



Cost Auditing Standard – 102

Cost Auditing Standard on

Cost Audit Documentation

The following is the **Cost Auditing Standard (Cost Auditing Standard- 102)** on “**Cost Audit Documentation**”. 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 provide guidance to the members in preparation of Audit Documentation in the context of the audit of cost statements, records and other related documents.

Nature and Purpose of Cost Audit Documentation

Cost Audit documentation that meets the requirement of this Cost Auditing Standard and the specific documentation requirements of other relevant Cost Auditing Standards provides:

- (a) Evidence of the cost auditor’s basis for a conclusion about the achievement of the overall objectives of the cost auditor; and
- (b) Evidence that the cost audit was planned and performed in accordance with Cost Auditing Standards and applicable legal and regulatory requirements.

Cost Audit documentation serves a number of additional purposes, including the following:

- (a) Assisting the audit team to plan and perform the cost audit.
- (b) Assisting members of the audit team responsible for supervision to direct and supervise the cost audit work, and to discharge their review responsibilities.
- (c) Enabling the audit team to be accountable for its work.
- (d) Retaining a record of matters of continuing significance to future cost audits.
- (e) Enabling the conduct of quality control reviews in accordance with the Guidance Manual for Audit Quality issued by Quality Review Board (QRB).
- (f) Enabling the conduct of external inspections in accordance with applicable legal, regulatory or other requirements.

2. Objective



The objective of this Standard is to guide the members to prepare documentation that provides:

- (a) A sufficient and appropriate record of the basis for the Cost Auditor's Report; and***
- (b) Evidence that the audit was planned and performed in accordance with Cost Auditing Standards and applicable legal & regulatory requirements.***

3. Scope

This Standard deals with the cost auditor's responsibility to prepare audit documentation for the audit of cost statements, records and other related documents. The specific documentation requirements of other Cost Auditing Standard's do not limit the application of this Cost Auditing Standard. Laws or regulations may establish additional documentation requirements.

4. Definitions

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

- 4.1 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.***
- 4.2 Audit documentation: Audit Documentation means the records, in physical or electronic form, including working papers prepared by and for, or obtained and retained by the Cost auditor, in connection with the performance of the audit.***
- 4.3 Audit file: Audit file means one or more folders or other storage media, in physical or electronic form, containing the records that comprise the audit documentation for a specific Assignment or audit.***
- 4.4 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 the appropriate authority from a professional, legal or regulatory body.***



- 4.5 Audit Team:** *Audit team means all personnel performing an engagement, including any experts contracted by the firm in connection with that engagement.*
- 4.6 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.*
- 4.7 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.*
- 4.8 Firm:** *Firm means a sole practitioner, partnership including LLP (Limited Liability Partnership) or any other entity of professional cost accountants as may be permitted by law and constituted under The Cost and Works Accountants Act & Regulations.*

5. Requirements

- 5.1** *The cost auditor as part of the audit documentation shall record audit procedures performed, relevant audit evidence obtained, and conclusions reached. (Refer 6.1)*
- 5.2** *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:*
- (a) Conformance of audit procedures performed with legal and regulatory requirements;*
 - (b) Conformance to Cost Auditing Standards. (Refer 6.6)*
 - (c) The results of audit procedures performed*
 - (d) The audit evidence obtained*
 - (e) Significant matters arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions. (Refer 6.7 & 6.8)*



5.3 The Cost Auditor shall record the discussions of significant matters with client personnel and outsiders. (Refer 6.9).

5.4 The Cost Auditor shall record any departure from the standard requirement in a Cost Auditing Standard. (Refer 6.11)

5.5 In documenting the nature, timing and extent of audit procedures performed, the Cost Auditor shall record the characteristics of the specific items or matters tested, the persons responsible for performing and reviewing such procedures with relevant dates and extent of review. (Refer 6.12)

5.6 The Cost Auditor shall prepare audit documentation on a timely basis. (Refer 6.14)

5.7 If, in exceptional circumstances, Cost Auditor performs any new or additional audit procedures or draws new conclusions, after the date of Cost Audit Report, then he shall document such circumstances and details of such procedures performed. (Refer 6.15)

5.8 The cost auditor shall assemble the audit documentation in an audit file. (Refer 6.16)

6. Application Guidance

6.1. The Cost Audit documentation will usually contain:

(a) Checklists

Example: Checklist of compliance with:-

- (1) The Rules, regarding maintenance of Cost Records, as prescribed under the Companies Act,
- (2) The Cost Accounting Standards (CAS) as prescribed by the Institute
- (3) The Generally Accepted Cost Accounting Principles (GACAP) as prescribed by the Institute

(b) Audit programs

Example: Audit Program for Material Cost, Employee Cost and others

(c) Analysis

Cost Audit relies more on analytical review than on substantive testing to establish true and fair view.

Example: Calorific value of different fuels used and average Cost per unit of calorific value and



Specific Heat Consumption.

(d) *Audit Query List*

Contains a log of audit queries raised and their resolution

(e) *Abstracts of significant contracts relating to costs and revenues*

Example: Supply of materials indicating price, quality terms, O & M contracts, Terms of supply of contract labour and others

(f) *Letters of confirmation*

Example: Stock of materials with subcontractors.

