GUIDANCE MANUAL FOR AUDIT QUALITY

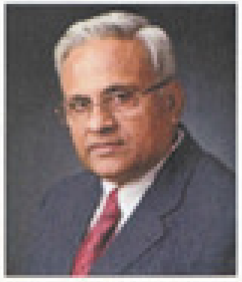
(a reference for achieving excellence by professional Cost Accountants)

CONTENTS

Quality Review Board

Institute of Cost and Works Accountants of India

FOREWORD



The Ministry of Corporate Affairs has established Quality Review Board for the Institute. One of the functions assigned to the Quality Review Board is to improve the quality of services and adherence to the various statutory and other regulatory requirements. With this objective in view the Quality Review Board of ICWAI, headed by Shri U. C. Nahta has timely brought out the Guidance Manual for Audit Quality. I am confident that this Audit Manual would serve as a bench mark for the quality of the service provided by the members including Cost Audit.

I deeply appreciate the services rendered by all the members of the QRB for this new initiative. I am sure that the members of the Institute would find it immensely useful in meeting the required quality standards.

I along with the Council of the Institute have great pleasure in releasing this publication.

(M. Gopalakrishnan)
President

P R E F A C E

U.C. NAHTA
Chairman, Quality Review Board of ICWAI

The Quality Review Board of ICWAI is happy to bring out this publication on "Guidance Manual for Audit Quality". The profession of Cost Accountants is poised for a quantum growth with the shift in the economy from a protected and regulated one to a competitive and global one with level playing fields for all sectors to grow by performance and efficiency. It is here the Regulatory functions like Cost Audit have assumed greater significance to ensure inclusive growth and meet the challenges imposed on the professionals to bring the economy to greater heights.

The Ministry of Corporate Affairs, under the dynamic leadership of the Hon'ble Minister of Corporate Affairs, Government of India, has set up Quality Review Boards for professionals in all the three institutes as part of Corporate Responsibility and Governance. These Boards have a clear and earmarked function to raise the level of performance of the professionals to meet the demands of corporate India. After a global melt down, there have been incidents, which have shaken the confidence of the investors and the Ministry being seized of this situation, has taken several measures and one of them is to ensure quality in services rendered by the professionals to the end users.

In this connection the "Guidance Manual for Audit Quality" is a significant attempt to improve the quality of the CMA professionals. I am confident that the profession will be immensely benefited by this publication, which is the first of its kind. It is the earnest desire of the QRB that the members of the profession will respond well to this effort and support this venture.

I wish to place to record the excellent work done by Shri V.Kalyanaraman, Shri Dhananjay V. Joshi and Shri B.B. Goyal, Members of the QRB, who have put in lot of efforts to bring out this publication. I also wish to place on record the technical and secretarial support provided by Shri J.P. Singh, Director (Technical) and Secretary QRB in completing the publication.

I am particularly thankful to the President and the Council of the institute for supporting this initiative and release of this publication.

(U.C. NAHTA)

New Delhi
Dated the 22nd September, 2011

C O M M U N I Q U É

Ministry of Corporate Affairs (MCA) has taken two mottos as the corporate development strategy viz. corporate growth with enlightened regulations; and corporate sector with inclusive growth. Towards this, MCA has taken number of steps; of these, one being setting-up of Quality Review Boards (QRB) for all the three professional Institutes. The most important function assigned to the QRB is to guide the members of the Institute to improve the quality of services and adherence to various statutory and other regulatory requirements. This Guidance Manual for Audit Quality is a step in that direction which should serve as a benchmark for the quality of services provided by the members of the Institute including cost audit services.

This Manual is broadly based on the principles and structure contained in the International Standard on Quality Control (ISQC-1) issued by the International Auditing and Assurance Standards Board (IAASB).

As set out in this Manual, 'Quality control' covers the policies, procedures and systems that are set in an audit firm to assure that it renders professional services consistently of high quality. To support this, your QRB has made a pioneer attempt to guide the members to achieve the highest level of quality in their services. This will, no doubt, also facilitate the job of Cost Audit Branch of MCA to effectively discharge its functions as a regulator of the cost accounting and audit services.

I deeply appreciate the guidance & support given by Shri U.C.Nahta, Director (Inspection & Investigation), MCA & Chairman, QRB. I am very much thankful for the painstaking & yeomen efforts put in by Shri V.Kalyanaraman and Shri D.V.Joshi, Past-Presidents of the Institute & Members of QRB in providing entire content & framework of this Manual. I also express my appreciation for the technical support given by Shri J.K.Puri, former Chief Adviser (Cost), Ministry of Finance & Past-President of the Institute. Finally, my all appreciation goes to the Technical Directorate of the Institute, headed by Shri J.P.Singh, Director (Technical) for providing much needed support in the finalization of this Manual.

I trust that all members will be benefited by this new initiative of the QRB. I am sure that the members would find it immensely useful in understanding, developing & implementing required level of policies, procedures and systems in their firms so as to meet with the required 'Quality Standards'.

September 21, 2011 **(B.B. Goyal)**
New Delhi **Adviser (Cost), MCA &**
Member, QRB of ICWAI

P R O L O G U E

In a Competitive Environment the Survival of the fittest, is dependent on quality, reliability and cost of services and a distinguishing mark of a profession is acceptance of its responsibility to the public.

The Profession of Cost and Management Accountants in India is fortunate to have a unique provision in the Company's Act to measure the corporate performance by Practicing Cost Accountants through a system of 'Cost Audit'. It is pertinent to ensure this service, which almost encompasses, the major services rendered by Cost Accountants in Practice, is constantly improved, so as to make this provision, a yardstick, for performance measurement of Corporate India.

Having this paramount objective, the Quality Review Board of ICWAI, in its wisdom, constituted a two men committee, amongst the members of the QRB, to prepare a 'Guidance Manual for Cost Audit' to help the members, to enhance their level of performance. This manual is expected to fulfill this desire. This attempt will be extended, to the other services in due course of time. It is an Initial attempt towards this direction, and the experiences of the members will help, to improve its contents, as an ongoing exercise in further revisions of this Manual. A beginning has been made, with the experiences gained, over four decades of this work, and the interactions with members in Practice, Service and Industry representatives.

The support and enthusiasm of the CMA members, was overwhelming, in bringing out this Manual, as over the years the end use of the exercise on 'Cost Audit' has shifted from a regulatory function to Performance Evaluation, and of late to Conformance and Corporate Governance. The two men Working Group, was fortunate to associate Shri J.K. Puri, Chief Advisor (Cost) Retd., Government of India, who was a vibrant source of knowledge and wisdom, in shaping this Manual.

We wish to thank the members of the CMA Profession, who responded, to our invitation for discussions, and Guide us with their experiences.

Finally we wish to thank the QRB, and in particular the Chairman of the committee to prepare this Manual, which will be a milestone in the progress of the profession of Cost and Management Accounting, over the years. We also wish to place on record the restructuring and shaping of the Manual to suit the end objectives by Shri B.B. Goyal and the assistance of Shri Siddharth Sen, Former Director Research of ICWAI to shape this Manual to its Final Stage.

Thanking you,

V.Kalyanaraman **Dhananjay V.Joshi**
Members of the Working Group of QRB of ICWAI
Dated this Day of June 2011 at Kolkata

About Quality Review Board of the ICWAI

Introduction of QRB

The Cost and Works Accountants Act, 1959 provides for the regulation of the profession of Cost and Works Accountancy in India. The Act was amended in the year 2006 and sections 29A to 29D were inserted making provision for the establishment of Quality Review Board (QRB). Accordingly, the Government of India, Ministry of Corporate Affairs, vides their notification no. S.O. 1693(E) dated 3rd October 2007 constituted QRB of the Institute of Cost and Works Accountants of India for promoting "Quality" considerations in rendering various professional (both statutory and non-statutory) services by the Members of the Institute. Government of India, Ministry of Corporate Affairs, vides their notification no. G.S.R. 734(E) dated 27th November 2006 also notified the Cost and Works Accountants Procedures of Meeting of Quality Review Board, and Terms and Conditions of Service and Allowance of Chairpersons and Members of the Board, Rules, 2006. Relevant legislations are given below:

The Cost and Works Accountants (Amendment) Act, 2006

29A. ***Establishment of Quality Review Board. –***

(1) The Central Government shall, by notification, constitute a Quality Review Board consisting of a Chairperson and four other members.

(2) The Chairperson and members of the Board shall be appointed from amongst the persons of eminence having experience in the field of law, economics, business, finance or accountancy.

(3) Two members of the Board shall be nominated by the Council and other two members shall be nominated by the Central Government.

29B. ***Functions of Board.*** - The Board shall perform the following functions, namely:—

(a) to make recommendations to the Council with regard to the quality of services provided by the members of the Institute;

(b) to review the quality of services provided by the members of the Institute including cost audit services; and

(c) to guide the members of the Institute to improve the quality of services and adherence to the various statutory and other regulatory requirements.

29C. ***Procedure of Board.*** - The Board shall meet at such time and place and follow in its meetings such procedure as may be specified.

29D. ***Terms and conditions of service of Chairperson and members of Board and its expenditure.*** –

(1) The terms and conditions of service of the Chairperson and the members of the Board, and their allowances shall be such as may be specified.

(2) The expenditure of the Board shall be borne by the Council.

Gazette Notification for QRB

Ministry of Corporate Affairs
Notification

New Delhi, 3rd October, 2007

S.O. 1693 (E) - In exercise of the powers conferred by Section 29A of the Cost and Works Accountants Act, 1959(23 of 1959), the Central Government hereby establishes a Quality Review Board consisting of the following persons, namely:-

1. **Shri U. C. Nahta, Chairperson**
   Regional Director (Eastern Region),
   Nizam Palace, II MSO Building,
   3rd Floor, 234/4, A.J.C. Bose Road,
   Kolkata-700020

2. **Shri B.B. Goel, Adviser (Cost), Member**
   Ministry of Corporate Affairs, New Delhi

3. **Shri Ashok Kumar Agarwal, Member**
   Fellow Chartered Accountant,
   Flat No. 3-A,White House,
   10, Bhagwan Dass Road,
   New Delhi-110001.

Nominees of the Council:

4. **Shri V. Kalyanaraman, Member**
   Past President,
   Institute of Cost and Works Accountants of India

5. **Shri Dhananjay V. Joshi, Member**
Past President,
Institute of Cost and Works Accountants of India

The terms and conditions of service and allowances of the Chairperson and Members of the Quality Review Board shall be governed by the Cost and Works Accountants Procedures of Meeting of Quality Review Board, and Terms and Conditions of Service and Allowance of Chairpersons and Members of the Board, Rules, 2006.

This notification shall take effect from the date of publication in the Official Gazette.

[F. NO. 5/2/2007-C.L.-V]
JITESH KHOSLA, Jt. Secy.

<u>Gazette Notification for QRB Rules</u>

Ministry of Company Affairs
Notification

New Delhi, the 27th November, 2006

G.S.R. 734(E) - In exercise of the powers conferred by clause (e) and (f) of Sub-section (2) of section 38A of, read with Section 29C and Sub-section (1) of Section 29D of the Cost and Works Accountants Act, 1959 (23 of 1959), the Central Government hereby makes the following rules namely:-

1. Short title and commencement:

(1) These Rules may be called the Cost and Works Accountants Procedures of Meetings of Quality Review Board, and Terms and Conditions of Service and allowances of the Chairperson and members of the Board Rules, 2006.

(2) They shall come into force on the date of their publication in the Official Gazette.

2. Definitions:

(1) In these Rules, unless the context otherwise requires,-

(a) “Act” means the Cost and Works Accountants Act, 1959;

(b) “Board” means the Quality Review Board formed under sub-section (1) of Section 29A of the Act;

(c) “Council” means the Council constituted under Section 9 of the Act;

(d) “Institute” means the Institute of Cost and Works Accountants of India set up under the Act.

(2) Words and expressions used but not defined in these Rules and defined in the Act shall have the same meaning as assigned to them in the Act.

3. Procedure for Meetings of the Board:

(1) All meetings of the Board shall, ordinarily, be held at the headquarters of the Institute.

(2) The date and time of any meeting shall be fixed by the Chairperson:

Provided that a notice of not less than 15 days before the scheduled date of every such meeting shall be given by the Chairperson or any person so authorized by him to the other members of the Board:

Provided further that the Chairperson, for reasons to be recorded in writing, may call for a meeting at a shorter notice:

Provided also that not more than six months shall elapse between any two meetings.

(3) The quorum for transaction of any business at a meeting of the Board shall be of three members, of which at least one must be nominated by the Central Government under Sub-section (3) of Section 29A of the Act.

(4) The Chairperson shall chair all the meetings of the Board:

Provided that in the absence of Chairperson, the members shall elect any of the members present on the day of the meeting to chair the meeting.

