



Frequently Asked Questions (FAQs) Standards on Cost Auditing (SCAs 101 - 104)

1. *What is structure of “CAASB”?*

The composition of the **Cost Auditing & Assurance Standards Board [CAASB or Board]** is broad based to ensure participation of all interest groups in the standard setting process which includes nominated members of the Council and representatives of C&AG, MCA, Industry Associations, Regulatory Bodies and other professional Institutes.

2. *What is the role of CAASB and authority of its pronouncements?*

The CAASB is constituted by the Council of the Institute of Cost Accountants of India. All standards formulated by the Board are issued under the authority of the Council of the Institute. The Board is assigned responsibility to formulate the following standards:

- i) Standards on Cost Auditing
- ii) Standards on Quality Control
- iii) Standards on Review Assignments
- iv) Standards on Assurance Assignments
- v) Standards on Related Services

The Standards on Cost Auditing are mandatory for compliance by the members of the Institute u/s 148 of the Companies Act, 2013 after these are approved by the Ministry of Corporate Affairs, Government of India.

All other standards shall be obligatory for compliance by the members of the Institute as and when issued by the Council of the Institute.

The Board is also authorized to issue guidance notes, technical guides, practice manuals etc. in areas of cost auditing, quality control, assurance, review, and related services.

3. *Section 148(3) of the Companies Act, 2013 refers to compliance with “Cost Auditing Standards”, whereas the Institute has issued “Standards on Cost Auditing (SCA)”. Is there any difference?*

There is no difference between **“Standards on Cost Auditing (SCA)”** issued by the Institute and **“Cost Auditing Standards”** referred to in section 148(3) of the Companies Act, 2013.

The Council of the Institute has approved the revised title as **“Standards on Cost Auditing (SCA)”** in place of the earlier title **“Cost Audit and Assurance Standards”**. The revised title is in line with the title **“Standards on Auditing”** issued by the International Auditing and Assurance Standards Board (IAASB).



The terms Cost Auditing Standards and Standards on Cost Auditing denote the same meaning and is used interchangeably in the Standards being issued by the Institute..

4. What is meant by Review Assignments and Assurance Assignments?

The term assurance refers to the expression of a conclusion that is intended to increase the confidence that users can place in a given subject matter or information. For example, cost auditor's report is a conclusion that increases the confidence that users can place in audited cost statements.

There are different levels of assurance, which depend on the type of work that the Cost Accountant in practice performs, and these different levels also lead to different types of conclusions.

Assurance service is an independent professional service, typically provided by professionals with an objective of improving the information or the context of the information so that decision makers can make more informed, and presumably better, decisions. Assurance services provide independent and professional opinions that reduce information risk (risk from incorrect information).

The rationale behind the addition of word "Assurance" is that Cost Audit is a type of assurance service. However, cost audits only test the validity of the assertions in cost statements, and are subject to legal and regulatory requirements under the cost reporting framework.

Consulting services are not considered as assurance because in consulting services, the cost accountants generally use their professional knowledge to make recommendations for a future event or a procedure, such as the design of an information system or cost accounting system. In contrast, assurance services are designed to test the validity of past data of the business cycles. Although there is no boundary to what can be tested by assurance services, cost accountants in practice should not accept any engagement for which they do not believe themselves to be competent.

5. What is the difference between "Cost Accounting Standards" and "Standards on Cost Auditing"?

Cost Accounting Standards lay down principles and requirements for the companies specifying the measurement and treatment of various cost elements, minimum disclosure requirements and ensure the comparability, consistency, and completeness of cost accounting records.

Standards on Cost Auditing lay down principles and requirements for the cost auditors to conduct independent examination of cost statements, cost records and other related information of an entity including a non-profit entity, with a view to express an opinion and independent assessment of the accuracy and reasonableness of the cost statements.



The practices, procedures and principles relating to cost accounting are covered in the cost accounting standards; and that relating to conduct of cost audit is covered in the standards on cost auditing.

6. The Institute has issued “Guidance Manual for Audit Quality”. What is its scope and applicability?

The Guidance Manual for Audit Quality was issued in 2012 when Standards on Cost Auditing were yet to be developed and made mandatory pursuant to the Companies Act 2013.

