## Audit Plan: Receivables

<table>
<thead>
<tr>
<th>Completeness</th>
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<tbody>
<tr>
<td><strong>Agree</strong> the balance from the individual sales ledger accounts to the aged receivables’ listing and vice versa.</td>
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<tr>
<td><strong>Match</strong> the total of the aged receivables’ listing to the sales ledgers control account.</td>
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<tr>
<td><strong>Cast and cross-cast</strong> of the aged trail balances before selecting any samples to test.</td>
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<tr>
<td><strong>Trace</strong> a sample of shipping documentation to sales invoices and into the sales and receivables’ ledger.</td>
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<tr>
<td>Complete the disclosure checklist to ensure that all the disclosures relevant to receivables have been made.</td>
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<tr>
<td><strong>Compare</strong> the gross profit % by product line with the previous year and industry data.</td>
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<tr>
<td><strong>Compare</strong> the level of prepayments to the previous year to ensure the figure is materially correct and complete.</td>
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<tr>
<td><strong>Review detailed statement of financial position</strong> to ensure all likely prepayments have been included.</td>
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<table>
<thead>
<tr>
<th>Existence</th>
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<tbody>
<tr>
<td><strong>Perform a receivables’ circularization</strong> on a sample of year-end trade receivables.</td>
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<tr>
<td><strong>Follow up</strong> all the balance disagreements and non-replies to the receivables’ confirmation.</td>
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<tr>
<td><strong>Perform alternative procedures</strong> for any exceptions and non-replies to the receivables’ confirmation, such as:</td>
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<tr>
<td><strong>Review after-date cash receipts</strong> by inspecting bank statements and cash receipts documentation.</td>
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<tr>
<td>Examine the customer’s account and customer correspondence to assess whether the balance outstanding represents specific invoices and confirm their validity.</td>
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<tr>
<td>Examine the underlying documentation (purchase order, dispatch documentation, duplicate sales invoices etc).</td>
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<tr>
<td><strong>Inquire from management</strong> explanations for invoices remaining unpaid after subsequent ones have been paid.</td>
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<tr>
<td><strong>Observe</strong> whether the balance on the account is growing and if so, find out why by discussing with management.</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Rights and obligations</th>
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<tbody>
<tr>
<td>Review bank confirmation for any liens on receivables.</td>
<td></td>
</tr>
<tr>
<td>Make inquiries of management, review loan agreements and review board minutes for any evidence of receivables being</td>
<td></td>
</tr>
</tbody>
</table>
| **Valuation and allocation** | • **Compare** receivables’ turnover and receivables’ days to the previous year and/or to industry data.  
• **Compare** the aged analysis of receivables from the aged trail balance to the previous year.  
• **Review** the adequacy of the allowance for uncollectable accounts through discussion with management.  
• **Compare** the bad debt expense as a % of sales to the previous year and/or to industry data.  
• **Compare** the allowance for uncollectable accounts as a % of receivables or credit sales to the previous year and/or to industry data.  
• Confirm adequacy of allowance by reviewing correspondence with customers and solicitors.  
• **Examine** credit notes issued after year-end for allowances that should be made against current period balances.  
• **Examine** large customer accounts individually and compare to the previous year’s balances.  
• For a sample of old debts on the aged trail balance, obtain further information regarding their recoverability by discussions with management and review of customer correspondence.  
• For a sample of prepayments from the prepayments’ listing, **recalculate** the amount prepaid to ensure that it has been accurately calculated. |
| **Cut-off** | • For a sample of sales invoices around the year-end, inspect the dates and compare with the dates of dispatch and the dates recorded in the ledger for application of correct cut-off.  
• For sales returns, select a sample of returns documentation around the year-end credit entries.  
• Perform analytical procedures on sales returns, comparing the ratio of sales returns to sales.  
• Review material after-date invoices, credit notes and adjustments and ensure that they are recorded correctly in the line relevant financial period. |
| **Classification** | • Take a sample of sales invoices and examine for proper classification into revenue accounts. |
| **Accuracy** | • For a sample of sales invoices, compare the prices and terms... |
to the authorized price list and terms of trade documentation.
- Test whether discounts have been properly applied by recalculating them for a sample on invoices.
- Test the correct calculation of tax on a sample of invoices.

