



CAAS – 102

Cost Audit and Assurance Standard on Cost Audit Documentation

The following is the **Cost Audit and Assurance Standard** (CAAS 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 and other cost related information.

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 CAASs 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 and other cost related information. The specific documentation requirements of other CAAS’s do not limit the application of this CAAS. 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: *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 Audit documentation: *Audit Documentation means the material 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 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 Audit and Assurance Standards.*

4.5 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.*

4.6 Assignment or audit Partner: *Assignment or 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 Assignment or 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.*

4.7 Assignment or audit Team: *Assignment or audit team means all personnel performing an Assignment or audit, including any experts contracted by the firm in connection with that Assignment or audit.*

4.8 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.*

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.*



5.2 In documenting the nature and extent of audit procedures performed, the Cost Auditor shall record the characteristics of the specific items or matters tested the responsibility for performing and reviewing such procedures and the relevant dates.

5.3 The Cost Auditor shall prepare audit documentation that is sufficient to enable another Cost Auditor undertaking a peer review to understand:

- **Conformance of audit procedures performed with legal and regulatory requirements;**
- **Conformance to cost audit and assurance standards**
- **The results of audit procedures performed**
- **The audit evidence obtained**
- **Significant matters arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions.**

5.4 The Cost Auditor shall prepare audit documentation on a timely basis.

5.5 The Cost Auditor shall record any departure from the standard requirement in a Cost Audit Assurance Standard.

5.6 The Cost Auditor shall record the discussions with client personnel and outsiders.

5.7 The Cost Auditor shall record any audit procedures performed in exceptional circumstances after the Cost Audit Report or new conclusions reached after that date.

6. Application Guidance

1. The Cost Audit documentation will usually contain

- **Checklists**
Example: Checklist of compliance with industry specific Record Rules, Checklist of compliance with Measurement Principles in CAS, Checklist of Disclosure requirements as per CAS
- **Audit programs**
Example: Audit Program for Material Cost, Employee Cost and others
- **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.
- **Audit Query List**



Contains a log of audit queries raised and their resolution

- *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
- *Letters of confirmation*
Example: Stock of materials with subcontractors.
- *Letter of Representation from Management*
- *Correspondence (including e-mail) concerning significant matters.*
Example: Correspondence regarding terms of supply of goods and services.

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.

3. The content and form of audit documentation will depend on a number of factors

Such as:

- the size and complexity of the operations,
- the extent of computerization of cost records,
- The assessed risks of misstatement of cost, the cost audit methodology and tools used.
E.g. whether automated queries were used to get audit evidence from cost records.

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 product from technical norms, normal price for a related party contract from Cost Auditor's own sources of data of the industry.

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

6. Audit documentation must contain evidence of conformance to requirements of Cost Audit and Assurance Standards in respect of this Standard and other standards. Typical of such evidence are:

- an adequately documented audit plan
- the signed appointment letter from the client containing in particular the terms of coverage for the Performance appraisal in a cost audit
- Minutes of discussion with client personnel with names of members of audit team present particularly of the audit partner when he is present



- Minutes of team discussions with names of members of audit team present particularly of the audit partner when he is present.

7. If, in exceptional circumstances, the Cost Auditor finds it necessary to perform alternative audit procedures different from a corresponding requirement in a Cost Audit and Assurance Standards, the Cost Auditor shall document how the alternative audit procedures performed achieve the aim of that requirement, and the reasons for the departure.

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.

9. 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.

10. 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.

11. 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.



12. Reference was made earlier to Minutes of discussion with client personnel but audit documentation may also include Minutes of Discussion with third parties seeking information or confirmation.

13. 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 description of the entity, the products produced and other activities.
- An organization Chart showing the responsibility centres and the person responsible
- A description, preferably a flow chart of the manufacturing process
- The product structure with product groups for cost reporting identified
- Internal controls over material cost, labour cost and expenses
- The risks of material misstatement assessed, for example, in respect of scrap recovery and disposal
- Tests of materiality used
- The overall audit strategy and audit plan,
- Significant matters noted during the audit, and conclusions reached.

14. The Cost Audit Documentation must be assembled as the audit goes on and the final assembly required of audited documentation must be limited. It should be completed within a reasonable time after the completion of the audit.

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.

16. 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

17. 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 to be applied for planning the audit of cost Statements for the period commencing on or after 1st April 2012.