



**Exposure Draft**  
**SCA -**  
**Standard on Cost Auditing**  
**“Written Representations”**

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The following is the **Standard on Cost Auditing, “Written Representations”**. In this Standard, the standard portions have been set in ***bold italic*** type. This standard should be read in the context of the background material, which has been set in normal type.

## **1. Introduction**

- 1.1 The purpose of this Standard is to provide guidance to deal with the management representations as audit evidence, the procedures to be applied in evaluating and documenting written representation, and the actions to be taken if management refuses to provide appropriate representations.
- 1.2 Audit evidence is the information used by the auditor in arriving at the conclusions on which the cost auditor’s opinion is based. Written representations are necessary information that the cost auditor requires in connection with the audit of the entity’s cost statements. Accordingly, similar to responses to inquiries, written representations are audit evidence.
- 1.3 Although written representations provide necessary audit evidence, they do not provide sufficient appropriate audit evidence on their own about any of the matters with which they deal. Furthermore, the fact that management has provided reliable written representations does not affect the nature or extent of other audit evidence that the cost auditor obtains about the fulfilment of management’s responsibilities, or about specific assertions. (Ref: Para 6.1)

## **2. Objective**

***The objectives of the auditor are:***

- 2.1 ***to obtain written representations from management and, where appropriate, those charged with governance that they believe that they have fulfilled their responsibility for the preparation of the cost statements and for the completeness of the information provided to the cost auditor.***
- 2.2 ***to support other audit evidence relevant to the cost statements or specific assertions in the cost statements by means of written representations if determined necessary by the cost auditor or required by other Standards on Cost Auditing; and***
- 2.3 ***to respond appropriately to written representations provided by management and, where appropriate, those charged with governance, or if management or, where***



*appropriate, those charged with governance do not provide the written representations requested by the cost auditor.*

### **3. Scope**

*This Standard deals with the cost auditor's responsibility to obtain written representations from management and, where appropriate, those charged with governance in an audit of cost statements, cost records and other related information.*

### **4. Definitions**

The following terms are being used in this standard with the meaning specified.

**4.1 Audit Evidence:** *Information used by the cost auditor in arriving at the conclusions on which the cost auditor's opinion is based. Audit evidence includes both information contained in the cost accounting records underlying the cost statements and all other related information.*

**4.2 Cost Audit:** *Cost audit is an independent examination of cost statements, cost records and other related information of an entity including a non-profit entity, when such an examination is conducted with a view to expressing an opinion thereon.*

**4.3 Cost Audit Report:** *Cost Audit Report means the report duly audited and signed by the cost auditor on an independent examination of the cost statements, cost records and other related information of an entity including a non-profit entity, expressing his opinion thereon. It includes any statement, qualifications, observations, etc. attached to the cost audit report, or that is required by law or regulation.*

**4.4 Cost Auditor:** *"Cost Auditor" means an auditor appointed to conduct an audit of cost records and shall be a cost accountant within the meaning of The Cost and Works Accountants Act 1959. "Cost Accountant" is a cost accountant as defined in clause (b) of sub-section (1) of section 2 of The Cost and Works Accountants Act, 1959 (23 of 1959) and who holds a valid certificate of practice under subsection (1) of section 6 and who is deemed to be in practice under subsection (2) of section 2 of that Act and includes a firm of cost accountants.*

**4.5 Cost Statements:-***Cost Statements, in relation to an entity, includes*  
*(i) quantitative details of capacity, production and sales;*  
*(ii) quantitative details of consumption of materials and other inputs;*



- (iii) cost sheet showing element-wise cost of production of goods or provision of services, cost of sales and margin for each product or service;*
- (iv) reconciliation of profits, or in case of an entity carrying on any activity not for profit, of surplus, as per cost accounts and as per- financial accounts;*
- (v) statement of value addition and distribution of earnings; and*
- (vi) any explanatory note annexed to, or forming part of, any document referred to in (i) to (v) above.*

**4.6 Management:** *The person(s) with executive responsibility for the conduct of the entity's operations. For some entities in some jurisdictions, management includes some or all of those charged with governance.*

Furthermore, in the case of a fair presentation framework, management is responsible for the preparation and fair presentation of the cost statements in accordance with the applicable cost reporting framework; or the preparation of cost statements that give a true and fair view in accordance with the applicable cost reporting framework.