The Guidance Manual contains guidelines dealing with the members’ responsibility to establish systems of quality control of cost audits, review of cost statements and other assurance and related service engagements. Standards on Cost Auditing issued by the Institute override the guidelines contained in this manual.

7. What is the status of any requirement contained in an SCA which is in conflict with the prevailing laws or regulations?

The Preface to the SCAs specifies that if any requirement contained in an SCA is inconsistent or in conflict with the prevailing laws or regulations, then the requirements of the prevailing laws or regulations shall prevail.

8. What are the objectives of SCAs?

The objectives of Standards on Cost Auditing is to provide a systematic and standardized approach laying down principles and requirements for the cost auditors to conduct independent examination of cost statements, cost records and other related information of a company, with a view to express an opinion and independent assessment of the accuracy and reasonableness of the cost statements. These standards also help the members to improve their quality of professional services rendered.

9. What is the purpose of Application Guidance included in each SCA?

The Application Guidance explains the requirements of each standard with examples/ illustration to enable the users to understand the requirements properly. Application Guidance is explanatory in nature; it does not override the requirements *per se*. As such, the members are required to comply only with the requirements given in the standards.

10. What is meant by professional ethics?

The professionals are required to comply with relevant ethical requirements as per Code of Ethics issued by the Institute of Cost Accountants of India. This code of Ethics establishes fundamental principles of professional ethics relevant to the auditor while



conducting an audit and provides a conceptual framework for applying these principles. The fundamental principles with which the auditor is required to comply are Independence, Integrity, Objectivity, Professional competence and due care, Confidentiality and Professional conduct, which are explained below:

a) **Integrity**

A cost accountant should be straightforward and honest in performing his professional services and business relationships.

b) **Objectivity**

A cost accountant should be fair and should not allow conflict of interest, prejudice or bias or any undue influence of others to override professional judgements.

c) **Competence**

A cost accountant should maintain updated professional knowledge and skill and ensure that a client receives competent professional service based on current developments in practice, techniques and prevailing laws and regulations. He should act diligently and in accordance with applicable professional standards and technical guides when rendering professional services.

d) **Confidentiality**

A cost accountant should not disclose to third parties any confidential information acquired as a result of professional and business relationships, without proper and specific authority, unless there is a legal or professional right or duty to disclose. He should also not use such information for personal advantage of himself or third parties.

e) **Professional Behaviour**

A cost accountant should act in a manner consistent with the good reputation of the profession, comply with relevant laws and regulations and should avoid any action that discredits the profession.

11. What are “exceptional circumstances” referred to in SCA-102?

“Exceptional Circumstances” refers to the facts or matters which become known to the Cost Auditor after the date of the audit report but which existed at that date and which, if known earlier might have caused the cost statements to be amended or the cost audit report to be modified.

12. What does a cost auditor required to do before accepting or continuing an audit engagement?

The cost auditor shall establish that the following preconditions of cost audit are present:



- (a) Determine whether the cost reporting framework to be applied in the preparation of the cost statements is acceptable; and
- (b) Obtain the agreement from management that it acknowledges and understands its responsibility:
 - (i) For preparation and presentation of cost statements in accordance with applicable cost reporting framework that gives true and fair view of cost of production or cost of operations, cost of sales, and margin for each product or service or activity, produced or provided by the entity for the period under cost audit;
 - (ii) For selection and consistent application of appropriate cost accounting policies;
 - (iii) For such internal control as management determines is necessary to enable the preparation of cost statements that are free from material misstatement, whether due to fraud or error; and
 - (iv) To provide the Cost Auditor with:
 - a) Access, at all times, to all information, including the books of accounts, vouchers, cost records, other records, documents, and other matters of the company, whether kept at the head office of the company or elsewhere, of which management is aware that is relevant to the preparation of the cost statements;
 - b) Additional information that the cost auditor may request from management for the purpose of the cost audit; and
 - c) Unrestricted access to persons within the entity from whom the cost auditor determines it is necessary to obtain audit evidence.

13. What is the meaning of “significant matters” in connection with an audit of cost statements as referred to in the SCAs?