(5) All questions which come up before any meeting of the Board shall be decided by a majority of the members present and voting, and in the event of an equality of votes, the Chairperson or in his absence, the member presiding, shall have a second or casting vote.

4. Transaction of Business: - The business of the Board shall ordinarily be transacted at a meeting of the Board.

5. Agenda for the Board meeting: -

(1) The agenda for a meeting of the Board shall be decided by the Chairperson.

(2) Any matter referred to it by the Central Government or the Council shall be included in the agenda for the meeting of the Board within time limits specified, if any, in such a reference.

(3) The Chairperson may, in appropriate cases, circulate the agenda note and related papers on any issue among members of the Board for resolution by circulation.

Provided that if three members of the Board require that any question be decided at a meeting, the Chairperson shall withdraw the papers from circulation and have the question determined at a meeting of the Board.

(4) A decision taken by the circulation of the papers shall be communicated to all the members and shall be noted at the next meeting of the Board.

6. Procedures to be followed by the Board:

In the discharge of its functions, the Board may:

(a) on its own or through any specialized arrangement set up under the Institute, evaluate and review the quality of work and services provided by the members of the Institute in such manner as it may decide;

(b) lay down the procedure or evaluation criteria to evaluate various services being provided by the members of the Institute and to select, in such manner and form as it may decide, the individuals and firms rendering such services for review;

(c) call for information from the Institute, the Council or its Committees, members, clients of members or other persons or organizations in such form and manner as it may decide, and may also give a hearing to them;

(d) invite experts to provide expert/technical advice or opinion or analysis or any matter or issue which the Board may feel relevant for the purpose of assessing the quality of work and services offered by the members of the Institute;

(e) make recommendations to the Council to guide the members of the Institute to improve their professional competence and qualifications, quality of work and services offered and adherence to various statutory and other regulatory requirements and other matters related thereto.

7. Assistance to the Board:

The Institute shall set up a specialized technical unit to-

(a) Provide secretarial assistance, as required, to the Board in the discharge of its functions;

(b) To assist the Board in carrying out review of quality of services provided by the Members.

8. Terms and conditions of service of the Chairperson and Members of the Board:

1) The tenure of the Chairperson and Members of the Board shall be four years.

2) The Chairperson and other members of the Board shall be part-time members.

3) No Chairperson or member of the Board shall be removed or withdrawn except as provided under Rule 10.

9. Allowances:

(1) The Chairperson and other Members shall be entitled to travelling and daily allowances as admissible to them in their official capacity, and in case, the member is not a Government Servant, he will be entitled to the travelling allowance and daily allowance as admissible to an officer holding a post carrying a scale of pay of a Joint Secretary to the Government of India for attending meetings of the Board at the headquarters of the Institute if their place of residence is different from the headquarters of the Institute.

(2) The Chairperson and other Members of the Board whose place of residence is the same as the venue of the meeting of the Board shall be provided local conveyance or allowance for the local journeys to be performed in connection with the meetings of the Board.

(3) The Chairperson and other Members of the Board, while on tour, shall be entitled to travelling and daily allowances at the above rates.

10. Resignation, Removal and filling up of casual vacancy:

(1) The Chairperson and each Member of the Board shall cease to remain the Chairperson or Member, as the case may be, in case of his resignation or removal.

(2) The Chairperson or a Member of the Board may resign his office by a notice in writing under his hand addressed to the Central Government which shall be effective from the date of resignation.

(3) The Central Government may remove a person from the post of Chairperson or Member, if:

a) he has become physically or mentally incapable of acting as the Chairperson or a Member, as the case may be;

b) he has not attended three consecutive meetings of the Board, without leave of absence;

c) he, being the Chairperson, has not called a meeting of the Board for more than six months;

d) he, in the opinion of the Central Government, is unable to discharge his function or perform his duties; or

e) he has been held guilty by any civil or criminal court for an offence which is punishable with imprisonment for a term exceeding six months.

(4) A casual vacancy in the Board shall be filled by the Central Government, from out of the category in which such vacancy occurs.

11. Residuary provision: - Matters relating to the terms and conditions of services and allowances of the Chairperson and other members of the Board, the place of meetings and the procedure to be adopted in meetings of the Board, with respect to which no express provisions has been made in these rules shall be referred in each case to the Central Government for its decision and the decision of the Central Government thereon shall be binding on the Board, the Chairperson and other members.

[F.No.5/27/2006/CL-V]
JITESH KHOSLA, Jt. Secy.

Guidance Manual for Audit Quality

Chapter 1 : Objectives, Scope & Expressions

Objectives

1. This Guidance Manual for Audit Quality deals with a firm's responsibilities for its system of quality control for audits and reviews of cost / financial statements, and other assurance and related services engagements. This Manual is to be read in conjunction with the requirements of the Cost and Works Accountants Act, related Regulations, the Code of Ethics and other relevant pronouncements of the Institute.

2. The objective of the firm is to establish and maintain a system of quality control to provide it with reasonable assurance that (a) the firm and its personnel comply with the professional standards and applicable legal and regulatory requirements; and (b) the reports or certificates issued by the firm or engagement partners are appropriate in the circumstances.

3. A system of quality control consists of policies designed to achieve the objective set out in paragraph 2 and the procedures necessary to implement and monitor compliance with those policies. The objective of this Manual is to guide the professional cost accountants to establish policies, procedures & systems to maintain the highest standards of quality in the assignments undertaken by them.

Scope

4. This Manual applies to all firms of professional cost accountants in respect of audits and reviews of cost/financial statements, and other assurance and related services engagements.

5. Apart this Manual, in undertaking any audit or certification assignment, a firm should ensure that all cost statements / compilations conform to the generally accepted principles of cost accounting and cost accounting standards as pronounced by the Cost Accounting Standards Board (CASB) and ICWAI, to the extent they have come into force and are applicable for reporting.

6. The nature and extent of firm's quality control policies and procedures to comply with this Manual will depend on a number of factors such as the size and nature of its practice, operating characteristics, geographic dispersion, organization, appropriate cost or benefit considerations and whether it is part

of a network. Accordingly, the policies and procedures adopted by individual audit firms vary, so also the extent of their documentation.

7. This Manual contains the objective of the firm and requirements designed to enable the firm to meet the stated objectives. In addition, it contains related guidance in the form of application and other explanatory material, and introductory material that provides context relevant to a proper understanding of the manual, and definitions.

8. Systems of quality control in compliance with this Manual are required to be established by 1st April, 2012.

Expressions

9. In this Manual, the following terms have the meanings attributed below:

(i) *Audit* – the expression of audit wherever used includes, audit of cost accounting records under any statute or any other audit or certification of cost/financial statements or any such professional work which a cost accountant in practice or a firm of cost accountants is competent to carry out. (examples of such audit are cost audit, excise audit, VAT audit, inventory audit, broker's audit, bank audit, concurrent audit, etc.)

(ii) *Audit report or Auditor's report* – means cost audit report made under section 233B of the Companies Act, 1956 and includes a report or certificate made under any other statute.

(iii) *Audit risks* – the risk that the auditor expresses an inappropriate audit opinion on cost / financial statements that are materially misstated. Audit risk has three components namely inherent risk, control risk and detection risk.

a) *Inherent risk* – the susceptibility of an assertion about a class of transaction, account balance or disclosure to a misstatement that could be material, either individually or when aggregated with other misstatements, before consideration of any related controls.

b) *Control risk* – the risk that a misstatement that could occur in an assertion about a class of transaction, account balance or disclosure and that could be material, either individually or when aggregated with other misstatements, will not be prevented, or detected and corrected, on a timely basis by the entity's internal control.

c) *Detection risk* – the risk that the procedures followed by the auditor to reduce audit risk to an acceptable low level will not detect a misstatement that exists and that could be material, either individually or when aggregated with other misstatements.

(iv) *Auditee* – means a company or any other legal entity for which audit / certification is carried out by a cost accountant in practice or by a firm of cost accountants.

(v) *Auditor* – means a cost accountant in practice or a firm of cost accountants, appointed under section 233B of the Companies Act, 1956 or under any other statute for carrying out audit/certification of any cost/financial statements.

(vi) *Engagement Documentation* – the record of work performed, results obtained, and conclusions the practitioner reached, including the working papers. The documentation for a specific engagement is assembled in an engagement file.

(vii) *Engagement Partner* – the partner or other person in the firm who is a member of the Institute of Cost and Works Accountants of India and is in full time practice and is responsible for the engagement 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.

(viii) *Engagement Quality Control Review* – a process designed to provide an objective evaluation, before the report is issued, of the significant judgments the engagement team made and the conclusions they reached in formulating the report.

(ix) *Engagement Team* – all personnel performing an engagement, including any experts contracted by the firm in connection with that engagement.

(x) *Firm* – means a sole practitioner, partnership or any other entity of professional cost accountants as may be permitted by law and constituted under The Cost and Works Accountants Act & Regulations.

(xi) *Network firm* – generally means a firm under the common ownership, management or control. This should be read and understood as defined in the Rules of Network formulated by the Institute of Cost and Works Accountants of India.

(xii) *Partner* – any individual with authority to bind the firm with respect to the performance of a professional services engagement.

(xiii) *Personnel* – includes all partners and other staff or experts employed by the firm.

(xiv) *Professional Standards* – engagement standards, as pronounced, from time-to-time, by the Institute of Cost and Works Accountants of India, and includes the Cost Accounting Standards, Cost Audit & Assurance Standards, Generally Accepted Cost Accounting Principles and relevant ethical requirements.

(xv) *Quality* – is the degree to which a set of inherent characteristics of an audit fulfils requirements. It is a measure of excellence or state of being free from defects, deficiencies, and significant variations. It is in relation to the services rendered by the professionals.

(xvi) *Quality Assurance* – is the process established to ensure that requisite controls are in place, are properly implemented, monitored; and potential ways of strengthening, improving and enlarging the controls are identified.

(xvii) *Quality Control* – covers the policies, procedures and systems that are set in an audit firm to assure that it renders professional services consistently of high quality.

(xviii) *Staff* – professionals, other than partners, and including any experts which the firm employs.

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Chapter 2 : Quality Control System Elements

10. The firm's system of quality control shall include policies and procedures which will address the following elements.

(a) **Quality Control Elements within the firm**

- (i) Leadership responsibilities
- (ii) Ethical requirements
- (iii) Human Resources: Requirements, Training & Development
- (iv) Performance Evaluation
- (v) Monitoring

(b) **Quality with respect to Customer & Customer Relationship**

- (i) Acceptance and continuation of client relationship and specific assignments
- (ii) Integrity of client and ethical requirements on the part of the firm
- (iii) Assignment of human resources for engagement performance
- (iv) Assignment of Engagement Partners

Quality Control Elements within the Firm

Leadership Responsibilities

11. The firm should assign responsibility for each assignment to one of its partners or the team leader who shall be responsible for overall quality of such assignment.

12. The proprietor of the entity/partners of the firm shall be responsible for quality maintenance and quality improvement of which recommended features are:

a) Communication of the quality control policies and procedures to all team members / relevant personnel. The methods for communication, scope and frequency thereof should be established.

b) Establishing a process that encourages personnel to communicate their views or concerns on quality control matters.

c) Clearly establishing responsibilities of the proprietor of the entity / partners of the firm and other senior personnel for quality control.

d) Promotion of an internal culture of quality and provision of related practical guidance including coverage in professional development programs.

e) Demonstration of firm's overriding commitment to quality, above commercial considerations through the firm's policies and procedures.

f) Addressing performance evaluation, compensation and promotion; and devotion of sufficient resources for the development, documentation and support of quality control policies and procedures.

g) Ensuring possession of appropriate qualifications, experience, ability and authority of those to whom responsibilities for quality control and performance are assigned.

13. In order to ensure & achieve above quality parameters, it is necessary to set a procedure for documentation, which will cover the following areas –

a) Documenting quality control policies and procedures of the firm and its circulation to all relevant personnel.

b) Documenting & circulating policies & procedures whereby individual employees/personnel can communicate their views or concerns on quality control matters.

c) Documenting responsibilities of the Partner and other senior personnel for quality control and circulation among concerned personnel and Governing Board of the firm.

d) Documenting and circulating relevant practical guidance (including coverage in professional development programs) for quality control.

e) Documenting the firm's requirement of appropriate qualifications, experience, ability and authority of those to whom responsibilities for quality controls and performance are assigned.

14. The firm shall keep and preserve the above documents for prescribed period (unless prescribed by any statute, rules or authority, the firm shall decide and document the period of preservation which should not be less than three years). However, putting those policy documents in public domain is optional.

Ethical Requirements

15. The firm, its partner or the team leader responsible for the assignment should ensure whether members of the audit team have complied with relevant ethical requirements.

