



SCA -107

Standard on Cost Auditing, “Audit Evidence”

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The following is the **Standard on Cost Auditing, “Audit Evidence”**. 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

The purpose of this standard is to explain what constitutes audit evidence in an audit of cost statements, cost records and other related documents. This standard is applicable to all audit evidence obtained during the performance of cost audit procedures.

2. Objective

The objective of this standard is to enable the cost auditor to design and perform cost audit procedure in such a way to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusion on which cost auditor’s opinion is based.

3. Scope

This standard deals with the cost auditor’s responsibility to design and perform cost audit procedures to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusion on which cost auditor’s opinion is based.

4. Definition

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

4.1. Appropriateness (of audit evidence): *The measure of the quality of audit evidence; that is, its relevance and its reliability in providing support for the conclusions on which the cost auditor’s opinion is based.*

4.2. Audit: *Audit is an independent examination of financial, cost and other related information of an entity whether profit oriented or not, irrespective of its size or legal form, when such an examination is conducted with a view to expressing an opinion thereon.*

4.3. Audit Partner: *Audit partner means the partner in the firm who is a member of the Institute of Cost Accountants of India and is in full time practice and is responsible for the audit and its performance, and for the report that is issued on behalf of the firm, and who, where required, has appropriate authority from a professional, legal or regulatory body.*

4.4. Auditor: *Auditor is used to refer to the person or persons conducting the audit, usually the audit partner or other member of the audit team, or, as applicable the firm. Auditor includes Cost Auditor.*



- 4.5. 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.*
- 4.6. Audit Risk:** *Audit risk is the risk that the cost auditor expresses an inappropriate audit opinion on the cost statements that are materially misstated. Audit risk is a function of the risk of material misstatement and detection risk.*
- (a) The risk of material misstatement has two components viz. Inherent Risk and Control risk.*
- (1) Inherent risk: the susceptibility of an assertion about the measurement, assignment or disclosure of cost to a misstatement that could be material, either individually or when aggregated with other misstatements, before consideration of any related controls.*
- (2) Control risk: the risk that a misstatement that could occur in an assertion about the measurement, assignment or disclosure of cost and that could be material, either individually or when aggregated with other misstatements, will not be prevented, or detected and corrected, on a timely basis by the entity's internal, operational and management control.*
- (b) Detection risk: the risk that the procedures followed by the cost auditor to reduce audit risk to an acceptable low level will not detect a misstatement that exists and that could be material, either individually or when aggregated with other misstatements.*
- 4.7. Audit Team:** *Audit team means all personnel performing an engagement, including any experts engaged by the firm in connection with that engagement.*
- 4.8. 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.*
- 4.9. 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.*



- 4.10. 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.*
- 4.11. Cost Records:** *"Cost Records" means books of accounts relating to utilization of materials, labor and other items of cost, to facilitate calculation of true and fair cost of production or cost of operations, cost of sales, and margin for each product or service or activity, produced or provided by an entity including a non-profit entity, for any period, in compliance with Cost Accounting Standards issued by the Institute.*
- 4.12. Cost Reporting Framework:** *"Cost Reporting Framework" means the framework adopted by the management and, where appropriate, by those charged with governance, in the preparation of the cost statements that is acceptable in view of the nature of the entity and the objective of the cost report, or that is required by law or regulation.*
- 4.13. Cost Statements:-***Cost Statements, in relation to an entity, includes plant-wise, factory- wise or service centre-wise;*
- i) quantitative details of capacity, production , trade purchases, sales and stocks;*
 - ii) quantitative, rates and value details of consumption of materials, utilities and other inputs;*
 - iii) cost sheet showing element-wise, total as well as per unit 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) reconciliation of indirect taxes showing details of total clearance of goods / services, assessable value, duties/ taxes paid, CENVAT or VAT or Service Tax credit utilized, duties / taxes recovered and interest / penalty paid;*
 - vi) statement of value addition and distribution of earnings;*
 - vii) details of purchases and sales of goods and services with related parties showing transfer price vis-à-vis normal price; and*
 - viii) any explanatory note annexed to, or forming part of, any document referred to in (i) to (vii) above.*



- 4.14. Firm:** Firm means a sole practitioner, partnership including LLP or any other entity of professional cost accountants as may be permitted by law and constituted under The Cost and Works Accountants Act & Regulations.
- 4.15. Institute:** "Institute" means The Institute of Cost Accountants of India constituted under section 2(1)(f) of the Cost and Works Accountant Act, 1959 (23 of 1959);
- 4.16. 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.
- 4.17. Management's Expert:** An individual or organisation possessing expertise in a field other than accounting and auditing, whose work in that field is used by the entity to assist the entity in preparing the cost statements.
- 4.18. Sufficiency (of audit evidence):** The measure of the quantity of audit evidence. The quantity of the audit evidence needed is affected by the cost auditor's assessment of the risk of material misstatement and also by the quality of such audit evidence.