**4.7 Those charged with governance:** *The person(s) or organisation(s) (e.g., a corporate trustee) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process. For some entities in some jurisdictions, those charged with governance may include management personnel, for example, executive members of a governance board of a private or public sector entity, or an owner-manager.*

**4.8 Written Representation:** *a written statement by management provided to the cost auditor to confirm certain matters or to support other audit evidence. Written representations in this context do not include financial statements, cost statements, the assertions therein, or supporting books and records.*

## **5. Requirements**

### **Management from whom Written Representations Requested**

**5.1** *The cost auditor shall request written representations from management with appropriate responsibilities for the cost statements and knowledge of the matters concerned. (Ref: Para. 6.2 - 6.6)*

### **Written Representations about Management's Responsibilities (Ref: Para. 6.7 - 6.9)**

#### **Preparation of the Cost Statements**



**5.2** *The cost auditor shall request management to provide a written representation that it has fulfilled its responsibility for the preparation of the cost statements in accordance with the applicable cost reporting framework, including, where relevant, their fair presentation, as set out in the terms of the cost audit engagement.*

#### Information Provided and Completeness of Cost Statements

**5.3** *The cost auditor shall request management to provide a written representation that:*

- (a) It has provided the cost auditor with all relevant information and access as agreed in the terms of the cost audit engagement; and*
- (b) All transactions have been recorded and are reflected in the cost statements.*

#### Description of Management's Responsibilities in the Written Representations

**5.4** *Management's responsibilities shall be described in the written representations required by paragraphs 5.2 and 5.3 in the manner in which these responsibilities are described in the terms of the cost audit engagement.*

#### Other Written Representations

**5.5** *Other Standards on Cost Auditing require the cost auditor to request written representations. If, in addition to such required representation, the cost auditor determines that it is necessary to obtain one or more written representations to support other audit evidence relevant to the cost statements or one or more specific assertions in the cost statements, the cost auditor shall request such other written representations. (Ref: Para. 6.10 - 6.14, 6.22)*

#### Date of and Period(s) Covered by Written Representations

**5.6** *The date of the written representations shall be as near as practicable to, but not after, the date of the cost auditor's report on the cost statements. The written representations shall be for all cost statements and period(s) referred to in the cost auditor's report. (Ref: Para. 6.15 - 6.18)*

#### Form of Written Representations

**5.7** *The written representations shall be in the form of a representation letter addressed to the cost auditor. If the law or regulation requires management to make written public statements about its responsibilities, and the cost auditor determines that such statements provide some or all of the representations*



**required by paragraphs 5.2 or 5.3, the relevant matters covered by such statements need not be included in the representation letter.** (Ref: Para. 6.19 - 6.21)

***Doubt as to the Reliability of Written Representations and Requested Written Representations Not Provided***

Doubt as to the Reliability of Written Representations (Ref: Para. 6.23 - 6.25)

**5.8 *If the cost auditor has concerns about the competence, integrity, ethical values or diligence of management, or about its commitment to or enforcement of these, the cost auditor shall determine the effect of such concern may have on reliability of representation (oral or written) and audit evidence in general.***

**5.9 *In particular, if written representations are inconsistent with other audit evidence, the cost auditor shall perform audit procedures to attempt to resolve the matter. If the matter remain unresolved, the cost auditor shall reconsider the assessment of the competence, integrity, ethical values or diligence of management, or of its commitment to or enforcement of these and shall determine the effect that this may have on the reliability of representations (oral or written) and audit evidence in general.***