16. It is recommended that ethical requirements may be fulfilled by the following:

a) Methods and processes for establishing, promoting, and monitoring ethical conduct among all personnel.

b) Policies and procedures to identify non-compliance with ethical requirements and to document both the issues identified and how they were resolved.

17. Ethical requirements include:

(a) Independence;

(b) Integrity;

(c) Objectivity;

(d) Professional competence and due care;

(e) Confidentiality;

(f) Professional conduct; and

(g) Technical standards

Independence

18. In case of auditors, the independence of the auditing entity is not only a requirement but an essential feature of the audit engagements. The concept of “arms length” relationship in its letter and spirit is absolutely necessary. In view of this, substantive changes have been made in the procedure for appointment of cost auditors under section 233B of the Companies Act, 1956.

19. Notwithstanding the recent developments, since transparency, accountability and independence of the an auditor are considered very important determinants of good enterprise governance; therefore, shareholders should be given the right to appoint cost auditors and have the cost auditor’s report for better evaluation of the company’s performance & risk management.

20. The firm, its partner or the team leader responsible for the assignment should assess the independence requirements which apply to the audit assignment. In this regard, the independence policy issues are:

a) Policies and procedures should be in place to provide reasonable assurance that the firm, its personnel and, where applicable, others subject to independence requirements, maintain independence where required to do so.

b) Communication to, and education of, partners and professional staff, including non-audit personnel, to ensure that they understand the independence policies that relate to their activities.

c) Policies and procedures to identify and evaluate circumstances and relationships that create threats to independence so that appropriate action may be taken to eliminate or reduce the threat to an acceptable level by applying safeguards or, if considered appropriate, by withdrawing from the engagement.

d) Policies and procedures required to ensure compliance with the auditor's independence requirements of the relevant laws & rules.

e) Requirements for engagement partners to provide the firm with relevant information about client engagements, including the scope of services, to enable it to evaluate the overall impact, if any, on independence requirements of accepting or continuing with an engagement.

f) Requirements for the engagement partner to obtain information, consider breaches if any of the firm's independence policies, take appropriate action and document conclusions on compliance with independence requirements that apply to the audit engagement.

g) Requirements for personnel to promptly notify the firm of circumstances and relationships that creates a threat to independence so that appropriate action may be taken.

h) Maintenance of adequate records to identify, communicate, and monitor compliance with, specific independence requirements (e.g., prohibited investment lists) so that appropriate action can be taken regarding identified threats to independence.

i) Policies and procedures to provide the firm with reasonable assurance that it is notified of breaches of independence requirements so that it may take appropriate action to resolve such situations.

j) Periodic written (or electronic) confirmation (at least annually) of compliance with firm policies on independence by all personnel required to be independent.

k) Processes in place to evaluate the appropriateness of undertaking non-assurance services for audit clients.

l) Policies and procedures to reduce the familiarity threat including rotation of individuals with a significant role in a listed company audit engagement and limitations on employment of former partners, directors or lead auditors by audit clients or their related companies.

m) Policies concerning fees and pricing (including fees that constitute a significant proportion of the firm's fees, overdue fees and pricing in proposals).

n) Disciplinary procedures regarding non-compliance with independence policies and procedures.

o) Policies when there is actual or threatened litigation between the firm and an auditee.

p) Policies and practices when independence is determined to be impaired including reporting to any regulatory authority where required.

q) Policies and procedures regarding communication with the audit committee of an auditee including provision of information to the client company allowing adequate disclosure of non-audit services in the director's report or any other document for disclosure.

Familiarity Threat

21. A familiarity threat arises when, by virtue of a close or long-term relationship with a client, its directors, officers or employees, the firm or person on an engagement team may become too sympathetic to the client's interests compromising the independence of the auditor/firm.

22. Rotation requirement - deploying the same principal auditor on an audit or assignments from the firm over a prolonged period of time may create a familiarity threat. This threat is particularly relevant in the context of the audit/assignments of listed entities and safeguards should be applied in such circumstances to reduce such threat to an acceptable level.

Integrity

23. While carrying out the audit assignments, audit firm should ascertain the integrity aspects of the client. This is particularly applicable in case of new clients though such period assessment may also be carried in case of existing clients.

24. Integrity is associated with soundness or moral principles and character in dealings with others. For assessing and evaluating the integrity the following aspects of the client may be considered -

a) The identity, business reputation and attitude of the owners and key management personnel and related parties.

b) The nature of the client's operations, including its business practices.

c) Attitude of the management towards compliance of various statutory requirements including implementation of cost accounting standards, the internal control systems, internal audit etc.

d) Limitations suggested / imposed on the scope of work.

e) The reasons for the proposed appointment of the firm and non reappointment of the previous firm.

Objectivity

25. The test of objectivity shall be whether the audit was carried out in an impartial and fair manner without favor or prejudice. The auditor should base his assessment and opinion purely on facts, audit evidences and on sound analysis.

Professional Competence and due care

26. An auditor should take due care in reporting and authenticating cost / financial statements applying his professional skills and maintaining objectivity and integrity. While exercising due care and reflecting professional competence, firm should possess:

a) an understanding of cost auditing and other standards applicable to fulfill the auditor' responsibilities in the audit;

b) special skills (for example, industry specific knowledge) necessary to perform the work on the cost / financial information of the particular component; and

c) an understanding of the applicable cost/financial reporting framework that is sufficient to fulfill the auditor's responsibilities

Confidentiality

27. Confidentiality is the heart of cost accountancy profession and as a professional, complete confidentiality of information obtained during audit assignment is the basic requirement.

28. Relevant ethical requirements establish an obligation for the firm's personnel to observe at all times the confidentiality of information contained in engagement documentation, unless specific client authority has been given to disclose information, or there is a legal or professional duty to do so.

Professional Conduct

29. Cost accountants are looked upon as trustworthy guardians caring for consumer protection, investor protection, guides to corporate world in cost

leadership. As corollary their professional conduct must also be illustrative and above board.

30. As professionals in the field of Cost and Management Accounting, the members of the Institute of Cost and Works Accountants of India are bound by a code of professional ethics. This code stipulates and binds cost accountants to the highest level of care, duty and responsibility to their employers and clients, the public and their fellow professionals.

Technical Standards

31. The firm should be fully conversant with various pronouncements by the cost accounting / accounting regulatory bodies and should keep updated with the technical standards which may be prescribed from time to time.

Human Resources: Requirements, Training & Development

32. Incase of a professional firm, human resources are the prime assets responsible for success or failure of the firm. The constitution of the team and members which make the team is the major determinant in rendering the quality professional services and hence, this element is dealt with in a separate chapter.

Performance Evaluation

33. Performance Evaluation is necessary for developing and maintaining competence & commitment to ethical principles which include;

a) Making personnel aware of the Firm's expectations regarding performance;

b) Providing personnel with evaluation of performance;

c) Helping personnel understand that advancement to provisions of greater responsibility depends, among other things, upon performance quality; and

d) Explaining personnel in clear terms that the failure to comply with the firm's policies and procedures may result in disciplinary action.

34. In order to evaluate the performance, maintenance of the documents, containing following aspects is recommended:

a) Overall quality on each audit assignment and the responsibility of the engagement partner.

b) Engagement quality and consistency through use of Manuals and/or software tools or other forms of standardized documentation and industry or subject matter-specific guidance.

c) Supervision, quality control and documentation of work during the engagement.

d) Review by more experienced personnel, including the engagement partner, of work performed by less experienced team members prior to issuing the auditors report.

e) Policies and procedures for the assembly of final engagement files on a timely basis after the engagement reports have been finalised.

Monitoring

35. Monitoring refers to a process which is an ongoing exercise for evaluation of firm's quality control systems which also includes periodic inspection of completed assignments on sample basis to provide the firm with reasonable assurance that its quality control systems are operating effectively.

36. A firm has to monitor its personnel, performance procedures, system for reporting and so on as an ongoing exercise. Certain areas for monitoring operations are identified as under –

Monitoring issues for Professional Development

a) Monitor continuing professional education programs and maintain appropriate records, both on a firm and on an individual basis.

b) Review periodically the records of participation by personnel to determine compliance with firm's requirements.

c) Review periodically evaluation reports and other records prepared for continuing education programs to evaluate whether the programs are being presented effectively and are accomplishing firm's objectives.

d) Consider the need for new programs and for revision or elimination of ineffective programs.

Monitoring of Employees and Performance Procedures

a) Define the scope and content of the firm's monitoring program.

b) Determine the monitoring procedures necessary to provide reasonable assurance that the firm's other quality control policies and procedures are operating effectively.

c) Determine objectives and prepare instructions and review programs for use in conducting monitoring activities.

d) Provide guidelines for the extent of work and criteria for selection of engagements for review.

e) Establish the frequency and timing of monitoring activities.

f) Establish procedures to resolve disagreements which may arise between reviewers and engagement or management personnel.

37. **Establish levels of competence** etc. for personnel to participate in monitoring activities and the method of their selection. The relevant issues:

a) Determine criteria for selecting monitoring personnel, including levels of responsibility in the firm and requirements for specialised knowledge.

b) Assign responsibility for selecting monitoring personnel.

c) Conduct monitoring activities.

d) Review and test compliance with the firm's general quality control policies and procedures.

e) Review selected engagements for compliance with professional standards and with the firm's quality control policies and procedures.

Reporting & Corrective Measures

38. Provide for reporting the firm’s findings to the appropriate management levels, for monitoring actions taken or planned, and for overall review of the firm's quality control system. The steps are:

a) Discuss general findings with appropriate management personnel.

b) Discuss findings on selected engagements with engagement management personnel.

c) Report both, general and selected engagement findings and recommendations to firm's Management together with corrective actions taken or planned.

d) Determine that planned corrective actions were taken.

e) Determine need for modification of quality control policies and procedures in view of results of monitoring activities and other relevant matters.

Quality with respect to Customer & Customer Relationship

Acceptance & continuation of client relationship and specific assignments

39. A firm shall establish policies and procedures for the acceptance and continuance of client relationships and specific engagements which will provide reasonable assurance to the firm that it will undertake or continue relationship with client only when it satisfies the following tests -

a) The firm has competence, capability, time & resources to carry out the assignment.

b) The firm complies with the relevant ethical requirements.

c) The firm has considered the integrity of the client and ensured the same at an acceptable level.

40. The firm should establish procedures for evaluation of prospective clients and for their approval as clients. Evaluation procedures could include the following:

a) Obtain and review available cost/ financial statements regarding the prospective client, such as annual reports, interim financial statements and tax returns.

b) Enquire of third parties as to any information regarding the prospective client and its management and principals which may have a bearing on evaluating the prospective client. Enquiries may be directed to the prospective client's bankers, legal advisers, investment bankers, and the financial or business community who may have such knowledge.

c) Communicate with the outgoing auditors. Request in writing of the outgoing auditors if there are any unusual circumstances surrounding the proposed change which the firm should be aware of, so that it may determine whether it should accept nomination.

d) Consider circumstances which would cause the firm to regard the engagement as one requiring special attention or presenting unusual risks.

e) Evaluate the firm's independence and ability to serve the prospective client. In evaluating the firm's ability, consider needs for technical skills, knowledge of the industry and personnel.

f) Determine that acceptance of the client would not violate the Code of Professional Ethics applicable to the firm, its partners and staff.

Evaluating Client Information

41. Designate an individual or group, at appropriate management levels, to evaluate the information obtained regarding the prospective client and to make the acceptance decision.

42. Evaluate clients upon the occurrence of specified events to determine whether the relationships ought to be continued. Events specified for this purpose could include:

a) the expiration of a time period;

b) a major change in one or more of the following:

   (i) Management
   (ii) Directors
   (iii) Ownership
   (iv) Legal Advisers
   (v) Financial condition
   (vi) Litigation status
   (vii) Scope of the engagement
   (viii) Nature of the client's business; and

c) the existence of conditions which would have caused the firm to reject a client had such conditions existed at the time of the initial acceptance.

Preconditions of accepting/continuing any professional engagement

43. Prior to acceptance of any engagement, the firm, in order to establish whether the preconditions for an audit/professional assignment are present, shall:

(a) Determine whether the reporting framework to be applied in the preparation, audit, review of the cost/financial statements is acceptable; and

(b) Obtain the agreement of management that it acknowledges and understands its responsibility:

   (i) For the preparation of the cost/financial statements in accordance with the applicable reporting framework, including where relevant their fair presentation;

   (ii) For such internal control/systems/procedure as management determines is necessary to enable the preparation of cost/financial statements that are free from material misstatement, whether due to fraud or error; and

   (iii) To provide the firm with:

      a. Access to all information of which management is aware that is relevant to the preparation/audit/review etc of the cost/financial statements such as records, documentation and other matters;

      b. Additional information that the firm may request from management for the relevant purpose; and

c. Unrestricted access to persons within the entity from whom the auditor determines it necessary to obtain audit evidence.

