Audit Toolbox – part 1: Property, Plant and Equipment & Cash

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Atanasko Atanasovski, Consultant, CFRR
Key areas when testing tangible non-current assets:

- Confirmation of ownership,
- Inspection of non-current assets,
- Valuation by third parties,
- Adequacy of depreciation rates,
- Potential impairment.
### Substantive testing - Property, plant and equipment

<table>
<thead>
<tr>
<th>Financial statement assertion</th>
<th>Audit objective</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Existence and occurrence</strong></td>
<td>– Additions represent assets acquired in the year and disposal represent assets sold or scrapped in the year</td>
</tr>
<tr>
<td></td>
<td>– Recorded assets represent those in use at the year-end</td>
</tr>
<tr>
<td><strong>Completeness</strong></td>
<td>– All additions and disposals that occurred in the year have been recorded</td>
</tr>
<tr>
<td></td>
<td>– All assets in use at the year-end are included in balances</td>
</tr>
<tr>
<td><strong>Rights and obligations</strong></td>
<td>– The entity has rights to the assets purchased and those recorded at the year-end</td>
</tr>
<tr>
<td><strong>Accuracy, classification and valuation</strong></td>
<td>– Non-current assets are correctly stated at cost less accumulated depreciation</td>
</tr>
<tr>
<td></td>
<td>– Additions and disposals are correctly recorded</td>
</tr>
<tr>
<td></td>
<td>– Review any impairment indicators, test or impairment</td>
</tr>
<tr>
<td><strong>Assertions relating to presentation and disclosure</strong></td>
<td>– Disclosures relating to cost, additions and disposals, depreciation policies, useful lives and assets held under finance leases are adequate and in accordance with accounting standards</td>
</tr>
</tbody>
</table>
Completeness & existence

FS

General ledger

Asset register

Physical assets
Valuation

- Verify valuation to valuation report and consider reasonableness
- Evaluate depreciation rates (in terms of lives of assets, residual amounts, gains/losses on disposal, consistency in accounting policies, replacement policy)
- Compare ratios of depreciation to non-current assets
- Review capitalisation of expenses for additions
- Review labour, material and overhead costs for self-constructed assets, search for any profit element, review capitalisation of finance costs.
» **Rights and obligations**
  
  - Verify title to land and buildings by inspection of title deeds or registry certificates, and give special consideration to leases agreements.
  
  - Inspect registration documents for vehicles

» **Classification and understandability**
  
  - Review disclosures to ensure they meet IAS 16 requirements
  
  - Contractual commitments, restrictions on title, temporary idle, fully depreciated but still in use
» Additional considerations and procedures

Any comments?
Review the “Combined risk assessment – PPE Proposed Solution” file for the results of combined risk assessment for property, plant and equipment.

Use “Substantive audit program-PPE” file to document substantive procedures (15 min)
» Presentation and discussion feedback on substantive audit program - PPE
Substantive testing - Cash

- 'Cash' in the financial statements represents cash in-hand and cash on deposit in bank accounts.

- Cash is affected by all of the entity's business processes (particularly sales and purchases).
## Substantive testing - Cash

<table>
<thead>
<tr>
<th>Financial statement assertion</th>
<th>Audit objective</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Existence</strong></td>
<td>Recorded cash balances exist at the period-end</td>
</tr>
<tr>
<td><strong>Completeness</strong></td>
<td>Recorded cash balances include the effects of all transactions that have occurred</td>
</tr>
<tr>
<td><strong>Rights and obligations</strong></td>
<td>The entity has legal title to all cash balances shown at the period-end</td>
</tr>
<tr>
<td><strong>Valuation</strong></td>
<td>Recorded cash balances are realisable at the amounts stated</td>
</tr>
<tr>
<td><strong>Assertions relating to presentation and disclosure</strong> (classification and understandability, occurrence and rights and obligations, accuracy and valuation, completeness)</td>
<td>Disclosures relating to cash are adequate and in accordance with accounting standards and legislation</td>
</tr>
</tbody>
</table>
Key audit procedure for bank balances is confirmation (attention to cut-off issues).

- Covering all assertions (existence, completeness, cut-off, valuation and allocation, rights and obligations).

Decide which bank balances to be confirmed, all of them usually.

Note details of accounts or leave blank.

Single confirmation requesting information on all loans and deposits including other important information regarding disclosures (i.e. guarantees, restrictions on bank accounts)

Review bank reconciliations if applicable (for cheques, transfers of cash with different value date).

Verify bank balances with standard bank statements
Substantive testing - cash on hand

» Carefully audited if balances are material and susceptible to fraud (hotels, restaurants, retail organisations)

» Auditors will be concerned that the cash exists, is complete, and belongs to the company (rights and obligations) and is stated at the correct value.

» Plan for locations to attend the cash count at year end

» Obtain all reports/certificates on cash counts and compare with accounting records

» Follow-up on banked cash receipts and reconcile with bank statements after cut-off date
» Additional considerations and procedures

Any comments?
Review the “Combined risk assessment - Cash Proposed Solution” file for the results of combined risk assessment for cash.

Use “Substantive audit program-Cash” file to document substantive procedures.

- **NOTE:** the accepted control reliance strategy for RISK 1 (controls tested prior year)

  (15 min)
Presentation and discussion feedback on substantive audit program - cash