**5.10 *If the cost auditor concludes that the written representations are not reliable, the cost auditor shall take appropriate actions, including determining the possible effect on the opinion in the cost auditor's report, having regard to the requirement in paragraph 5.12.***

Requested Written Representations Not Provided

**5.11 *If management does not provide one or more of the requested written representations, the cost auditor shall:***

- (a) *Discuss the matter with management;***
- (b) *Re-evaluate the integrity of management and evaluate the effect that this may have on the reliability of representations (oral or written) and audit evidence in general; and***
- (c) *Take appropriate actions, including determining the possible effect on the opinion in the cost auditor's report, having regard to the requirement in paragraph 5.12.***

Written Representations about Management's Responsibilities (Ref: Para. 6.26 – 6.27)

**5.12 *The cost auditor shall disclaim an opinion on the cost statements if;***



- (a) The cost auditor concludes that there is sufficient doubt about the integrity of management such that the written representations required by paragraphs 5.2 and 5.3 are not reliable; or**
- (b) Management does not provide the written representations required by paragraphs 5.2 and 5.3.**

## **6 Application Guidance**

**6.1** Written representations are an important source of cost audit evidence. If management modifies or does not provide the requested written representations, it may alert the cost auditor to the possibility that one or more significant issues may exist. Further, a request for written, rather than oral, representations in many cases may prompt management to consider such matters more rigorously, thereby enhancing the quality of the representations. (Ref: Para 1)

### **Management from whom Written Representations Requested (Ref: Para. 5.1)**

**6.2** Written representations are requested from those responsible for preparation of the cost statements. Those individuals may vary depending on the governance structure of the entity, and relevant law or regulation; however, management (rather than those charged with governance) is often the responsible party. Written representations may therefore be requested from the entity's chief executive officer and chief financial officer, or other equivalent persons in entities. In some circumstances, however, other parties, such as those charged with governance, are also responsible for the preparation of the cost statements.

**6.3** Due to its responsibility for the preparation of the cost statements, maintenance of cost records and treatment of items of cost in cost statements, management is expected to have sufficient knowledge of the processes followed by the entity in preparing the cost statements and the assertions therein on which to base the written representations.

**6.4** In some cases, however, management may decide to make inquiries of others who participate in preparing and presenting the cost statements and assertions therein, including individuals who have specialized knowledge relating to the matters about which written representations are requested. Such individuals may include:

- An actuary responsible for actuarially determined cost accounting measurements
- Expertise of engineers of the plant in understanding the production process including cycle time for production.



- Expertise of Engineers who are responsible and specialize in quality control and such cost have bearing on cost statements.

**6.5** In some cases, management may include in the written representations qualifying language to the effect that representations are made to the “best of its knowledge and belief”. It is reasonable for the cost auditor to accept such wording if the cost auditor is satisfied that the representations are being made by those with appropriate responsibilities and knowledge of the matters included in the representations.

**6.6** The cost auditor may request management to include in the written representations the confirmation that it has made such inquiries as it considered appropriate to place it in the position to be able to make the requested written representations. It is not expected that such inquiries would usually require a formal internal process beyond those already established by the entity.

#### **Written Representations about Management’s Responsibilities-**

**6.7** Cost audit evidence obtained during the cost audit that management has fulfilled the responsibilities referred to in paragraphs 5.2 and 5.3 is not sufficient without obtaining confirmation from management that it believes it has fulfilled those responsibilities. This is because the cost auditor is not able to judge solely on other cost audit evidence whether management has prepared and presented the cost statements and provided information to the cost auditor on the basis of the agreed acknowledgement and understanding of its responsibilities. For example, the cost auditor could not conclude that management has provided the cost auditor with all relevant information agreed in the terms of the cost audit engagement without asking it whether, and receiving confirmation that, such information has been provided.