Limitation on Scope Prior to Engagement Acceptance

44. If management or those charged with governance impose a limitation on the scope of the auditor's work in the terms of a proposed audit engagement such that the auditor believes the limitation will result in the auditor disclaiming an opinion on the cost/financial statements, the auditor shall not accept such a limited engagement as an audit engagement, unless required by law or regulation to do so.

Other factors affecting Engagement Acceptance

45. If the preconditions for an audit/professional assignment are not present, the auditor shall discuss the matter with management. Unless required by law or regulation to do so, the auditor shall not accept the proposed audit engagement:

(a) If the auditor assesses that the reporting framework to be applied in the preparation of the cost/financial statements, is unacceptable, or

(b) If the agreement has not been concluded.

Agreement on Audit Engagement Terms

46. The auditor shall agree terms of audit engagement with the management or those charged with governance, as appropriate. The agreed terms of the audit engagement shall be recorded in an audit engagement letter or other suitable form of written agreement and shall include:

(a) The objective and scope of the audit of the cost/financial statements;

(b) The responsibilities of the firm;

(c) The responsibilities of management;

(d) Identification of the applicable financial reporting framework for the preparation of the cost/ financial statements; and

(e) Reference to the expected form and content of any reports to be issued by the auditor and a statement that there may be circumstances in which a report may differ from its expected form and content.

47. If law or regulation prescribes in sufficient detail the terms of the audit engagement referred to above, the firm need not record them in a written

agreement, except for the fact that such law or regulation applies and that management acknowledges and understands its responsibilities.

48. Decision to accept or continue any professional engagement and the need for disclosure of any content of the report or view of the individual firm, to appropriate authorities other than the clients (Regulator, Government or other authorities), if any, shall be based on above considerations subject to paragraphs 42 & 43 above.

Criteria for declining, and withdrawing from an Engagement

49. Based on the evaluation of client information and the following factors, the firm will determine and document the boundary conditions beyond which it would be prudent to decline, or withdraw from an engagement:

a) Client's status/information that is likely to impact adversely on the independence of the firm.

b) Ability of the firm to provide appropriate service to the client, considering needs for technical skills, knowledge of the industry and personnel.

c) Communication with the outgoing auditors. Request in writing of the outgoing auditors if there are any unusual circumstances surrounding the proposed change which the firm should be aware of, so that it may determine whether it should accept nomination.

d) Consider circumstances which would cause the firm to regard the engagement as one requiring special attention or presenting unusual risks.

Integrity of client and ethical requirements on the part of the firm

50. In this context, the following policies and procedures are needed:

a) Procedures for the validation of the integrity and reputation of the client or potential client, including key members of management and those charged with governance.

b) Procedures to determine the competence of the firm or practitioner to perform the engagement and availability of resources and adequate time to do so.

c) Ability to meet the ethical and independence requirements.

d) Policies and procedures where information is obtained subsequent to an engagement acceptance or continuation which, if the information had been obtained earlier, would have caused the engagement to be declined.

Assignment of human resources for engagement performance

51. The following policies and procedures need to be established in this context:

a) Policies and procedures for assigning the responsibility for each engagement to an engagement partner and communicating this information to client management and those charged with governance.

b) Policies and procedures regarding engagement partner capability, competence and authority.

c) Policies and procedures regarding assigning appropriate staff with the necessary capabilities, competence and time to perform engagements.

Assignment of Engagement Partners - Policies & Procedures

a) Establish policies and procedures for assigning the responsibility for each engagement to an engagement partner and communicating this information to client management and those charged with governance.

b) Policies and procedures regarding engagement partner capability, competence and authority.

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Chapter 3 : Quality of Audit and Audit Firm

Quality of an Audit

52. The quality of an audit can be judged on the following parameters -

a) **Significance** – the size of the auditee and impact of its business on the public and society at large decides the importance of the matter that was examined in the audit process.

b) **Reliability** – when Audit observations, findings, conclusions and recommendations reflect truly the prevailing conditions with reference to matter under examination, it stands the test of reliability.

c) **Objectivity** – denotes unbiased and impartial approach which is just and not influenced by emotions or personal prejudices.

d) **Scope** – refers to area & coverage of audit plan with essential elements and whether it was satisfactorily covered during the audit process.

e) **Timeliness** – whether time frame as per the audit plan is adhered to. The timeliness may be with reference to statutory date schedules or as per the agreement of assignment by the auditee.

f) **Clarity** – the observations and findings in the audit report need to be presented in a manner free from indistinctness or ambiguity. The report should have clarity or lucidity as to perception or understanding. The audit observations and recommendations should be easily understandable by the recipient and the user of the audit report who may not be proficient in the subject matter.

g) **Efficiency** – whether the audit team had the requisite knowledge and expertise to handle the subject matter.

h) **Effectiveness** – refers to the acceptance of the audit observations/ recommendations by the recipient of the audit report whether by the auditee company or Govt. Departments or the stakeholders of the business or the public at large.

i) **Suggestions** – the audit report should also include the valuable suggestions with view of adding value to client's activities wherever possible

Quality of an Audit Firm

53. The quality of an audit firm is also dependant on the following characteristics:

(a) Integrity;

(b) Objectivity;

(c) Professional competence and due care;

(d) Confidentiality; and

(e) Professional judgment – Capacity & capability of exercising a sound professional judgment is an inherent requirement for quality conduct of an audit. An Auditor has to interpret and to take decisions based on his knowledge and experience surrounding the facts and circumstances of an issue. An auditor has to exercise his judgment as to the audit risks involved, sufficiency and adequacy of the audit evidences collected, management's approach and integrity and so on. The degree of professional judgment also depends upon the auditor's competence, expertise, professional qualifications, aptitude and level in the hierarchy.

(f) Establishment of quality control processes - A system of quality control consists of policies designed to achieve the objective set out and the procedures necessary to implement and monitor compliance with the designed policies. Quality control processes should be carried out in a prescribed way and be documented. These processes may be supported by questionnaires and checklists in prescribed forms. The audit team should follow the quality control procedures suitable to the audit object.

(g) A firm should establish a system of quality control so as to provide it with reasonable assurance that the firm and its audit team comply with professional standards and regulatory and other legal requirements.

(h) The firm, its partner or the team leader shall be responsible for directions, supervision and performance including quality control review of the assignment. This review consists of objective evaluation of the judgments made by the audit team and conclusions reached in formulating the auditor's report.

Direction includes information to team members as regards their responsibilities and objectives of the processes they perform. Team member should also be informed of the nature of the entity's business and the possible issues that may arise during the course of audit.

Supervision involves monitoring the progress of the audit and to ensure that the work is being carried out as per the overall audit plan and audit program.

(i) The firm, its partner or the team leader should promote an internal culture for quality and impress on the team members that quality is essential in performing any audit assignment.

(j) The performance evaluation including compensation and promotion of the team members may also be based on observance of evaluation of quality parameters set by the firm.

(k) At no cost, commercial considerations should override the quality perspectives of an assignment.

(l) The development of quality culture within the MA firm can be done by organizing training seminars, meetings, formal or informal dialogue, mission statements, newsletters, or briefing memoranda etc.

Peer Review

54. As per Oxford dictionary "Peer" means person who is equal in ability, standing, rank or value. Term "Review" means a general survey or assessment of a subject or thing. In common parlance the term "peer review" would mean review of work done by a professional, by another professional of similar standing.

55. The main aim of Peer Review is to ensure that while carrying out the professional assignments, the cost accountants adhere to the following norms:

a) Comply with the various Standards laid down like Cost Accounting Standards, Cost Audit & Assurance Standards and Generally Accepted Cost Accounting Principles.

b) To incorporate proper systems to maintain the quality and standard of professional assignments

56. The purpose of Peer Review is not to find out the deficiencies in the working of professionals but to improve the quality of work performed by them. The peer review is intended towards maintenance as well as improvement in quality of professional services and to provide guidance to members to improve their performance and adherence to various statutory and other regulatory requirements.

57. The objective of the peer review process is amply clear that the Peer Review is not going to give more importance to the judgement while rendering professional services, but to evaluate the procedures followed in rendering such services. Thus Peer Review is expected to recommend measures to improve the procedures followed in rendering the professional services. Further it can be said that Peer Review is not aimed to pinpoint the cases of engagement failures but to identify the weaknesses which can be pervasive and frequent in nature.

58. Peer Review Process: The process of Peer Review includes following main steps:

a) Selection and empanelment of Reviewers

b) Selection of entity to be reviewed

c) Intimation of Peer Review decision to the entity along with questionnaire

d) Return of Questionnaire by the entity

e) Visit by Reviewers

f) Sample check of records by Reviewers

g) Reporting by Reviewers

h) Follow up review, if reviewer is not satisfied

i) Final Report

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Chapter 4 : Human Resources

59. The quality of Human Resources plays the most significant role in providing and assuring quality in professional services by a firm of professional cost accountants. An excellence in quality services can only be achieved if there are corresponding excellent personnel.

60. To achieve standard of excellence in the professional assignment requires competent audit team and effective quality controls at all stages in the audit process. A firm should create an environment to maintain consistently high quality and aim at continuous improvement in the effectiveness and quality of services it renders. For this, a firm requires dedicated and devoted Audit Team.

61. The firm should continuously assess its manpower requirement at various levels, with different skills sets. Understaffing may be economic in the short term but will prove to be costlier in the long run. Similarly, overstaffing should also be avoided which has inherent limitations like calling for inefficiencies, wastage of resources, disturbance to other employees and organization and on top of all a high cost structure for a firm and consequently for the auditee. It endangers the professional opportunities of the firm in terms of loss of clientele. The firm should have adequate staff to handle the assignments effectively keeping in mind the growth requirement of the firm.

62. The firm should establish policies and procedures to ensure that it has adequate, competent and human resources committed to ethical standards to perform audit assignments with adherence to professional standards and within the limits of Legal and Regularity requirements which will enable the firm to issue reports which are valuable to the client and appropriate to the audit assignment.

63. For fulfilling the human resource objectives following are recommended:

a) Policies and procedures to provide the firm with reasonable assurance that it has sufficient personnel with the capabilities, competence and commitment to ethical principles to perform its engagements.

b) Policies and procedures addressing the following: Recruitment, Performance evaluation, Capabilities, Competence, Career development, Promotion, Compensation and Estimation of personnel needs.

c) Policies and procedures regarding professional development, education and training, including: Course coverage of all necessary skills for the performance of audits, including ethical standards and industry expertise; Regular assessment of professional development needs and assignment of personnel to courses accordingly; Evaluation of participants and of instructors; Maintenance of attendance records; Follow-up and consequences of non-attendance; Professional development record for each partner and employee, including evaluations.

d) Disciplinary procedures regarding non- compliance with firm policies and procedures

64. Personnel issues relating to human resources include the following:

(a) Recruitment

(b) Training & Education

(c) Performance evaluation

(d) Career development in the context of capabilities & competence

Recruitment

Recruitment Program Objective

65. The recruitment program objectives of a firm are:

a) Maintain a program designed to obtain qualified personnel by planning for personnel needs, establishing hiring objectives, and setting qualifications for those involved in the hiring function.

b) Plan for the firm's personnel needs at all levels and establish quantified hiring objectives based on current clientele, anticipated growth, and retirement.

Design Hiring Program

66. Design a program to achieve hiring objectives which provides for:

a) Identification of sources of potential candidates.

b) Methods of contact with potential candidates.

c) Methods of specific identification of potential candidates.

d) Methods of attracting potential candidates and informing them about the firm.

e) Methods of evaluating and selecting potential hirees for extension of employment offers.

f) Inform those persons involved in hiring as to the firm's personnel needs and hiring objectives.

g) Assign to authorised persons the responsibility for employment decisions.

Monitoring the effectiveness of the Recruiting Program

67. Following steps may be taken to monitor the effectiveness of the recruiting program:

a) Evaluate the recruiting program periodically to determine whether policies and procedures for obtaining qualified personnel are being observed.

b) Review hiring results periodically to determine whether goals and personnel needs are being achieved.

c) Establish qualifications and guidelines for evaluating potential hirees at each professional level.

d) Identify the attributes to be sought in candidates, such as intelligence, integrity, honesty, motivation and aptitude for the profession.

Identification Parameters

68. Identify achievements and experiences desirable for entry level and experienced personnel. For example:

a) academic background;
b) personal achievements;
c) work experience; and
d) personal interests.

Arms Length Recruitment

69. Set guidelines to be followed when hiring individuals in situations such as:

a) Hiring relatives of personnel or relatives of clients;
b) Rehiring former employees; and
c) Hiring client's employees.

Background Information and Documentation

70. Maintain adequate information and documentation, such as:

a) resumes;

b) application forms;
c) interviews;
d) academic record;
e) personal references; and
f) former employment references.