5. Requirements

Sufficient appropriate Audit Evidence

- 5.1** The cost auditor shall design and perform cost audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence. (Refer 6.1 to 6.18)

Information to be used as Audit Evidence

- 5.2** The cost auditor shall consider the relevance and reliability of the information to be used as audit evidence when designing and performing cost audit procedures. (Refer 6.19 to 6.23)
- 5.3** If information to be used as audit evidence has been prepared using the work of a management's expert, the cost auditor may, to the extent necessary, having regard to the significance of that expert's work for the cost auditor's purposes: (Refer 6.24 - 6.25)
- (a) Evaluate the competence, capabilities and objectivity of that expert; (Refer 6.26 - 6.27)
 - (b) Obtain an understanding of work of that expert; and (Refer 6.28 - 6.29)
 - (c) Evaluate the appropriateness of that expert's work as audit evidence for the relevant assertion. (Refer 6.30)
- 5.4** The cost auditor shall evaluate whether the information is sufficiently reliable for the audit purpose, including, as necessary in the circumstances:

- (a) Obtaining audit evidence about the accuracy and completeness of the information; and**
- (b) Evaluating whether the information is sufficiently precise or detailed for the cost auditor's purposes. (Refer 6.31)**

Selecting Items for Testing to obtain Audit Evidence

- 5.5 The cost auditor shall determine means of selecting items for testing that are effective in meeting the purpose of cost audit procedures, when designing tests of controls and tests of details for obtaining audit evidence. (Refer 6.32 to 6.36)**

Inconsistency in, or Doubts over Reliability of, Audit Evidence

- 5.6 The cost auditor shall determine extent of modification or addition to cost audit procedures that are necessary to resolve the matter and shall also consider the effect of matter, if any, on the other aspects of cost audit, if:**
- (a) audit evidence obtained from one source is inconsistent with that obtained from another; or**
 - (b) the cost auditor has doubts over the reliability of information to be used as audit evidence. (Refer 6.37)**

6. Application Guidance

Sufficient Appropriate audit Evidence

- 6.1** Audit evidence is necessary to support the cost auditor's opinion and cost audit report. It is cumulative in nature and is primarily obtained from cost audit procedures performed during the course of the cost audit. It may, however, also include information obtained from other sources such as previous cost audits (provided the cost auditor has determined whether changes have occurred since the previous cost audit that may affect its relevance to the current cost audit). In addition to other sources inside and outside the entity, the entity's cost records are an important source of audit evidence. Also, information that may be used as audit evidence may have been prepared using the work of a management's expert. Audit evidence comprises both information that supports and corroborates management's assertions, and any information that contradicts such assertions. In addition, in some cases the absence of information (for example, management's refusal to provide a requested representation) is used by the cost auditor, and therefore, also constitutes audit evidence. (Refer 5.1)
- 6.2** The cost auditor shall apply cost audit procedures to obtain and evaluate audit evidence in forming the opinion. Such cost audit procedures can include inquiry, inspection, observation, recalculation, reperformance and analytical procedures, often in some combination. (Refer 5.1)



- 6.3 The cost auditor shall be required to obtain reasonable assurance about cost statements as a whole is free from material misstatement, whether due to fraud or error and same shall be obtained when the cost auditor has obtained sufficient appropriate audit evidence to reduce audit risk (that is, the risk that the cost auditor expresses an inappropriate opinion when the cost statements are materially misstated) to an acceptably low level. (Refer 5.1)
- 6.4 The cost auditor shall obtain sufficient appropriate audit evidences which are closely interrelated. Sufficiency is the measure of the quantity of audit evidence, whereas appropriateness is the measure of the quality of audit evidence. The quantity of audit evidence needed is affected by cost auditor's assessment of the risk of material misstatement and also the quality of such evidence (the higher the quality, the less evidence may be required). Obtaining more audit evidence, however, may not compensate for its quality. The relevance and reliability in providing support for the conclusions on which the cost auditor's opinion shall be based on appropriateness. (Refer 5.1)