**6.8** The written representations required by paragraphs 5.2 and 5.3 draw on the agreed acknowledgement and understanding of management of its responsibilities in the terms of the cost audit engagement by requesting confirmation that it has fulfilled them. The auditor may also ask management to reconfirm its acknowledgement and understanding of those responsibilities in written representations. This is common in certain jurisdictions, but in any event may be particularly appropriate when:

- Those who signed the terms of the cost audit engagement on behalf of the entity no longer have the relevant responsibilities;
- The terms of the cost audit engagement were prepared in a previous year;





- There is any indication that management misunderstands those responsibilities; or
- Changes in circumstances make it appropriate to do so.

**Considerations Specific to Regulated Entities** (Ref: Para 5.2 – 5.3)

**6.9** The mandate for cost audits of the cost statements of regulatory sector entities may be broader than those of other entities. As a result, the premise, relating to management's responsibilities, on which audit of the cost statements of a regulated entity is conducted, may give rise to additional written representations. These may include written representations confirming that the items of cost and events have been carried out in accordance with applicable law, regulation or other authority.

**Other Written Representations** (Ref: Para 5.5)

Additional Written Representations about the cost Statements

**6.10** In addition to the written representation required by paragraph 5.2, the cost auditor may consider it necessary to request other written representations about the cost statements. Such written representations may supplement, but may not form part of, the written representation required by paragraph 5.2. They include representations about the following:

- Whether the selection and application of cost accounting policies are appropriate; and
- Whether matters such as the following, where relevant under the applicable cost reporting framework, have been recognized, measured, presented or disclosed in accordance with that framework:
  - Plans or intentions that may affect the valuation of inventory and capacity of the plant;
  - The abnormal cost and prior period items of cost have been excluded from cost accounting records for the period;
  - The measurement, classification, allocation & apportionment of expenses to various products, activities, services, cost centres, departments, processes, etc. are properly made on the appropriate basis including estimates where-ever necessary. The basis adopted for such measurement, allocation and apportionment have been followed consistently with due modifications wherever necessary; and
  - Inventory valuation is done in conformity with the cost accounting principles.
  - Aspects of laws, regulations and contractual agreements for leasing of facilities and job works that may affect the cost statements, including non-compliance.



#### Additional Written Representations about Information Provided to the Cost Auditor

**6.11** In addition to the written representation required by paragraph 5.3, the cost auditor may consider it necessary to request management to provide a written representation that it has communicated to the cost auditor all deficiencies in internal control of which management is aware.

#### Written Representations about Specific Assertions

**6.12** When obtaining evidence about, or evaluating, judgments and intentions, the cost auditor may consider one or more of the following:

- The entity's past history in carrying out its stated intentions.
- The entity's reasons for choosing a particular course of action.
- The entity's ability to pursue a specific course of action.
- The existence or lack of any other information that might have been obtained during the course of the cost audit that may be inconsistent with management's judgment or intent.

**6.13** In addition, the cost auditor may consider it necessary to request management to provide written representations about specific assertions in the cost statements; in particular, to support an understanding that the cost auditor has obtained from other cost audit evidence of management's judgment or intent in relation to, or the completeness of, a specific assertion. For example, if the intent of management is important to the valuation of work in progress, it may not be possible to obtain sufficient appropriate cost audit evidence without a written representation from management about its intentions. Although such written representations provide necessary cost audit evidence, they do not provide sufficient appropriate cost audit evidence on their own for that assertion.

#### Communicating a Threshold Limit (Ref: Para. 5.5)

**6.14** The cost auditor may be required to accumulate misstatements identified during the audit, other than those that are clearly trivial. The cost auditor may determine a threshold above which misstatements cannot be regarded as clearly trivial. In the same way, the auditor may consider communicating to management a threshold for purposes of the requested written representations.

#### Date of and Period(s) Covered by Written Representations (Ref: Para. 5.6)

**6.15** Because written representations are necessary cost audit evidence, the cost auditor's opinion cannot be expressed, and the cost auditor's report cannot be dated, before the date of the written representations. Furthermore, because the cost auditor is



concerned with events occurring up to the date of the cost auditor's report that may require adjustment to or disclosure in the cost statements, the written representations are dated as near as practicable to, but not after, the date of the cost auditor's report on the cost statements.

