



**Advisory on Auditing and Assurance assignments during the Period of Lockdown and Restrictions on Travelling**

Dear Professional Colleagues,

Greetings from the Cost Auditing and Assurance Standards Board of the Institute;

We hope you all are doing well during the prevailing lockdown across the Country imposed to curb the spread of the COVID 19 disease and taking all necessary precautions to safeguard yourself and your family from this calamity.

The current situation of COVID19 Pandemic and the resultant Lockdown and Travel Restrictions may force the professionals to perform the Audit/ Assurance/Certification assignments in remote mode taking help of IT enabled techniques. At the same time it should be noted that any Auditing /Assurance/Certification assignment specifically in the domain of Cost & Management Accounting requires the cost auditors / cost & management consultants to visit the office / place of operations of the client to perform his duties effectively and efficiently. Thus the process of Remote Audit using IT enabled Techniques shall be adopted only when following routine process of Audit / Assurance/ Certification work is not possible due to restrictions imposed by the Government or considering the current situation of Lockdown and Travel Restrictions due to COVID19.

In order to carry out online assignments successfully, it is essential for the members to enhance their skills and capabilities of online working in order to achieve professional success. The Institute is taking all necessary steps to build the capacity of members in this respect by organising online learning sessions, interaction with experts, issuing advisories and webinars on professional issues. This is to urge on behalf of the Institute to take advantage of the same to keep the members abreast of all latest professional developments.

The purpose of this communication is to guide the members on certain issues and also to give some important inputs on remote auditing.

• **Applicability of Standards:**

Referring to the Second proviso to Section 148 (3) of the Companies Act 2013 and its explanation, this reads as the following:

*Provided further that the auditor conducting the cost audit shall comply with the cost auditing standards;*

*Explanation—For the purposes of this sub-section, the expression “cost auditing standards” mean such standards as are issued by the Institute of Cost and Works*



*Accountants of India, constituted under the Cost and Works Accountants Act, 1959, with the approval of the Central Government.*

It is evident that section 148 (3) of the Companies Act, 2013 provides for mandatory compliance with Cost Auditing Standards while conducting Cost Audit by a cost auditor. But due to the lockdown restrictions imposed by the Government because of COVID-19 outbreak, various provisions of the Companies Act, 2013 and rules prescribed there-under have been relaxed by the Ministry of Corporate Affairs (MCA) to facilitate easier and smoother compliance by the professionals.

The Preface to the Cost Auditing and Assurance Standards prescribes the following:

*"While formulating the Standards, the CAASB takes into consideration the applicable laws, usage and business environment prevailing in India. CAASB also takes into account the relevant provisions of Cost and Works Accountants Act, Rules and Regulations, Code of Professional Ethics, Cost Accounting Standards and other Statements issued by the Institute. The Standards issued by the CAASB are aligned, to the extent possible, with other recognised Standards issued in India and prevailing International Practices. **If a particular standard or any part thereof is inconsistent with a law, the provisions of the said law shall prevail.**"*

**Hence, any relaxation granted by the Government from the compliance of provisions under the Companies Act, 2013 will automatically be applicable to the Cost Auditing Standards issued by the Institute and if there is any conflict between the standards and relaxed provisions of the Act, the relaxed provisions of the Companies Act, 2013 will prevail.**

- **Relevance of Cost Auditing Standards:**

The Cost Auditing Standards (SCAs 101- 104) broadly cover the audit methodology and a thorough reading & understanding of the standards as well as applying it to the prevalent circumstances are absolutely necessary. Some relevant paras from the SCAs are highlighted below:

**SCA 101 on 'Planning an audit of Cost Statements':** The Cost Auditor shall develop an audit plan. The audit plan will include the nature, extent and timing of risk assessment, audit procedures and other activities. Thus the Audit planning stage becomes very crucial especially when it is certain that the audit is going to be conducted remotely and the Assessment of Risk, an integral part of audit planning will be the starting point for designing the audit procedures.

**SCA 102 on 'Cost Audit Documentation':** The Cost Auditor shall prepare audit documentation that is sufficient to enable another competent person, having no



previous connection with the said audit, including person undertaking peer review to understand:

1. Conformance of audit procedures performed with legal and regulatory requirements;
2. Conformance to Cost Auditing Standards;
3. The results of audit procedures performed;
4. The audit evidence obtained;
5. Significant matters arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions.

**SCA 103 on 'Overall Objectives of the Independent Cost Auditor and the Conduct of an Audit in Accordance with Cost Auditing Standards':** The objective of the cost auditor is to obtain reasonable assurance about whether the cost statements are free from material misstatement; to enable him express an opinion whether cost statements are prepared in accordance with applicable cost reporting framework, SCAs and GACAP and give a true and fair view. Hence, the cost auditor is responsible for forming and expressing an opinion on the Cost Statements.

**SCA 104 on 'Knowledge of Business, its Processes, and the Business Environment':** The compliance with this standard forms the backbone of the entire audit process whether done physically or remotely. The stronger the compliance with this standard by the auditor the better will be his ability to formulate the audit procedures & methodology.

SCA 102, when read with SCA 104, has become even more relevant in the current scenario of conduct of audit remotely as documentation requirements are just as important in remote audit procedures as they are at the client's business site. It is critical currently for firms/practitioners to make sure they continue to follow their normal policies and procedures.

