Module 5 · Cost Auditing Standards 101–104 P17 · 5.1

SM pp. 296–322, exercise 323–326. **8 marks in 7 papers, all MCQs** (Jun'23 one, Jun'24 three), plus one MCQ in the MQP and two in the PTP. **Learn which standard says what**: that is the whole module for the exam. (Do not confuse these Cost **Auditing** Standards with the Cost **Accounting** Standards of Module 4.)

Paper	MCQ and its answer
Jun'23	The standard holding "the overall objectives of the cost auditor" (reasonable assurance against material misstatement) = **CAS 103**
Jun'24	(v) susceptibility of an assertion to a material misstatement before considering controls = **inherent risk** · (vi) CAS 103 deals with **overall objectives of the independent cost auditor and the conduct of an audit** · (ix) knowledge of the design of internal control is used to **identify the types of possible misstatements**
Dec'26?	MQP: a CAS 103 MCQ · PTP: the standard on **timely documentation** = CAS 102; **who issues** them = the Cost Auditing and Assurance Standards Board, with MCA's approval

DEC'26 PREDICTION · 1 MCQ LIKELY (SLOTS (iv)–(vii), 10–30%)

- Which CAS: plan / audit plan / strategy → **101** · documentation, timely, ten years, audit file → **102** · overall objectives, opinion, scepticism, audit risk → **103** · knowledge of business, internal control, IT environment → **104**.
- Facts: approved by MCA on **10th September, 2015** under **s.148(3)**; effective for audits on or after **September 11, 2015**; **four** standards; issued by the **CAASB** (11 members); **mandatory**.

AUDIT RISK IN ONE LINE

Audit risk = risk of material misstatement (inherent risk + control risk) × detection risk. Inherent and control risk are the **entity's** risks; detection risk is the **auditor's**, the only one he controls. The higher the assessed risk of material misstatement, the **lower** the detection risk he can accept (inverse relation).

5.1 Overview · CAS 101 planning · CAS 102 documentation

- SM WORDS MCA, by letter dated **10th September, 2015**, under **section 148(3)** of the Companies Act, 2013, approved: **CAS-101** Planning an audit of Cost Statements; **CAS-102** Cost Audit Documentation; **CAS-103** Overall objectives of the independent cost auditor and the conduct of an audit in accordance with Cost Auditing Standards; **CAS-104** Knowledge of business, its processes and the business environment. They are based on the IAASB's **ISAs** (ICMAI is a founder member of **IFAC**) with modifications; a cost auditor has the same rights, duties and obligations as a financial auditor. [SM 296]
- **CAS 101 objective**: guide members in **planning** the audit of cost statements so it is efficient and effective, incl. the **overall audit strategy and audit plan**. **Definitions**: audit; audit partner; **audit plan** (nature, timing and extent of risk assessment and further procedures at the assertion level); **audit risk** (inappropriate opinion on materially misstated statements: risk of material misstatement + detection risk); audit team (incl. external experts); auditee; cost audit; cost auditor (a cost accountant under the Cost and Works Accountants Act 1959); firm (incl. LLP); **initial audit** (first audit, or the previous period audited by a different firm); misstatement (error or fraud); **overall audit strategy** (scope, timing, direction); risk assessment. [SM 297–298]
- **Requirements**: before planning, ensure the **appointment is proper** (letter received, legal formalities), ethics satisfied, terms of reference understood; partner and key members plan and discuss; formulate the strategy considering preliminary results, previous audits, knowledge of business, scope, **statutory deadlines and format**, direction, resources; develop the plan; plan supervision and review; update both; **document** them and the reasons
- **CAS 102** purpose: evidence of the basis for the conclusion and that the audit followed the standards and the law; also helps plan, supervise, be accountable, keep matters of continuing significance, quality reviews (**Guidance Manual for Audit Quality** of the QRB) and external inspections. **Audit documentation** = records, **in physical or electronic form**, incl. working papers prepared by and for, or obtained and retained by the cost auditor; **audit file**; **audit working papers**. [SM 302–303]
- **Requirements**: record procedures, evidence, conclusions; enough for **another competent person with no previous connection** (incl. a peer reviewer) to understand compliance, results, evidence and significant judgments; record discussions with client personnel and outsiders; record any **departure** from a standard; record items tested, who performed and reviewed, with dates; prepare documentation **on a timely basis** (= PTP MCQ); document procedures after the report date; assemble it in an **audit file**. [SM 303–304]
- **Contents**: checklists (Rules, Cost Accounting Standards, GACAP), audit programmes, **analysis** ("cost audit relies more on analytical review than on substantive testing"), audit query list, abstracts of contracts, confirmations, management representation, copies of records. Paper or electronic (guard against deletion); **oral explanations cannot substitute**; evidence of conformance (plan, signed appointment letter, minutes); significant matters (e.g. substitute materials, irregular stock heaps; normal capacity judgement); minimum for small entities. [SM 304–306]
- Assemble as the audit goes on; do not discard before the retention period; the documentation is the **property of**

for changes; in an initial audit, acceptance procedures and **communication with the previous auditor**. [SM 299–300]