- 6.16** In some circumstances, it may be appropriate for the cost auditor to obtain an updated written representation about a specific assertion in the cost statements during the course of the audit.
- 6.17** The written representations are for all periods referred to in the cost auditor's report because management needs to reaffirm that the written representations it previously made with respect to the prior periods remain appropriate. The cost auditor and management may agree to a form of written representation that updates written representations relating to the prior periods by addressing whether there are any changes to such written representations and, if so, what they are.
- 6.18** Situations may arise where current management were not present during all periods referred to in the cost auditor's report. Such persons may assert that they are not in a position to provide some or all of the written representations because they were not in place during the period. This fact, however, does not diminish such persons' responsibilities for the cost statements as a whole.

**Form of Written Representations** (Ref: Para. 5.7)

- 6.19** Written representations are required to be included in a representation letter addressed to the cost auditor. In some jurisdictions, however, management may be required by law or regulation to make a written public statement about its responsibilities. Although such statement is a representation to the users of the cost statements, or to relevant regulatory or other authorities, the cost auditor may determine that it is an appropriate form of written representation in respect of some or all of the representations required by paragraph 5.2 or 5.3. Consequently, the relevant matters covered by such statement need not be included in the representation letter. Factors that may affect the cost auditor's determination include:
- Whether the statement includes confirmation of the fulfilment of the responsibilities referred to in paragraphs 5.2 and 5.3.
  - Whether the statement has been given or approved by those from whom the cost auditor requests the relevant written representations.



- Whether a copy of the statement is provided to the cost auditor as near as practicable to, but not after, the date of the cost auditor's report on the cost statements (see paragraph 5.6).

**6.20** A formal statement of compliance with law or regulation, or of approval of the cost statements, would not contain sufficient information for the cost auditor to be satisfied that all necessary representations have been consciously made. The expression of management's responsibilities in law or regulation is also not a substitute for the requested written representations.

**6.21** Appendix I provides an illustrative example of a representation letter.

**Communication with Those Charged with Governance** (Ref: Para. 5.2 – 5.3 & 5.5)

**6.22** In certain organisation the cost auditor has to communicate with those charged with governance the written representations which the cost auditor has requested from management.

**Doubt as to the Reliability of Written Representations and Requested Written Representations Not Provided**

Doubt as to the Reliability of Written Representations (Ref: Para. 5.8–5.10)

**6.23** In the case of identified inconsistencies between one or more written representations and cost audit evidence obtained from another source, the cost auditor may consider whether the risk assessment remains appropriate and, if not, revise the risk assessment and determine the nature, timing and extent of further cost audit procedures to respond to the assessed risks.

**6.24** The cost auditor if has concerns about the competence, integrity, honesty, ethical values or diligence of management, or about its commitment to or enforcement of these, the cost auditor might conclude that the risk of management misrepresentation in the cost statements is such that a cost audit cannot be conducted. In such a case, the cost auditor may consider withdrawing from the engagement, where withdrawal is possible under applicable law or regulation, unless those charged with governance put in place appropriate corrective measures. Such measures, however, may not be sufficient to enable the cost auditor to issue an unqualified cost audit opinion.

**6.25** The cost auditor has to document significant matters arising during the cost audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions. The cost auditor may have identified significant issues



relating to the competence, integrity, ethical values or diligence of management, or about its commitment to or enforcement of these, but concluded that the written representations are nevertheless reliable. In such a case, all the significant matters should be documented.

Written Representations about Management's Responsibilities (Ref: Para. 5.12)

**6.26** As explained in paragraph 6.7, the auditor is not able to judge solely on other cost audit evidence whether management has fulfilled the responsibilities referred to in paragraphs. Therefore, if, as described in paragraph 5.12(a), the cost auditor concludes that the written representations about these matters are unreliable, or if management does not provide those written representations, the cost auditor is unable to obtain sufficient appropriate cost audit evidence. The possible effects on the cost statements of such inability are not confined to specific elements, items of cost and the cost statements and are hence pervasive. The cost auditor should disclaim or qualify an opinion on the cost statements in such circumstances.

