



# Audit of Statement of Financial Position (SFP) Items

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Credibility

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Professionalism

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AccountAbility

# Guideline.....

- a. Introduction
- b. Elements of SFP
- c. Overall objectives/Relevant Assertions
- d. Audit of Non –Current Assets
- e. Audit of Current Assets
- f. Audit of Equity & Reserves
- g. Audit of Non –Current Liabilities
- h. Audit of Current Liabilities
- i. Notes & Disclosures

# (a)Introduction.....



- Shows the financial position of an entity as at a particular period
- Contains Assets, Equity, Reserves & Liabilities
- Assets and liabilities are divided into Non current and current assets/liabilities.

# (b)Elements of a SFP...



- Non-Current Assets-Property, plant & Equipment; Intangible Assets; Pre-paid leases on land; Deferred tax assets & Investments
- Current Assets-Inventories; Trade and other receivables; Inter-company balances; Short term deposits ;Cash & Bank balances
- Share capital and Reserves-Ordinary share capital; Retained earnings & share premium
- Liabilities-Borrowings, Trade & other payables, Tax payable, deferred tax liabilities

## (c)Overall objective...



- To be assured of the following assertions;
  - Existence(E)
  - Valuation(V)
  - Completeness(C )
  - Rights and Obligations (R&O)
  - Presentation and Disclosure(P&D)

***How then do we obtain this assurance?***

# To note:



- Work done during planning;
  - Understand and document the control environment i.e. relevant processes
  - Walkthrough the process to ensure that it is working as documented
  - Identify the controls in the process and test them to ensure that they are operating effectively through out the period of the audit

# To note....

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- General work done in all the sections;
  - Prepare a lead schedule
  - Agree the current year balances to the GL/Trial balance
  - Agree balance brought forward figures to the previous period signed Financial Statements
  - Analytical review procedures

# (d) Audit of Non-Current Assets



- i. Property, Plant & Equipment-(E,C, M,O,V/F, P&D)**
  - Risks;
    - Recognized assets that do not exists
    - Incomplete record of PPE
    - Wrong computation of depreciation
    - Wrong classification of PPE
    - Unrecognized impairment
    - Misappropriation of assets



# (d) Audit of Non-Current Assets



- i. **Property, Plant & Equipment-E,O,V/F,M**
  - Obtain a fixed asset register
  - Prepare a PPE movement schedule-**Lead in the file**
  - Obtain additions in the period & vouch to underlying documents(**E&O**)
  - Obtain disposals schedule & vouch to underlying documents
  - Re-compute depreciation or apply analytics(**M**)
  - Perform impairment test through inquiry(**V/F**)
  - Perform Insurance adequacy test
  - Perform Capitalisation policy test(**C**)
  - Physical verification (**E**)

# (d) Audit of Non-Current Assets



## ii. Investment Property(C,E,V,O & M)

- Risks;
- Risks and work to be done varies depending on the basis of model (cost or fair value) adopted by the client
  - May not be completely and accurately recorded
  - All recorded investment properties may not actually exist.
  - Investment properties are recorded at inappropriate values.
  - Investment properties recorded are owned by the client and title is not in the name of client.
  - Depreciation expense / gain /loss due to change in fair value and gain/ loss on disposal has been inaccurately calculated and inappropriately disclosed.

# (d) Audit of Non-Current Assets



## ii. Investment Property.....

- Work to be done;
  - If cost model is adopted then the work done is same as PPE
  - For fair value; any changes in fair value are taken immediately to the income statement and no depreciation is computed.
  - Obtain and review valuation reports, check the capacity of the valuers, assumptions used

# (d) Audit of Non-Current Assets.....



## iii. Investments-E,V,C,P&D,R&O

- They include the following;
  - Treasury bonds & bills
  - Quoted equity investments
  - Unquoted equity investments
  - Corporate bonds
  - Off shore investments

# (d) Audit of Non-Current Assets.....



## iii. Investments-E,V,C,P&D,R&O

- Risks;
  - Recognized investment that do not exists
  - Incomplete record of investments
  - Wrong valuation
  - Unrecognized impairment

