

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

COST AUDITING AND ASSURANCE STANDARDS BOARD (CAASB)



Presentation on
Standard on Cost Auditing
Overall Objectives of the Independent
Cost Auditor and the Conduct of an Audit
in Accordance with Cost Auditing Standards
(SCA 103)

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 |
|---------------------|---|
| Introduction | Explains subject matter of SCA in brief, and context in which the SCA is set. |
| Objectives | Objectives to be achieved by the cost auditor in complying with the requirements of SCA keeping in mind the interrelationships among other SCAs. |
| Scope | 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. |
| Definitions | Description of terminology used in SCA. However, no definition can override the meaning defined in law and regulations. |
| Requirements | Outlines the specific requirements of SCA. Requirements containing the word “shall”, is mandatory (<i>Bold Italic</i>) 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 |
|----------------------------------|--|
| Application Guidance | <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> |
| Effective Date | Date from which the application of the SCA is mandatory. |
| Statement of Modification | 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, " Statement of Modifications " are issued by the Institute containing comparison to International Auditing Standards. |
| Annexure / Appendices | 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 - 103

Overall Objectives of the Independent Cost Auditor and the Conduct of an Audit in Accordance with Cost Auditing Standards

SCA - 103 Overall Objectives of the

The cost auditor is required to obtain reasonable assurance about whether the cost statements are free from material misstatement; to enable him express an opinion whether cost statements are prepared in accordance with applicable cost reporting framework, SCAs and GACAP and give a true and fair view.

If reasonable assurance cannot be obtained, the cost auditor should qualify the opinion and in extreme cases disclaim the opinion. The cost auditor's objective may extend to making observations and suggestions where required by applicable regulations.

A cost auditor cannot obtain absolute assurance because there are inherent limitations in an audit that affect his ability to detect material misstatement i.e. use of sampling testing; inherent limitations of internal control; and the fact that most audit evidence is persuasive rather than conclusive.

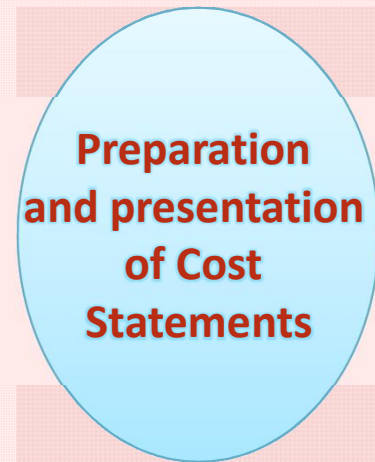
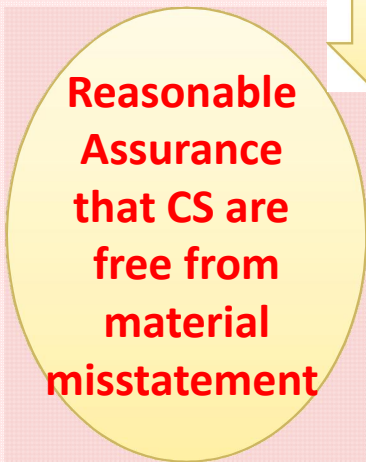
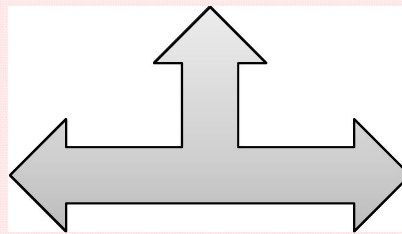
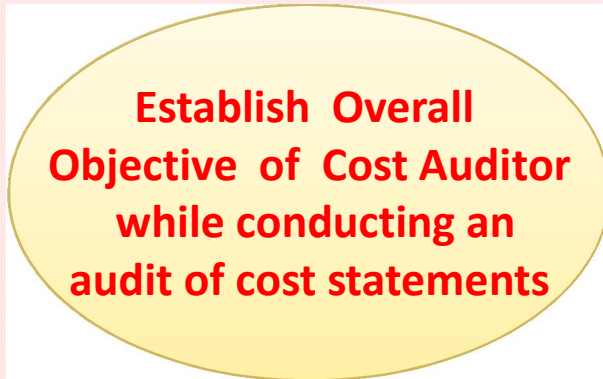
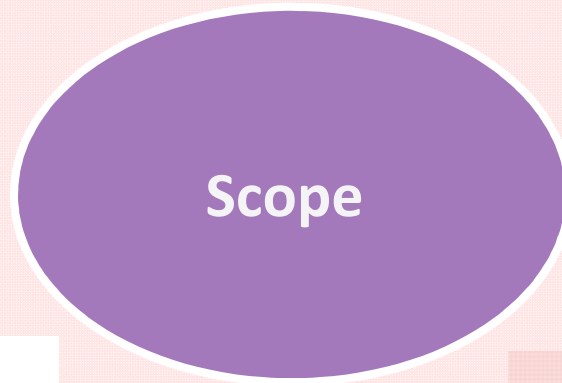
The cost auditor shall exercise professional judgement in planning and performing the audit. He shall plan and perform an audit with an attitude of Professional Scepticism.

