



## Preface to the Standards on Cost Auditing

### Introduction

This Preface to the Standards on Cost Auditing has been issued to facilitate understanding of the scope and authority of the pronouncements of the Cost Audit & Assurance Standards Board (CAASB) on Cost Auditing issued under the authority of the Council of the Institute of Cost Accountants of India.

The Institute of Cost Accountants of India is committed to the goal of developing the cost and management accountancy profession in India. In furtherance of this goal, the Institute develops and promulgates technical standards and other professional literature.

The Institute of Cost Accountants of India is a founder member of the International Federation of Accountants (IFAC). The International Auditing and Assurance Standards Board (IAASB) established by the IFAC have issued series of International Standards on Auditing, which primarily focus on the financial audit. There are fundamental differences between the scope and methodology of financial and cost audit. Therefore, it shall not be appropriate to adopt in full or with modifications the International Standards on Auditing issued by the IAASB. However in formulating the standards, the CAASB will ensure that the framework and other aspects of the International Standards are considered, to the extent relevant and applicable to cost audit.

### **Standards issued by the Cost Audit & Assurance Standards Board under the authority of the Council of the Institute of Cost Accountants of India**

The CAASB plans to issue the following Standards under the authority of the Council of the Institute of Cost Accountants of India:

- (a) Standards on Quality Control – to be applied for all services rendered by the Cost Accountants.
- (b) Standards on Cost Auditing – to be applied in the cost audit of historical cost statements.
- (c) Standards on Review Assignments – to be applied in the review of historical cost statements.
- (d) Standards on Assurance Assignments – to be applied in assurance assignments other than cost audit and reviews of historical cost statements.
- (e) Standards on Related Services – to be applied in such other related service assignments rendered by the cost accountants as may be specified by the Institute of Cost Accountants of India.

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.

Standards formulated by the CAASB include paragraphs in **bold italic** type and plain type, which have equal authority. Paragraphs in **bold italic** type indicate the main principles. Each Standard should be read in the context of the objective stated in that Standard and this Preface. Any limitation of the applicability of a specific Standard is made clear in the Standard itself.

Pending development of the Standards on Quality Control, the Guidance Manual for Audit Quality issued by the Institute prevails in respect of all services rendered by the Cost Accountants.

The CAASB considers issues requiring interpretation of any Standard. Interpretations or General Clarifications are issued under the authority of the Council. The authority of interpretation is the same as that of the Standard to which it relates.

### **Compliance with the Standards**

The Standards on Quality Control, Standards on Cost Auditing, Assignment Standards, and Standards on Related Services, issued by and under the authority of the Council of the Institute, are required to be complied with by the members of the Institute, wherever applicable.

### **Guidance Notes**

Guidance Notes are issued to assist the professional cost accountants in implementing the Standards on Quality Control, Standards on Cost Auditing, Assignment Standards, and Standards on Related Services issued by the CAASB under the authority of the Council of the Institute. Guidance Notes are also issued to provide guidance on other generic or industry specific issues, not necessarily arising out of a Standard. CMAs should be aware of and consider Guidance Notes applicable to the assignment. A professional cost accountant who does not consider and apply the guidance included in the relevant Guidance Note should justify the appropriateness and completeness of the alternate procedures adopted by him to deal with the objectives and basic principles set out in the Guidance Note.

### **Technical Guides, Practice Manuals and other Pronouncements**

The CAASB may also publish Technical Guides, Practice Manuals and other pronouncements. Technical Guides are generally aimed at imparting broad knowledge to the CMAs about a particular aspect of an industry. Practice Manuals are aimed at providing additional guidance to the CMAs in performing cost audit and other assignments. Other pronouncements are aimed at promoting discussion or debate or creating awareness on issues relating to quality control, cost auditing, and assurance and related services affecting



the profession. Such publications of the CAASB do not establish any basic principles or essential procedures to be followed in cost audit, review, assurance or related services assignments and accordingly Standards on Cost Auditing shall prevail over such pronouncements.

### **Constitution of the Cost Audit & Assurance Standards Board**

The Council of the Institute of Cost Accountants of India constituted the Cost Audit and Assurance Standards Board (CAASB) in 2007 entrusting the responsibility to formulate Standards and develop Guidance Notes in the areas of quality control, cost auditing, review, assurance, related services and.

### **Composition of the CAASB**

The composition of the CAASB is broad based to ensure participation of all interest groups in the standard setting process. Apart from six members of the Council of the Institute nominated in the CAASB, the following are also represented on the CAASB:

1. Head, Cost Audit Branch, Ministry of Corporate Affairs, Government of India
2. One member to be nominated by the Comptroller & Auditor General of India
3. Two members to be nominated by the Regulatory bodies
4. Two eminent members of the Institute in Public Practice
5. Two members representing Industry / Industry Associations / Professional Institutes

In addition, the President is authorised to include a maximum of two eminent persons having relevant knowledge and expertise not falling under the categories mentioned above.

The Chairman of the CAASB is nominated by the Council of the Institute.

The quorum of the CAASB is five members.

The terms and period of appointment of the chairman and other members, excluding the nominee members, is decided by the Council of the Institute. This is, however, restricted to the term of the Council.