(g) *Letter of Representation from Management Correspondence (including e-mail) concerning significant matters.*

Example: Correspondence regarding terms of supply of goods and services.

(h) *Abstract or copies of the entity's records*

6.2. Audit documentation may be in paper form or electronic form. Where it is in electronic form, special care may be required to protect against accidental deletion, or tampering.

6.3. The content and form of audit documentation will depend on a number of factors such as:

- (a) the size and complexity of the operations of the auditee,
- (b) the extent of computerization of cost records,
- (c) the assessed risks of material misstatement of cost,
- (d) the cost audit methodology and tools used. For example whether automated queries were used to get audit evidence from cost records.
- (e) the nature of the audit procedure to be performed.

6.4. In particular, it is necessary to document the basis for a conclusion, not readily determinable from other documentation. For example: consumption of materials by a product from technical norms, normal price for a related party contract from Cost Auditor's own sources of data of the industry.

6.5. Audit documentation must be sufficient and appropriate, and oral explanations by the Cost Auditor cannot substitute for such documentation.

6.6. Audit documentation must contain evidence of conformance to requirements of Cost Auditing Standards in respect of this Standard and other standards {Refer 5.2(b)}:

Typical of such evidence are:

- (a) an adequately documented audit plan



- (b) the signed appointment letter from the auditee
- (c) Minutes of discussion with client personnel, with names of members of audit team present, particularly of the audit partner when he is present
- (d) Minutes of audit team discussions, with names of members of audit team present, particularly of the audit partner when he is present.

6.7. Matters that give rise to significant risks of a material misstatement are significant matters. Those that causes a revision of the Cost Auditor's previous assessment of the risks of material misstatement is also a significant matter. The Cost Auditor may have reached a certain conclusion regarding the misstatement of the Material Cost in a Cost statement based on the availability of a well documented Bill of Materials but his assessment of risk may undergo a change if he finds that there is considerable use of substitute and alternate materials in the actual production process. Matters that cause the Cost Auditor significant difficulty in applying necessary audit procedures are also significant, as for example heaps of bulk material in irregular shapes which make volumetric measurement of stock in a physical stock taking unreliable. {Refer 5.2(e)}

6.8. Determining what are significant matters in an audit to warrant their inclusion in the documentation must be objectively done. The conclusions reached and the application of professional judgment in respect of these also needs to be documented. For example the determination of the normal capacity for applying overheads is a significant matter in Cost Audit and requires not mere calculations but considerable judgment. These should be adequately documented. {Refer 5.2(e)}

6.9. Records of discussions include Minutes of discussion of significant matters with management, those charged with governance and others. It also includes Discussion with third parties seeking information or confirmation. (Refer 5.3)

6.10. The Cost Audit Documentation in respect of smaller entities may be less detailed than what is indicated but must include at the minimum the following:

- (a) A description of the entity, the products produced, services provided and other activities
- (b) An organization Chart showing the responsibility centres and the person responsible
- (c) A description, preferably a flow chart of the manufacturing process
- (d) Internal controls over material cost, labour cost and expenses



- (e) The risks of material misstatement assessed, for example, in respect of scrap recovery and disposal
 - (f) Tests of materiality used
 - (g) The overall audit strategy and audit plan
 - (h) Significant matters noted during the audit, and conclusions reached
- 6.11. If, in exceptional circumstances, the Cost Auditor finds it necessary to perform alternative audit procedures different from a corresponding requirement in a Cost Auditing Standards, the Cost Auditor shall document how the alternative audit procedures performed achieve the aim of that requirement, and the reasons for the departure. (Refer 5.4)
- 6.12. It is necessary in a Cost Audit to identify the specific matters or items tested. In connection with a Cost Audit these may include Purchase Orders for supply of key raw materials, Goods Receipt Notes for materials, Issue notes for materials, bills of contractors for supply of contract labour among others. Where the Cost Auditor resorts to test checking, the basis used for selection, for example issues of spares above a certain value, and the documents selected. (Refer 5.5)
- 6.13. Names of the team member preparing specific audit documents and details of their review by the Cost Auditor are a necessary part of the Audit Documentation.
- 6.14. Preparing the audit Documentation on timely basis helps to enhance the quality of audit. Documentation prepared after the audit work has been performed is likely to be less accurate than the documentation prepared during execution. (Refer 5.6)
- 6.15. Facts which become known to the Cost Auditor after the date of the audit report but which if known earlier would have caused the cost statements to be changed or the Cost Audit Report to be modified should be added to the Cost Audit Documentation. The resulting changes to the audit documentation must also be reviewed as the original documentation. (Refer 5.8)
- 6.16. The Cost Audit Documentation must be assembled as the audit goes on and the final assembly required of audited documentation must be limited. Assembly the final audit file should be completed within a reasonable time after the completion of the audit. After the



assembly of the final audit file has completed, the auditor should not delete or discard audit documentation of any nature before the end of its retention period. (Refer 5.9)

6.17. The audit documentation is the property of the Cost Auditor. Unless otherwise specified by law or regulation, he may at his discretion, make portions of, or extracts from audit documentation available to clients

6.18. The Cost Audit Documentation should be retained for at least ten years from the date of the Cost Audit Report.

7. Effective Date

This Standard is effective for audits on or after September 11, 2015.