



Preface to the Standards on Quality Control, Auditing, Assurance, Review, and Related Services rendered by the Cost Accountants

Introduction

This Preface to the Standards on Quality Control, Auditing, Assurance, Review, and Related Services rendered by the Cost Accountants (CMAs) has been issued to facilitate understanding of the scope and authority of the pronouncements of the Cost Audit and Assurance Standards Board (CAASB) 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 has 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 will 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 and Assurance Standards Board under the authority of the Council of the Institute of Cost Accountants of India

The CAASB issues 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 Auditing – to be applied in the 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 rendered by the Cost Accountants.
- (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.

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.

Pending development of the Standards on Auditing, Review Assignments and Assurance Assignments, the Statement on Generally Accepted Cost Audit and Assurance Practices issued by the CAASB under the authority of the Council of the Institute prevails.

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 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.

If a particular Standard or any part thereof is inconsistent with any law in force, the provisions of the said law prevails.

Guidance Notes

Guidance Notes are issued to assist the professional cost accountants in implementing the Standards on Quality Control, Standards on 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. Professional cost accountants 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 Papers

The CAASB may also publish Technical Guides, Practice Manuals and other Papers. Technical Guides are generally aimed at imparting broad knowledge to the professional cost accountants about a particular aspect of an industry. Practice Manuals are aimed at providing additional guidance to the professional cost accountants in performing audit and other related assignments. Other Papers are aimed at promoting discussion or debate or creating awareness on issues relating to quality control, auditing, 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 audit, review, assurance or related services assignments and accordingly, have no authority of the Council of the Institute attached to them.

Constitution of the Cost Audit and 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 auditing, review, assurance, related services and quality control.



Composition of the CAASB

The composition of the CAASB is fairly 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 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

Members mentioned at (4) & (5) above are decided in consultation with the President. 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

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

- a) To identify areas in which Standards on Quality Control, Assignment Standards, Standards on Auditing and Standards on Related Services need to be developed.
- b) To develop Standards on Quality Control, Assignment Standards, Standards on Auditing and Standards on Related Services so that they may be issued under the authority of the Council of the Institute.
- c) To develop Guidance Notes on issues arising out of any Standard or on 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) To 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) To 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) To provide Interpretations or formulate General Clarifications, where necessary, on issues arising from the Standards.

Procedure for issuing the Standards

The following procedure is adopted for formulating and 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. After a para by para discussion, 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. In case the preliminary draft Standard is re-drafted by the Task Force / Study Group, the revised draft is again considered by the CAASB with inputs from the Technical Directorate. Based on the discussions held, CAASB clears the draft Standard. This is then issued 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 of issuing the standard*



3. *Scope of the standard*
 4. *Definitions and explanations of the terms used in the standard*
 5. *Requirements*
 6. *Application and other explanatory material*
 7. *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 & 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 minimum 45 days or higher as decided by the CAASB.
- IX. The comments and suggestions received within the exposure draft period are read and considered by the CAASB. Outcome of each comment / suggestion is recorded in the minutes of the relevant CAASB meeting.
- X. After taking into consideration the comments received, the draft of 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 final draft of the proposed Standard, and if found necessary, modifies the same in consultation with the CAASB. The concerned Standard is then issued under the authority of the Council of the Institute.
- XII. The effective date of implementation of the Standard is decided by the Council of the Institute in consultation with the CAASB. No Standard will have retrospective application unless otherwise stated.



Procedure for issuing Guidance Notes

The following procedure is adopted for formulating and issuing the Guidance Notes:

- I. CAASB identifies the issues on which Guidance Notes need to be formulated. CAASB also determines the priorities of various proposals on hand for commencement.
- II. CAASB constitutes separate Guidance Notes Committee (GNC) to develop draft of each Guidance Note. Each Committee has a minimum of three members, of which at least one is a member of the CAASB and others with backgrounds as preparers of cost statements, auditors and regulators. One of the members of CAASB is the Chairman of the said Committee. He is authorised to co-opt maximum two members with the consent of the Chairman, CAASB.
- III. The draft Guidance Note prepared by the GNC is considered by the CAASB with inputs from the Technical Directorate. After a para by para discussion, CAASB either clears the draft Guidance Note, with or without any modifications or refers the same to the GNC for revision based on the deliberations of the CAASB.
- IV. In case the draft Guidance Note is re-drafted by the GNC, the revised draft is again considered by the CAASB with inputs from the Technical Directorate. Based on the discussions held, CAASB clears the draft Guidance Note. This is then issued as an Exposure Draft under the authority of the CAASB.
- V. Exposure draft of the Guidance Note is hosted on the website of the Institute 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 & Chapters and circulated among other bodies for their comments.
- VI. To allow adequate time for due consideration and comment from all interested parties, exposure period is of minimum 45 days or higher as decided by the CAASB.
- VII. The comments and suggestions received within the exposure draft period are read and considered by the CAASB. Outcome of each comment / suggestion is recorded in the minutes of the relevant CAASB meeting.
- VIII. After taking into consideration the comments received, the draft of the proposed Guidance Note is finalised by the CAASB and submitted to the Council of the Institute for its consideration and approval.
- IX. The Council of the Institute considers the final draft of the proposed Guidance Note, and if found necessary, modifies the same in consultation with the CAASB. The concerned Guidance Note is then issued under the authority of the Council of the Institute.



- X. The Guidance Note of a Standard is explanatory to the corresponding Standard and will not override the same.

Procedure for issuing Technical Guides, Practice Manuals and other Papers

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 Papers

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.