Sources of Audit Evidence

- 6.5 The reliability of audit evidence is influenced by its source and by its nature, and is dependent on the individual circumstances under which it is obtained. Some audit evidence is obtained by performing cost audit procedures to test the cost records, for example, through analysis and review, reperforming procedure followed in the cost reporting framework, and reconciling related types and applications of the same information. Through the performance of such cost audit procedures, the cost auditor may determine that the cost records are internally consistent, reconciled and agree to the financial statements. (Refer 5.1)
- 6.6 More assurance is ordinarily obtained from consistent audit evidence obtained from different sources or of a different nature than from items of audit evidence considered individually. For example, corroborating information obtained from a source independent of the entity may increase the assurance the cost auditor obtains from audit evidence that is generated internally, such as analysts' report, Input output norms, comparable data about competitors (benchmarking data), confirmation from third party, etc. (Refer 5.1)

Audit Procedure for obtaining Audit Evidence

- 6.7 Audit evidence to draw reasonable conclusions that is used by the cost auditor to form his opinion, is obtained by performing: (Refer 5.1)
- (i) Risk assessment procedures; and
 - (ii) Further cost audit procedures, which comprise:
 - a) Tests of controls, and

- b) Substantive procedures, including tests of details and substantive analytical procedures.

- 6.8 The cost audit procedures described in paragraphs 6.10 to 6.18 below may be used as risk assessment procedures, tests of controls or substantive procedures, depending on the context on which they are applied by the cost auditor. Audit evidence obtained from previous cost audits may provide audit evidence where the cost auditor performs audit procedures to establish its continuing relevance. For example, in performing a previous cost audit, the cost auditor may have determined that an automated control for material consumption was functioning as intended. The cost auditor may obtain audit evidence to determine whether any changes to the automated control for material consumption have been made that may affect its continued effective functioning. (Refer 5.1)
- 6.9 The nature and timing of the audit procedures to be used may be affected by the fact that some of the cost data and other information may be available only in electronic form or only at certain points or periods in time that may not be retrievable after a specified period of time. Accordingly, the cost auditor may find it necessary as a result of the entity's data retention policy to perform audit procedures at a time when the information is available. (Refer 5.1)

Inspection

- 6.10 Inspection involves examining cost records or other related documents, whether internal or external, in paper form, electronic form, or other media, or a physical examination of an asset (non-current and current assets). Inspection of cost records and other documents provides audit evidence of varying degrees of reliability, depending on their nature and source and, in the case of internal records and documents, on the effectiveness of the controls over their production. An example of inspection used as a test of controls is inspection of records for evidence of consumption of consumables. (Refer 5.1)

Observation

- 6.11 Observation consists of looking at a process or procedure being performed by others, for example, the cost auditor's observation of input – output ratio by the entity's personnel, or of the performance of internal control activities. Observation provides audit evidence about the performance of a process or procedure, but is limited to the point in time at which the observation takes place, and by the fact that the act of being observed may affect how the process or procedure is performed. (Refer 5.1)

External Confirmation

- 6.12 An external confirmation represents audit evidence obtained by the cost auditor as a direct written response to the cost auditor from a third party (the confirming party),

in paper form, or by electronic or other medium. External confirmation procedures frequently are relevant when addressing assertions associated with certain stock balances. However, external confirmations need not be restricted to stock balances only. For example, the cost auditor may request confirmation of the terms of agreements or transactions an entity has with third parties; the confirmation request may be designed to ask if any modifications have been made to the agreement and, if so, what the relevant details are. External confirmation procedures also are used to obtain audit evidence about the absence of certain conditions, for example, the absence of a “side agreement” that may influence revenue recognition. (Refer 5.1)

Recalculation

- 6.13 Recalculation consists of checking the mathematical accuracy of documents or records. Recalculation may be performed manually or electronically. (Refer 5.1)

Re-performance

- 6.14 Re-performance involves the cost auditor’s independent execution of procedures or controls that were originally performed as part of the entity’s internal control. (Refer 5.1)