Evaluating Qualification

71. Evaluate the qualifications of new personnel, including those obtained from other than the usual hiring channels (for example, those joining the firm at supervisory levels or through merger or acquisition), to determine that they meet the firm's requirements and standards.

Feedback to new Recruitees

72. Inform applicants and new personnel of the firm's policies and procedures relevant to them.

a) Use a brochure or other means to inform applicants and new personnel.
b) Prepare and maintain a Manual describing policies and procedures for distribution to personnel.
c) Conduct an orientation program for new personnel.

Training & Education

73. The firm should provide effective training for the staff members. Various types of training should be imparted to the staff, e.g. introductory and induction training to the newly employed, technical and skill enhancement training to the existing staff, managerial training for the higher level staff and so on. Continuous education is the buzzword and in this era of competition, the team members must update and upgrade their knowledge and skill. The ICWAI has taken a lead in this direction and has also introduced a scheme for continuous education program as a mandatory requirement for its professionals. All cost accountants, whether in practice or service, should consider this scheme and try to keep themselves updated at all times.

74. A firm should have genuine commitment to the development and training of their team members. The firm should establish proper policies and procedures:

a) Establish continuing professional education requirements for personnel at each level within the firm.
b) Consider legislative and professional bodies' requirements or voluntary guidelines in establishing firm requirements.

c) Encourage participation in external continuing professional education program, including self-study courses.

d) Encourage membership in professional organisations. Consider having the firm pay or contribute toward membership dues and expenses. Consider firm paying the membership fees and contributing the expenses of such professional organizations.

e) Encourage personnel to serve on professional committees, write articles, and participate in other professional activities.

Technical Information

75. Make available to personnel, information about current developments in professional technical standards and materials containing the firm's technical policies and procedures and encourage personnel to engage in “self development” activities. Provide personnel with professional literature relating to current developments in professional technical standards.

a) Distribute to personnel material of general interest, such as relevant international and national pronouncements on cost accounting / accounting and auditing matters.

b) Distribute pronouncements on relevant regulations and statutory requirements in areas of specific interest, such as company, securities and taxation law, to persons who have responsibility in such areas.

c) Distribute Manuals containing firm's policies and procedures on technical matters to personnel. Manuals need to be updated for new developments and changing conditions.

d) Provide technical literature relating to specialised areas and industries.

In-House Training

76. For training programs presented by the firm, develop or obtain course materials and select and train instructors.

a) State the programs objectives and education and/or experience prerequisites in the training programs.

b) Provide that program instructors be qualified as to both program content and teaching methods.

c) Have participants evaluate program content and instructors of training sessions.

d) Have instructors evaluate program content and participants in training sessions.

e) Update programs as needed in light of new developments, changing conditions, and evaluation reports.

f) Maintain a library or other facility containing professional, regulatory and firm literature relating to professional and technical matters.

77. Provide, to the extent necessary, programs to fill the firm's needs for personnel with expertise in specialised areas and industries.

a) Conduct programs to develop and maintain expertise in specialised areas and industries, such as regulated industries, computer auditing, and statistical sampling methods.

b) Encourage attendance at external education programs, meetings, and conferences to acquire technical or industry expertise.

c) Encourage membership and participation in organisations concerned with specialised areas and industries.

Performance Evaluation

78. Evaluate performance of personnel and advise them of their progress. Gather and evaluate information on performance of personnel.

a) Identify evaluation responsibilities and requirements at each level indicating who will prepare evaluations and when they will be prepared.

b) Instruct personnel on the objectives of personnel evaluation.

c) Utilize forms, which may be standardized, for evaluating performance of personnel.

d) Review evaluations with the individual being evaluated.

e) Require that evaluations be reviewed by the evaluator's superior.

f) Review evaluations to determine that individuals worked for and were evaluated by different persons.

g) Determine that evaluations are completed on a timely basis.

h) Maintain personnel files containing documentation relating to the evaluation process.

Periodically Counsel the Personnel

79. Review periodically with personnel the evaluation of their performance, including an assessment of their progress with the firm. Considerations would include the following:

a) performance;

b) future objectives of the firm and the individual;

c) assignment preference; and

d) career opportunities.

80. Evaluate partners periodically by means of senior partner or fellow partner evaluation and counseling as to whether they continue to have the qualifications to fulfill their responsibilities.

81. Review periodically the system of personnel evaluation and counseling to ascertain that:

a) procedures for evaluation and documentation are being followed on a timely basis;

b) requirements established for advancement are being achieved;

c) personnel decisions are consistent with evaluations; and

d) recognition is given to outstanding performance.

Career Development in the context of Capabilities & Competence

82. It makes the team members more proficient to carry out their responsibilities and also makes individuals capable of assuming more important roles and positions. A good plan of carrier development boosts the moral of the team members which improves their performance enhancing the quality of jobs they perform.

83. Establish qualifications deemed necessary for the various levels of responsibility within the firm.

a) Prepare guidelines describing responsibilities at each level and expected performance and qualifications necessary for advancement to each level, including:

   (i) Titles and related responsibilities; and

   (ii) The amount of experience (which may be expressed as a time period) generally required for advancement to the succeeding level.

b) Identify criteria which will be considered in evaluating individual performance and expected proficiency, such as:

   (i) technical knowledge;

   (ii) analytical and judgmental abilities;

   (iii) communication skills;

   (iv) leadership and training skills;

   (v) client relations;

   (vi) personal attitude and professional bearing (character, intelligence, judgment and motivation); and

   (vii) qualification as a professional accountant for advancement to a supervisory position.

Advancement decision

84. Take necessary steps such as:

a) Assign responsibility to designated persons for making advancement conducting evaluation interviews with persons considered for advancement, documenting the results of the interviews, and maintaining appropriate records.

b) Evaluate data obtained giving appropriate recognition in advancement decisions to the quality of the work performed.

c) Study the firm's advancement experience periodically to ascertain whether individuals meeting the stated criteria are assigned increased degrees of responsibility.

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Chapter 5 : Quality Issues

Objectives

85. In this chapter, unless otherwise stated or, necessarily implied from the context, the term 'Audit' means statutory Cost Audit under provisions of the Companies Act, 1956; 'Auditor' means 'Cost Auditor' and 'Audit Report or Auditor's Report' means 'Cost Audit Report'.

86. The purpose of this chapter is not to provide guidelines on how to conduct Cost Audit efficiently and effectively. This chapter outlines the general principles underlying the "quality performance" of objective and independent cost audit process and their requirements. Following these principles as guides to action/decision and fulfilling the requirements are likely to bring excellence in the "quality" of cost audit performed by cost accountants.

Quality issues

87. Following are the major quality issues relating to cost audit:

Procedural Quality Issues

a) Audit Purpose
b) Scope of Cost Audit
c) Audit Program
d) Audit Planning
e) Qualitative Excellence in Audit in ERP Environment
f) Audit Team
g) Audit Execution
h) Audit Communication
i) Audit Documentation
j) Audit Reporting
k) Audit Follow-up
l) Post Audit Quality Assurance

Operational Quality Issues

a) Audit Sampling
b) Audit Evidence
c) Analytical Procedures
d) Using the work of an Internal Auditor
e) Relying on External Experts' Opinion
f) External Confirmation
g) Written representation

Company

a) Company responsibility
b) Requirements from Company

Procedural Quality Issues

Audit Purpose

88. The purpose of an audit is to enhance the degree of confidence in the cost/financial statements, of intended users. An auditor expresses his opinion as to whether the significant reporting aspects of an enterprise are duly covered within the prescribed framework. He has to express his opinion on the statements certified by him whether they are "fair" in all material aspects and present "a true & fair" view.

89. The auditor has to provide an assurance to the users of cost / financial statements that these statements are free from material misstatement. Even though the auditor uses the words like "fair", "reasonable" etc., it is presumed that the level of assurance is "high". However, it does not imply an absolute level of assurance due to inherent limitations of an audit, e.g. the quality and reliability of audit evidence, audit sampling, dependence on expert opinions etc.

Scope of Cost Audit

90. An opinion expressed by an auditor on the cost / financial statements provide an assurance whether these statements are prepared as per the applicable reporting framework. Such an opinion is necessary and commonly applicable to all statements authenticated by the auditor. This may be true, incase of financial audit since it does not touch upon the efficiency or effectiveness in conducting the business operations of an entity by the management. Financial reporting frameworks are fair presentation more in the nature of compliance frameworks. Many times it is a "checklist" approach to auditing which leads to audit failures. However, the scope of cost audit is much wider and a cost auditor is also required to comment on efficiency and effectiveness parameters. Cost Auditor is also required to suggest measures for making further improvements in the performance in respect of cost control, cost reduction etc. He has also to offer his observations and suggestions relevant to the audit conducted by him. Thus, cost audit travels far beyond the compliance audit and is much wider in its scope and utility to stakeholders. The Companies (Cost Audit Report) Rules, 2011 notified by the Central Government on 3rd June 2011 also enjoins upon the cost auditor an additional responsibility to undertake detailed analytical examination and submit a Performance Appraisal Report to the management of the auditee company.

Audit Program

91. Audit program for the firm – A firm should prepare an "Assignment Program" including audits, both statutory and voluntary, internal or external, periodic or annual. The resources for these professional assignments should be planned on long term basis, at least on yearly basis. This program planning will define the requirement of resources as against availability so as to find the gaps and to take measures to fill them. The firm should keep flexibility to accommodate additional assignments and interchange priorities of assignments. The firm should be ready to adjust its yearly program based on exigencies without compromising the quality outputs.

92. "Audit program", describes the series of audits that are anticipated to be performed over some specified period of time.

Audit Planning

93. "Audit plan", describes the processes and activities that are carried out in connection with a particular audit.

94. An auditor should plan an audit so that it is performed in an effective manner. The audit planning should also include establishing an overall audit strategy for the audit.

95. Availability of resources and skill sets of the staff – The availability of skilled audit personnel is always a constraint in case of firms. The demand for resources also exceeds the availability in majority of cases. Hence, a firm has to judiciously form an audit team or assign the professional assignments to its staff such that there is adequate staff in terms of nos. and skill sets that are demanded by the professional assignment. Audit staff which requires more physical abilities for perpetual stock taking assignments may not be suitable for carrying out due diligence type audits.

96. Selection of timing – The firms have little choice or discretion regarding timing to perform the audits. Cost audits are necessarily to be performed and completed as per the statutory limits. Hence, substantial resources may have to be engaged on assignments having such statutory time frames. During such period, the internal resources of the firm may get strained and the firm may look for alternative and additional resources to maintain the quality in carrying out the assignments. The work reallocations may be another option to tie over the busy periods.

97. The firm should prepare and document Audit Plan. While preparing the audit plan consideration should be given to the availability of skilled audit staff, the time frame for audit performance and completion, the nature and

complexities involved, risk assessments and the audit tests to address to those risks.

Elements of an Audit Plan

98. The audit plan should include the following elements:

a) The purpose and objectives of the audit

b) Legal framework under which the audit is being conducted

c) Significant areas and issues involved

d) Process and technique to be adopted

e) Audit Check points, audit activities

f) Allocation of work contents amongst the audit staff

g) Time schedules for completion of various tasks/ phases of audit

h) Determining time lines for submission of Draft Report, discussion thereon with the auditee and submission of final report

i) Areas to be classified on "Risk" criteria to allocate suitable resources

j) Determining the extent of detailed examination and coverage in terms of volume

k) Evaluation of internal controls and professional work carried out by other agencies / experts/ auditors and placing reliance thereon

l) Materiality considerations and determining the threshold therefore

m) Structure, contents of the report

Essentials of Audit Planning

99. For a successful audit plan, the following should be adhered to by the firm, its partners and staff:

a) The elements of an audit plan may be similar for different auditee entities. However, the actual contents may differ from auditee to auditee enterprise, and on nature, type & objective of the audit or authentication assignment.

b) The audit plan should be reviewed by the experienced auditor, normally not engaged on the assignment. Their experience may be useful to modify the audit plan to meet the audit objectives more vigorously.

c) The audit plan should be flexible enough to accommodate modifications which may be necessary and should be carried out with the approval of team leader.

d) Auditing involves the collection and analysis of facts and data sufficient to reach reliable and valid conclusions about the subject of the audit.

e) The auditing staff should be made familiar of the quality control policies and procedures of the firm. The hierarchy, responsibility & authority for decision making needs to be clearly defined and understood by the audit staff.

f) The Audit plan includes the nature, timing and extent of audit procedures to be performed by audit teams. Sometimes audit plan requires modification based on revised consideration of assessed risks. e.g.. Auditor gets some information during the course of audit which differs significantly from the information available when the auditor planned the audit procedure.

