

CAAS 102 - Cost Audit Documentation

The Cost Audit documentation will usually contain:

(a) Checklists

Example: Checklist of compliance with:-

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

(b) Audit programs

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

(c) Analysis: Cost Audit relies more on analytical review than on substantive testing.

- **Comparison of Steam cost across different units of the entity or with past periods**

(d) Audit Query List: Contains a log of audit queries raised and their resolution

CAAS 102 - Cost Audit Documentation

(e) Abstracts of significant contracts relating to costs and revenues

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

(f) Letters of confirmation

- **Stock of materials with subcontractors**

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

- **Correspondence regarding terms of supply of goods and services, Related Party Transactions**

(h) Abstract or copies of the entity's records

Audit documentation may be in paper form or electronic form. Where it is in electronic form, special care may be required to protect against accidental deletion, or tampering.

Audit documentation must be sufficient and appropriate, and oral explanations by the Cost Auditor cannot substitute for such documentation.

CAAS 102 - Cost Audit Documentation

The Cost Audit Documentation in respect of smaller entities may be less detailed than what is indicated but must include at the minimum the following:

- (a) A description of the entity, the products produced, services provided and other activities
- (b) An organization Chart showing the responsibility centres and the person responsible
- (c) A description, preferably a flow chart of the manufacturing process
- (d) Internal controls over material cost, labour cost and expenses
- (e) The risks of material misstatement assessed, e.g., in respect of scrap recovery & disposal
- (f) Tests of materiality used
- (g) The overall audit strategy and audit plan
- (h) Significant matters noted during the audit, and conclusions reached

CAAS 102 - Cost Audit Documentation

- The audit documentation is the property of the Cost Auditor. Unless otherwise specified by law or regulation, he may at his discretion, make portions of, or extracts from audit documentation available to clients.
- The Cost Audit Documentation should be retained for at least ten years from the date of the Cost Audit Report.
- This Standard is effective for audits on or after September 11, 2015.

CAAS 103 - Overall Objectives of the Independent Cost Auditor and the Conduct of an Audit in Accordance with CAAS

- The scope of this standard is to **establish overall objectives** of the cost auditor while conducting an audit of cost statements, in accordance with the **cost auditing standards**.
 - a. To obtain reasonable assurance about whether the cost statements as a whole are free from material misstatement, whether due to fraud or error
 - b. The Cost Statements are prepared, in all material respects, in accordance with the applicable Cost reporting framework, Cost Accounting Standards(CAS) and GACAP as issued by the Institute
 - c. Give a true and fair view of the Cost of a product, activity or service.
 - d. In the case of a Cost Audit under the Companies Act and Rules prescribed thereunder, the objective is to express an opinion on whether the Cost Statements subject to audit represent a true and fair view of the cost of production, cost of sales and margin of products covered by the Cost Audit.
 - e. Report on the cost statements in the form required by law or by the Cost Auditing Standard in accordance with the auditor's findings.

CAAS 103 - Overall Objectives of the Independent Cost Auditor and the Conduct of an Audit in Accordance with CAAS

- It also describes management responsibility for the preparation and presentation of the Cost Statement, to identify the Cost Reporting framework and to lay down Cost Accounting policies.
- The cost auditor shall request management to provide written representation that all known instances of non-compliance or suspected non-compliance with laws and regulations governing Cost Accounting, Cost Records and Cost Audit have been disclosed to the cost auditor. However, written representation do not provide sufficient audit evidence on their own, and accordingly do not affect the nature and extent of other audit evidence that is to be obtained by the cost auditor.

CAAS 103 - Overall Objectives of the Independent Cost Auditor and the Conduct of an Audit in Accordance with CAAS

1. The cost auditor shall comply with the relevant ethical requirements including those pertaining to independence in respect of cost audit engagements.
2. While conducting an audit, the cost auditor shall comply with each of the Cost Auditing Standards relevant to the audit. A Cost Auditing Standard is relevant to the audit when the Cost Auditing Standard is in effect and the circumstances addressed by the Cost Auditing Standard exist.
3. The cost auditor shall have an understanding of the entire text of the Cost Auditing Standard, including its application and other explanatory material, to understand its objectives and to apply its requirements properly.
4. The cost auditor shall not represent compliance with the cost auditing standards in the cost auditor's report unless the auditor has complied fully with all of the Cost Auditing Standards relevant to the audit.
5. In exceptional circumstances, the cost auditor may judge it necessary to depart from a relevant requirement in a Cost Auditing Standard. In such circumstances, the auditor shall perform alternative
6. The cost auditor shall plan and perform an audit with an attitude of professional skepticism recognizing that circumstances may exist that cause the Cost Statements to be materially misstated.