### **Objectives and Functions of CAASB**

The following are the objectives and functions of the Cost Audit and Assurance Standards Board:

- a) Identify areas in which Standards on Quality Control, Assignment Standards, Standards on Cost Auditing and Standards on Related Services need to be developed.
- b) Develop Standards on Quality Control, Assignment Standards, Standards on Cost Auditing and Standards on Related Services so that they may be issued under the authority of the Council of the Institute.



- c) Develop Guidance Notes on issues arising out of any Standard or on cost auditing issues pertaining to any specific industry or on generic issues so that they may be issued under the authority of the Council of the Institute.
- d) Formulate and issue Technical Guides, Practice Manuals and other Papers under its own authority for guidance of Cost Accountants in the cases felt appropriate by the Board.
- e) Review the existing Standards, Guidance Notes, Technical Guides, Practice Manuals and other Papers to assess their relevance in the changed conditions and to undertake their revision, if necessary.
- f) Provide Interpretations or formulate General Clarifications, where necessary, on issues arising from the Standards.

### **Procedure for issuing the Standards**

- I. Proposals to develop new Standards or revise the existing ones, are identified by the CAASB based on the national and international developments, inputs from members of the Council of the Institute, CAASB members, members of other committees of the Institute, members of the Institute and/or recommendations received from the Government, regulators, industry associations, or other interest groups.
  - II. CAASB determines the priorities of various proposals on hand for the development of the Standards.
  - III. CAASB constitutes separate Task Force or Study Group to develop preliminary draft of each Standard based on appropriate research and consultation with all interest groups, other professionals and regulators. The Task Force / Study Group also consider relevant pronouncements issued by the IFAC, if any.
  - IV. The preliminary draft Standard prepared by the Task Force / Study Group is considered by the CAASB with inputs from the Technical Directorate. CAASB either clears the draft Standard, with or without any modifications or refers the same to the Task Force / Study Group for revision based on the deliberations of the CAASB.
  - V. The revised preliminary draft Standard by the Task Force / Study Group is considered by the CAASB with inputs from the Technical Directorate. CAASB clears the draft Standard with or without modifications for issuance as an Exposure Draft under the authority of the CAASB.
  - VI. Each Standard generally follows the following structure. In case of deviation, suitable explanation is provided by the Task Force / Study Group preparing the Standard.
    - 1. Introduction\***
    - 2. Objectives**
    - 3. Definitions**
    - 4. Requirements**
    - 5. Application and other explanatory material**
- \* Includes Scope and Effective date



- VII. Exposure draft of the Standard is hosted on the website of the Institute and published in Management Accountant journal for comments of stakeholders and public at large. Copies of the Exposure Draft are sent to the members of the Central Council, Past Presidents, members of the Regional Councils and to Chapters and circulated among other bodies for their comments. Exposure Draft is also sent to the following bodies:
- i. Ministry of Corporate Affairs, Government of India
  - ii. Comptroller and Auditor General of India
  - iii. Reserve Bank of India
  - iv. Central Board of Direct Taxes
  - v. Central Board of Excise and Customs
  - vi. Securities and Exchange Board of India
  - vii. Institute of Chartered Accountants of India
  - viii. Institute of Company Secretaries of India
  - ix. Industry Associations such as CII, FICCI, ASSOCHAM and PHDCCI
  - x. Concerned regulators or any other body considered relevant by the CAASB keeping in view the nature and requirements of the Standard.
- VIII. To allow adequate time for due consideration and comment from all interested parties, exposure period is of 45 days or longer as decided by the CAASB.
- IX. The comments and suggestions received within the exposure period are considered by the CAASB appropriately.
- X. After taking into consideration the comments received, the proposed Standard is finalised by the CAASB and submitted to the Council of the Institute for its consideration and approval.
- XI. The Council of the Institute considers the proposed Standard, and if found necessary, modifies the same in consultation with the CAASB. The approved Standard is then issued under the authority of the Council of the Institute.

### **Procedure for issuing Guidance Notes**

The procedure for issuance of Guidance Notes are the same as that for issuing Standards except that the exposure draft is not separately circulated to the bodies mentioned in paragraph VII under the procedure for issuing the standards.

The Guidance Note on a Standard is explanatory to the corresponding Standard and shall not override the same.

### **Procedure for issuing Technical Guides, Practice Manuals and other Pronouncements**

For issuance of a Technical Guide, Practice Manual etc., the procedure followed by the CAASB is generally the same as in case of a Guidance Note except that the draft Technical Guide, Practice Manual etc., is never exposed for public comments. Also since Technical Guide, Practice Manual etc., do not have any authority attached to them, those are not required to be placed for consideration and approval by the Council of the Institute; rather they are issued by the CAASB under its own authority.



## **Procedure for Revision of the Standards, Guidance Notes, Technical Guides, Practice Manuals and other Pronouncements**

The CAASB undertakes revision of the Standards, Guidance Notes, Technical Guides, and Practice Manuals etc., based on the subsequent legal or professional requirements or any other national or international developments in the field of auditing. The procedure followed for revision is the same as that followed for formulation of a new Standard, Guidance Note, Technical Guide, or Practice Manual etc., as the case may be, as detailed above.