**6.27** A written representation that has been modified from that requested by the cost auditor does not necessarily mean that management did not provide the written representation. However, the underlying reason for such modification may affect the opinion in the cost auditor's report.

For example: The written representation about management's fulfilment of its responsibility for the preparation of the cost statements may state that management believes that, except for material non-compliance with a particular requirement of the applicable cost reporting framework, the cost statements are prepared in accordance with that framework. The requirement in paragraph 5.12 does not apply because the cost auditor concluded that management has provided reliable written representations. However, the cost auditor is required to consider the effect of the non-compliance on the opinion in the cost auditor's report.

The written representation about the responsibility of management is to provide the cost auditor with all relevant information agreed in the terms of the cost audit engagement may, for example, state that management believes that, except for information destroyed in a fire, it has provided the cost auditor with such information. The requirement in paragraph 5.12 does not apply because the cost auditor concluded that management has provided reliable written representations. However, the cost auditor is required to consider the effects of the pervasiveness of the information by supernatural activity like information destroyed in the fire on the cost statements and the effect thereof on the opinion in the cost auditor's report.



## **7 Effective Date**

This Standard is effective for audits on or after \_\_\_\_\_.

## **8 Statement of Modifications: Modifications to ISA 580, “Written Representations”**

The ISAs have been developed with focus on Auditing of Financial Statements, while the focus of SCAs is on Auditing of Cost Statements. Hence, following changes are introduced across all the SCAs:

1. Change of ‘terms’ used in the ISAs that have corresponding meaning in cost audit vis-à-vis financial audit, such as Auditor with Cost Auditor, Audit with Cost Audit, Financial Statements with Cost Statements, Financial Reporting with Cost Reporting, Audit Procedures with Cost Audit Procedures, Auditor’s Responsibility with Cost Auditor’s Responsibility, etc.;
2. Corresponding modification in definitions of similar terms, examples used and in the Application Guidance;
3. Unlike the practice followed in ISAs, definitions of all ‘terms’ relevant to this SCA are reproduced.

### *Addition:*

- Paragraph on Considerations Specific to Regulated Entities (Paragraph 6.9) has been added to give effect to prevailing regulatory framework for audit of cost statements in Indian context.

### *Deletions:*

- Paragraph (A9) on considerations Specific to Public Sector Entities has been deleted as the same is not relevant to the Audit of Cost Statements in Indian context.



Appendix I

Illustrative Representation Letter

*(This Illustrative Letter of representation may be modified as per the type/size of company, nature of audit, requirements under other SCAs, etc)*

The following letter is for use as a general guide with reference to the points mentioned in this respect. It may vary from one company to another and from one year to another. Therefore it can be adapted in view of individual requirements and circumstances.

(On Company's letter head)

Dated:

To,

M/S

Cost Accountants/ Cost Auditors

Dear Sir/Madam,

This representation letter is provided in connection with your audit of cost accounting records of (name of Company/ factory/ Unit)\*\* for the year ended\_\_\_\_\_ for the purpose of expressing an opinion as to whether the company maintained cost accounting records as required under the Companies (Cost Records and Audit) Rules, 2014 and the cost statements/ abridged cost statements give a true and fair view of the cost of production or cost of operation, cost of sales and margin for each of the products, services and activities under reference. We acknowledge the management's responsibility for the true and fair presentation of the cost accounting records, financial position and results of operations in accordance with the policies and practices, including the compliance with CRA-1 of the Companies (Cost Records and Audit) Rules 2014 (or any other relevant Act/Rules), the Standards on Cost Auditing, the Cost Accounting Standards (CASs) and the Generally Accepted Cost Accounting Principles (GACAP) issued or that may be issued from time to time by the Institute of Cost Accountants of India.

