



## SCA 114 -Standard on Cost Auditing Using the Work of Cost Auditor's Expert

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The following is the **Standard on Cost Auditing, “Using the Work of a Cost Auditor’s Expert”**. 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**

During the cost audit, cost auditor may encounter complex or subjective matters which are potentially material to the audit of cost statements. Such matters may require special skill or knowledge. This Standard deals with the cost auditor’s responsibilities regarding the use of an individual or organization’s work in a field of expertise other than accounting or auditing, when that work is used to assist the cost auditor in obtaining sufficient appropriate audit evidence.

## **2. Objectives**

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

- (a) To determine whether to use the work of a cost auditor’s expert; and***
- (b) If using the work of a cost auditor’s expert, to determine whether that work is adequate for the cost auditor’s purposes.***

## **3. Scope**

***3.1 This Standard deals with the cost auditor’s responsibilities regarding the use of an individual or organization’s work in a field of expertise other than accounting or auditing, when that work is used to assist the cost auditor in obtaining sufficient appropriate audit evidence.***

***3.2 This SCA does not deal with:***

- (a) Situations where the audit team includes a member with expertise in a specialized area of accounting or auditing; or***
- (b) The cost auditor’s use of the work of an individual or organization possessing expertise in a field other than accounting or auditing, whose work in that field is used by the entity to assist the entity in preparing the cost statements (a management’s expert).***

## **3.3 Responsibility for the Cost Audit Opinion**

***The cost auditor has sole responsibility for the audit opinion expressed, and that responsibility is not reduced by use of the work of cost auditor’s expert. Nonetheless, if having followed this SCA, it concludes that the work of that expert is adequate for the cost auditor’s purposes, the cost auditor may accept that expert’s findings or conclusions in the expert’s field as appropriate audit evidence.***



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 **Audit Team:** *Audit team means all personnel performing an engagement, including any experts engaged by the firm in connection with that engagement.*
- 4.3 **Audit Working Papers:** *Audit working papers are the documents which record all audit evidence obtained during audit. Such documents are used to support the audit work done in order to provide assurance that the audit was performed in accordance with the relevant Cost Auditing Standards.*
- 4.4 **Auditor:** *A risk resulting from significant conditions, events, circumstances, actions or inactions that could adversely affect an entity's ability to achieve its objectives and execute its strategies, or from the setting of inappropriate objectives and strategies.*
- 4.5 **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.*
- 4.6 **Cost Auditor's Expert:** *An individual or organization possessing expertise in a field other than accounting or auditing, whose work in that field is used by the cost auditor to assist in obtaining sufficient appropriate audit evidence. Cost auditor's expert may be either an internal expert (who is a partner or staff, including temporary staff) of the cost auditor's firm, or cost auditor's external expert. (Ref: Para 6.1 – 6.3)*
- 4.7 **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.*
- 4.8 **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 (viii) above.*

**4.9 Expertise: Skills, knowledge and experience in a particular field.**

**4.10 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.**

## **5. Requirements**

### **Determining the Need for a Cost Auditor's Expert**

**5.1 If expertise in a field other than accounting or auditing is necessary to obtain sufficient appropriate audit evidence, the cost auditor shall determine whether to use the work of a cost auditor's expert. (Ref: Para. 6.4 – 6.9)**

### **Nature, Timing and Extent of Cost Audit Procedures**

**5.2 The nature, timing and extent of the cost auditor's procedures with respect to the requirements will vary depending on the circumstances. In determining the nature, timing and extent of those procedures, the cost auditor shall consider matters including: (Ref: Para. 6.10)**

- (a) The nature of the matter to which that expert's work relates;*



- (b) The risks of material misstatement in the matter to which that expert's work relates;**
- (c) The significance of that expert's work in the context of the audit;**
- (d) The cost auditor's knowledge of and experience with previous work performed by that expert; and**
- (e) Whether that expert is subject to the cost auditor's firm's quality control policies and procedures. (Ref: Para. 6.11 – 6.13)**

#### ***The Competence, Capabilities and Objectivity of the Cost Auditor's Expert***

**5.3 The cost auditor shall evaluate whether the cost auditor's expert has the necessary competence, capabilities and objectivity for the cost auditor's purposes. In the case of cost auditor's external expert, the evaluation of objectivity shall include inquiry regarding interests and relationships that may create a threat to that expert's objectivity. (Ref: Para. 6.14 – 6.19)**