<table>
<thead>
<tr>
<th>Occurrence</th>
<th>For a sample of sales transactions recorded in the ledger, vouch the sales invoice back to customer orders and dispatch documentation.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Occurrence and rights and obligation</td>
<td>Determine, through discussion with management, whether any receivables have been pledged, assigned or discounted and whether such items require disclosure in the financial statements.</td>
</tr>
</tbody>
</table>
| Classification and understandability | Review the aged analysis of receivables for any large credits, non-trade receivables and long-term receivables and consider whether such items require separate disclosure.  
- Read the disclosure notes relevant to receivables in the draft financial statements and review for understandability. |
<p>| Accuracy and valuation | Read the disclosure notes to ensure the information is accurate and properly presented at the appropriate amounts. |</p>
<table>
<thead>
<tr>
<th>Financial Statement Assertion</th>
<th>Audit objective</th>
</tr>
</thead>
<tbody>
<tr>
<td>Existence</td>
<td>Recorded cash balances exist at the period-end</td>
</tr>
<tr>
<td>Completeness</td>
<td>Recorded cash balances include the effects of all transactions that have occurred.</td>
</tr>
<tr>
<td>Rights and obligations</td>
<td>The entity has legal title to all cash balances shown at the period-end.</td>
</tr>
<tr>
<td>Valuation</td>
<td>Recorded cash balances are realizable at the amount stated.</td>
</tr>
<tr>
<td>Assertions relating to presentation and disclosure (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>
## Audit procedures for payables

### AUDIT PLAN: ACCOUNT PAYABLES AND ACCRUALS

| Completeness | • Obtain a listing of trade accounts payables and **agree** the total to the general ledger by casting and cross-casting.  
|              | • Test for unrecorded liabilities by **inquiries of management** on how unrecorded liabilities and accruals are identified and examining post year-end transactions.  
|              | • Obtain selected suppliers’ statements and **reconcile** these to the relevant suppliers’ accounts.  
|              | • Examine files of unmatched purchase orders and supplier invoices for any **unrecorded liabilities**.  
|              | • Perform a **confirmation of accounts payables** for a sample.  
|              | • Complete the **disclosure checklist** to ensure that all the disclosures relevant to liabilities have been made.  
|              | • **Compare** the current year balances for trade accounts payables and accruals to the previous year.  
|              | • **Compare** the amounts owed to a sample of individual suppliers in the trade accounts payables listing to amounts owed to these suppliers in the previous year.  
|              | • **Compare** the payables’ turnover and payables’ days to the previous year and industry data.  
|              | • **Re-perform casts** of payroll records to confirm completeness and accuracy.  
|              | • **Confirm** payment of net pay per payroll records to cheque or bank transfer summary.  
|              | • **Agree** net pay per cash book to payroll.  
|              | • **Inspect** payroll for **unusual items** and **investigate** them further by **discussion** with management.  
|              | • Perform **proof-in-total (analytical procedures)** on payroll and compare to figure in draft financial statements to assess reasonableness.  
| Existence    | • **Vouch** selected amounts from the trade accounts payables listing and accruals listing to supporting documentation such as purchase orders and suppliers’ invoices.  
|              | • Obtain selected suppliers’ statements and **reconcile** these to the relevant suppliers’ accounts.  
|              | • Perform a **confirmation of accounts payables** for a sample.  
|              | • Perform **analytical procedures** comparing current year
<table>
<thead>
<tr>
<th>Rights and obligations</th>
<th>• Vouch a sample of balances to supporting documentation such as purchase orders and suppliers’ invoices to obtain audit evidence regarding rights and obligations.</th>
</tr>
</thead>
</table>
| Valuation and allocation | • **Trace** selected samples from the trade accounts payables listing and accrual listing to the supporting documentation (purchase orders, minutes authorizing expenditure, suppliers’ invoices etc).  
• Obtain selected suppliers’ statements and **reconcile** these to the relevant suppliers’ accounts.  
• For a sample of **accruals**, **recalculate** the amount of the accrual to ensure the amount accrued is correct.  
• **Compare** the current year balances for trade accounts payables and accruals to the previous year.  
• **Compare** the amounts owed to a sample of individual suppliers in the trade accounts payables listing to amounts owed to these suppliers in the previous year.  
• **Compare** the payables’ turnover and payables’ days to the previous year and industry data. |
| Cut-off | • For a sample of vouchers, compare the dates with the dates they were recorded in the ledger for application of correct cut-off.  
• Test transactions around the year-end to determine whether amounts have been recognized in the correct financial period.  
• Perform analytical procedures on purchases returns, comparing the purchase returns as a % of sales or cost of sales to the previous year. |
| Accuracy | • Recalculate the mathematical accuracy of a sample of suppliers’ invoices to confirm the amounts are correct.  
• Recast calculation of remuneration.  
• Re-perform calculation of statutory deductions to confirm whether correct.  
• Confirm validity of other deductions by agreeing to supporting documentation.  
• Recast calculation of other deductions. |
| Occurrence | • For a sample of vouchers, **inspect** supporting |
| Classification and understandability | Review the trade payables listing to identify any large debits (which should be reclassified as receivables or deposits) or long term liabilities which should be disclosed separately.  
| Accuracy and valuation | Read the disclosure notes to ensure the information is accurate and properly presented at the appropriate amounts. |
## AUDIT PLAN: OTHER NON-CURRENT ASSETS