Thus remote audit can be conducted effectively if we ensure the adherence to Standards on Cost Auditing issued by the Institute as well as ensuring that there is a safe & reliable IT platform for sharing of data as well as interaction with client as well as audit team.

- **e-Signatures and UDIN:**

In the time of calamity, the Institute encourages members to ensure compliance with all the statutory requirements, Cost Auditing Standards, requirement to mention UDIN and other pronouncements issued by the Institute. It is pertinent to mention that applicability of UDIN is compulsory for the practicing members of the Institute.



**Due to the lockdown prevailing in most parts of the Country, members of the Institute are encouraged to use electronic signature for signing audit reports and other certificates now onwards. It is pertinent to mention here that the Information Technology Act 2000 permits the use of electronic signature for authentication of documents under prescribed conditions.**

- **Disclaimer in reports and certificates:**

Separate advisory on this will be issued by the Institute shortly.

- **Remote / Online / E Auditing:**

The COVID-19 crisis has compelled organizations to adapt to new ways of doing things, and for many businesses that include making the leap this year to audit of cost records that is performed remotely. With social distancing currently in effect, remote audits offer a way to fulfil the audit requirement. Experts across the world have been providing inputs to the professionals on enhancing online capabilities and taking up assignments thru online mode. By taking clues from the various talks and discussions going on nowadays worldwide on online auditing, given hereunder some thoughts for the consideration of our professionals involved with carrying out their statutory and other responsibilities through online medium:

- One of the factors driving the move toward remote auditing is the desire to make things as easy as possible for the client. Even post COVID-19 remote audits will be needed as many organizations enable staff to work flexible schedules, including working from home one or more days of the week. Such trends will continue to grow in popularity after work from home experiences prove successful during the COVID-19 pandemic. However members are encouraged not to undertake those assignments on online mode, which require site visit compulsorily.
- Moreover, as business leaders are becoming comfortable with more and more key business functions moving to the cloud, remote audits fit in with an evolving work style in many companies. Still members are encouraged not to undertake those assignments on online mode, which require site visit compulsorily.
- All the stakeholders must accept that Audit Report that results from a remote audit is no different than the one that results from an onsite audit, and the data and opinions contained therein is equally valid for all the financial Institutions, board members, shareholders, investors and other stakeholders.
- During the pandemic, accessing client books and records may present hurdles for some auditors, especially in cases where clients still maintain mostly paper records. Auditors may be able to obtain client-prepared copies or scans of key



records, but auditors need to apply professional skepticism while considering the authenticity of those records and perhaps perform additional audit procedures to be satisfied that those records are complete, accurate, and authentic. In cases where auditors are unable to access client books and records, auditors may have to inform clients that audits cannot be completed until books and records can be accessed.

- Shifting to a remote audit may require the professionals to employ some tools and resources that they have not used before, including digital signatures and internal technology tools that enhance ability to exchange and store files securely.
- Remote Audits can successfully be conducted with the help of a good partnership between technology and communication. Detailed audit planning and communication are essential to any audit, but they become even more important with remote audits to ensure a smooth workflow.
- Remote audits are supported by a wide array of technology, including email, software applications, audit software, videoconferencing with screen share capability, and secure portals through which clients may upload documentation and notes to the auditors, as well as receive documents from the auditors that need review or signatures.
- Remote Access to the Client's ERP System is one of critical requirements and technical feasibility for such access needs to be ascertained properly. This may have a limiting factor of the internet bandwidth which may restrict the effective use of information technology. This factor also needs to be considered by the auditor when carrying out remote audit.
- A viable communication plan should be put in place before the audit begins that spells out frequency of routine communications, as well as protocols for exchanging documents and getting the client's answers to auditor's questions / queries in a timely manner.
- A good communication plan will include contact information of all concerned with the assignment including email addresses, office phones and cell phone numbers. The communication plan should also suitably include a schedule for videoconference calls to discuss relevant issues.
- The goal of the communication plan is to keep the audit moving and make it as efficient as possible. Auditor may like the clients to email him their responses on his questions; or maybe auditor prefer to set aside an hour a day to have answers from the client to his queries, so a daily email with all questions aggregated or a video conference would be better for the auditor.



- Since the level of competency in handling remote audits may differ from company to company & also similarly from auditor to auditor, the risks need to be assessed accordingly and suitable audit procedures need to be designed and applied. It is highly recommended that the cost auditor needs to continuously update himself on the available technology to be able to perform efficiently as well as effectively.
- Cost auditor also needs to take care of the security of the system as there seems to be increased risk related to hackers trying to take advantage of this situation to get access to the systems by having phishing scams.
- Cost auditor is also encouraged to attend the audit committee / board meetings as the case may be through online mode and record his presence felt in those meetings.
- It is important that auditors and auditee show empathy towards each other. For instance, the auditor can be part of the conversations along with the CFO/ authorised company representative with non-finance functions (and supplement in providing questions) that can help assess implication on the Cost statement. The CFO/ authorised company representative can provide requisite support to the auditor by ensuring the discussions involve the right individuals for discussions/performing audit procedures. It is critical to understand that this crisis provides both CFO's and auditors opportunities through technology and enhancing the quality of reporting.

Remote auditing may not be a complete solution for all the challenges the COVID-19 has created for auditors. But when it's possible to perform remote audit procedures in a thorough manner, this may be a valuable tool for auditors in the difficult times. Still depending on the nature of the audit / assurance assignment, members are encouraged not to undertake those assignments on online mode, which require site visit compulsorily.

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