



Audit of the Statement of Comprehensive Income (SCI)items

Credibility

Professionalism

AccountAbility

Guideline.....



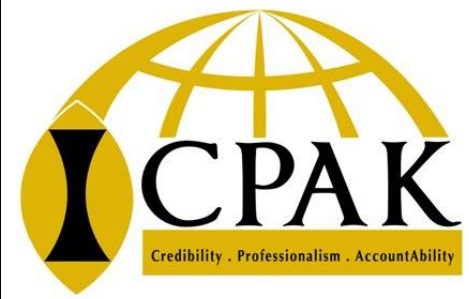
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Introduction



- IAS 1 Revised
- SCI-a structured representation of the financial performance of an entity.
- Mainly contains revenue and expenditure
- Issues to look out for/put more emphasis

Elements of the SCI



A simple SCI contains the following elements

- Revenue-Sales (manufacturing), premium income(insurance), interest income(bank)
- Other income-exchange gain, interest income
- Expenses-Administrative, establishment and operating expenses(classified either by nature or function)

Elements of the SCI (cont'd)



According to IAS 1 Revised-Presentation of FS

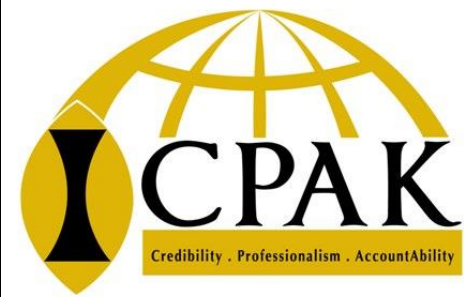
- Revenue;
- Gains and losses arising from the de-recognition of financial assets measured at amortised cost;
- finance costs;
- share of the profit or loss of associates and joint ventures
- Tax expense

Elements of the SCI (cont'd)



- If a financial asset is reclassified so that it is measured at fair value, any gain or loss arising from a difference between the previous carrying amount and its fair value at the reclassification date
- Profit or loss
- each component of other comprehensive classified by nature

Elements of the SCI (cont'd)



- a single amount comprising the total of the post-tax profit or loss of discontinued operations and the post-tax gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets or disposal group(s) constituting the discontinued operation;
- share of the other comprehensive income of associates and joint ventures accounted for using the equity method; and

Elements of the SCI (cont'd)



- total comprehensive income

How then do we audit all the above elements?

Common findings during AQRs)



- No section on income or expenses on file
- No work done
- Work done but is not documented
- Tick marks used but not explained
- No risk assessment done and therefore work done is not responding to any specific risk assessed
- The section not speaking for itself i.e. disorganised

Audit of Revenue



To note;

(a) Work done during planning

- Understood and document the sales/revenue process/system notes.
- Walkthrough the process to ensure that it is working as documented.
- Identified the controls in the process and tested them to ensure that they were operating effectively through out the period.

Audit of Revenue (cont'd)



- From the risk assessment done, identified the assertions you want to test ;
 - ✓ Revenue recognition-cut off procedures (completeness of revenue) (C)
 - ✓ Incorrect computation of interest-measurement (M) or
 - ✓ Double posting of invoices-Occurrence assertion.

Audit of Revenue (cont'd)



- Prepare a lead schedule as in the note in the financial statements (*see example in excel*) – ***Agree the lead schedule to the general ledger***
- Carry out revenue recognition procedures ;
 - ✓ analytical procedures using disaggregated data (by month, by product line, by geographical area, by segment),
 - ✓ inquiry of sales and marketing personnel for any unusual transactions or similar items,

Audit of Revenue (cont'd)



- ✓ If TOCs were not done during planning, then carry out the tests (*See excel worksheet*)
- ✓ **review of the terms of sales agreements** – including sales incentives and client’s policies for handling returns, to identify potential unusual transactions or events.

Audit of Revenue (cont'd)



- perform procedures specifically designed to respond to areas of risk identified e.g. Cut-off test for completeness, re-computation of interest for measurement and vouching for occurrence.

Audit of Other Income



- Interest income-Obtain a detailed schedule, re-compute the interest or agree to supporting documents e.g. bank statements
- Gain on disposal of PPE-Recompute the gain or cross reference to PPE
- Any other income-obtain an understanding of their contents and vouch to the underlying documentation

Audit of Cost of sales



- Much related to sales in terms of movements/analytics
- $\text{Cost of sales} = \text{OPS} + \text{Purchases} - \text{CLS}$
- Therefore our test will concentrate on the **purchases- test of controls/ more vouching**
- Alternatively, if the system computes the COS, then understand their costing method and test on a sample basis

Audit of Cost of sales(Cont'd)



Exercise for 15 minutes

- *Go into teams of five members*
- *Come up with system notes of purchases of a company in any industry of your choice*
- *Design a walk through test*
- *Identify controls*
- *Design test of controls on the purchases process*

Audit of Expenses

(a) Administrative (Cont'd)



- **Salaries & Wages** - Do payroll test
- ✓ Obtain month by month totals from the payroll; Agree the total to the TB and reconcile the difference
- ✓ Statutory deductions test-NSSF, NHIF & PAYE-ensure they were remitted on a timely basis
- ✓ Select a sample of employees and obtain their personal files-check that they are up to date and PAYE was correctly computed.

Audit of Expenses

(a) Administrative (Cont'd)



- **Director's remuneration-** these are mostly sitting allowance
- ✓ Obtain the BOD minutes for the period and do a reasonableness check i.e. number of meetings * number of attendees * the allowance per director.
- Rent-Agree to the rent agreement

Audit of Expenses

(a) Administrative (Cont'd)



- **Professional fees**(Legal, secretarial & audit)-select a sample based on materiality levels and vouch; obtain a lawyer's confirmation;
- **Others**-Motor vehicle expenses, bank charges, computer expenses and bad debts-Select samples depending on the materiality level and vouch; compare with previous year and obtain detailed variance explanations.

Audit of Expenses

(b) Establishment



- **Insurance**-Obtain debit notes and do a reasonableness test if a few; select a sample and vouch ; cross reference to insurance prepayment schedule if it is maintained
- **Depreciation & Amortisation** -re-compute depreciation or cross reference to PPE
- **Repairs & Maintenance**-check for items which are capital in nature; select a sample and vouch

Audit of Expenses

(b) Establishment(Cont'd)



- **Electricity & water, security, Licenses and subscriptions**-Select samples depending on the materiality level and vouch; compare with previous year and obtain detailed variance explanations.

Audit of Expenses

(c) Finance cost



- **Bank loan interest** - obtain and review the loan agreement; re-compute the interest
- **Bank overdraft interest**-agree to the bank statement; re-compute the interest

Notes & Disclosures



- The lead schedule should actually be the note in the financial statements
- The total in the lead should tie to the financial statement amount
- All disclosures as per IAS 1 should be disclosed

To remember.....



NO DOCUMENTATION,NO WORK DONE

END



Questions & Answers