| **Goodwill** | • Agree the consideration to sales agreement by **inspection**.  
• Consider whether asset valuation is reasonable.  
• Agree that the calculation is correct by **recalculation**.  
• **Review** the impairment review and **discuss** with management.  
• Ensure valuation of goodwill is reasonable/there has been no impairment not adjusted through **discussion** with management. |
| **Research and development costs** | • Confirm that capitalized development costs conform to IAS 38 criteria by **inspecting** details of projects and **discussions** with technical managers.  
• Confirm feasibility and viability by **inspection** of budgets.  
• **Recalculate** amortization calculation, to ensure it commences with production/is reasonable.  
• **Inspect** invoices to verify expenditure incurred on R&D projects. |
| **Other intangibles** | • Agree purchased intangibles to purchase documentation agreement by **inspections**.  
• **Inspect** specialist valuation of intangibles and ensure it is reasonable.  
• Review amortization calculations and ensure they are correct by **recalculation**. |
### AUDIT PLAN: TANGIBLE NON-CURRENT ASSETS

#### COMPLETENESS
- **Obtain or prepare** a summary of tangible non-current assets showing how:
  - Gross book value
  - Accumulated depreciation
  - Net book value
  Reconcile with the opening position.
- **Compare non-current assets** in the general ledger with the non-current assets register asset register.
- For a sample of assets which physically exist agree that they are **recorded** in the non-current asset register.
- If a non-current asset register is not kept, obtain a **schedule** showing the original costs and present depreciation value of major non-current asset.
- **Reconcile** the **schedule** of non-current assets with the general ledger.

#### EXISTENCE
- **Confirm** that the company physically inspects all items in the non-current asset register each year.
- **Inspect assets**, concentrating on high value items and additions in-year. Confirm that items inspected:
  - Exist
  - Are in use
  - Are in good condition
  - Have correct serial numbers
- **Review records** of income-yielding assets.
- **Reconcile** opening and closing vehicles by numbers as well as amounts.

#### VALUATION
- **Verify valuation** to valuation certificate.
- **Consider reasonableness** of valuation, reviewing:
  - Experience of valuer
  - Scope of work
  - Methods and assumptions used
  - Valuation bases are in line with accounting standards
- **Re-perform** calculation of revaluation surplus.
- Confirm whether valuation of all assets that have been revalued have been **updated regularly** (full valuation every five years and an interim valuation in year three generally) by asking the finance Director and inspecting the previous
Inspect draft accounts to check that client has recognized in the statement of comprehensive income revaluation losses unless there is a credit balance in respect of that asset in equity, in which case it should be debited to equity to cancel the credit. All revaluation gains should be credited to equity.

- **Review depreciation** rates applied in relation to:
  - Asset lives
  - Residual values
  - Replacement policy
  - Past experience of gains and losses on disposal
  - Consistency with prior years and accounting policy
  - Possible obsolescence

- **Review** non-current assets register to ensure that depreciation has been charged on all assets with a limited useful life.

- For revalued assets, ensure that the charge for depreciation is based on the revalued amount by recalculating it for a sample of revalued assets.

- **Re-perform calculation** of depreciation rate to ensure it is correct.

- **Compare ratios** of depreciation to non-current assets (by category) with:
  - Previous years
  - Depreciation policy rates

- **Scrutinize** draft accounts to ensure that depreciation policies and rates are disclosed in the accounts.

- **Review insurance policies** in force for all categories of tangible non-current assets and consider the adequacy of their insured values and check expiry dates.

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**RIGHTS AND OBLIGATIONS**

- **Verify title** to land and buildings by inspection of:
  - Titles deeds
  - Land registry certificates
  - Leases

- Obtain a certificate from solicitors/bankers:
  - Stating purposes for which the deeds are being held (custody only)
  - Stating deeds are free from mortgage or lien.