Analytical Procedures

- 6.15 Analytical procedures consist of evaluation of cost information made by a study of plausible relationships among both cost and non-cost items. Analytical procedures also encompass the investigation of identified variations and relationships that are inconsistent with other relevant information or deviate significantly from predicted cost structure and may be extended to analysis of technical parameters to derive the variance. (Refer 5.1)

Inquiry

- 6.16 Inquiry consists of seeking information of knowledgeable persons, within the entity or outside the entity. Inquiry is used extensively throughout the cost audit in addition to other cost audit procedures. Inquiries may range from formal written inquiries to informal oral inquiries. Evaluating responses to inquiries is an integral part of the inquiry process. (Refer 5.1)
- 6.17 Responses to inquiries may provide the cost auditor with information not previously possessed or with corroborative audit evidence. Alternatively, responses might provide information that differs significantly from other information that the cost auditor has obtained, for example, information regarding the possibility of management override of controls. In some cases, responses to inquiries provide a basis for the cost auditor to modify or perform additional cost audit procedures. (Refer 5.1)

6.18 Although corroboration of evidence obtained through inquiry is often of particular importance, in the case of inquiries about management intent, the information available to support management's intent may be limited. In these cases, understanding management's past history of carrying out its stated intentions, management's stated reasons for choosing a particular course of action, and management's ability to pursue a specific course of action may provide relevant information to corroborate the evidence obtained through inquiry. In respect of some matters, the cost auditor may consider it necessary to obtain written representation from management and where, appropriate those charged with governance to confirm response to oral inquiries. (Refer 5.1)

Information to Be Used as Audit Evidence

Relevance and Reliability

6.19 Relevance of audit evidence refers to its relationship to the assertion or to the objective of the control being tested. The relevance of audit evidence depends on: (Refer 5.2)

- (i) The design of the audit procedure used to test the assertion or control, in particular whether it is designed to :
 - Test the assertion or control directly and
 - Test for understatement or overstatement:
- (ii) The timing of the cost audit procedure used to test the assertion or control.

6.20 Relevance deals with the logical connection with, or bearing upon, the purpose of the cost audit procedure and, where appropriate, the assertion under consideration. The relevance of information to be used as audit evidence may be affected by the direction of testing. For example, if the purpose of cost audit procedure is to test for overstatement or understatement in valuation of finished goods inventory, testing the records of production and sales (including physical dispatches) may be a relevant audit procedure. In addition testing records relating to subsequent production, work in progress, consumption statements, and utilities consumption reports may be relevant. However, a given set of cost audit procedures may provide audit evidence that is relevant to certain assertions, but not others (Refer 5.2)

6.21 Tests of controls are designed to evaluate the operating effectiveness of controls in preventing, or detecting and correcting, material misstatements at the assertion level. Designing tests of controls to obtain relevant audit evidence includes identifying conditions (characteristics or attributes) that indicate performance of a control, and deviation conditions which indicate departures from adequate

performance. The presence or absence of those conditions can then be tested by the cost auditor. (Refer 5.2)

- 6.22 Substantive procedures are designed to detect material misstatements at the assertion level. They comprise tests of details and substantive analytical procedures. Designing substantive procedures include identifying conditions relevant to the purpose of the test that constitute a misstatement in the relevant assertion. (Refer 5.2)

Reliability

- 6.23 The reliability of information to be used as audit evidence, and therefore of the audit evidence itself, is influenced by its source and its nature, and the circumstances under which it is obtained, including the controls over its preparation and maintenance where relevant. Therefore, generalizations about the reliability of various kinds of audit evidence are subject to important exceptions. Even when information to be used as audit evidence is obtained from sources external to the entity, circumstances may exist that could affect its reliability. For example, information obtained from an independent external source may not be reliable if the source is not knowledgeable, or a management's expert may lack objectivity. While recognizing that exceptions may exist, the following generalizations about the reliability of audit evidence may be useful: (Refer 5.2)

- (i) The reliability of audit evidence is increased when it is obtained from independent sources outside the entity.
- (ii) The reliability of audit evidence that is generated internally is increased when the related controls, including those over its preparation and maintenance, imposed by the entity are effective.
- (iii) Audit evidence obtained directly by the cost auditor (for example, observation of the application of a control) is more reliable than audit evidence obtained indirectly or by inference (for example, inquiry about the application of a control).
- (iv) Audit evidence in documentary form, whether paper, electronic, or other medium, is more reliable than evidence obtained orally (for example, a contemporaneously written record of internal report is more reliable than an oral representation of the matters discussed).
- (v) Audit evidence provided by original documents is more reliable than audit evidence provided by photocopies or facsimiles, or documents that have been filmed, digitised or otherwise transformed into electronic form, the reliability of which may depend on the controls over their preparation and maintenance of those documents.

