

Audit Of Items of FSAssertions

- Assertion means representation by management.
- Used by Auditor to consider different types of potential mis-statement that may occur.

- Assertions used in Financial Statements :-

→ INCOME STATEMENTa) Occurrence :-

Transactions recognized in FS have occurred & relate to entity.

b) Completeness :-

All transactions that were supposed to be recorded have been recognized in FS. Transactions have not been omitted.

c) Cut-off :- Whether all income & expenses are reported in correct accounting period. Cutoff is a separate assertion because substantive procedures to verify it are typically different from those applied to other components of completeness.

d) Measurement :- Transactions have been recorded accurately at their appropriate amounts in FS. There have been no errors while preparing documents or in posting transactions to ledger.

e) Accuracy :- Amounts & other data relating to recorded transactions & events have been recorded appropriately.

f) Classification :-

Transactions & events have been recorded in proper accounts.

→ BALANCESHEET

a) Existence:-

Assets, liabilities & equity balances exist as at period end.

b) Completeness:- All Assets & liabilities & equity balances that were supposed to be recorded have been recognized in FS.

c) Cut-off:- Whether all assets & liabilities are reported in the appropriate period.

d) Valuation:- Assets, liabilities & equity balances have been valued appropriately i.e. the amounts at which they are recorded are appropriate. There has been no overstatement or understatement.

e) Rights & obligation:- Entity has right to assets & liabilities recognized in FS represent an entity's obligations to repayment as at a given date.

• CUT-OFFS PROCEDURE

The auditor needs to satisfy himself of cut-offs. Without a cut-off, sales could be understated or overstated.

Refer examples from the book.

There are basically two types of Assertions.

a) Positive Assertion:-

These are explicit statements by management claiming that certain facts in the FS are true.

b) Negative Assertion:-

Negative assertions are also encountered in the FS & the same may be expressed or implied.

classmate
Date _____
Page _____

Assertion wise General Audit procedures

→ Completeness :-

1. Examination of records & movement check (Opening + Addition/Purchase) other - Deletion/other = closing
Invoice, agreement, purchase order, sales order, Delivery note, Gate register, loan documents, register papers etc.
2. Check Accuracy of client data & test addition & deletion separately.
3. Verification of schedule or ledgers along with Trial Balance agreement.
4. Cut off procedures.
5. Subsequent Testing after the end of Audit.
6. Link with other account - Like sales v/s Debtors v/s Provision v/s bad debts v/s bank.
7. Reconciliations
8. Analytical procedure.

→ Existence/ occurrence :-

1. Confirmation (SA 505)
2. Physical verification (SA 501) - Entity internal control over inventory, Participation by Auditor, test count by auditor - observe, supervision, item tagged, reconciliation physical v/s books of accounts, investigate difference, alert for obsolete inventory, cut off, third party inventory at client place, client inventory at third party, expert help.
3. Opening + Addition - Deletion = Also verify the deletion & approval for removal.
4. Obtain MRL SA 580.
(management representation letter)

→ Accuracy :-

- Recalculation, Re-verification

→ Valuation/Measurement :-

1. AS Requirements & method used - AS 2, AS 10, AS 26 etc.
2. Accounting Policy applied consistently applied.
3. Verify the Agreement Requirement if any (In case of Loan or Borrowing)
4. Re-computation (E.g:- Provision, Dep, Impairment, Amortization)
5. Foreign exchange conversion if applicable
6. Verify management judgement in case of Provision, Estimation etc.

→ Right & obligation :-

Check completeness before testing right.

Invoice, Title deed/sale deed

Check All deeds on Balance Sheet date

Confirmation for deeds given as security to bank or others

Register of charge

→ Presentation & Disclosure :-

Disclosed as per FRF - Link with AS. AS well like AS 9 to verify that item is properly disclosed.

AUDIT PROCEDURE FOR PPE

Completeness

- a) Verify movement in PPE schedule compiled by management i.e. $\text{OP. balance} + \text{Additions during period} - \text{Deletions during period} = \text{Closing balance}$. Tally balance to entity's books of ac.
- b) Check arithmetical accuracy of movement in PPE schedule.

For additions & deletion during period under audit, obtain a listing of all additions from management & perform following procedures:-

In relation to Addition to PPE

1. Verify whether proper internal process & procedures were followed.
2. Test the documentation maintained by entity like purchase invoice.
3. Verify whether PPE additions have approved by authorized personnel.
4. Check the items are recognized in accordance with AS 10.

In relation to deletions to PPE

1. Understand reason & rationale for deletion.
2. Check documentation which authorizing disposal of asset.
3. Verify the process followed for sale of discarded PPE.
4. Verify proper records of deletion of PPE.

Existence

- a) Review entity's plan for performing physical verification of PPE.
- b) Evidence of appropriate supervision of performing physical verification of PPE.

Obtain PPE physical verification report backed by working sheets from entity & perform following procedures:-

- 1) Assess if all items of PPE are properly tagged
- 2) Reconciliation of items of PPE as physically verified with the fixed asset register
- 3) Verify discrepancies noted.

Right & obligation

- a) Verify all purchase invoices are in the name of entity.
- b) Check conveyance deed to verify valid ownership.
- c) Verify all original title deeds for all immovable properties.
- d) Obtain confirmation from lender in case immovable property given as security.
- e) Verify register of charges of entity.

Valuation

In case of profit/loss would not be correctly ascertained & values of PPE would be shown at higher amounts. The auditor should:-

- a) Verify that depreciation has been charged on all items
- b) Assess that depreciation method.
- c) Verify whether management has done impairment of assets.