Under Cost Auditing Standard 102 “*Significant Matters*” refer to such matters that give rise to significant risks of a material misstatement. This causes a revision of the Cost Auditor’s previous assessment of the risks of material misstatement is also a significant matter. The Cost Auditor may have reached a certain conclusion regarding the misstatement of the Material Cost in a Cost statement based on the availability of a well-documented Bill of Materials but his assessment of risk may undergo a change if he finds that there is considerable use of substitute and alternate materials in the actual production process. Matters that cause the Cost Auditor significant difficulty in applying necessary audit procedures are also significant, as for example heaps of bulk material in irregular shapes which make volumetric measurement of stock in a physical stock taking unreliable.

The Cost Auditor needs to exercise his professional judgement in determining the significant matters in an audit to warrant their inclusion in the documentation.



14. What is the meaning of “Professional Judgement”? Is it totally subjective analysis or can it be quantified?

Professional judgement refer to the application of relevant training, knowledge, experience and objectivity, within the context provided by standards on cost auditing, cost accounting standards and ethical requirements, in making informed decision about the courses of action that are appropriate in the circumstances of the audit engagement.

The cost auditor is required to exercise professional judgment throughout the audit process. Professional judgement cannot always be quantified. It is a subjective analysis which is circumstantial based and it requires complete understanding of a particular situation. For example the determination of the normal capacity for applying overheads is a significant matter in Cost Audit and requires not mere calculations but considerable judgment.

15. Is a cost auditor required to audit the disclosures of Cost Statements?

The cost auditor is required to obtain reasonable assurance about whether the cost statements as a whole are free from material misstatement, whether due to fraud or error and to enable the auditor to express an opinion whether the Cost Statements are prepared, in all material respects, in accordance with the applicable Cost reporting framework, Cost Accounting Standards (CAS) and Generally Accepted Cost Accounting Principles (GACAP) as issued by the Institute, and give a true and fair view of the Cost of a product, activity or service. The Cost Accounting Standards issued by the Institute require that the cost statements shall disclose inter-alia any change in the cost accounting principles and methods applied for the measurement and assignment of the cost items during the period covered by the cost statement which has a material effect on the costs. In view of this the cost auditor is required to audit the disclosure of cost statements.

16. What is meant by “Professional Skepticism”? How does a cost auditor apply Professional Skepticism with Due Professional Care?

Attitude of professional skepticism means a critical assessment, with a questioning mind, of the validity of audit evidence obtained and being 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.

While professional skepticism is important in all aspects of cost audit, it is particularly important in those areas of the audit that involve significant management judgments or transactions outside the normal course of business. Professional skepticism is also important as it relates to the cost auditor's consideration of fraud in an audit. When cost auditors do not appropriately apply professional skepticism, they may not obtain



sufficient appropriate evidence to support their opinions or may not identify or address situations in which the cost statements are materially misstated.

The cost auditor should be careful and not be satisfied with less-than-persuasive audit evidence based on a belief that management and those charged with governance are honest and have integrity. Accordingly, representations from management are not a substitute for obtaining sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the cost auditor's opinion.

17. What are the major impediments to the application of Professional Skepticism?

The cost auditors may confront the following impediments in exercising professional skepticism:

- Unconscious human biases and other circumstances can cause cost auditors to gather, evaluate, rationalize, and recall information in a way that is consistent with cost reporting framework.
- Scheduling and workload may lead cost auditors to seek audit evidence that is easier to obtain rather than evidence that is more relevant and reliable.
- Lack of resources/ time pressure or adverse incentives that may include:
 - ✓ avoiding significant conflicts with management;
 - ✓ providing an unqualified audit opinion by a deadline;
 - ✓ achieving high client satisfaction ratings;
 - ✓ keeping audit costs low;
 - ✓ building or maintaining a long-term audit engagement; or
- Lack of skills/ competencies etc.

18. What gives rise to a threat to an auditor's independence and objectivity and how can those threats be managed?

Independence of a cost auditor can be compromised due to existence of self-interest, self-review, holding position of advocacy, over-familiarity, or intimidation. Actual threats need to be considered, and situations that might be perceived as threats by a reasonable and informed observer.