Reliability of Information Produced by a Management's Expert

- 6.24 The preparation of entity's cost statement may require expertise in a field other than accounting or auditing, such as engineering data, the entity may employ or engage experts in these fields to obtain the needed expertise to prepare the cost statements. Failure to do so when such expertise is necessary increases the risks of material misstatement. (Refer 5.3)
- 6.25 The nature, timing and extent of cost audit procedures in relation to the requirement in paragraph 5.3 of this standard, may be affected by such matters as:
- (i) The nature and complexity of the matter to which the management's expert relates.
 - (ii) The risks of material misstatement in the matter.
 - (iii) The availability of alternative sources of audit evidence.
 - (iv) The nature, scope and objectives of the management's expert's work.
 - (v) Whether the management's expert is employed by the entity, or is a party engaged by it to provide relevant services.
 - (vi) The extent to which management can exercise control or influence over the work of the management's expert.
 - (vii) Whether the management's expert is subject to technical performance standards or other professional or industry requirements.
 - (viii) The nature and extent of any controls within the entity over the management's expert's work.
 - (ix) The cost auditor's knowledge and experience of the management's expert's field of expertise. (Refer 5.3)

The competence, Capabilities and objectivity of a Management's Expert

- 6.26 Competence relates to the nature and level of expertise of the management's expert. Capability relates the ability of the management's expert to exercise that competence in the circumstances. For example, Factors that influence capability may include geographic location, and the availability of time and resources. Objectivity relates to the possible effects that bias, conflict of interest or the influence of others may have on the professional or business judgment of the management's expert. The competence, capabilities and objectivity of a management's expert, and any controls within the entity over that expert's work, are important factors in relation to the reliability of any information produced by a management's expert.[Refer 5.3(a)]
- 6.27 Information regarding the competence, capabilities and objectivity of a management's expert may come from a variety of sources, such as:

- (i) Personal experience with previous work of that expert.
- (ii) Discussion with that expert.
- (iii) Discussion with other who are familiar with that expert's work.
- (iv) Knowledge of that expert's qualification, membership of a professional body or industry association, license to practice, or other forms of external recognition like published papers or books written by that expert.
- (v) Evaluating ethical standards and other membership requirements of a professional body or industry association, accreditation standards of a licensing body, or requirements imposed by law or regulation.
- (vi) Expert in the Audit Team, if any, who assists the cost auditor in obtaining sufficient appropriate audit evidence with respect to information produced by the management's expert.
- (vii) Other matters that may be relevant in given circumstances. [Refer 5.3(a)]

Obtaining an Understanding of the work of the Management's Expert

6.28 An understanding of the work of the management's expert includes an understanding of the relevant field of expertise. An understanding of the relevant field of expertise may be obtained in conjunction with the cost auditor's determination of whether the cost auditor has the expertise to evaluate the work of the management's expert, or whether the cost auditor needs an expert for this purpose. Aspects of the management's expert's field relevant to the cost auditor's understanding may include:[Refer 5.3(b)]

- (i) Whether that expert's field has areas of specialty within it that are relevant to the audit.
- (ii) Whether any professional or other standards, regulatory or legal requirements apply.
- (iii) What assumptions and methods are used by the management's expert and whether they are generally accepted within that expert's field and appropriate for cost reporting framework.
- (iv) The nature of internal and external data or information the cost auditor's expert uses.

6.29 In the case of a management's expert engaged by the entity, there will ordinarily be an engagement letter or other written form of agreement between the entity and that expert. Evaluating that agreement when obtaining an understanding of the work of the management's expert may assist the cost auditor in determining the appropriateness of the following for the cost auditor's purposes:[Refer 5.3(b)]

- (i) The nature, scope and objectives of that expert's work;



- (ii) The respective roles and responsibilities of management and that expert; and
- (iii) The nature, timing and extent of communication between management and that expert, including the form of any report to be provided by that expert.

