

AUDIT AND ASSURANCE (ACCT3014) NOTES

Assertions

<u>BALANCE</u>	<u>TRANSACTIONS</u>
Existence	Accuracy
Rights and Obligations	Presentation
Presentation	Occurrence
AVA Accuracy, Valuation & Allocation	Completeness
Completeness	Classification
Classification	Cut-off

BERPAVACC

TAPOCCC

Substantive Procedures

<u>Audit Area/Account/Assertion</u>	<u>Procedures</u>
Completeness of creditors/trade payables	Subsequent cash payments Review of unpaid invoices Review of creditors reconciliations for unusual reconciling items not included at year end Compare to last year's creditor listing
Occurrence of Sales	Trace sales (sample) to proof of delivery or payment of the sale (cash receipt)
Existence of PPE	Sighting (stocktake) for a sample of items selected from fixed asset register
Cut-off of Purchases	Select a number of purchases around year end and ensure correctly included/excluded at year end by reference to date of receipt on original invoice/delivery docket
Completeness of LSL provision	Trace a selection of employees included on the payroll to the LSL schedules
Occurrence of advertising expense	Review advertising print contracts and sight advertisements on a text basis in print media
Existence of inventory	At the annual stock take test check a sample of inventory items from the inventory records to the physical stock
AVA of PPE	Compare carrying values with fair values/net realisable values in accordance with applicable standards
Accuracy of interest expense	Inspect a sample of the documents received from the bank detailing the relevant interest rate
Completeness of liabilities	Inspect a sample of reconciliations to see that they have been performed, not evidence of review/approval, and subsequent treatment of missing/reconciling items
AVA of foreign currency loans	Re-perform the translation, check if correct rate is used, inspect documentary evidence of the accountants' check (review signature)
Existence of interest bearing liabilities	Inspect a sample of ledger entries to ensure they include the name of the lender and the identity number from the loan contract

IT Controls

- **General:** Apply generically to any user system, the manner in which computer software is upgraded or introduced, protect the firm's hardware and software physically and include risk management of the data systems (hacker attack, power failures, protection of the confidentiality of key IP). E.g. Passwords to log onto a computer attached to a network
 - *Control over programs:* Acquisition, development and changes of program (documentation and approval, testing)
 - *Computer security:* System wide logon passwords and auto terminal shutdown, physical security of the IT environment, firewall software protection, anti hacking protection for web sites, antivirus software, regular computer security audits.
 - *Control over data:* restrict access to data files to authorised users and programs, physical security measures including locks, badges and passes, ID and passwords to obtain access to particular data files, backup and reconstruction controls, audit trails → user access reports, change of data reports.
- **Application:** Focus on a particular module (e.g. accounts receivable, payroll and inventory systems etc.), Auto checking the credit limit of a customer, checking the number of hours worked by an employee during a pay cycle, checking that there is a sufficient inventory to match a proposed sale. They are programs/modules that run below the operating systems. Passwords are BOTH a general and application control.
 - *Manual:* Segregation of duties, authorization, training, supervision, documented procedures, review and reporting, physical security.
 - *Computerised*
 - Input
 - Field checks: an input form will only be accepted if all required fields are entered.
 - Valid code test/validity tests: a code field in a record is compared to a table of valid codes stored online.
 - Limit/reasonableness/range check: causes computer to object figures that are outside specified ranges; require user confirmation, require supervisor authorisation, now allow the input at all.
 - Self-checking digits: When the formula is applied to the digits in the number the correct answer must be obtained. If not the number is invalid. (TFN – only applies to numbers)
 - Files and Processing
 - File: Ensure that the proper versions of files are used in processing
 - Internal (computer-readable data)
 - External (printed or handwritten)
 - Processing controls:
 - Detect errors in data and errors that occur in processing as a result of logic in errors in application programs or system software errors.
 - Checking numerical sequence of records – daily/monthly sales register
 - Comparing related fields
 - Run-to-run control totals
 - Output controls
 - Ensure complete and accurate output is distributed only to authorised persons (restricted distribution, restricted print access, automating dating of reports, page numbering, end-of-report messages)
- **Segregation of Duties:** Between IT and user department functions (e.g. accountant should not be both a system administrator AND a user of accounting modules). Those who have knowledge of the operation of the accounting systems and application programs, should not be permitted to access data files and production programs that accompany operations. The same programmer should not be able to create amendments to existing programs and also approve those amendments.