Where such threats exist, the cost auditor must put in place safeguards that eliminate them or reduce them to clearly insignificant levels. Safeguards apply at three levels: safeguards in the work environment, safeguards that increase the risk of detection, and specific safeguards to deal with particular cases. If the cost auditor is unable to implement fully adequate safeguards, the cost auditor must not carry out the work.



19. What is meant by “Determination of Materiality is matter of professional judgement”?

Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both. Cost Auditor’s perception of the cost information need of the users of the cost statements would determine materiality.

20. What is the basic flow of an audit process of cost audit?

The audit process comprises of the following:

- a) Whether the appointment as cost auditor is proper, cost auditor has received the letter of appointment and legal formalities regarding the appointment have been complied with by the company;
- b) The ethical requirements as per the regulations continue to be satisfied;
- c) The cost auditor has understood the terms of reference and scope of coverage where the regulations leave it to be agreed between the auditor and the auditee.
- d) In an initial audit, the Cost Auditor should discuss with management and internal audit to have understanding on the matters that may affect the cost audit before preparing the audit plan and audit strategy. The Cost Auditor should also communicate with the previous cost auditor, if any, who conducted the audit of the entity.
- e) Based on the understanding as above, the cost auditor shall prepare audit plan and audit strategy which will include the nature, extent and timing of risk assessment, audit procedures and other activities;
- f) The above audit plan shall keep in view the nature, extent and timing of the direction and supervision of audit team members and the review of their work.
- g) The cost auditor should update the overall audit strategy and the audit plan as required during the course of audit;
- h) Documentation of the overall audit strategy, the audit plan and any significant changes made therein during the audit engagements.
- i) Prepare draft cost audit report for discussion with the management or those charged with governance;
- j) Attend the meeting of Audit Committee/ Board of Directors for discussion on the cost audit report;
- k) Submit final cost audit report with Annexures to the Board of Directors

21. How can cost auditor gather knowledge about entity and its environment?

Some ways to get the general information about the entity

- Annual Report of the entity



- Process Study
- Plant Visits
- Supply Chain
- Annual Report of Competitor/s

Ways to get the information about the economic environment of the entity

- Internet
- Newspapers
- Journals
- Research Papers Published etc.

22. What are the key considerations in developing “Overall Audit Strategy”?

In establishing the overall audit strategy, the cost auditor shall:

- (a) Identify the characteristics of the engagement that define its scope and reporting objectives of the engagement;
- (b) Plan the timing of the audit of cost statements and the nature of the communications required;
- (c) Consider the factors that, in the cost auditor’s professional judgement, are significant in directing the audit team’s efforts;
- (d) Consider the results of preliminary engagement activities and, where applicable, whether knowledge gained on other engagements performed by the audit partner for the entity is relevant; and
- (e) Ascertain the nature, timing and extent of resources necessary to perform the engagement.

23. When does the overall audit plan and strategy be modified in an audit of cost statements?

If circumstances change significantly during the course of the cost audit, including changes due to a revised assessment of the risks of material misstatement or the discovery of a previously unidentified risk of material misstatement, the cost auditor should modify the overall audit plan and strategy, as necessary.

24. What are the benefits of establishing Overall Audit Strategy and developing Audit Plan?

The key benefits of audit planning and audit strategy enables a cost auditor to:

- (i) properly manage and organize the cost audit engagement;



- (ii) obtain reasonable assurance about whether the cost statements as a whole are free from material misstatement, whether due to fraud or error.
- (iii) secure engagement economics through optimum utilization of available resources as well as avoiding wastage of resources.
- (iv) accomplish the audit objectives and determine 'which', 'how much' and 'when' aspects of the resource utilization viz., engagement team.

25. What are the factors to be considered mandatory while planning a cost audit?

The Cost Auditor shall consider the following factors while planning a cost audit:

- Results of preliminary activities;
- Knowledge from previous audits and other engagements with the auditee;
- Knowledge of business and processes, units to be covered;
- 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.

