



General Frequently Asked Questions (FAQs) On Standards on Cost Auditing (SCAs)

1. What is structure of “CAASB”?

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

The CAASB has been constituted as approved by the Council in its 303rd meeting held on March 17 & 18, 2017, constitution of which is available in the Preface to SCAs.

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 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.

The Standards on Cost Auditing are mandatory for compliance for the auditor conducting the cost audit u/s 148(3) of the Companies Act, 2013 after these are approved by the Ministry of Corporate Affairs, Government of India.

Preface to the Standards on Cost Auditing specifies ‘Compliance with the Standards’ which states that the Standards on Quality Control, Standards on Cost Auditing, Assignment Standards, and Standards on Related Services, issued by and under the authority of the Council of the Institute, are required to be complied with by the members of the Institute, wherever applicable.

Thus the Standards on Cost Auditing are to be complied with by the members of the Institute of Cost Accountants of India.



It is further recommended that the Auditee shall provide all the necessary support to the Cost Auditors for complying with the Standards on Cost Auditing.

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 terms Cost Auditing Standards and Standards on Cost Auditing denote the same meaning and can be used interchangeably

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).

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.

Review assignments are not considered as assurance because in review assignment, 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. However for the SCAs that have not been made mandatory, reference to the Guidance Manual for Audit Quality can be made.

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 may refer to the application guidance in case they require more clarity on the requirements given in the standards.

10. 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.