#### ***Obtaining an Understanding of the Field of Expertise of the Cost Auditor's Expert***

**5.4 The cost auditor shall obtain a sufficient understanding of the field of expertise of the cost auditor's expert to enable the cost auditor to: (Ref: Para. 6.20)**

- (a) Determine the nature, scope and objectives of that expert's work for the cost auditor's purposes; and**
- (b) Evaluate the adequacy of that work for the cost auditor's purposes.**

#### ***Agreement with the Cost Auditor's Expert***

**5.5 The cost auditor shall agree, in writing when appropriate, on the following matters with the cost auditor's expert: (Ref: Para. 6.21 – 6.24)**

- (a) The nature, scope and objectives of that expert's work; (Ref: Para. 6.25)**
- (b) The respective roles and responsibilities of the cost auditor and that expert; (Ref: Para. 6.26 – 6.27)**
- (c) The nature, timing and extent of communication between the cost auditor and that expert, including the form of any report to be provided by that expert; and (Ref: Para. 6.28)**
- (d) The need for the cost auditor's expert to observe confidentiality requirements. (Ref: Para. 6.29)**



### **Evaluating the Adequacy of the Cost Auditor's Expert's Work**

- 5.6** *The cost auditor shall evaluate the adequacy of the cost auditor's expert's work for the cost auditor's purposes, including: (Ref: Para. 6.30)*
- (a) The relevance and reasonableness of that expert's findings or conclusions, and their consistency with other audit evidence; (Ref: Para. 6.31 – 6.32)*
  - (b) If that expert's work involves use of significant assumptions and methods, the relevance and reasonableness of those assumptions and methods in the circumstances; and (Ref: Para. 6.33 – 6.34)*
  - (c) If that expert's work involves the use of source data that is significant to that expert's work, the relevance, completeness, and accuracy of that source data. (Ref: Para. 6.35 – 6.36)*
- 5.7** *If the cost auditor determines that the work of the cost auditor's expert is not adequate for the cost auditor's purposes, the cost auditor shall: (Ref: Para. 6.37)*
- (a) Agree with that expert on the nature and extent of further work to be performed by that expert; or*
  - (b) Perform further audit procedures appropriate to the circumstances.*

### **Reference to the Cost Auditor's Expert in the Cost Auditor's Report**

- 5.8** *The cost auditor shall not refer to the work of cost auditor's expert in cost auditor's report containing an unmodified opinion unless required by law or regulation to do so. If such reference is required by law or regulation, the cost auditor shall indicate in the report that the reference does not reduce the cost auditor's responsibility for the audit opinion. (Ref: Para. 6.38)*
- 5.9** *If the cost auditor makes reference to the work of cost auditor's expert in the report because such reference is relevant to an understanding of a modification to the cost auditor's opinion, the cost auditor shall indicate in the report that such reference does not reduce the cost auditor's responsibility for that opinion. (Ref: Para. 6.39)*

## **6. Application Guidance**

### **Cost Auditor's Expert (Ref: Para. 4.1)**

- 6.1** Expertise in a field other than accounting or auditing may include expertise in relation to such matters as:
- (a) Determination of installed/ achievable capacity of plant, machineries, process, product etc.;