Evaluating the Appropriateness of the Management's Expert's Work

6.30 Considerations when evaluating the appropriateness of the management's expert's work as audit evidence for the relevant assertion may include: [Refer 5.3(c)]

- (i) The relevance and reasonableness of that expert's findings or conclusions, their consistency with other audit evidence, and whether they have been appropriately reflected in the cost statements;
- (ii) If that expert's work involves use of significant assumptions and methods, the relevance and reasonableness of those assumptions and methods; and
- (iii) If that expert's work involves significant use of source data, the relevance, completeness, and accuracy of that source data.

Information Produced by the Entity

6.31 When using information produced by the company as audit evidence, the cost auditor should evaluate whether the information is sufficient and appropriate for purposes of the cost audit by performing procedure to:

- (i) Test the accuracy and completeness of the information, or test the controls over the accuracy and completeness of that information; and
- (ii) Evaluate whether the information is sufficiently precise or detailed for purposes of the cost audit. (Refer 5.4)

Selecting Items for Testing to obtain Audit Evidence

6.32 An effective test provides appropriate audit evidence to an extent that, taken with other audit evidence obtained or to be obtained, will be sufficient for the cost auditor's purposes. In selecting items for testing, the cost auditor is required to determine the relevance and reliability of information to be used as audit evidence; the other aspect of effectiveness (sufficiency) is an important consideration in selecting items to test. The means available to the cost auditor for selecting items for testing are: (Refer 5.5)

- (i) Selecting all items (100% examination);
- (ii) Selecting specific items; and
- (iii) Audit sampling.

The application of any one or combination of these means may be appropriate depending on the particular circumstances.

Selecting All Items

6.33 The cost auditor may decide that it will be most appropriate to examine the entire population of items that make up significant items of cost (or a stratum within that population). 100% examination is unlikely in the case of tests of controls; however, it is more common for tests of details. 100% examination may be appropriate when: (Refer 5.5)

- (i) The population constitutes a small number of large value items;
- (ii) There is a significant risk and other means do not provide sufficient appropriate audit evidence; or
- (iii) The repetitive nature of a calculation or other process performed automatically by an information system makes a 100% examination cost effective.

6.34 The cost auditor may decide to select specific items from a population. In making this decision, factors that may be relevant include the cost auditor's understanding of the entity, the assessed risks of material misstatement, and the characteristics of the population being tested. The judgmental selection of specific cost items is subject to non-sampling risk. Specific cost items selected may include: (Refer 5.5)

- (i) High value or key cost items. The cost auditor may decide to select specific cost items within a population because they are of high value, or exhibit some other characteristic, for example, cost items that are suspicious, unusual, and particularly risk-prone or that have a history of error.
- (ii) All cost items over a certain amount. The cost auditor may decide to examine cost items whose recorded values exceed a certain amount so as to verify a large proportion of the total amount of the items of cost.
- (iii) Cost items to obtain information. The cost auditor may examine cost items to obtain information about matters such as the nature of transactions cost heads.

6.35 While selective examination of specific cost items from cost statements, seeking item details will often be an efficient means of obtaining audit evidence, it does not constitute audit sampling. The results of cost audit procedures applied to cost items selected in this way cannot be projected to the entire population; accordingly, selective examination of cost specific items does not provide audit evidence concerning the remainder of the population. (Refer 5.5)



Audit Sampling

6.36 Audit sampling is designed to enable conclusions to be drawn about an entire population on the basis of testing a sample drawn from it. (Refer 5.5)

Inconsistency in, or Doubts over Reliability of Audit Evidence

6.37 If audit evidence obtained from one source is inconsistent with that obtained from another, or if the cost auditor has doubts about the reliability of information to be used as audit evidence, the cost audit procedures necessary to resolve the matter and should determine the effect, if any, on other aspects of the cost audit. (Refer 5.6)

7. Effective Date

This Standard is effective for audits on or after _____.

8. Statement of Modifications: Modifications to ISA 500, “Audit Evidence”

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 Information Produced by the Entity (6.30) has been added to give effect to prevailing cost reporting framework for audit of cost statements in Indian context.

Deletions:

- Paragraph.(A6,A9,A12,A13,A15,A16,A25,A32,A33,A35,A39,A40,A41,A42,A43, A47,A49,A50,A51) has been deleted as the same is extraneous the Audit of Cost Statements in Indian context.