Qualitative Excellence in Audit in ERP Environment

100. With the advent of and spread of computerized accounting, introduction and implementation of ERP systems, an auditing firm must acquire the skills to conduct the audit in those environments. The audit team should have the knowledge of mechanized accounting and should be equipped to handle the systems in place at the auditee entity. The familiarity with the computerization and handling of various systems will not only increase the efficiency and effectiveness of the audit but rather should be considered as a basic and fundamental requirement for an audit firm. In this perspective, the systems audit assumes great significance.

101. With the advancement of technology and exposure of Indian businesses to global practices, computerization has spread to the grass root level of any business operation. Computerization in this context is not limited to use of computers for calculations but it involves using of sophisticated computerized systems for controlling business operations. Enterprise Resource Planning (ERP) System is an integrated computer based system used to manage internal and external resources effectively. The ERP systems today virtually cover each and every aspect of business. The development and sophistication level in ERP Systems has reached a level where the ERP System act as an Artificial Intelligence and help business management in decision making for complex business scenarios. The ERP systems come in all shapes and sizes. There are specialized ERP systems based on nature of industry, size of business, business

function to be controlled, etc. ERP System developers are bringing to the world latest of technology and riches of business experience in a harmonized way.

102. All this has tempted the business around the world, irrespective of its nature and size, to do away with the traditional practice of business control and adopt the ERP System. ERP Systems bring a sea change to the fundamentals of Record Keeping, Data Processing, Information Availability and Management Reporting. ERP Systems integrate all the business functionalities to have a better control over various business processes and effective management reporting. This integration is not limited to same ERP system within the same business enterprise but it spreads across the ERP systems and business entities enabling backward and forward business entity integration.

103. Thus in an ERP environment the nature of transaction is varied and there is complexity in the business transactions. The Internal Controls are system driven. All this calls for a specialized knowledge for review and audit of a business enterprise operating in ERP environment. For conducting any audit, the auditor needs to collect considerable data and information from ERP system. Auditor needs to evaluate audit risk and reliability of the information received from the ERP system. As already mentioned, this information is not primary information but is outcome of complex computing technique and programs used by the ERP system and hence requires expertise in different models of ERP systems. This need for expertise has given birth to two fundamental techniques of auditing –

a) Auditing Through System
b) Systems Audit

104. It is responsibility of an auditor to have an insight of both the techniques of audit mentioned above so as to deliver the quality of work expected of him/her. Each of the above technique requires specialized knowledge and special audit program. These audit techniques call for a systematized, structured, timely and informed approach to auditing to achieve the desired objective of Qualitative Excellence in Audit in ERP Environment.

Auditing Through System

105. Auditor evaluates the Audit Evidence generated from the ERP system and accesses Audit Risk using various audit tools deployed in the ERP system. Auditor makes use of various system functionalities and reports and evaluates the fundamental system logic to obtain satisfactory level of confidence in the Audit Evidence and to mitigate the Audit Risk.

106. Following are the points which an auditor may use as fundamental guiding block for this technique of auditing to deliver a high quality service –

a) For this auditing technique auditor need not have too much of technical knowledge about the ERP System and the peripheral components, both Hard Ware and Software.

b) This auditing technique calls for strong Functional and Inter Functional Knowledge, Data Processing and Information Analysis Skill, Critical Analytic Skills and Knowledge of Auditing Tolls on part of Auditor.

c) Knowledge of basic architecture of the ERP System is necessary.

d) Knowledge about the basic functionality offered by the ERP System.

e) Knowledge of the various Functional Modules available in the system.

107. Their features and functionalities and integration points among them.

a) Knowledge about the internal controls available as a part of the ERP System (Standard system).

b) Auditor should collect information about the actual implementation of ERP System – Functional Modules Implemented, Businesses Processes Mapped, Extent of Implementation (geographical, business partners, etc), etc.

c) Information about interface with other ERP systems. System controls for such an interface.

d) Auditing Tools – Many ERP systems come with inbuilt Auditing Tools.

108. There are many Audit Tools available which can be used by auditor in any of the ERP system he is auditing. Auditor should make use of these Auditing Tools for efficient and effective audit.

a) Auditor should use various techniques such as “Black Block Testing”, “Penetration Testing”, “Transaction Testing”, “Configuration Testing”, etc. for collecting audit evidence and ensuring that internal controls are in place.

b) Information about SOD Matrix (Segregation of Duties) and its implementation in ERP System. Validation of SOD Matrix is one of the most critical activities in this audit technique.

c) The ERP Systems provide a large number of Reports as a standard functionality. Target Users for these reports are different and hence the information presented by this reports is very pointed and specific. Knowledge of various reports and ability to interpret the information correctly is very important.

d) Knowledge of ERP system's functioning logic for the area under audit and for all the areas which integrate with it. For example, if the area of audit is Project Costing, then knowledge of how the ERP system calculates Revenue Recognition, Cost of Completed Contract, etc. is necessary. Knowledge of link between various projects, sales orders, production orders, purchase orders, stock reservations, expenses, budgeting, etc. is also necessary.

e) The information generated through ERP System may not always be directly usable. It needs to be processed by the auditor for his/her use. Knowledge and expertise in various data processing utilities such as "Excel Work Sheets" is very important.

Systems Audit

109. Audit that encompasses review and evaluation of automated information processing system, related non automated controls and the interface between them.

> *'Information systems auditing is the process of collecting and evaluating evidence to determine whether a computer system safeguards assets, maintains data integrity, allows organizational goals to be achieved effectively and uses resources efficiently' – Ron Weber.*

110. From the above definition, it is clear that Systems Audit is a special type of Auditing Technique. With the advancement of technology and spread of ERP Systems, Systems Audit has emerged as a separate branch of audit. Systems Audit varies greatly from the traditional concept of audit as it requires a very strong technical knowledge along with functional knowledge. Hence the Systems Audit is divided into two streams one is Functional Systems Audit and second is Technical Systems Audit.

111. Following are the points which an auditor may use as fundamental guiding block for this technique of auditing to deliver a high quality service –

a) Knowledge of various Hard Ware and Soft Ware components of the ERP System.

b) Knowledge of the Technology Used in designing the ERP System Soft Ware. Knowledge about the fundamental features of this technology, its advantages and risks involved in using the specific technology. Knowledge of parallel technologies and on going advancements in the used technology is also very critical.

c) Knowledge of various Operating System Platforms, their strengths and vulnerabilities.

d) Knowledge of Anti Virus Software available in the market; their advantages and limitations.

e) Knowledge about different Network Architectures, their advantages, shortcomings, etc.

f) Knowledge about the Operating System Platform, Anti Virus Software and Network Architecture Used by the organization and reasons there of. Critical evaluation of the choice of these based on the requirements of the organization, available options and SWOT analysis for each of them.

g) Knowledge about various technologies in Network Protection both in terms of Hard Ware and Software e.g. – Fire Walls, Proxy Servers, Data Encryption, Modes of data transfer, etc.

h) Knowledge about various modes of data storage and backup available in the market. Knowledge about strengths and risks in using each of these modes.

i) Knowledge about the data storage and backup method and technology used by the organization. Critically evaluation of the choice of these based on the requirements of the organization, available options and SWOT analysis for each of them.

j) Knowledge of BCP (Business Continuity Plan) and DRP (Disaster Recovery Plan) for the organization.

k) Critical validation of the BCP and DRP to identify unmitigated potential risks and vulnerabilities.

l) Knowledge about the testing procedure for the BCP and DRP. Knowledge about actual testing and result of activation of BCP and DRP.

m) Knowledge about various access control technologies available. Access control refers to both logical as well as physical access control to Information Assets.

n) Knowledge of the Access Control technology used in the organization. Critically evaluation of appropriateness of the technology used, unmitigated risks and vulnerabilities.

o) Knowledge about the ERP system program logic. Knowledge about the features available in the ERP System to ensure data integrity, data consistency and data security.

p) Knowledge about the scalability of the ERP System, its current operating efficiency and future requirements.

q) Knowledge of various Manual processes that integrate with the system processes. Assurance on the adequacy of controls over these processes and validation of the same.

112. All the above information will help the auditor to conduct a quality Systems Audit to ensure that the information asset (Physical or Logical) is protected against all the potential and identified threats. The System Audit also ensures that the ERP System itself is protected against risks and is configured in such a way to deliver data integrity, data consistency and data security.

Audit Team

113. The firm, its partner or the team leader responsible for the assignment should select the audit team members taking into consideration the following matters –

a) Theoretical and practical knowledge and experience, understanding and exposure of similar nature and complexity of the auditee entity.

b) Technical knowledge and expertise including technology issues.

c) Knowledge and understanding regarding professional standards, regulatory and other legal requirements, ability to take professional judgments etc.

Audit Execution

114. Success of audit execution depend upon the following:

a) The contents of the audit plan should be properly explained to the members of the audit team by the team leader.

b) The team leader should ensure that the persons involved in the audit process have understood the audit plan and the tasks to be performed by each one of them.

c) The audit plan may require modification due to unforeseen situations. Such changes should be incorporated, documented along with reasons necessitating such changes and approval should be obtained from principle auditor.

d) Supervision: There should be proper an adequate supervision to ensure that the audit tasks are performed carefully. In case of difficulties the team leader should provide further assistance and guidance to the team members.

e) Audit team members should maintain record as regards completion of audit tasks and the results should also be documented which should be reviewed and approved by the higher authorities (team leader). Audit working papers assume significance and are essential part of an audit process.

f) The audit team members should maintain audit working papers in a systematic manner which contains the results of audit testing and findings.

g) The audit evidence denotes the basic data, records, facts and figures on the basis of which audit observation/ findings/ conclusions are drawn. It should be sufficient and relevant to rely upon.

h) Knowledge and skills of professionals, not available in house, may be outsourced in case of issues which require technical inputs.

115. An auditor needs to apply concept of materiality both in planning and during the execution of the audit. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the cost / financial statements. The auditor's determination of materiality is a matter of professional judgment, and is affected by the auditor's perception of the cost / financial information.

116. To provide assurance to the user of cost / financial statements and to maintain objectivity and qualitative approach in his audit assignment, an auditor should exercise professional judgment and maintain professional skepticism both in planning and execution stages of audit.

a) Auditor should identify the potential risk areas leading to material misstatements.

b) Auditor should collect adequate and appropriate audit evidence if he has apprehensions regarding existence of material misstatements.

c) Auditor should draw conclusions from the audit evidences obtained by him and then only should form an opinion on the cost / financial statements which should be expressed in the applicable reporting framework and / or applicable law or regulation.

117. While executing Audit, the Auditor should follow analytical procedures, which means evaluation of cost and financial information through analysis of credible relationships among both financial and non financial data. Analytical procedures also include investigation to identify fluctuations or relationships that are inconsistent.

Audit Communication

118. Effective two way communication between the auditor and auditee is an essential feature of a quality audit. Communication helps developing relationship between the two while maintaining independence of auditor and objectivity of the audit.

119. An auditor has to balance the potential conflict between his obligations of confidentiality and obligations to communicate, especially with outsiders. The law and regulation may restrict the auditor's communication of certain matters and the auditor may consider obtaining legal advice on those issues.

120. The auditor should communicate with the management about his responsibility for forming and expressing an opinion on the cost / financial statements prepared by the management however, he should also communicate to the management that it does not relieve management of their responsibilities relating to the statements prepared by the management.

Audit Documentation

121. Audit documentation refers to the record of audit procedures performed, relevant audit evidence obtained, and conclusions reached by the auditor.

122. Audit documentation is required as sufficient and appropriate record of the basis for the Auditor's Report and providing evidence that the audit was planed and performed as per the audit plan and complying with legal & statutory requirements.

123. The auditor shall document discussions of significant matters, when and with whom the discussions took place.

124. The firm should establish its policies and procedures for audit documentation. Audit documentation should be completed "in time" even though no time limits as such are normally prescribed by any statute. It may be considered to be a good practice to complete audit documentation within a period not exceeding 45/60 days from the date on which the audit report is rendered. Incase of statements are authenticated / certified by practicing cost accountant, the period may be restricted to 15 days from the date on which certificate is signed.

125. The audit documents should have self custody, easy but protected accessibility. If the data / information / audit evidence is in electronic form it must be retrievable only with proper authorization. The real test will be the full confidentiality. A safeguard should be taken so that the documentation or audit evidence is not altered, or additions or deletions made without the knowledge

of the proper authority. The documentation should be fully protected from physical loss or damage. The electronic documents should have proper and safeguarded password protection and back up mechanism. The audit documents should be divided in sections and properly indexed with serial numbers.

126. The audit documentation should be retained depending upon the relevance and significance of the same in relation to the matter authenticated or certified by the auditor. Normally the audit documentation should be retained for a minimum period of 5 years from the date of signing the report. However, the legal provisions or regulations will override the firm's policy regarding the retention of such documentation e.g. The Companies Act, 1956 section 209 (4A) provides for retention of the accounting records for a period of not less than 8 years immediately preceding the current year. Even though the obligation is on the companies, a corollary follows that the auditors should also keep the audit documentation for the corresponding period.