- (b) Determination and or verification of consumption norms of various inputs like material, labour, machine hours, technical standards etc.;
  - (c) Impact on consumption norms of various inputs due to change in production process, change in technology, or substitute of major input material(s) etc.;
  - (d) Efficiency of machines, boiler etc. which has significant impact on determination of machine hour rate, labour hour rate and or utilities consumption pattern; or
  - (e) The interpretation of contracts, laws and regulations.
- 6.2 In many cases, distinguishing between expertise in accounting or auditing, and expertise in another field, will be straightforward, even where this involves a specialized area of accounting or auditing. For example, an individual with expertise in applying methods of accounting for deferred income tax can often be easily distinguished from an expert in taxation law. The former is not an expert for the purposes of this SCA as this constitutes accounting expertise; the latter is an expert for the purposes of this SCA as this constitutes legal expertise including indirect taxes. In some cases, however, particularly those involving an emerging area of accounting or auditing expertise, distinguishing between specialized areas of accounting or auditing, and expertise in another field, will be a matter of professional judgment. Applicable professional rules and standards regarding education and competency requirements for accountants and auditors may assist the cost auditor in exercising that judgment. (Refer para 4.1)
- 6.3 It is necessary to apply judgment when considering how the requirements of this SCA are affected by the fact that cost auditor's expert may be either an individual or an organization. For example, when evaluating the competence, capabilities and objectivity of cost auditor's expert, it may be that the expert is an organization the cost auditor has previously used, but the auditor has no prior experience of the individual expert assigned by the organization for the particular engagement; or it may be the reverse, that is, the cost auditor may be familiar with the work of an individual expert but not with the organization that expert has joined. In either case, both the personal attributes of the individual and the managerial attributes of the organization (such as systems of quality control the organization implements) may be relevant to the cost auditor's evaluation. (Refer para 4.1)

#### **Determining the Need for Cost Auditor's Expert (Ref: Para. 5.1)**

- 6.4 An expert may be needed to assist the cost auditor in one or more of the following:
- (a) Obtaining an understanding of the entity and its environment, including its internal control.
  - (b) Identifying and assessing the risks of material misstatement.



- (c) Determining and implementing overall responses to assessed risks at the cost statement level.
  - (d) Designing and performing further audit procedures to respond to assessed risks at the assertion level, comprising tests of controls or substantive procedures.
  - (e) Evaluating the sufficiency and appropriateness of audit evidence obtained in forming an opinion on the cost statements.
- 6.5 The risks of material misstatement may increase when expertise in a field other than accounting is needed by the management to prepare the cost statements, as this may indicate some complexity or because management may not possess expertise in that field. If in preparing the cost statements management does not possess the necessary expertise, a management's expert may be used in addressing those risks, relevant controls, including controls that relate to the work of a management's expert, if any, may also reduce the risks of material misstatement.
- 6.6 If the preparation of the cost statements involves the use of expertise in a field other than accounting, the cost auditor, who is skilled in cost accounting and auditing, may not possess the necessary expertise to audit those cost statements. The engagement partner is required to be satisfied that the audit team, and experts who are not part of the audit team, collectively have the appropriate competence and capabilities to perform the audit engagement.
- 6.7 An auditor who is not an expert in a relevant field other than accounting or auditing may be able to obtain a sufficient understanding of that field to perform the cost audit without an expert.
- 6.8 Considerations when deciding whether to use cost auditor's expert may include:
- (a) Whether management has used a management's expert in preparing the cost statements.
  - (b) The nature and significance of the matter, including its complexity.
  - (c) The risks of material misstatement in the matter.
  - (d) The expected nature of procedures to respond to identified risks, including the cost auditor's knowledge of and experience with the work of experts in relation to such matters; and the availability of alternative sources of audit evidence.
- 6.9 When management has used a management's expert in preparing the cost statements, the cost auditor's decision on whether to use an expert may also be influenced by such factors as:
- (a) The nature, scope and objectives of the management's expert's work.





- (b) Whether the management's expert is employed by the entity, or is a party engaged by it to provide relevant services.
- (c) The extent to which management can exercise control or influence over the work of the management's expert.
- (d) The management's expert's competence and capabilities.
- (e) Whether the management's expert is subject to technical performance standards or other professional or industry requirements.
- (f) Any controls within the entity over the management's expert's work.

### **Nature, Timing and Extent of Audit Procedures (Ref: Para 5.2)**

6.10 The nature, timing and extent of audit procedures with respect to the requirements in paragraphs 5.3 – 5.7 of this SCA will vary depending on the circumstances. For example, the following factors may suggest the need for different or more extensive procedures than would otherwise be the case:

- (a) The work of the cost auditor's expert relates to a significant matter that involves subjective and complex judgments.
- (b) The cost auditor has not previously used the work of the expert, and has no prior knowledge of that expert's competence, capabilities and objectivity.
- (c) The cost Auditor's expert is performing procedures that are integral to the cost audit, rather than being consulted to provide advice on an individual matter. (Refer 5.2)

### *Quality Control Policies and Procedures of the Cost Auditor's firm [Ref: Para. 5.2(e)]*

6.11 Cost auditor's internal expert may be a partner or staff, including temporary staff, of the cost auditor's firm, and therefore subject to the quality control policies and procedures of that firm. Alternatively, cost auditor's internal expert may be a partner or staff, including temporary staff, which may share common quality control policies and procedures with the cost auditor's firm.