We confirm, to the best of our knowledge and belief, the following representations:

**COST ACCOUNTING POLICIES AND COST RECORDS:**

1. All Cost Accounting records are maintained on regular basis as per the provisions of law or regulation applicable. Such records facilitate the entity to calculate per unit cost of production or cost of operations, cost of sales and margin for each of its products, services or activities for the reporting period. The list of cost records maintained by the company is enclosed herewith.
2. The Company adopted the cost accounting policies keeping in view the requirements of the Company, The Companies Act, 2013 or any other relevant Act, Companies (Cost Records and Audit) Rules, 2014, Standards on Cost Auditing, Cost Accounting Standards (CAS) and Generally Accepted Cost Accounting Principles (GACAP) issued by the Institute of Cost Accountants of India. In the opinion of the Company, the Cost Accounting Policies so adopted is adequate to determine the cost of production or cost of operation, cost of sales, sales realization and margin of the product or service under reference.
3. There is no change\*\*\* in the Cost Accounting system for identification of cost centres, cost objects, cost drivers, accounting for materials, measurement, allocation and absorption of overheads, basis of Inventory valuation system and method of charging depreciation or amortization followed by the company as compared to previous year.
4. The measurement, classification, allocation & apportionment of expenses to various products, activities, services, departments, processes are properly made on appropriate basis, including estimates where-ever necessary. The basis adopted for such measurement, allocation and apportionment have been followed consistently.
5. No items of fixed assets have been charged with 100% depreciation in cost accounting records. The 100 % depreciation on certain items of fixed assets amounting to Rs. \_\_\_\_\_# , being very small amount, is considered in cost accounting in view of the materiality concept.



6. The installed capacity of Product(s)/Service(s) under cost audit is \_\_\_\_\_ \*\*\*\*.
7. There is no change in the manufacturing or operating process or technology during the year as compared to previous year\*\*\*.
8. The abnormal and Non-recurring items have been excluded from Cost Accounting Records for the period\*\*\*.
9. The cost records containing product-service-wise and activity-wise cost details have been properly compiled and reconciled with financial accounts in totality for the year under reference
10. The company is having a Budgetary control system according to the needs of the management and the system is being regularly applied in the decision making process.
11. The Internal Audit of financial accounts for the year under audit has/has not\* been carried out.
12. The Internal Audit of cost accounting records for the year under audit has/has not\* been carried out.
13. There are no persistent deficiencies in the cost accounting system pointed out in earlier cost audit reports but not rectified.
14. The company has incurred loss or there is a decline in profitability of following product(s)/service(s) as per cost accounting records:

Product(/ Service	Total Profit / loss	Profit / loss / per unit
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The reasons for the loss or decline in profit are as under:
  - 1.
  - 2.
15. To the best of our knowledge and belief all outstanding liabilities (including those of income tax, Excise duty, wealth tax, VAT/sales tax, and other taxes and duties where applicable) and accrued incomes have been recorded for in the accounts.
16. Nothing has been done during the year under cost audit which would be in contravention of any of the provisions of law and regulation \*\*\*.
17. The inter-company and related party transactions, loans given and taken including loans in kind, purchase and sale of investments and fixed assets, write off of bad debts or irrecoverable advances and other relevant matters, have been duly approved in the Board meetings.
18. There are no legal cases or other disputes pending, which would give rise to any liabilities other than those which have been disclosed in the accounts.
19. Allocation between capital and revenue expenditure has been appropriately done and that no items of capital nature have been debited to profit and loss account or vice versa.
20. Net book values of Tangible Non-Current Assets (fixed assets) shown in the Balance Sheet are after:
  - a) taking into account all capital expenditure on additions thereto, but no expenditure attributable to revenue.
  - b) eliminating the cost and accumulated depreciation relating to items sold or discarded.
  - c) providing adequate depreciation during the year.
21. All capital expenses of the company are solely connected with the company's business.
22. The Company has maintained necessary records in respect of related party transactions & inter-company transfer as prescribed in the law and regulation. The basis followed for arriving at the amount charged in such transactions is reasonable and there is no under-statement or over-statement of profits in such transactions that is detriment to the investors' interest.
23. No personal expenses other than those incurred under contractual obligations of accepted business practices have been incurred by the company and charged to the profit & loss account for the year ended\_\_\_\_\_.
24. There have been no irregularities involving management or employees who have a significant role in the system of internal control that could have a material effect on the cost accounting records.
25. The company has complied with all aspects of contractual agreement that would materially affect the cost statements, in the event of non- compliance.
26. The company is not aware of any violations or possible violations of law or regulations whose effect may be required for disclosure in the cost accounting records or for providing for loss or contingency.
27. All accounts & records have been balanced after adjustments of closing entries and agree with the Cost Accounting statements, Annexures & Proforma to the Cost Audit Report.





