can override the meaning defined in law and regulations.
<b>Requirements</b>	Outlines the specific requirements of SCA. Requirements containing the word “shall”, is mandatory ( <b><i>Bold Italic</i></b> ) to be complied with, unless stated otherwise The Non Bold Italic part of this section provide further explanation to relevant requirement.

# Structure of Standards on Cost Auditing

SCA Elements	Comments
<b>Application Guidance</b>	<p>Provides further explanation of the requirements and guidance for carrying the requirements set out in the SCA.</p> <p>Covers background information, addresses meaning of requirements and explains the requirements precisely with examples wherever required.</p> <p>However, the actual procedures selected by the cost auditor require the use of professional judgment based on the particular circumstances of the entity.</p>
<b>Effective Date</b>	Date from which the application of the SCA is mandatory.
<b>Statement of Modification</b>	SCAs are formulated based on International Standards on Auditing (ISAs) which primarily focus on financial audit. Due to fundamental differences between the scope and methodology of financial and cost audit, " <b>Statement of Modifications</b> " are issued by the Institute containing comparison to International Auditing Standards.
<b>Annexure / Appendices</b>	Appendices form part of the application and other explanatory material. The purpose and intended use of an appendix/ annexure are explained in the body of the related SCA, or within the title and introduction of the appendix/ annexure itself.

# Standards on Cost Auditing – Approved by MCA

**Standards already approved by the MCA on 10.09.2015 and effective for audit on or after 11.09.2015**

- SCA-101 - *Planning an Audit of Cost Statement*
- SCA-102 - *Cost Audit Documentation*
- SCA-103 - *Overall Objectives of the Independent Cost Auditor and the Conduct of an Audit in Accordance with Standards on Auditing*
- SCA-104 - *Knowledge of Business, its Processes and Business Environment*

**Note: As per direction of MCA, Board has developed 15 more Standards, already been sent to MCA for approval.**

# Standards on Cost Auditing – Approved by Board

- SCA-105 - Agreeing the Terms of Cost Audit Engagements
- SCA-106 - Audit Sampling
- SCA-107 - Audit Evidence
- SCA-108 - Materiality in Planning and Performing Cost Audit
- SCA-109 - Cost Auditor's Responsibility Relating to Fraud in an Audit of Cost Statements
- SCA-110 - Written Representations
- SCA-111 - Evaluation of Misstatements identified during the Cost Audit
- SCA-112 - Analytical Procedures
- SCA-113 - Using the Work of Internal Auditors
- SCA-114 - Using the Work of Cost Auditor's Expert
- SCA-115 - Communication with Those Charged with Governance
- SCA-116 - Communicating Deficiencies in Internal Control to those Charged with Governance and Management
- SCA-117 - Identifying and Assessing the Risks of Material Misstatement
- SCA-118 - The Cost Auditor's Response to the Assessed Risk
- SCA-119 - Related Parties

**SCA - 101**

**Planning an Audit of  
Cost Statements**



# SCA - 101 Planning an Audit of Cost Statements

Planning an audit of cost statements and records is considered necessary to ensure achievement of audit objectives with available resources and securing coordination with the auditee.

Before planning, the Cost Auditor is to ensure that his appointment as auditor is proper. Legal formalities, ethical requirements, understanding of ToR including the units, products / services to be covered and scope of coverage have been properly understood by him.

The nature and extent of planning activities will vary according to size and complexity of entity's activities, number of products covered, processes and operations involved.

Planning also helps the cost auditor in the risk assessment procedures. However, planning the nature, timing and extent of specific further audit procedures depend on the outcome of those risk assessment procedures.

# SCA - 101 Planning an Audit of Cost Statements

## Audit Planning

- **Planning is a continuous and iterative process involving:**
  - ✓ Establishing the overall audit strategy and
  - ✓ Developing an audit plan.
- **Adequate Planning helps:**
  - ✓ To devote appropriate attention to important areas.
  - ✓ Identify and resolve potential problems on timely basis.
  - ✓ Properly organise and manage the audit.
  - ✓ Assists Selection of engagement team members with requisite capabilities and competence.
  - ✓ Co-ordination of the work done by cost auditors of components and experts.
  - ✓ Facilitating direction and supervision of engagement team.

# SCA - 101 Planning an Audit of Cost Statements

## Audit Planning (contd.)

- **Consideration of various matters in developing the overall plan:**
  - ✓ Terms of Engagement,
  - ✓ Nature and Timing of reports,
  - ✓ Applicable legal and statutory requirements,
  - ✓ Accounting policies adopted by the entity,
  - ✓ Identification of significant audit areas,
  - ✓ Setting Materiality levels etc
  
- **The nature and extent of planning activities vary according to:**
  - ✓ Size and complexity of the entity,
  - ✓ Previous experience of key engagement team members
  - ✓ Changes in circumstances

# SCA - 101 Planning an Audit of Cost Statements

## Audit Planning (contd.)

- **Timings of certain planning activities needs to be completed prior to the performance of further audit procedures**
- **Cost auditor may discuss elements of planning with management, but planning remains responsibility of the auditor**
- **Involvement of Key Engagement Team Members**
  - ✓ Involvement in planning
  - ✓ Participate in discussion with audit team
  - ✓ Benefit of their experience and insight
  - ✓ Increasing effectiveness and efficiency of planning