127. The audit documentation shall be sufficient to enable an experienced auditor, having no connection with the audit of specific entity, to understand the nature, timing and extent of audit procedures performed, compliance with cost accounting standards and other legal and regulatory requirements, the result of audit procedure performed, audit evidence obtained, significant matters arising out of audit and how they were addressed and audit conclusions reached with the underlying professional judgments for reaching such conclusion.

128. In the process of audit documentation, the auditor shall record;

a) Identifying characteristics of specific items including cost items, cost records, other items and matters tested.

b) Who performed audit work and date.

c) Who reviewed audit work with dates of review.

d) Discussion of significant matters with the management or those in charge of its governance, nature of significant matters and when and with whom discussion took place.

e) Information, if any, about any significant matter that is inconsistent with overall Audit Report and how the inconsistency was addressed.

f) Departure, if any, in an exceptional circumstance, from a relevant requirement specified in any standard/stipulation prescribed by ICWAI/regulatory authority, reasons for such departure and how application of an alternative audit procedure fulfilled the requirement.

Matter arising after date of Audit Report

129. If in an exceptional circumstance, the Auditor performs new or additional audit procedures or draws new conclusions after the date of Audit Report, the auditor shall document:

a) The circumstance encountered.

b) The new or additional audit procedures applied and audit evidence obtained.

c) The new conclusions reached and their impact on Audit Report.

d) When and by whom the resulting changes in audit documentation was made.

130. In case of modification of, or addition to, existing audit documentation, the following shall be recorded:

a) Reasons for modification/addition.

b) When and by whom they were made and reviewed.

Audit Reporting

131. A Quality Audit Report should satisfy the following tests.

a) It should meet the objectives of the audit.

b) The language should be lucid, clear and unambiguous.

c) The length of reporting should be just which will keep the interest of the reader alive neither too lengthy nor too concise.

d) Audit Report should contain all material and relevant facts in a summary format.

e) All audit observations, findings and conclusions should have backing of adequate and reliable audit evidence in the form of audit working papers.

f) The view point of the auditee enterprise should also be included, analyzed and discussed in the report.

g) Audit evidence, data and/or view points expressed by the auditee enterprise even if conflicting or contradictory to the findings incorporate in the audit report should be included and explanation should be offered as to the reasons for not accepting the same by the auditors.

h) The audit report should be completed in the stipulated/ accepted/ agreed time limit.

i) Audit report should be balanced and constructive. It may also mention the strong and positive features.

j) Audit report should also offer audit findings on inefficiencies, lapses, irregularities, frauds.

k) The language of the audit opinion is influenced by the legal framework for the audit but it should clearly indicate whether the contents of the opinion are qualified or unqualified.

l) The auditor may express his opinion as “Qualified Opinion” in a situation when there is limitation on the scope of the auditors’ examination or if the auditor disagrees with the treatment or disclosure of one or more items in the cost/financial statements which are material but not fundamental in understanding the cost/financial statements.

m) The auditor may express his opinion as “Adverse Opinion” in a situation when the auditor is unable to form an unqualified opinion on the cost/financial statements as a whole due to disagreement that is material and fundamental, rendering the cost/financial statements seriously misleading.

n) The auditor may express his opinion as “Disclaimer of Opinion” in a situation when the auditor has not been able to obtain sufficient evidence to support and express an opinion on the cost/financial statements as a whole due to uncertainty or scope restriction that is material and fundamental.

o) The cost audit report which is also regarded as efficiency and performance audit report should also include suggestions and recommendations for further improvements. In this sense cost audit has a much a larger and wider role than that of merely compliance audit.

132. The draft audit report should be prepared in consideration with the team members. It will be a good practice to share/discuss the draft report with the auditee enterprise. This process brings better transparency in the system. It also helps the auditor to correct or rectify the understanding or assumptions underlined the audit observations. It also offers an opportunity to the auditee to correct or rectify the audit evidence offered/ submitted to the auditors earlier. In short, the audit report gets more acceptability when it goes to the

higher level of management hierarchy. It completely avoids a situation where there is disagreement between the auditor and the auditee on the basic facts and figures itself which forms the basis for reporting.

Audit Follow-up

133. The firm should keep itself in touch with the audit enterprise to ascertain the steps taken by the auditee on the audit observations/ findings/ opinions/ suggestions. This process encourages auditee to take corrective actions on the adverse audit findings. It also provides a "hand holding" support to the auditee and provides post audit expert advice from the auditors. This may also lay the foundation for future assignments/ relationship with the auditee.

Post Audit Quality Assurance

134. The firm should establish an internal control procedure which will include the review of completed audits on sample basis. This review will include review of adherence to audit plan, maintenance of audit working papers, documentation of audit evidences etc. This review may be carried out by those seniors who are not involved in the initial audit process. This will act as a measure and booster for qualitative conduct of audits.

135. The firm should establish a policy for such post audit reviews and outline the procedures thereof. The factors such as legal requirements and other socio economic considerations will influence such post audit reviews. These post audit reviews shall:

- (a) confirm that integral quality assurance processes have operated satisfactorily;
- (b) ensure the quality of the audit report; and
- (c) secure improvements and avoid repetition of weaknesses.

136. The post audit review should aim at offering suggestions and recommendations for future and also take note of good practices observed during the review. The objective is not to point out the shortcomings but to encourage the audit team and improve their performance further.

Operational Quality Issues

Audit Sampling

137. Auditor draws conclusions about the large volume of data (population) by selecting a sample out of such data. The sample size determines the quantum of risk that the auditor is ready to accept. There are no hard and fast rules for defining the sample size. Sample size depends upon the experience

and professional judgment of the auditor and is also based on “Audit risk” factor.

138. *Audit Sampling:* Application of audit procedures to less than 100% of the population of documents/items relevant for audit such that all sampling units have a chance for selection (for applying audit procedure thereon) so as to provide the auditor a reasonable basis on which conclusion about the entire population can be drawn.

139. Sample design, size & selection of items for testing should meet the following:

a) Purpose of the audit procedure and population characteristics shall be considered for designing an audit sample.

b) Sample size shall be so chosen as to reduce sampling risk to an acceptable low value.

c) Random sampling, whenever practicable, shall be considered so that each sampling unit shall have reasonable chance of selection.

d) For sampling, use of stratification and value-weighted selection will increase audit efficiency.

Audit Evidence

140. Audit evidence means information contained in the accounting/costing records and other information collected and used by the auditor in arriving at the conclusions on the basis of which his opinion is based.

141. An auditor has to plan & perform his audit tasks which enable him to obtain sufficient and appropriate audit evidence on the basis of which he can draw audit conclusions to express his opinion on cost / financial statements. When designing and performing audit procedures the auditor shall consider the relevance and reliability of the information to be used as audit evidence. The audit evidence may contain information provided and produced by the auditee itself or by management expert of the auditee or during the performance of the audit. Auditor needs to evaluate the accuracy and completeness of such audit evidence.

142. Absence of information e.g. inability or refusal of the management to provide information sought by the auditor also constitutes audit evidence.

143. Audit evidence includes inspection, observation, confirmation, recalculation, re-performance and analytical procedures, often in some combination, in addition to inquiry.

144. An auditor may be confronted with the situations such as contradictory audit evidence, questionable reliability of the information and documents collected and circumstances that may suggest misappropriations or frauds etc. Under such situations, auditor should show professional skepticism and more rigorous audit steps are called for.

145. When the auditor doubts the reliability of information to be used for audit evidence or, audit evidence obtained from one source is inconsistent with that of another source, the auditor shall determine necessary modification or additions to audit procedure necessary to resolve the matter.

146. Audit evidence is more reliable when it is obtained from independent sources outside the entity, directly by the auditor and in documentary form. External confirmation should be obtained as a direct written response to the auditor, in documentary form which is considered as qualitative audit evidence.

147. Written representations by the management are audit evidence. Such written representations may not be considered as sufficient and appropriate audit evidence on their own and an auditor must also obtain other audit evidence regarding fulfillment of management responsibilities.

Analytical Procedures

148. **'***Analytical Procedures'* means evaluation of cost & financial information through analysis of plausible relationships among cost, financial and non-financial data – both within the entity and in comparison with the industry/market standards. Steps to design substantive analytical procedures are:

a) Determine suitability of substantive analytical procedures having regard to assessed risks of possible material misstatements and test of details for those assertions.

b) Evaluate reliability of data from which auditor's expectation of recorded amounts/ ratios/cost or overhead rates etc is developed, taking account of source, comparability, nature and relevance of available information and controls over preparation.

c) Develop auditor's expectation of recorded amounts/ ratios/cost or overhead rates etc and evaluate whether the expectation is sufficiently precise to identify a misstatement that, aggregated with other misstatements may cause the cost/financial statements to be materially misstated.

d) Determine difference between recorded amount and expected value that is acceptable without any further investigation.

Results of applying Analytical Procedures

149. If application of analytical procedures identifies fluctuations in values or relationships that are inconsistent with other relevant information or if the difference between recorded and expected value is beyond the tolerable limit:

a) inquire with the management and obtain additional, relevant and appropriate audit evidence to resolve the matter.

b) perform other audit procedures as may be necessary.

Using the work of an Internal Audit

150. Internal audits and audits performed by other auditors – The firm may review the audit assignments being carried out by external agencies or the internal staff of the enterprise. The firm should get itself acquainted with the extent & scope of assignment carried out by the other auditors to determine its reliability so as to place the reliance on performance of these audits. The firm should invariably review the process of the internal audit of cost accounting records and reports thereon. This will be a guiding factor for a firm to design its own audit plan.

151. The objectives of the internal audit as a function and external audit are different however, some of the processes carried out to achieve these objectives, may be similar. Internal Audit function is not entirely independent of the audit entity whereas the external auditor has to be a totally independent entity, also required by law.

152. The statutory auditor has sole responsibility for the audit opinion expressed by him and his responsibility is not reduced just because he has used the work carried out by the internal auditors. The auditor may consider objectivity of the internal audit function, his technical competence and due professional care taken by him in carrying out the audit while placing reliance on his work.

153. The Auditor shall determine whether the work of internal auditor is likely to be adequate for the purpose of cost audit and if so, planned effect of Internal Auditor’s work on the nature, timing and extent of Cost Auditor’s procedures.

154. Following factors shall be considered for determining the likely adequacy of Internal Auditor’s work:

a) objectivity;

b) technical competence of Internal Auditor;

c) due professional care likely to have been exercised in carrying out internal audit; and

d) likelihood of effective communication between the cost auditor and internal auditor.

155. Following factors shall be considered for determining the planned effect of Internal Auditor's work on the nature, timing and extent of Cost Auditor's procedures:

a) nature and scope of specific work of the internal auditor;

b) assessed risk of material misstatement (at given assertion level) for particular classes of transactions, accounts and records; and

c) the degree of subjectivity involved in the internal audit work in evaluation of audit evidence relied on.

Documentation

156. If the Cost Auditor uses any specific work of Internal Auditor, the Cost Auditor shall document:

a) conclusion reached about the adequacy of such specific work; and

b) the audit procedures applied on the said specific work to evaluate its adequacy.

Relying on External Experts' Opinion

157. An individual or organisation possessing expertise in fields other than accounting and auditing (e. g. valuer) is regarded as external expert. An auditor may take external expert's opinion on various technical matters which forms the audit evidence. The auditor has to place reliance on the opinion expressed by the external expert considering his reliability, competency, consistency with data & information and independence.

158. In case of an external expert it shall be ensured that the interests and relationship of the external expert does not constitute a threat to that expert's objectivity.

Evaluating adequacy of Auditor's Expert's work

159. The auditor shall evaluate adequacy of expert's work having regard to the following:

a) Relevance and reasonableness of expert's findings/conclusions and consistency thereof with other audit evidence.

b) Relevance and reasonableness of assumptions and methods used in the expert's work.

c) Relevance, reasonableness, accuracy and completeness of source data (if any) used in the expert's work provided, such data are significant for the expert's Work.

d) Agreement with the expert on the nature and extent of further work by the expert in case expert's work is found to be inadequate for audit purpose.

e) Performance of additional, appropriate audit procedures in case expert's work is found to be inadequate for audit purpose.

Reference of Auditor's Expert in Audit Report

160. If the auditor's opinion remains unmodified by the work of an Auditor's expert, such work shall not be mentioned in Audit Report unless required by law or regulation. Even when such reference is required by law/regulation, the Auditor shall specify in the Audit Report that such reference to expert's Work does not reduce auditor's responsibility for the auditor's opinion.