- Planning is **continuous and iterative**; matters for the strategy: the cost reporting framework and reconciliation with financial reporting, industry regulators, unique industry features (e.g. "product" in newspapers), reliance on financial, other cost and internal auditors, **IT / ERP**, statutory and Board timelines, resources; independence lost by e.g. designing the cost accounting system; small entities: less elaborate. Effective for audits on or after **September 11, 2015**. [SM 300–301]

the cost auditor; retained **at least ten years from the date of the Cost Audit Report**. [SM 306]

5.1 CAS 103 overall objectives · CAS 104 knowledge of business · Jun'23, Jun'24 MCQs

- SM WORDS **CAS 103 overall objectives**: **(2.1) to obtain reasonable assurance about whether the cost statements as a whole are free from material misstatement, whether due to fraud or error**, and to express an opinion whether they are prepared per the cost reporting framework, the Cost Accounting Standards and **GACAP**, giving a **true and fair view** of the cost of production, cost of sales and margin; **(2.2) to report** as required by law or the standards. If reasonable assurance cannot be obtained: **qualify**, in extreme cases **disclaim**. [SM 307]
- **Requirements**: ethics and **independence**; comply with every relevant standard and understand its whole text; claim compliance only if fully complied; depart only in exceptional cases with alternative procedures; plan and perform with **professional scepticism**; obtain **sufficient appropriate evidence** to reduce audit risk to an acceptably low level; use **professional judgment**; check the cost reporting framework; no compliance procedures unless non-compliance is identified or suspected (but obtain a written representation); modify the opinion if an objective cannot be met. [SM 309–310]
- **Ethics**: independence, integrity, objectivity, competence and due care, confidentiality, professional conduct; maintaining cost records, designing cost systems and **internal audit erode independence**. **Scepticism**: a questioning mind; management representations are **not a substitute** for evidence. **Absolute assurance is impossible**: sample testing, limits of internal control (override, collusion), evidence persuasive rather than conclusive; an audit does not assure future viability. [SM 310–312]
- **Risk and materiality**: the auditor is concerned only with risks that may affect the cost statements and with **material** misstatements, at the **overall cost statement level** (pervasive, e.g. control environment, management override) and the **assertion level** (cost heads, items, disclosures). Inherent risk is higher for complex calculations and estimates; control risk always exists; **detection risk cannot be reduced to zero** and bears an **inverse relationship** to the assessed risk of material misstatement. Management, not the auditor, prepares the cost statements. [SM 313–315]
- **CAS 104 objective**: knowledge of the client's business sufficient to identify the events, transactions and practices that may significantly affect the examination or the report (general knowledge of the economy and industry, particular knowledge of the entity). [SM 316]
- **Requirements**: understand (a) the **nature of the entity** (processes, major inputs, joint and by-products, wastages, outputs, ownership, governance), (b) industry, regulation and reporting frameworks, (c) its **cost accounting policies**, (d) how it measures performance; its **internal control**: control environment (honesty and ethics), risk assessment process (identify, likelihood, significance, action), cost / management information system, control activities, monitoring, and the **adequacy of internal audit** over cost records; the **IT environment**: architecture, access controls, change controls, data integrity and security (SM MCQ 6: CAS **104**); identify and assess the risks of material misstatement (fraud, recent developments, **related parties**, subjectivity, revision); document all this. [SM 317–319]
- **Guidance**: a continuous process; special areas: **abnormal losses, lower yields, higher wastages, higher utilities consumption, related party transactions**; industry factors (competition, cycles, technology, excess capacity, energy, environment); performance pressures may motivate misstatement; evaluate design and implementation of controls beyond discussions; **significant risks** judged before controls; not every business risk is a misstatement risk; IT risks (inaccurate processing, unauthorised access or changes, excess privileges, manual interventions, data loss). [SM 319–322]

SM EXERCISE KEYS (SM 326)

MCQs: 1 planning = **101** · 2 total issued = **4** · 3 guide members in planning = **101** · 4 timely documentation = **102** · 5 develop an audit plan = **101** · 6 IT environment and control = **104** · 7 issued by the **Cost Auditing & Assurance Standard Board** · 8 section **148** · 9 approved by the **Ministry of Corporate Affairs** · 10 forming and expressing an opinion = **103** · 11 approved **10.09.2015** · 12 the Board has **11** members. True / false: issued by the Central Government (F: by ICMAI with its approval) · formulated by the CASB (F: the **CAASB**) · ICMAI a founder member of IFAC (T) · an engaged engineering expert is part of the audit team (T) · working papers prove compliance with Cost Accounting Standards (F: Cost **Auditing** Standards) · advisory (F: **mandatory**). Blanks: CAS 104 issued 10th September, 2015, effective 11th September, 2015 · CAS 102 = cost audit documentation · auditee · company management · section 148(3). [SM 326]