6.12 Cost auditor's external expert is not a member of the audit team and is not subject to quality control policies and procedures. However, in some jurisdictions, law or regulation may require that cost auditor's external expert be treated as a member of the audit team, and may therefore be subject to relevant ethical and other professional requirements, including those relating to independence, as determined by that law or regulation.

6.13 Audit teams are entitled to rely on the firm's system of quality control, unless information provided by the firm or other parties suggests otherwise. The extent of that



reliance will vary with the circumstances, and may affect the nature, timing and extent of the cost auditor's procedures with respect to such matters as:

- (a) Competence and capabilities, through recruitment and training programs.
- (b) Cost auditor's internal experts are subject to relevant ethical requirements, including those pertaining to independence.
- (c) The cost auditor's evaluation of the adequacy of the cost auditor's expert's work. For example, the firm's training programs may provide cost auditor's internal experts with an appropriate understanding of the interrelationship of their expertise with the audit process.
- (d) Adherence to regulatory and legal requirements, through monitoring processes.
- (e) Agreement with the cost auditor's expert.

However, such reliance does not reduce the cost auditor's responsibility to meet the requirements of this SCA.

### **The Competence, Capabilities and Objectivity of the Cost Auditor's Expert (Ref: Para. 5.3)**

6.14 The competence, capabilities and objectivity of a cost auditor's expert are factors that significantly affect whether the work of the expert will be adequate for the cost auditor. Competence relates to the nature and level of expertise of the cost auditor's expert. Capability relates to the ability of the cost auditor's expert to exercise that competence in the circumstances of the engagement. Factors that influence capability may include, for example, 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 cost auditor's expert.

6.15 Information regarding the competence, capabilities and objectivity of a cost auditor's expert may come from a variety of sources, such as:

- (a) Personal experience with previous work of that expert.
- (b) Discussions with that expert.
- (c) Discussions with other auditors or others who are familiar with that expert's work.
- (d) Knowledge of that expert's qualifications, membership of a professional body or industry association, license to practice, or other forms of external recognition.
- (e) Published papers or books written by that expert.
- (f) The cost auditor's firm's quality control policies and procedures.

6.16 Matters relevant to evaluating the competence, capabilities and objectivity of the cost auditor's expert include whether that expert's work is subject to technical performance standards or other professional or industry requirements, for example, 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.

- 6.17 A broad range of circumstances may threaten objectivity, for example, self-interest threats, advocacy threats, familiarity threats, self-review threats, and intimidation threats. Safeguards may eliminate or reduce such threats for example, the cost auditor's expert's profession, legislation or regulation, quality control policies and procedures. There may also be safeguards specific to the cost audit engagement.
- 6.18 The evaluation of the significance of threats to objectivity and of whether there is a need for safeguards may depend upon the role of the cost auditor's expert and the significance of the expert's work in the context of the cost audit. There may be some circumstances in which safeguards cannot reduce threats to an acceptable level, for example, if a proposed cost auditor's expert is an individual who has played a significant role in preparing the information that is being audited, that is, if the cost auditor's expert is a management's expert.
- 6.19 When evaluating the objectivity of cost auditor's external expert, it may be relevant to:
- (a) Inquiry about any known interests or relationships that the entity has with the cost auditor's external expert.
  - (b) Discuss with that expert any applicable safeguards, including any professional requirements that apply to that expert. Interests and relationships that may be relevant to discuss with the expert include:
    - (i) Financial interests.
    - (ii) Business and personal relationships.
    - (iii) Provision of other services by the expert, including by the organization in the case of an external expert that is an organization.

In some cases, it may also be appropriate for the cost auditor to obtain a written representation from the external expert about any interests or relationships with the entity of which that expert is aware.

#### **Obtaining an Understanding of the Field of Expertise of the Cost Auditor's Expert (Ref: Para. 5.4)**

- 6.20 The cost auditor may obtain an understanding of the expert's field of expertise through discussion with that expert. Aspects relevant in this regard may include:
- (a) Whether that expert's field has areas of specialty within it that are relevant to the cost audit.



