Module 7 · Documentation and Audit Process P17 · 7.1–7.3

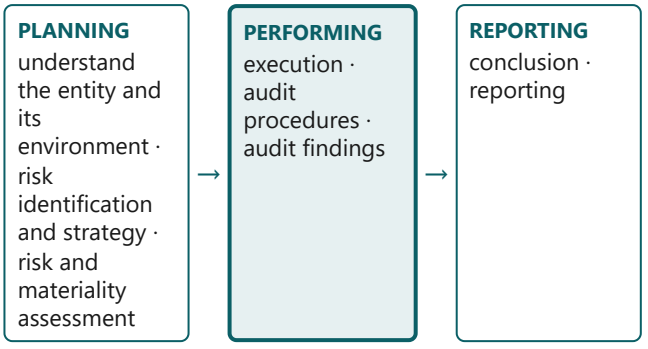
SM pp. 372–378 (no SM exercise). **12 marks in 7 papers** but **both ICMAI practice papers ask "the stages of an audit of cost statements" as Q3(b)**, and their answers are SM 372–373 word for word; it was long only once (Jun'23, 8 marks). **Short module, high return**: learn it whole.

Paper	Question	Paper	Question
Jun'23	Q4(b) **the three stages of audit: analyse them** (8)	Jun'26	MCQ: **market competition trends** is not a working paper the cost auditor obtains (production schedules, quantitative and statistical data are)
Dec'25	MCQ: the stage with detailed testing of controls, consumption, cost accumulation, allocation, apportionment, absorption = **performing**	Dec'26?	**MQP Q3(b) + PTP Q3(b): stages of audit** · MQP MCQ definition of audit documentation · PTP MCQ sequence of stages

DEC'26 PREDICTION

- **Q3(b), 7 marks: stages of audit 30%** (the single most likely Q3(b) topic, ahead of planning factors 25% and XBRL 20%).
- **MCQ (vi)–(vii)**: documentation 30%, process 30%: definitions of audit documentation, audit file, working papers; which stage does what; what working papers include.

THE THREE STAGES (FIGURE 7.1)



SM 372. The SM's own heading (SM 373) calls the last stage "concluding and reporting".

7.1 Documentation and the stages of audit · Jun'23 Q4(b), MQP and PTP Q3(b)

- SM WORDS **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 (= MQP MCQ). [SM 372]
- **Audit file**: 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. [SM 372]
- **Audit working papers**: documents which record all audit evidence obtained during audit, used to support the work done and give assurance that the audit was performed in accordance with the **Cost Audit and Assurance Standards**. (Module 6: they may include production schedules, quantitative and statistical data, hence the Jun'26 MCQ.) [SM 372]

ONE LINE PER STAGE

Plan = understand, find risks, set materiality, choose a strategy. **Perform** = test controls, then substantive tests of consumption, accumulation, allocation, apportionment, absorption and year-end balances. **Report** = weigh the evidence, form the opinion on fair presentation, write the cost audit report.

MODEL ANSWER · "THE THREE STAGES OF AUDIT" (SM 372–373 = THE ICMAI ANSWER)

The stages of an audit of cost statements are **(1) planning, (2) performing, (3) reporting**. Once the acceptance or continuation decision is made, the first stage is **planning**: (i) **understanding of the client**; (ii) factors that may impact the **risk of a material misstatement** (the risk that the cost statements include a significant error or fraud); (iii) a **risk and materiality assessment**; (iv) an **audit strategy**. The **execution (performing)** stage = detailed testing of internal controls and **substantive testing** of cost accounting policies and procedures. The **reporting** stage = evaluating the results in the light of the understanding of the entity and **forming an opinion on the fair presentation** of the cost statements as a whole. [SM 372–373]

Planning, first stage: "a well planned audit is almost half way done"; the audit strategy and the nature and timing of procedures, for **efficiency** (time spent gathering evidence) and **effectiveness** (minimising audit risk); sufficient appropriate evidence at the cost-statement level. [SM 373]

Performing, second stage: detailed testing of internal controls, **material consumptions, cost accumulation, allocation, apportionment, and absorption** (= Dec'25 MCQ); **tests of controls** if relying on the client's controls; substantive tests of procedures for the period and of

consumptions and balances at the period end: the evidence of fair presentation. [SM 373]

Concluding and reporting, final stage: conclusions from the evidence and an **opinion** on fair presentation, expressed in the **cost audit report**, drawing on the understanding of the client, its risks, and the results of testing controls, transactions, cost heads, items of cost and disclosures. [SM 373]

7.2–7.3 The audit process (Figure 7.2) · practical steps I–VI

Activity	Purpose	Documentation
Planning phase		
preliminary engagement activities	accept the engagement?	risk factors, **independence**, engagement letter
plan the audit of the cost statement	overall strategy and plan	**materiality**, team discussion, strategy
risk assessment procedures	assess the risk of material misstatement via the entity and its processes	business and **fraud risk**, design of controls, risk at **statement and assertion level**
Performing phase		
design responses and further procedures	respond to assessed risks	updated strategy, responses, plan
implement the responses	reduce audit risk to an acceptably low level	work done, findings, supervision, **working paper reviews**
Reporting phase		
evaluate the evidence	more work needed? (yes: loop back)	revised risks and materiality, communications, conclusions
prepare the cost auditor's report	form an opinion	significant decisions, **signed audit opinion**

SM 374.

- **Step I, objectives and management outlook**: statutory only, or also cost reduction, operational efficiency, product-mix, profit and loss products, marketing strategy, a review of business strategy? [SM 375]
- **Step II, pre-conditions**: understand the objectives, area and scope, **number of cost auditors**, reporting framework, period, **statutory deadlines**; confirm management accepts its duties: cost records, cost statements per the **cost accounting standards**, consistent policies, access to all records and people, extra information, **management representation**; agree fee and payment; get an **engagement letter**. [SM 375–376]
- **Step III, understanding the business**: nature, size, products, units, ownership and structures; industry; regulatory and reporting frameworks; production process, joint and by-products, outsourcing; subsidiaries; key personnel; purchase, sales, pricing, export policies; inventory and physical verification; **related parties**; indirect taxes; internal control and internal audit; accounting and costing systems; MIS and risk management; IT and data security; the **previous auditor's report**. [SM 376]
- **Step IV, planning**: timing and duration, unit visits; personnel and supervision; the partner's days; overall plan and strategy; **materiality and sampling**; procedures (representation, assertions, tests of controls and details, substantive and analytical); risk assessment; discussions with the previous cost auditor, statutory and internal auditors; inputs; document and share the plan; the **Guidance Manual for Audit Quality**. [SM 377]
- **Step V, execution**: perform the checks; collect evidence and validate its relevance, reliability, accuracy, completeness, sufficiency, source and consistency; **draft observations discussed with KMP**; final report. **Step VI, documentation**: plan and strategy, working papers, evidence, drafts and discussions, the final report, preserved in a bound folder for the prescribed period. [SM 377–378]