In addition to the above, the following shall also be considered by the cost auditor:

- The cost reporting framework under the Companies Act and Rules or any other law as applicable, on the basis of which the cost information is to be audited.
- Industry regulators' requirement as to how costs will be handled.
- Unique features of an industry that influence audit requirements such as definition of product in the newspaper industry.
- Reliance that can be placed on the work of financial auditors, other cost auditors appointed by the entity and internal auditors,
- State of IT (Information Technology) implementation and the reliance that can be placed on them.
- Statutory timelines for cost reporting, which can be modified by the management for early completion.
- Timelines for Board/ audit committee meetings, which can set the time limits for completion of audit work.
- Resources required and available in terms of manpower, equipment and others and the assignment of these to specific parts of the work.



26. What is “Audit Documentation”?

Audit Documentation means the records, in physical or electronic form, including working papers prepared by and for, or obtained and retained by the Cost auditor, in connection with the performance of the audit.

The Cost Audit documentation will usually contain:

1) *Checklists*

Example: Checklist of compliance with:-

- a) The Rules, regarding maintenance of Cost Records, as prescribed under the Companies Act,
- b) The Cost Accounting Standards (CAS) as prescribed by the Institute
- c) The Generally Accepted Cost Accounting Principles (GACAP) as prescribed by the Institute

2) *Audit programs:*

Example: Audit Program for Material Cost, Employee Cost and others

3) *Analysis*

Cost Audit relies more on analytical review than on substantive testing to establish true and fair view.

Example: Calorific value of different fuels used and average Cost per unit of calorific value and Specific Heat Consumption.

4) *Audit Query List*

A log of audit queries raised and their resolution

5) *Abstracts of significant contracts relating to costs and revenues*

Example: Supply of materials indicating price, quality terms, O&M contracts, Terms of supply of contract labour and others

6) *Letters of confirmation*

Example: Stock of materials with subcontractors.

7) *Letter of Representation from Management Correspondence (including e-mail) concerning significant matters.*

Example: Correspondence regarding terms of supply of goods and services.

8) *Abstract or copies of the entity’s records.*

27. What is meant by “audit file”?

Audit file means one or more folders or other storage media, in physical or electronic form, containing the records that comprise the audit documentation for a specific assignment or audit.



28. Who is the owner of the audit documentation?

Unless otherwise specified by law or regulation, cost audit documentation is the property of the cost auditor. He may at his discretion, make available to clients portions of or extracts from audit documentation, provided such disclosure does not undermine the validity of the work performed or in the case of assurance engagements, the independence of the cost auditor or of his personnel.

29. What is the nature and purpose of audit documentation?

The nature of audit documentation should be such that meets the requirement of Standards on Cost Auditing issued by the Institute and is enable to provide:

- a) Evidence of the cost auditor's basis for a conclusion about the achievement of the overall objectives of the auditor; and
- b) Evidence that the audit was planned and performed in accordance with Standards on Cost Auditing (SCAs) and applicable legal and regulatory requirements.

The purpose of audit documentation is to enable another competent person, having no previous connection with the audit, including person undertaking peer review, to understand that the cost audit conforms and has been performed as per legal and regulatory requirements prescribed in the cost reporting frame work for obtaining sufficient appropriate audit evidence to draw reasonable conclusions on which to base the cost auditor's opinion.

30. What would be the form, content and extent of Audit Documentation? What are the influential factors for the form, content and extent of audit documentation?

The cost auditor shall prepare audit documentation that is sufficient to enable an experienced auditor, having no previous connection with the cost audit, to understand:

- The nature, timing, and extent of the audit procedures performed to comply with the SCAs and applicable legal and regulatory requirements;
- The results of the audit procedures performed, and the audit evidence obtained; and
- Significant matters arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions.

The influential factors for the form, content and extent of cost audit documentation depend on factors such as:

- The size and complexity of the entity and its environment.
- The nature of the audit procedures to be performed.
- The identified risks of material misstatement in cost statements as a whole.
- The significance of the audit evidence obtained during cost audit.



- The nature and extent of exceptions identified from case to case basis.
- The need to document a conclusion or the basis for a conclusion not readily determinable from the documentation of the work performed or audit evidence obtained.
- The cost audit methodology and audit tools used.

31. What is the effect of absence of audit documentation as required by SCA?

If audit documentation does not exist for a particular procedure or conclusion related to a significant matter, it casts doubt as to whether the necessary work was done. If the work is not documented, then it becomes difficult for the audit team, and others, to know what was done, what conclusions were reached, and how those conclusions were reached. Thus sufficient and appropriate audit documentation is extremely important in an environment in which audit staff changes or rotates.