- (b) Whether any professional or other standard, and regulatory or legal requirements apply.
- (c) What assumptions and methods, including models where applicable, are used by the expert, and whether they are generally accepted within that expert's field and appropriate for cost reporting framework.
- (d) The nature of internal and external data or information the expert uses.

**Agreement with the Cost Auditor's Expert (Ref: Para 5.5)**

- 6.21 The nature, scope and objectives of the cost auditor's expert's work may vary considerably with the circumstances, as may the respective roles and responsibilities of the cost auditor and the cost auditor's expert, and the nature, timing and extent of communication between the cost auditor and the expert. It is therefore required that these matters are agreed between the cost auditor and the expert regardless of whether the expert is an cost auditor's external expert or an internal expert.
- 6.22 The matters listed in paragraph 5.2 may affect the level of detail and formality of the agreement between the cost auditor and the cost auditor's expert, including whether it is appropriate that the agreement be in writing. For example, the following factors may suggest the need for more a detailed agreement than would otherwise be the case, or for the agreement to be set out in writing:
- (a) The expert will have access to sensitive or confidential entity information.
  - (b) The respective roles or responsibilities of the cost auditor and the expert are different from those normally expected.
  - (c) Multi-jurisdictional legal or regulatory requirements apply.
  - (d) The matter to which the cost auditor's expert's work relates is highly complex.
  - (e) The cost auditor has not previously used work performed by that expert.
  - (f) The greater the extent of the cost auditor's expert's work, and its significance in the context of the cost audit.
- 6.23 The agreement between the cost auditor and cost auditor's external expert is often in the form of an engagement letter. The appendix-I lists matters that the cost auditor may consider for inclusion in such an engagement letter, or in any other form of agreement with cost auditor's external expert.
- 6.24 When there is no written agreement between the cost auditor and the cost auditor's expert, evidence of the agreement may be included in, for example:
- (a) Planning memoranda, or related working papers such as the audit program.
  - (b) The policies and procedures of the cost auditor's firm.



The extent of documentation in the working papers depends on the nature of such policies and procedures. For example, no documentation may be required in the working papers if the cost auditor's firm has detailed protocols covering the circumstances in which the work of such an expert is used.

*Nature, Scope and Objectives of Work [Ref: Para. 5.5(a)]*

6.25 It may often be relevant to include discussion of any relevant technical performance standards or other professional or industry requirements that the expert will follow.

*Respective Roles and Responsibilities [Ref: Para. 5.5(b)]*

6.26 Agreement on the respective roles and responsibilities of the cost auditor and the cost auditor's expert may include:

(a) Whether the cost auditor or the expert will perform detailed testing of source data.

(b) Consent that the cost auditor may discuss the expert's findings or conclusions with the entity and others, and to include details of that expert's findings or conclusions in a modified cost auditor's report, if necessary (Refer Para 6.39).

(c) Any agreement to inform the cost auditor's conclusions concerning that expert's work.

*Working Papers [Ref: Para. 5.5(b)]*

6.27 Agreement on the respective roles and responsibilities of the cost auditor and the cost auditor's expert may also include agreement about access to, and retention of, each other's working papers. When the expert is a member of the audit team, that expert's working papers form part of the audit documentation. Subject to any agreement to the contrary, cost auditor's external experts' working papers are their own and do not form part of the audit documentation.

*Communication [Ref: Para. 5.5 (c)]*

6.28 Effective communication facilitates proper integration of the nature, timing and extent of the expert's procedures with other work on the cost audit, and appropriate modification of the expert's objectives during the course of the audit. Identification of specific partners or staff, who will liaise with the cost auditor's expert, and procedures for communication between that expert and the entity, assists timely and effective communication, particularly on larger engagements.

*Confidentiality [Ref: Para. 5.5(d)]*

6.29 It is necessary for the confidentiality provisions of relevant ethical requirements that apply to the cost auditor also to apply to the cost auditor's expert. Additional



requirements may be imposed by law or regulation. The entity may also have requested that specific confidentiality provisions be agreed with cost auditor's external experts.