INVENTORIES

28. Following is the summary of the stock held as at the \_\_\_\_ ( date):

Stores and spare parts	Rs
Loose Tools	Rs
Raw Materials	Rs
Work - in progress	Rs
Finished Goods	Rs
Any other items (Including scrapped machinery)	Rs
 Total	 Rs
	===

With respect to the above stocks, we hereby certify that to the best of our knowledge and belief:

- a) Inventories recorded in the books as at \_\_\_\_\_(date of Balance Sheet) aggregating to Rs \_\_\_\_\_ are based upon the physical inventories taken as at \_\_\_\_\_ ( date of physical stock checking)\_\_\_\_\_ by actual count, weight or measurement. The book inventories were adjusted to the physical inventory and subsequent transactions recorded in the accounts fairly reflect the changes in the inventories up to \_\_\_\_\_(date of Balance sheet).
- b) All items included in the books in the inventory are the property of the company and are not subject to any charge, none of the goods being held on consignment from other or as bailey and none being subject to lien of any kind except as follows: (e.g. hypothecated to the banks against cash credit facility).
- c) The inventory includes all items of any value which are the property of the company wherever located, including goods sent on consignment account to customers.
- d) The inventory does not include:
  - ✓ Goods purchased for which invoices have not been entered as liabilities.
  - ✓ Goods returned by customers without credit to their accounts; or
  - ✓ Goods billed to customers in advance of delivery.
- e) In valuing the inventory, due consideration has been given to the sale-ability / usability of the stock and no obsolete or damaged items were included therein except at their net realizable value as follows:-
- f) The goods have been valued according to the provisions of Accounting Standard on the following basis:
 

Stores and spare parts	.....
Loose Tools	.....
Raw materials	.....
Work -in - progress	.....
Finished goods	.....
Any other head	.....
- g) No item of stock has a value on realization, in the ordinary course of business, which is less than the amount stated in the inventory.
- h) The company has written off stock during the year under consideration as per the details given below:
  - (i)
  - (ii)
  - (iii)
- i) Slow Moving Non-moving stock details are as below for which the management is taking necessary steps to reduce such stocks.
  - (i)
  - (ii)
  - (iii)
- j) The basis of valuation adopted is the same as was used in the previous year, except as follows:-



- (i)
- (ii)
- (iii)

Yours faithfully,

For \_\_\_\_\_ Ltd.

(Name \_\_\_\_\_)

Managing Director/Company Secretary.

\* Strike out the words/sentences/para not applicable.

\*\* Separate cost statements required product-wise, unit-wise / factory-wise and also Abridged Cost Statements for each Product / Service as the case may be. Laws or regulation requires Cost Audit Report for all the Products/ Services covered under the Cost Audit. All companies are required to prepare cost statements for each Product/ Service under cost Audit.

\*\*\* In case of change, please give details including the impact on unit cost of production or cost of operation and/or profit/loss position of the product/unit/factory and Product/ Service wherever applicable.

\*\*\*\* If more than one product/ service, give product/ service wise and also give basis of calculation of installed capacity.