161. If the auditor's opinion is modified by the work of an Auditor's expert, such work may be referred to in the Audit Report to have an understanding of the modification of opinion, provided, the Auditor shall specify in the Audit Report that such reference to expert's Work does not reduce auditor's responsibility for the auditor's opinion.

External Confirmation

162. *External confirmation:* Audit evidence obtained as a direct written response to the auditor from a third party (confirming party) on paper or electronic media or in any other form.

163. External confirmation seeking steps are:

a) Determine information to be confirmed / requested.

b) Select appropriate confirming party.

c) Design/format confirmation request.

d) Send the request with follow up.

Results of External Confirmation & Reliability of Response

164. The auditor shall evaluate whether results of external confirmation provide relevant and reliable audit evidence or whether further audit evidence is necessary. In particular:

a) When the auditor doubts the reliability of response further audit evidence should be obtained to resolve doubt.

b) In case of non-response, alternative audit procedure shall be performed to obtain reliable and relevant audit evidence.

c) Positive confirmation response request should be sought only when alternative audit procedures will not obtain audit evidence required. If the auditor does not receive such confirmation its implication on audit and auditor's opinion shall be evaluated.

d) The auditor shall not use response to any negative confirmation request as the sole substantive audit procedure to address assessed risk of a material misstatement.

Written Representations about Responsibility of Management

165. *Written representation* – a written statement (whether on paper or through electronic/other media) provided by the management of the auditee to confirm certain matters or support other audit evidence.

166. The auditor shall request the management to provide a written representation that

a) it (management) has fulfilled all responsibilities regarding preparation of cost/financial statements in accordance with applicable Cost Accounting Standards (CAS) and the prescribed reporting framework;

b) it has provided the auditor with all relevant information and access thereto as agreed in the terms of audit engagement; and

c) all relevant transactions have been recorded and reflected in the cost/financial statements.

167. The auditor can also seek further written representations to support other audit evidence relevant to cost/financial statements.

168. *Doubts on reliability of written representations:* If the auditor doubts the reliability of written representations or, the written representations are inconsistent with other audit evidence or, doubts the competence, integrity or ethical values of the management, the auditor shall determine its impact on the audit and audit evidence in general.

169. *Written representations not provided*- if written representations are not provided, the auditor shall:

a) Discuss the matter with management;

b) Re-evaluate integrity of management and evaluate the effect on the reliability of management's representations and its impact on the audit evidence in general and audit opinion; and

c) Reveal the same in Auditor's Report.

d) In case there is no written representation or, written representation is silent, on compliance with Cost Accounting Standards (CAS) or, written representation reveals deviation from any CAS, the Auditor shall determine and reveal in Auditor's report, the impact of deviation from each CAS on the cost/unit cost of relevant process, function, service and products. Same procedure is to be followed when the auditor, in course of audit, finds any deviation from CAS despite any written representation or, absence thereof, on the issue of compliance with CAS.

Company support & involvement in enhancing Audit Quality

170. It is responsibility of the management to provide the auditor with full access to all information, record, documents etc. relevant for the purpose of audit. Auditor should also have unrestricted access to the persons from whom the auditor seeks to obtain audit evidence as he may feel appropriate.

171. With appointment of auditor, the management acknowledges the responsibility to provide all necessary data and information as the auditor may deem fit for the purpose of accomplishing the audit objective. Such management responsibilities are also stipulated in the legal framework under which audit is conducted and the management should take it in the right spirit. The auditor has to function as an "independent" entity and his rights should be respected by the auditee while he is performing his duties. If the audit is conducted as per the management intention without the binding force of law, it would be more appropriate to incorporate these understandings in the engagement letter itself.

Management Representations

172. An auditor may request management, "assurance" in the form of written representations as regards fulfillment of certain responsibilities or certain actions taken or not taken, or happening or not happening of certain events etc. during the course of audit. These management representations may also be required to corroborate certain other audit evidence collected by the auditor. The management should fully co-operate and provide these management representations to the auditor in the format and manner as may be requested by the auditor.

Communication

173. As per section 292 A of the Companies Act, 1956 every public company having paid up capital of not less than 5 crores of Rupees shall constitute a

Committee of the Board know as "Audit Committee". It is a good opportunity for the company management to communicate with the auditors including Cost Auditor in these meetings. Cost Audit is one of the methods of internal control system and Cost Audit Report is an important tool in the hands of management. The audit committee in its duty to ensure compliance of internal control system shall also discuss the suggestions made in the Cost Audit Report for implementation wherever cost audit has been directed under section 233B of Companies Act, 1956.

174. Good Corporate Governance principles suggest that the Cost Auditor will be invited to regularly attend meeting of the audit committee and take the benefit of his knowledge, skills and expertise in the governance of the enterprise.

Professional Fees

175. The Central Council of the Institute has approved guidelines for charging professional fees (suggested minimum fees). Being guidelines, though these are recommendatory in nature, still it is suggested that all professional members should follow it. However, at no cost, commercial considerations should override the quality perspectives of an assignment.

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Chapter 6 : Quality through Audit Documentation

Permanent File

176. Records reviewed by the auditor, the process of audit carried out by him, evidences, the due care, diligence exercised by him while carrying out the audit assignment, The records documenting these processes, in the form of audit files, which is a permanent evidence reflecting the quality approach of the auditor is of prime importance. These audit files may be in the form of paper or electronic media or in any other form.

Definition and Purpose

177. Permanent files are a repository of administrative and operational documentation relating to audit process. They are established and maintained to aid in audit planning and to centralize available documentation and information not included in the individual audit files. Information included in the permanent files should only be information that cannot be feasibly included in the working papers due to volume or format or because the information will be applicable on an on-going basis to the current audit or future audits.

Index and Contents

178. Permanent files should be filed with all audit and follow-up working papers supporting the audit. The contents of permanent files are dependent on the needs of the audit. An index should be developed and placed in the front of the permanent file indicating the documents contained, date included in file and auditor's initials.

179. The permanent file usually contains documents and matters of continuing importance of clients' business which will be required for more than one audit. Below are some of the documents and records auditors should keep in their permanent file:

a) Statutory material
   - (a) Companies Act, 1956
   - (b) Copy of the relevant Cost Accounting Records Rules or the Companies (Cost Accounting Records) Rules, 2011, as applicable
   - (c) Companies (Cost Audit Report) Rules, 2011

b) The rules and regulations of the company
   - (a) Memorandum of Association
   - (b) Articles of Association
   - (c) Certificate of Incorporation / Commencement of Business

(d) Registration documents under various statutory bodies including Tax authorities

c) Copies of documents of continuing importance and relevance to the auditor

(a) Letter of engagement and Board Resolution for appointment of the auditor
(b) Record of communication with the retiring auditor
(c) Royalty Agreement / Technical collaboration
(d) Copies of important legal documents/contracts
(e) Installed Capacity duly certified by appropriate Authority
(f) ISO Certification, if any

d) Addresses of the registered office and business - The Company's registered office address and all other units/premises, with a short description of the work carried on at such places.

e) An organization chart - Details of all departments and sub-divisions thereof showing hierarchy of management.

f) List of books and records with location - List of books and records maintained by the company and place of their location. Names, positions, specimens of signatures and initials of persons responsible for books and document should also be included.

g) An outline history of the organization

h) Analysis of significant ratios and trends

i) List of accounting matters of importance - Notes regarding significant cost accounting / accounting policies; significant audit observations of earlier years.

j) Internal Controls - Notes on internal control with Details of study & evaluation of internal controls in the form of narrative record, questionnaires or flow charts etc.

k) The business structure within a group and associated companies - List of all holding, subsidiary and associate companies.

l) Company's advisors - A list of the company's advisors such as bankers, merchant bankers, stockbrokers, solicitors, valuers, insurance brokers etc.

Current File

180. Information included in the current file should be information for the period under audit. The indicative list of current file can be as follows:

a) Appointment letter for the Current Year
b) Extracts of important board/management meetings
c) List of responsible persons with their designation and contact details
d) Cost Audit Report/Financial Audit Report for Current year as well as previous year
e) Actions initiated by company towards Cost Auditor's observations and suggestions in previous years reports
f) Audit Plan/Audit Program
g) Note on Cost Accounting System followed by the Company and process flow chart
h) Current years Cost Records – Statements with Annexure
i) Communications with the company/management team
j) Letters of representations, confirmations received from company
k) Audit review points and highlights of analysis

Working Papers

Introduction

181. The working paper file documents the work the auditor has done. The working papers serve as the connecting link between the audit assignment, the auditor's fieldwork and the final report. Working papers contain the records of planning and preliminary surveys, the audit program, audit procedures, fieldwork and other documents relating to the audit. Most importantly, the working papers document the auditor's conclusions and the reasons as to why those conclusions were reached. The disposition of each audit finding identified during the audit and its related corrective action should be documented. Working papers should be completed throughout the audit.

182. Working papers should be economical to prepare and to review. It is easy to include every scrap of information and every form into the working papers. However, the working papers then become a confused mixture of data that is difficult to assimilate and use. Working papers should be complete but concise- a usable record of work performed. Auditors should include in their working papers only what is essential; and, they should ensure that each work paper

included serves a purpose that relates to an audit procedure. Working papers that are created and later determined to be unnecessary should be deleted/removed.

183. Among other things, work papers may include:

a) Planning documents and audit programs.
b) Internal control questionnaires, flowcharts, checklists and narratives.
c) Notes and minutes resulting from interviews.
d) Organizational data, such as charts with job descriptions, process chart.
e) Copies of important documents.
f) Information about operating and financial policies.
g) Results of control evaluations.
h) Letters of confirmation and representation.
i) Analysis and test of transactions, processes.
j) Results of analytical review procedures.
k) Audit reports and management responses.
l) Audit correspondence that documents the audit conclusions reached.

Scanned Documents

184. Scanned documents should include a reference to the source and the purpose of the document when relevant to understanding or appreciating the actual audit work performed. Such information needs to be included only when it is not provided elsewhere in the working papers.

Tick marks

185. Tick marks do not need to be standardized throughout the set of working papers, but must be consistent throughout a particular work paper. Tick mark explanations must be a part of the work paper or included in a separate tick mark legend work paper.

Cross-Referencing

186. Working papers should be prepared using the appropriate cross-referencing. A cross-reference from the Audit Procedures to the primary work paper provides a reference to where the work was performed. It is not necessary to cross-reference all work papers to the Audit Procedures - only the primary work paper should be cross referred. The primary work paper will then

contain cross-references to other, supporting working papers, which provide additional information regarding the audit procedures performed, results, and conclusions reached.

187. Cross-references should be used to reference information useful in more than one place or to other relevant information including the source of information, composition of summary totals, or other documents or examples of transactions. To encourage conciseness, documents/information should be in the working papers only once.

Standard Working papers

188. A standard set of working papers will include at least the following documents:

a) **General File:** The General File contains key information through the various phases of the audit including planning (draft audit objectives, planning comments including documentation of the budget etc.), reporting process, audit programs, and comments for the next audit. The General File will include the draft and final reports. Audit responses will also be included in the file.

b) **Work paper File:** This file should contain the detailed audit procedures and detailed audit working papers. Detailed audit procedures provide detailed audit steps of the audit work to be performed during fieldwork that will achieve the specific audit objectives outlined in the audit program.

c) **Future Audit Considerations:** Auditors are encouraged to develop and document future audit ideas during the course of their work. These should be included in the "Comments for next audit" section of the General File.

Work paper Review

189. The auditor should review all work papers to determine whether they are relevant and have a useful purpose, evidence the audit work performed and sufficiently support the audit findings. In addition, the auditor should ensure the conclusions reached were reasonable and valid, and that the Office work paper standards were followed. The auditor should review all audit review notes to be certain that all notes have been resolved within the working papers. Documentation obtained and not relevant to the audit should be returned/destroyed upon the completion of the audit. The review will consist of:

a) Determining compliance with work paper guidelines.

b) Reviewing the audit program that outlines the major objectives of the audit, and ensure that the procedures accomplish the objective(s).

c) Reviewing the audit procedures and the referenced working papers to ensure the working papers support the procedures performed and all procedures have been completed. Determine that the working papers adequately document the conclusions reached in the report.

d) Ensuring that all findings prepared have been discussed with the appropriate member of management, and that the disposition of the audit concerned is documented.

e) Documenting review notes.

Filing and Protection of Working papers

190. All working papers are considered confidential, are the property of the Auditor, and are to be kept under adequate control. Working papers often contain sensitive information or data that must be protected from unauthorized use or review.

191. Working papers in process also need to be controlled by the Auditor. While conducting fieldwork away from the office, the auditors should control the working papers to ensure that information is neither removed, nor substituted nor altered.

Retention Policy

192. All working papers pertaining to an audit belong to the Auditor. All such data is to be kept by the Auditor and is subject to the retention requirements as required by law.

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