**Evaluating the Adequacy of the Cost Auditor's Expert's Work (Ref: Para 5.6)**

6.30 The cost auditor's evaluation of the expert's competence, capabilities and objectivity, familiarity with the expert's field of expertise, and the nature of the work performed by the expert affect the nature, timing and extent of cost audit procedures to evaluate the adequacy of that expert's work for the Cost Audit purposes.

*The Findings and Conclusions of the Cost Auditor's Expert [Ref: Para. 5.6(a)]*

6.31 Specific procedures to evaluate the adequacy of the cost auditor's expert's work for the purposes of cost auditor may include:

- (a) Inquiries of the expert.
- (b) Reviewing the expert's working papers and reports.
- (c) Corroborative procedures, such as:
  - (i) Observing the expert's work;
  - (ii) Examining published data, such as statistical reports from reputable, authoritative sources;
  - (iii) Confirming relevant matters with third parties;
  - (iv) Performing detailed analytical procedures; and
  - (v) Reperforming calculations.
- (d) Discussion with another expert with relevant expertise when, for example, the findings or conclusions of the cost auditor's expert are not consistent with other audit evidence.
- (e) Discussing the expert's report with management.

6.32 Relevant factors for evaluating the relevance and reasonableness of the findings or conclusions of the cost auditor's expert, whether in a report or other form, may include whether they are:

- (a) Presented in a manner that is consistent with any standards of the expert's profession or industry;
- (b) Clearly expressed the scope of the work performed and standards applied, including reference to the objectives agreed with the cost auditor;
- (c) Based on an appropriate period and take into account subsequent events, where relevant;
- (d) Subject to any reservation, limitation or restriction on use, and if so, whether this has implications for the cost auditor; and



- (e) Based on appropriate consideration of errors or deviations encountered by the cost auditor's expert.

*Assumptions, Methods and Source Data*

*Assumptions and Methods [Ref. Para. 5.6(b)]*

- 6.33 When the expert's work is to evaluate assumptions and methods, including models where applicable, used by management in developing cost accounting estimate, the cost auditor's procedures are likely to be primarily directed to evaluating whether the expert has adequately reviewed those assumptions and methods. When the expert's work is to develop cost auditor's point estimate or range for comparison with management's point estimate, the Cost Auditor's procedures may be primarily directed to evaluating the assumptions and methods, including models where appropriate, used by the cost auditor's expert.
- 6.34 In evaluating significant assumptions and methods used by the cost auditor's expert, relevant factors include whether they are:
- (a) Generally accepted within the expert's field;
  - (b) Consistent with the requirements of the applicable cost reporting framework;
  - (c) Dependent on the use of specialized models; and
  - (d) Consistent with those of management, and if not, the reason for, and effects of, the differences.

*Source Data Used by the Cost Auditor's Expert [Ref: Para. 5.6(c)]*

- 6.35 When cost auditor's expert's work involves the use of source data that is significant to that expert's work, procedures such as the following may be used to test that data:
- (a) Verifying the origin of the data, including obtaining an understanding of, and where applicable testing, the internal controls over the data and, where relevant, its transmission to the expert.
  - (b) Reviewing the data for completeness and internal consistency.
- 6.36 In many cases, the cost auditor may test source data. However, in other cases, when the nature of the source data used by cost auditor's expert is highly technical in relation to the expert's field, that expert may test the source data. If the cost auditor's expert has tested the source data, inquiry of that expert by the cost auditor, or supervision or review of that expert's tests may be an appropriate way for the cost auditor to evaluate that data's relevance, completeness, and accuracy.



*Inadequate Work (Ref: Para. 5.7)*

6.37 If the cost auditor concludes that the work of the expert is not adequate for the cost auditor's purposes and the cost auditor cannot resolve the matter through the additional audit procedures, which may involve further work being performed by both the expert and the auditor, or include employing or engaging another expert, it may be necessary to express a modified opinion in the cost auditor's report because the auditor has not obtained sufficient appropriate audit evidence.

**Reference to the Cost Auditor's Expert in the Cost Auditor's Report (Ref: Para. 5.8-5.9)**

6.38 In some cases, law or regulation may require a reference to the work of cost auditor's expert, for example, for the purposes of transparency in the public sector.