# SCA - 101 Planning an Audit of Cost Statements

## Audit Planning (contd.)

- **Establish overall strategy to set the scope, timing & direction of audit plan**
  - ✓ Identify characteristics of engagement
  - ✓ Ascertain reporting objectives
  - ✓ Identify factors significant to direct audit teams efforts
  - ✓ Consider results of preliminary engagement activities
  - ✓ Ascertain nature, timing and extent of resources required
- **Assist the cost auditor in determining:**
  - ✓ How/When amount of resources deployed for specific audit areas and their management
  - ✓ Establishment of overall audit strategy
  - ✓ Detailed audit plan is not necessarily discrete or sequential processes

# SCA - 101 Planning an Audit of Cost Statements

- **Contents of audit plan**
  - ✓ Nature, timing and extent of Recurring Audit Procedures
  - ✓ Nature, timing and extent of further planned audit procedures at assertion level
  - ✓ Other procedures required to comply with SCAs
  - ✓ Update & change the overall audit strategy & audit plan as necessary
  - ✓ Plan nature, timing & extent of direction, supervision & review of engagement team members
  - ✓ Planning of the cost auditors risk assessment procedures occurs early in the audit process
  - ✓ Planning the nature, timing & extent of specific further audit procedures depends on the outcome of those risk assessment procedures.
  
- **Update Audit Plan:**
  - ✓ Unexpected events
  - ✓ Changes in condition
  - ✓ Audit evidence obtained from the results of audit procedures, and
  - ✓ Planning the nature, timing and extent of specific further audit procedures depending on the outcome of those risk assessment procedures

# SCA - 101 Planning an Audit of Cost Statements

## Direction, Supervision & Review

- **Factors affecting direction, supervision & review:**
  - ✓ The size and complexity of the entity
  - ✓ The area of audit
  - ✓ The assessed risks of material misstatement
  - ✓ The capabilities and competence of the individual team members performing the audit
- **Overall audit strategy:**
  - ✓ Necessary for proper planning & communicating significant matters to audit team
- **Audit plan:**
  - ✓ Record of proper planning & review of audit procedures for approval before use
- **Significant changes to overall audit strategy/audit plan and reasons for changes:**
  - ✓ Record reason for changes
  - ✓ Reflect appropriate response to these changes

# SCA - 101 Planning an Audit of Cost Statements

## Additional considerations in initial Audit Engagements

- **Before starting initial audit engagement:**
  - ✓ Perform procedures required under other SCAs – client acceptance etc.
  - ✓ Communicating with previous auditor
- **Additional matters to consider in Audit Strategy and Audit Plan:**
  - ✓ Any major issues discussed with management
  - ✓ Audit procedures necessary regarding opening balances
  - ✓ Other procedures required by firm's QC system

## Special considerations for initial audit engagements in establishing overall audit strategy and audit plan:

- **Major issues discussed with management:**
  - ✓ Application of cost accounting principles, cost auditing standards and cost reporting framework
  - ✓ Communication of these matters to those charged with governance
  - ✓ How these matters affect the overall audit strategy and audit plan
- **Audit procedures necessary to obtain sufficient appropriate audit evidence regarding all balances.**
- **Other procedures required by the firms QC system for initial audit engagements**



# SCA-101 – Requirements of the Standard

- **Prior to entering the planning phase ensure:**
  - ✓ Appointment comply with all legal formalities i.e. Letter of Appointment, Filing of Appointment Form with MCA , wherever applicable.
  - ✓ Ethical requirements are satisfied – e.g., Arm’s Length relationship maintained; issues about management integrity addressed
  - ✓ Clarity of terms of reference – coverage of Units / Products / Services.
- **Involvement of Audit partner & other key members of Team in planning the audit**
- **Formulate strategy that sets the scope, timing and direction of the audit.**
- **Relevant factors to be considered**
  - ✓ results of preliminary activities
  - ✓ knowledge of business; knowledge from previous audits
  - ✓ nature and scope of the audit
  - ✓ statutory deadlines and reporting format
  - ✓ relevant factors determining the direction of the audit efforts
  - ✓ nature, timing and extent of resources required for the audit.

# SCA-101 – Requirements of the Standard

- **Develop audit plan covering nature, extent and timing of risk assessment, audit procedures and other activities**
  - ✓ Cost reporting framework and need for reconciliation with financial reporting.
  - ✓ Industry regulators' requirement as to how costs will be handled and unique features of an industry.
  - ✓ Level of reliance on the work of financial auditors/other cost auditors/internal auditors.
  - ✓ State of IT including use of ERP or other systems in use and reliance thereon.
  - ✓ Statutory timelines for cost reporting, Board/ audit committee meetings
  - ✓ Resources required and available in terms of manpower, equipment and others.
- **Direction and supervision of audit team members and the review of their work depending on size and complexity of the entity's activities, risk assessment results and the capabilities and competence of the individual team members performing the audit work**
- **Updating of Overall audit strategy and audit plan as required during the course of audit resulting from unexpected events, changes in conditions or the audit evidence obtained from the results of audit procedures**

## SCA-101 – Requirements of the Standard

- **Documentation of the overall audit strategy, the audit plan and any significant changes made therein during the audit engagements and the reasons for the changes**
- **For first time assignment, perform Procedure regarding acceptance of client relationship covering:**
  - ✓ Communication with previous cost auditor
  - ✓ Need to expand the planning activities covering consultations with the previous auditor, review of previous year's audit working papers, if not prohibited
  - ✓ Discussion with management regarding application of cost accounting principles or of auditing and reporting standards;
  - ✓ Communication of these matters to those charged with governance
  - ✓ Other procedures required by the firm's system of quality control

**Thank You**