



CAAS - 101
Cost Audit and Assurance Standard on
Planning an Audit of Cost Statements

The following is the **Cost Audit and Assurance Standard (CAAS 101)** on “**Planning an Audit of Cost Statements**”. 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

Planning an audit of cost statements and other related information is considered necessary to ensure achievement of audit objectives with available resources and securing coordination with the client on audit work.

2. Objective

The objective of this Standard is to guide the members in planning for the audit of cost statements so that it is performed in an effective manner. Audit planning shall also include establishing audit strategy for the conduct of the audit.

3. Scope

This Standard deals with the auditors’ responsibility to plan an audit of cost statements and other related information. The auditor shall prepare and document the audit plan. While preparing the audit plan, consideration shall be given to the availability of skilled audit personnel available, time frame for completion of the audit, nature and the complexities involved, risk assessments and audit tests to address those risks.

4. Definitions

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

4.1 Audit: *An 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.*

4.2 Auditee: *Auditee means a company or any other entity for which audit and / or certification is carried out.*



4.3 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. The risk of material misstatement has two components viz. Inherent Risk and Control risk.*

- a. 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.*
- b. 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.*
- c. 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.*

4.4 Audit Strategy: *Audit Strategy sets the scope, timing and direction of the audit, and guides the development of the detailed audit plan.*

4.5 Cost Audit: *Cost audit is an independent examination of 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.*

4.6 Cost Auditor: *“Cost Auditor” means an auditor appointed to conduct an audit of cost records, under sub-section (2) of section 233B of the Companies Act 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.*

Cost Auditor includes audit partner.



4.7 Audit Partner: *Audit partner means the partner or other person 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 engagement and its performance, and for the report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body.*

4.8 Audit Team: *Audit team means all personnel performing an engagement, including any experts contracted by the firm in connection with that engagement.*

4.9 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.*

4.10 Misstatement: *A difference between the amount, classification, presentation or disclosure of a reported cost statement item and the amount, classification, presentation, or disclosure that is required for the item to be in accordance with the applicable cost reporting framework. Misstatements can arise from error or fraud.*

Where the cost auditor expresses an opinion on whether the cost statements give a true and fair view, misstatements also include those adjustments of amounts, classifications, presentation, or disclosures that, in the cost auditor's judgment, are necessary for the cost statements to be presented fairly, in all material respects, or to give a true and fair view.

4.11 Risk Assessment: *Risk Assessment is the overall process of risk analysis and risk evaluation.*

5. Requirements

1. Prior to entering the planning phase, the Cost Auditor shall:

- a. Ensure that the appointment as cost auditor is proper, that he has received the letter of appointment and that legal formalities regarding his appointment have been complied with;*
- b. Ensure that the independence requirements as per the regulations continue to be satisfied;*



c. Ensure an understanding of the terms of reference including the units to be covered, product groups to be covered, scope of coverage where the regulations leave it to be agreed between the auditor and the client. For example matters to be covered in the Performance Appraisal.

2. The Cost Auditor shall formulate an overall audit strategy that sets the scope, timing and direction of the audit.

The audit strategy guides the development of the audit plan.

3. Formulating the audit strategy the Cost Auditor shall consider all relevant factors.

These include:

- a. the results of preliminary activities in 1 above
- b. the knowledge from previous audits and other engagements with the client
- c. the nature and scope of the audit
- d. the statutory deadlines and the reporting format
- e. relevant factors determining the direction of the audit efforts
- f. the resources in terms of manpower, equipment and others required for the audit.

4. 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.

5. The Cost Auditor shall update the audit strategy and the audit plan as required during the course of audit.

6. The Cost Auditor shall plan the nature, extent and timing of the direction and supervision of audit team members and the review of their work.

7. The Cost Auditor shall document the overall audit strategy, the audit plan and any significant changes made thereto and the reasons for the changes.

8. In the first year of audit, the Cost Auditor shall perform procedures regarding the acceptance of the client relationship and the specific audit and communicating with the previous auditor.



6. Application Guidance

1. After the Cost Auditor has accepted the appointment for a company, there may be changes in his position in relation to the company that impede his arm's length relationship with the company. It may happen that an assignment subsequently handled by him for the client, for example, design and implementation of Cost Accounting System may disqualify him from continuing as Cost Auditor for the company.
2. Subsequent to his acceptance of the assignment, issues about management integrity may crop up that may affect the auditor's willingness to continue the engagement.
3. The above checks must be completed prior to the performance of other significant activities for the current year's audit.
4. Matters that are relevant in formulating audit strategy and drawing up the audit plan include in addition to those mentioned earlier, the following:
 - a. The cost reporting framework generally prescribed by the Cost Audit Report Rules on which the cost information to be audited has been prepared, including need for reconciliation with financial reporting framework.
 - b. The specific requirements of industry specific cost accounting record rules.
 - c. Industry regulators' requirement as to how costs will be handled.
 - d. Unique features of an industry that influence audit requirements e.g. definition of product in the newspaper industry.
 - e. Reliance that can be placed on the work of financial auditors, other cost auditors appointed by the entity and internal auditors for example their attendance in annual stocktaking
 - f. State of IT implementation, whether the entity is using an ERP system or internally developed systems and the reliance that can be placed on them.
 - g. Statutory timelines for cost reporting which can be modified by managements for early completion.
 - h. Timelines for Board/ audit committee meetings which can set the time limits for completion of audit work.
 - i. Resources required and available in terms of manpower, equipment and others and the assignment of these to specific parts of the work.



5. The nature and extent of planning activities will vary according to the size and complexity of the entity's activities, the number of products to be covered, the processes and operations involved.
6. The nature and extent of planning activities also depend on the audit team members' previous experience with the entity and the industry.
7. Planning is not a discrete phase of an audit, but rather a continuous and iterative process. Since audit plans get modified by developments during the execution of the plan.
8. Planning includes scheduling which involves determining the priority of audit procedures and their inter dependence. For example, the risk assessment procedures are planned early in the audit process.
9. The involvement of the audit partner and other key members of the audit team in planning the audit enhance the effectiveness and efficiency of the planning process.
10. The nature, extent and timing of the direction and supervision of audit team members and review of their work vary depending on, among others, the size and complexity of the entity, risk assessment results and the capabilities and competence of the individual team members performing the audit work.
11. For a first year audit, the planning activities may expand to cover consultations with the previous auditor, review of previous year's audit working papers if made available and previous years' transactions having an impact on current year's cost.
12. In audits of small entities where the entire audit may be conducted by a small audit team comprising the audit partner working with say one team member, formulating the audit strategy and drawing up the audit plan need not be elaborate. Nonetheless it is necessary to have regard to the matters mentioned under Requirements.

7. Effective Date

This standard is to be applied for the period commencing on or after 1st April 2012.