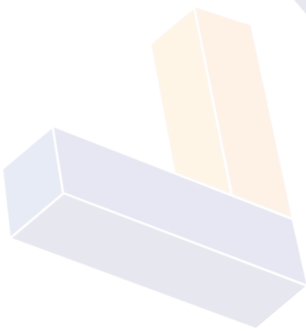


# ADVANCED AUDIT AND ASSURANCE

## CORPORATE LEVEL

### TUTE 07.4

## AUDIT PROCEDURES



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by

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# AUDIT PROCEDURES

## 1) SALES AND DEBTORS

<b>Assertions about classes of transactions and related disclosures</b>	Occurrence	All Sales Transactions recorded have occurred and related to the entity
	Completeness	All Sales transactions that should have been recorded have been recorded and all disclosures required have been included
	Accuracy	Amounts related to transactions have been recorded appropriately
	Cut -off	All transactions have been recorded in the correct period
	Rights and Obligations	All disclosed events and transactions relating to receivables have occurred and pertain to the entity
	Presentation	Financial Information is appropriately presented and disclosed accordingly.
<b>Assertions about Account Balances at the period end and related disclosures</b>	Existence	Recorded receivables are existing
	Rights and Obligations	The entity controls the Right to receivables and related accounts
	Completeness	All receivables that should have been recorded have been recorded
	Valuation/ Accuracy	Receivables are included in the accounts at the correct realizable amounts
	Presentation and Disclosures	Financial Information is appropriately presented and disclosed accordingly.

### AUDIT PROCEDURES FOR SALES AND DEBTORS' BALANCES

- ✚ Checking the Internal Controls of the Sales and Debtors Process.
- ✚ Obtain a “Debtors Breakdown/List” for the Debtors which prevails as at the date of the Financial Statements and
  - i) Check the arithmetical accuracy of the Debtors List.

- ii) Check the balances which is in the Debtors List with the individual accounts in the Debtors Ledger.
- iii) Check the Total Balance of the Debtors List with the Closing Balance of the Debtors Control Account.
- iv) Examining large customer accounts individually and compare with the previous period

✚ Obtain the Independent Confirmation from the Debtors to validate the accuracy of the Debtors Balance.

- ✚ If the Debtors' do not reply to the confirmation request of the auditor,
- i) Check the Cash Book after the Reporting Date to check subsequent settlements
  - ii) Check the Sales Invoices

✚ Obtain the "Debtors Aging Analysis" as at the date of the Reporting Date to identify the long outstanding debtors as at the Reporting Date and check whether the appropriate provisions have been made for long-outstanding debtors. If there are long outstanding Debtors which are not settled, enquire from Management and review the steps taken by management to recover those balances.

✚ Calculation of Debtors Turnover and Debtors Collection period with compare with previous years

✚ Review material invoices which is fallen after the accounting period and ensure that they are recorded correctly in the relevant period.

✚ From the total invoices which is applicable for the period, select a sample of invoices and

- i) Check the arithmetical accuracy of the Sales Invoices.
- ii) Check the date of the invoices to ascertain the accounting period
- iii) Check whether those invoices are prepared in accordance to the Pricing Policy
- iv) Check whether those invoices are accounted properly.

✚ For the invoices selected above, check the relevant Sales Orders, check the orders received from the customers, check the GIN's and delivery notes.

## 2) PURCHASES AND CREDITORS PROCESS

<b>Assertions about classes of transactions and related disclosures</b>	Occurrence	All Purchase Transactions recorded have occurred and related to the entity
	Completeness	All Purchase transactions that should have been recorded have been recorded and all disclosures required have been included
	Accuracy	Amounts related to transactions have been recorded appropriately
	Cut -off	All transactions have been recorded in the correct period
	Rights and Obligations	All disclosed events and transactions relating to payables have occurred and pertain to the entity
	Presentation	Financial Information is appropriately presented and disclosed accordingly.
<b>Assertions about Account Balances at the period end and related disclosures</b>	Existence	Recorded payables are existing
	Rights and Obligations	The entity controls the obligations for payable and related accounts
	Completeness	All payables that should have been recorded have been recorded
	Valuation/ Accuracy	Payables are included in the accounts at the correct realizable amounts
	Presentation and Disclosures	Financial Information is appropriately presented and disclosed accordingly.