6.39 It may be appropriate in some circumstances to refer to the expert in cost auditor's report containing a modified opinion, to explain the nature of the modification. In such circumstances, the auditor may need the permission of the cost auditor's expert before making such a reference.

**7. Effective Date**

**This standard is effective for audits on or after.....**

**8. Statement of Modifications: Modifications to ISA 620, "Using the Work of an Auditor's Expert"**

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.

**Deletions:**

- Paragraphs (A17,A22,A36) have been deleted as those are not relevant to the Audit of Cost Statements.





**Appendix-I**  
(Refer 6.23)

**Considerations for Agreement between the Cost Auditor and Cost Auditor's External Expert**

This Appendix lists matters that the cost auditor may consider for inclusion in any agreement with cost auditor's external expert. The following list is illustrative and is not exhaustive; it is intended only to be a guide that may be used in conjunction with the considerations outlined in this SCA. Whether to include particular matters in the agreement depends on the circumstances of the audit engagement. The list may also be of assistance in considering the matters to be included in an agreement with cost auditor's internal expert.

**Nature, Scope and Objectives of the Cost Auditor's External Expert's Work**

- (a) The nature and scope of the procedures to be performed by the external expert.
- (b) The objectives of the external expert's work in the context of materiality and risk considerations concerning the matter to which the work relates, and, when relevant, the applicable cost reporting framework.
- (c) Any relevant technical performance standards or other professional or industry requirements the external expert will follow.
- (d) The assumptions and methods, including models where applicable, will be used by the expert, and their authority.
- (e) The effective date of, or the testing period for, the subject matter of the external expert's work and requirements regarding subsequent events.

**The Respective Roles and Responsibilities of the Cost Auditor and the Cost Auditor's External Expert**

- (a) Relevant auditing and cost accounting standards, and relevant regulatory or legal requirements.
- (b) Consent to use of that expert's report, including any reference to it, or disclosure of it, to others, for example reference to it in a modified cost auditor's report, if necessary, or disclosure of it to management or an audit committee.
- (c) The nature and extent of the review of the expert's work by the cost auditor.
- (d) Whether the cost auditor or the Cost Auditor's external expert will test source data.
- (e) Access to the entity's records, files, personnel and to experts of the entity by the cost auditor's external expert.
- (f) Procedures for communication between the cost auditor's external expert and the entity.



- (g) The cost auditor's and the cost auditor's external expert's access to each other's working papers.
- (h) Ownership and control of working papers during and after the engagement, including any file retention requirements.
- (i) The external expert's responsibility to perform work with due skill and care.
- (j) The competence and capability of cost auditor's external expert to perform the work.
- (k) The expectation that the expert will use all knowledge that expert has that is relevant to the cost audit or, if not, will inform the cost auditor.
- (l) Any restriction on the cost auditor's external expert's association with the cost auditor's report.
- (m) Any agreement to inform the cost auditor's external expert of the cost auditor's conclusions concerning that expert's work

### **Communications and Reporting**

- (a) Methods and frequency of communications, including:
  - (i) How the findings or conclusions of the external expert will be reported (written report, oral report, ongoing input to the audit team, etc.).
  - (ii) Identification of specific persons within the audit team who will liaise with the cost auditor's external expert.
- (b) When the external expert will complete the work and report findings or conclusions to the cost auditor.
- (c) The external expert's responsibility to communicate promptly any potential delay in completing the work, and any potential reservation or limitation on that expert's findings or conclusions.
- (d) The external expert's responsibility to communicate promptly instances in which the entity restricts that expert's access to records, files, personnel or experts engaged by the entity.
- (e) The external expert's responsibility to communicate to the cost auditor all information that expert believes may be relevant to the cost audit, including any changes in circumstances previously communicated.
- (f) The external expert's responsibility to communicate circumstances that may create threats to that expert's objectivity, and any relevant safeguards that may eliminate or reduce such threats to an acceptable level.



## **Confidentiality**

- (a) The need for the cost auditor's expert to observe confidentiality requirements, including:
- (i) The confidentiality provisions of relevant ethical requirements that apply to the cost auditor.
  - (ii) Additional requirements that may be imposed by law or regulation, if any.
  - (iii) Specific confidentiality provisions requested by the entity, if any.