SCA - 103 Overall Objectives of the

Overall Objectives

- **Cost auditor's overall objectives are to obtain reasonable assurance:**
 - ✓ about whether the cost statements as a whole are free from material misstatement due to fraud or error,
 - ✓ to enable auditor to express an opinion that the Cost Statements are prepared, in all material respects, in accordance with:
 - (a) the applicable Cost reporting framework,
 - (b) Cost Accounting Standards(CAS) and
 - (c) Generally Accepted Cost Accounting Principles (GACAP) as issued by the Institute, and
 - (d) give a true and fair view of the Cost of a product, activity or service.

SCA - 103 Overall Objectives of the



SCA - 103 Overall Objectives of the

Major Requirements of Standard

- **Ethical Requirements**

- ✓ Integrity
- ✓ Objectivity
- ✓ Due care
- ✓ Confidentiality
- ✓ Professional Conduct
- ✓ Independence enhance the auditor's ability to act with integrity to be objective and to maintain an attitude of professional scepticism.

Refer to the Code of Ethics issued by the Institute relating to Independence, Integrity, Objectivity, Professional competence and due care, Confidentiality and Professional conduct.

SCA - 103 Overall Objectives of the

Major Requirements of Standard

▪ Professional Scepticism

- ✓ Being alert for:
 - Audit evidence that contradicts other;
 - Reliability of documents and responses to inquiries;
 - Possible fraud;
 - Circumstances that need additional audit procedures.
- ✓ Maintenance scepticism throughout the cost audit
- ✓ Not expected to disregard past experience of the honesty and integrity of entity's management.

Professional scepticism means the cost auditor makes a critical assessment, with a questioning mind, of the validity of audit evidence obtained and be alert to audit evidence that contradicts or brings into question the reliability of documents and responses to inquiries and other information obtained from management and those charged with governance.

SCA - 103 Overall Objectives of the

Major Requirements of Standard

▪ Professional Judgment

- ✓ Materiality and Audit Risk;
- ✓ Nature, timing and extent of audit procedure;
- ✓ Evaluating whether sufficient appropriate audit evidence has been obtained, or more needs to be done;
- ✓ Drawing of conclusions based on the audit evidence obtained;
- ✓ Need to be exercised throughout the cost audit.

The audit process involves the exercise of professional judgment in designing the audit approach, through focusing on what can go wrong (i.e. what are the potential misstatements that may arise) at the assertion level and performing audit procedures in response to the assessed risks in order to obtain sufficient appropriate audit evidence.

SCA - 103 Overall Objectives of the

Major Requirements of Standard

▪ Sufficient Appropriate Audit Evidence and Audit Risk

- ✓ Cost Audit is matter of professional judgment rather than a matter of capable of precise measurement.
- ✓ Risk exists at two levels;
 - The overall cost statement level – Material Misstatement
 - The assertion level in relation to cost heads, items of cost and disclosure.
 - a. Inherent Risk
 - b. Control Risk
 - c. Detection Risk

Management is responsible for identifying such risks and responding to them. However, not all risks relate to the preparation of the Cost Statements. The auditor is ultimately concerned only with risks that may affect the cost statements.

SCA - 103 Overall Objectives of the

Major Requirements of Standard

▪ Conduct of an Audit in Accordance with SCAs

- ✓ Comply with all SCAs relevant to an audit of cot statements;
- ✓ Have understanding of the entire text of an SCA;
- ✓ Achieve overall objective as well as objectives stated in Individual SCA;
- ✓ Complying with relevant requirements **unless**:
 - Entire SCA is not relevant;
 - Requirement is irrelevant because it is conditional & condition does not exist;
 - Departure from requirement in exceptional circumstances;
 - Perform alternative procedures to achieve aim of requirement.

The need for auditor to depart from a relevant requirement is expected to arise only where the requirement is for a specific procedure to be performed and in the specific circumstances of the audit, that procedure would be ineffective in achieving the aim of the requirement.

SCA - 103 Overall Objectives of the

Major Requirements of Standard

- **Conduct of an Audit in Accordance with SCAs**
 - ✓ Failure to achieve an objective:
 - Evaluate if the failure:
 - Prevents auditor from achieving the overall objectives;
 - Necessitates modified audit opinion;
 - It is a significant matter for documentation.

The cost auditor may be required to comply with legal or regulatory requirements in addition to Cost Auditing standards. In such case in addition to complying SCAs, it will be necessary to perform additional audit procedures to comply with the legislative and regulatory requirements. The Cost Auditing Standards do not override the laws or regulations that govern audit process.

SCA - 103 Overall Objectives of the

Major Requirements of Standard

- **Cost Reporting Framework followed by management to be in line with the Companies Act and the Rules prescribed thereunder:**
 - ✓ Cost auditor is responsible for forming and expressing an opinion on the Cost Statements.
 - ✓ Cost auditor is not responsible for preparing and presenting the cost statements in accordance with the applicable Cost reporting framework including inter-alia:
 - Designing, implementing and maintaining internal control relevant to the preparation and presentation of Cost Statements that are free from material misstatement, whether due to fraud or error;
 - Selecting and applying appropriate cost accounting policies; and
 - Making cost estimates that are reasonable in the circumstances.

Thank You