CAAS 103 - Overall Objectives of the Independent Cost Auditor and the Conduct of an Audit in Accordance with CAAS

7. The auditor shall obtain sufficient appropriate audit evidence to reduce audit risk to an acceptably low level and thereby enable the auditor to draw reasonable conclusions on which to base the auditor's opinion.
8. The cost auditor shall exercise professional judgment in planning and performing the audit.
9. The cost auditor shall determine whether the Cost Reporting Framework followed by management in preparing cost statements is in line with the Companies Act and the Rules prescribed thereunder.
- 10. The cost auditor shall not be required to perform audit procedures regarding the entity's compliance with laws and regulations governing cost audit in the absence of identified or suspected non-compliance.**
11. If an objective in a relevant Cost Auditing Standard cannot be achieved, the auditor shall evaluate whether this prevents the auditor from achieving the overall objectives of the auditor and thereby requires the auditor, in accordance with the Cost Auditing Standards, to modify the auditor's opinion.

This Standard is effective for audits on or after September 11, 2015.

CAAS 104 - Knowledge of Business, its Processes and the Business Environment

The Cost Auditor shall have:

- Adequate knowledge of Business
- Its Processes and
- The Business Environment

Which is sufficient to:

- Identify and understand the events
- Transactions and practices

That, in the cost auditor's judgment may have

- A significant effect on the examination of cost statements, or
- On the preparation of the cost audit report.

CAAS 104 - Knowledge of Business, its Processes and the Business Environment

Industry Knowledge:

- Business processes (set of activities that will accomplish a specific organizational goal)
 - Supply Chain, Inquiry to Invoice, Purchase to Payment, etc
- Ownership & Governance Structure
 - Pvt Ltd/Ltd, Subsidiary/Holding Company, Related Parties, Audit Committee, Board of Directors
- Manufacturing Process
 - Major Inputs, Outputs, I/O ratio, Process Cycle, Labour Requirements
- Industry & Regulatory Framework
 - Competition, Industry Cycles & Seasonality, Technology advances, Obsolescence Risk, Manufacturing Norms, Environment concerns
 - Specific Accounting/Costing practices, Peer Comparison (Ratios, Utilities, Management Discussion & Analysis)
 - There can be specific factors based on location – Minimum Wages, Effluent Disposal, Restriction on goods movement

CAAS 104 - Knowledge of Business, its Processes and the Business Environment

- Cost Accounting Policies of the Entity
- Entity's Performance
 - Past vs Present, Peer Comparison, Budget vs Actual, Unit level Comparison
- Internal Controls: Their relevance & functioning, entity's risk assessment procedure
- Cost Information System & MIS
- IT Environment & Controls
- Identifying and Assessing the Risks of Material Misstatement
 1. Assess relevant controls that relate to the risk of material misstatements or a risk of fraud
 2. Assess whether the risk is related to recent significant economic, accounting or other developments
 - Crude price and impact on Entity
 3. Assess whether the risk involves significant transactions with related parties (Impacts D5)
 4. Assess the degree of subjectivity in the measurement of information related to the risk.
 5. Assess whether there arises a need for revising the assessment of risk based on additional audit evidence obtained.

CAAS 104 - Knowledge of Business, its Processes and the Business Environment

6. Assess whether the risk involves significant transactions with related parties (Impacts D5)
7. Assess the degree of subjectivity in the measurement of information related to the risk.
8. Assess whether there arises a need for revising the assessment of risk based on additional audit evidence obtained.

Once these risks are identified, the Auditor may decide to perform further audit procedures

To Sum up:

- Auditor needs to have Knowledge of Business, its Processes and the Business Environment
- This will help him in assessing the risks of misstatements
- Based on these, the audit approach may be planned or modified

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