32. What documentation is required to show compliance to independence requirements of cost auditor?

A cost auditor is to document the following to show the compliance to independence requirements:

- (i) That relevant ethical requirement as per Code of Ethics issued by the Institute of Cost Accountants of India has been complied with.
- (ii) If the cost audit is carried out as per the provisions of the relevant Companies Act, document to show that qualification criteria provided in the Act are satisfied.
- (iii) Document that shows that the Cost Auditor has not rendered any service that he cannot render by virtue of holding office as a cost auditor, either directly or indirectly to the company or its holding company or subsidiary company.

33. In what manner should a cost auditor maintain and preserve the audit documentation?

Audit documentation should be maintained in a file including in electronic form. The audit documentation must be assembled as the audit goes on. The final audit documentation file should be completed within a reasonable time after the completion of the audit and the cost auditor should not delete or discard audit documentation of any nature before the end of its retention period.

34. What is the period for which a cost auditor is required to retain audit documentation?

The Standard on Cost Audit (SCA-102) prescribes that the Cost Audit Documentation should be retained for at least ten years from the date of the Cost Audit Report.



35. How does a cost auditor document substantive analytical procedures?

The auditor should document all of the following

- The expectation, of analysis with factors with documentation if expectation is not met.
- Results of the comparison.
- Any additional auditing procedures performed in response to significant variation.

36. What is meant by “risk at assertion level” in an audit of cost statements?

The term ‘assertion’ means what management have asserted to be true. For example, management will say (at the cost statement assertion level) that all transactions or items of cost that should have been recorded have been recorded. An assertion is therefore made by management and it is up to the cost auditor to corroborate this assertion by way of audit evidence.

During their risk assessment, the cost auditor will identify key areas (items of cost, cost heads and disclosures) that are susceptible to the significant risk of material misstatement. The cost auditor will consider ‘inherent’ and ‘control’ risk.

Significant risks are those risks that require the cost auditor to give special attention. The following are indicators that a risk could be classified as significant:

1. Risk of fraud.
2. A large degree of subjectivity in the cost information.
3. Transactions that are of an unusual nature.
4. Significant transactions are undertaken with a related party.
5. The transactions undertaken are of a complex nature.

37. What are assertions in the cost statement?

Audit Assertions are the implicit or explicit claims and representations made by the management responsible for the preparation of cost statements regarding the appropriateness of the various elements of cost statements and disclosures. Types are:

- **Occurrence** - Costs recognized in the cost statements have occurred and relate to the entity.
- **Completeness** - All costs that were supposed to be recorded have been recognized in the cost statements.
- **Accuracy** - Costs have been recorded accurately at their appropriate amounts.
- **Cut-off** - Costs have been recognized in the correct accounting periods.
- **Measurement** - Costs have been correctly measured as per the applicable Standards.



38. What factors does a cost auditor take into consideration when performing a risk assessment on their client?

Factors that are taken into consideration by the cost auditor while performing a risk assessment shall include the following:-

- (a) Inquiries of management, of appropriate individuals within the internal audit function (if the function exists), and of others within the entity who in the cost auditor's judgment may have information that is likely to assist in identifying risks of material misstatement due to fraud or error.
- (b) Analytical procedures.
- (c) Observation and inspection.

Further, the cost auditor shall obtain an understanding of whether the entity has a process for:

- (a) Identifying business risks relevant to cost reporting objectives;
- (b) Estimating the significance of the risks;
- (c) Assessing the likelihood of their occurrence; and
- (d) Deciding about actions to address those risks.

If there is such a risk, the cost auditor shall obtain an understanding of why that process failed to identify it, and evaluate whether the process is appropriate to its circumstances or determine if there is a significant deficiency in internal control with regard to the entity's risk assessment process.

39. In what circumstances cost auditor does the revision of risk assessment?

The cost auditor's assessment of the risks of material misstatement at the assertion level may change during the course of the audit as additional audit evidence is obtained. The cost auditor shall revise the assessment and modify the further planned audit procedures accordingly.

=====