### AUDIT PROCEDURES FOR PURCHASES AND CREDITORS' BALANCES

- ✚ Checking the Internal Controls of the Purchasing and Creditors Process.
- ✚ Obtain a "Creditors Breakdown/List" for the Creditors which prevails as at the date of the Financial Statements and
  - i) Check the arithmetical accuracy of the Creditors List.
  - ii) Check the balances which is in the Creditors List with the individual accounts in the Creditors Ledger.

iii) Check the Total Balance of the Creditors List with the Closing Balance of the Creditors Control Account.

- ✚ Obtain an Independent Confirmation from the Creditors to validate the accuracy of the Creditors' Balance.
- ✚ If the Creditors' do not reply to the confirmation request of the auditor,
  - i) Check the Cash Book after the Reporting Date to check subsequent settlements
  - ii) Check the Purchase Invoices
- ✚ Obtain the "Creditors Aging Analysis" as at the date of the Reporting Date to identify the long outstanding Creditors as at the Reporting Date and check the reasons for not settling the invoices.
- ✚ Calculation of Creditors Settlement Period with compare with previous years
- ✚ Review material purchase invoices which is fallen after the accounting period and ensure that they are recorded correctly in the relevant period.
- ✚ From the total invoices which is applicable for the period, select a sample of invoices and
  - i) Check the arithmetical accuracy of the purchase Invoices.
  - ii) Check the date of the invoices to ascertain the accounting period
  - iii) Check whether those invoices are accounted properly.
- ✚ For the invoices selected above, check the relevant Purchase Orders, Purchase Requisitions check and the GRN's.

### 3) INVENTORY PROCESS

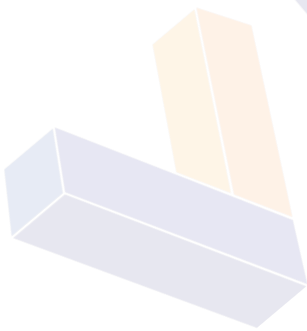
Financial Statement Assertion	Audit Objective
Existence and Occurrence	Inventories on the Statement of Financial Position is physically existing
	Recorded purchases and sales represent inventories bought and sold
Completeness	All the Inventory at the yearend is included in the Statement of Financial Position
	All purchases and sales are property recorded
Rights and Obligations	The entity has the Right to inventory recorded in the period and the year end
Valuation	Costs are accurately determined in accordance with the accounting standards

	Inventory recorded at the year end at the lower of cost of net realizable value
Classification	Inventories recorded in the correct accounts
Cut off	All purchase and sales of inventories are recorded in the correct period
Presentation and Disclosures	Disclosures relating to classification and valuations are adequate and in accordance with accounting standards Inventories are properly classified in Accounts

### **AUDIT PROCEDURES TO VERIFY THE ACCURACY OF THE INVENTORY BALANCE**

- ✚ Checking the Internal Controls applicable for Inventory Process.
- ✚ Obtaining an understanding about the Inventory Valuation Method while discussing with Management.
- ✚ Obtaining an understanding about the nature of the stocks, the places where the stocks have been stored.
- ✚ Assessing the possibility of stocks being double counting and take the preventive actions to avoid those types of issues.
- ✚ Observe the year end stock verification carried out by the clients' staff members.
- ✚ Once the stock count is completed, check the accuracy of the "Gross Stock Sheets", "Final Stock Sheets" and "Stock Summaries".
- ✚ Checking the Arithmetical Accuracy of the above Stock Sheets.
- ✚ Check whether all the parties who are responsible for the stock counts, have sign off each of the stock sheet while taking the responsibilities.
- ✚ Check the physical stock balance with the Bin Card and the Stores Ledger to make sure that the stock records are updated properly.
- ✚ In order to validate the accuracy of the observed closing stock balance, obtain the stocks which prevails as at the beginning of the Financial Year and adjust the stocks which purchased during the year (while checking the GRN's) and the stocks which sold during the year (while checking the GIN's.)
- ✚ Check whether the stocks has been valued appropriately as per L.K.A.S 02.

- ✚ Check whether all the cost incurred up to point of bringing the stocks to the salable condition has been included in the Cost of the Stocks.
- ✚ Check whether the appropriate provisions have been made for the stocks which is going to expire in the near future, which has been identified at the time of stock verification.



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