- **Inspect registration documents** for vehicles held, confirming that they are in client’s name.
- Confirm all vehicles are used for the client’s business.
- Examine documents of title for other assets (including purchase invoices, architects’ certificates, contracts, hire purchase or lease agreements).
- Review for evidence of charges in statutory books and by company search.
- Review leases of leasehold properties to ensure that company has fulfilled conventions therein.
- Examine invoices received after year-end, orders and minutes for evidence of capital commitments.

**ADDITIONS**

These tests are to confirm rights and obligations, valuation and completeness.

- Verify additions by inspection of architect’s certificates, solicitors’ completion statements, suppliers’ invoices etc.
- Review capitalization of expenditure by examining for non-current assets additions and items in relevant expenses categories (repairs, motor expenses, sundry expenses) to ensure that:
  - Capital/revenue distinction is correctly drawn
  - Capitalization is in line with consistently applied company policy
- Inspect non-current asset accounts for a sample of purchases to ensure they have been properly allocated.
- Check purchase have been authorized by directors/senior management by reviewing board minutes.
- Ensure that appropriate claims have been made for grants, and grants received and receivables have been received, by inspecting claims documentations and bank statements.
- Check additions have been recorded by scrutinizing the non-current asset register and general ledger.

**SELF-CONSTRUCTED ASSETS**

These tests are to confirm valuation and completeness.

- Verify material and labour costs and overheads to invoices, wages records etc.
- Ensure expenditure has been analyzed correctly and properly charged to capital.
- Expenditure should be capitalized if it:
  - Enhances the economic benefits of the asset in excess of its previously assessed standard of performance
  - Replaces or restores a component of the asset that has...
been treated separately for depreciation purposes, and depreciated over its useful economic life

- Relates to a **major inspection** or **overhead** that restores the economic benefits of the asset that have been consumed by the entity, and have already been reflected in depreciation
  - **Review** costs to ensure that no profit element has been included.
  - **Review** accounts to ensure that finance costs have been capitalized or not capitalized on a consistent basis, and costs capitalized in period do not exceed total finance costs for period.

### DISPOSALS

These tests are to confirm **rights and obligations**, **completeness**, **occurrence** and **accuracy**.

- **Verify disposals** with supporting documentation, checking transfer of title, sales price and dates of completion and payment.
- **Recalculate** profit or loss on disposal.
- Check that **disposals** have been **authorized** by reviewing board’s minutes.
- **Consider** whether **proceeds** are **reasonable**.
- If the asset was **used as security**, ensure **release from security** has been correctly made.

### CLASSIFICATION AND UNDERSTANDABILITY

- **Review** non-current asset disclosures in the financial statements to ensure they meet IAS 16 criteria.
- For a sample of **fully depreciated assets**, inspect the register to ensure no further depreciation is charged.
- **Inspect** draft accounts to ensure that **depreciation policies and rates** are correctly **disclosed**.
## AUDIT PLAN: CAPITAL AND OTHER RELATED ISSUES

### SHARE EQUITY CAPITAL
- **Agree** the authorized share capital with the statutory documents governing the company’s constitution.
- **Agree** changes to authorized share capital with properly authorized resolutions.

### ISSUE OF SHARES
- **Verify any issue** of share capital or other changes during the year with general and board minutes.
- **Ensure** issue or change is within the terms of the constitution, and directors possess appropriate authority to issue shares.
- **Confirm** that cash or other consideration has been received or receivable(s) is included as called-up share capital not paid.

### TRANSFER OF SHARES
- **Verify transfers of shares** by reference to:
  - Correspondence
  - Completed and stamped transfer forms
  - Cancelled share certificates
  - Minutes of directors’ meeting
- **Review the balances on shareholders’ accounts** in the register of members and the total lost with the amount of issued share capital in the general ledger.

### DIVIDENDS
- **Agree dividends** paid and proposed pre year-end to authority in minute books and re-perform calculation with total share capital issued to ascertain whether there are any outstanding or unclaimed dividends.
- **Agree dividends payments** to documentary evidence (say, the returned dividend warrants).
- Test that dividends do not contravene distribution provisions by reviewing the legislation.
- **Inspect** tax returns to ensure that imputed tax has been accounted for to the taxation authorities and correctly treated in the accounts.

### RESERVES
- **Agree movements on reserves** to supporting authority.
- **Ensure that movements on reserves do not contravene** the legislation and the company’s constitution by reviewing the legislation.
- **Confirm** that the company can distinguish distribution reserves from those that are non-distributable.
- **Ensure appropriate disclosures** of movements on reserves are made in the company’s accounts by inspection of the financial statements.