# (d) Audit of Non-Current Assets.....



## iii. Investments-O,E,V,C,P&D,R&O.....

- General work to be done for all;
  - Obtain confirmations from 3<sup>rd</sup> parties(**E**) e.g. CBK/Fund managers
  - For additions and disposals in the year, vouch to supporting documentations & authorizations(**O**)
  - For quoted investments, obtain share prices at close of the period and revalue them(**V**)
  - Check valuation of investments in accordance to the client's policy and the standards(**V**)

# (d) Audit of Non-Current Assets.....



- Off-shore investments;
  - Obtain confirmations if it is a bank balance i.e. deposits
  - Alternative procedure-Review the contract signed initially
  - Incase of shares, obtain and review the FS of the company invested in
  - If listed, obtain the share prices at year end and revalue
  - Management representation

# d) Audit of Non-Current Assets.....



## iv. Biological assets & Agricultural products

- Measured on initial recognition and at the end of each reporting period at its fair value less costs to sell, except when the fair value cannot be determined reliably
- Risks;
  - Wrong valuation
- Work to be done;
  - Observe physical stock take
  - Reliance on the work of an expert



# (e) Audit of Current Assets.....



## v. Inventory-E,V

- Risks;
  - Inventory records may not be complete
  - Inventory transactions may be processed in the wrong period
  - Inventory items may not exist
  - Inventory carrying values may not be realizable/wrongly valued

# (e) Audit of Current Assets.....



## v. Inventory-E,V.....

- Work to be done;
  - Observe physical inventory count & reconcile to the GL
  - Cut-off analysis
  - Test obsolete, slow-moving, scrapped or damaged listing
  - Test inventory in transit by examining transfer documents
  - Test the lower of cost or market

# (e) Audit of Current Assets.....



## vi. Trade and other receivables-(E,C,V)

Risks;

- The accounts receivable listing or individual balances may be inaccurate
- Accounts receivable balances may not exist
- Accounts receivable may not be collectible
- Bad debts write-offs may not be valid
- Sales transactions may be processed in the wrong period

# (e) Audit of Current Assets.....



## vi. Trade and other receivables-(E,C,V)

- Work to be done;
  - Agree a detailed listing of accounts receivable to the summary
  - Positively confirm selected A/R balances & review confirmation replies
  - Do alternative tests where there is no confirmation e.g. check subsequent receipts
  - Assess adequacy of allowance for doubtful accounts
  - Review bad debt write offs
  - Test sales/accounts receivable cutoff
  - Obtain & review the credit policy

# (e) Audit of Current Assets.....



## vii. Cash and Bank balances(E,C,V)

- Risks;
  - Fraudulent activity or misappropriation of funds
  - Inappropriate or Inadequate banking arrangements
  - Bank reconciliation statements are not properly and timely prepared
  - Long outstanding reconciling items are not followed up on a timely basis
  - Bank reconciliations are not independently and timely reviewed
  - Use of wrong foreign exchange rates in translating foreign currency accounts
  - Cheques on the drawer are not unpresented-reverse to payables

# (e) Audit of Current Assets.....



## vii. Cash and Bank balances(E,C,V)

- Work to be done;
  - Test on bank reconciliation at year end and a few during the year(Bank rec. Toc)
  - Obtain bank confirmations from the client bankers
  - Perform surprise cash count on cash on hand
  - Test reasonableness test of exchange rates used at year end

# (f) Audit of Current Assets.....



## viii. Related Party Balances-E,C

- Risks;
  - Related party balances may not be complete
  - Related party balances may be recorded in the wrong period
  - Related party items may not exist

# (f) Audit of Current Assets.....



## viii. Related Party Balances-E,C

- Work done;
  - Agree a detailed listing of RPBs to the summary
  - Positively confirm selected RP balances & review confirmation replies
  - Do alternative tests where there is no confirmation e.g. check subsequent receipts
  - Test related party balances cutoff



# (f) Audit of Equity and Reserves



## i. Share Capital(E,O)

- Risks;
  - Share capital may not be in the name of the client or do not exist
  - The share capital may not be correctly computed
  - Lack of proper authorizations

# (f) Audit of Equity and Reserves

## i. Share Capital(E,O)

- Work to be done;
  - Obtain a copy of the clients company annual return and review it
  - Review the board of directors minutes of meetings done in the period of audit; have extracts of important issues discussed on file
  - For reserves, verify that all the necessary reserves have been established and check accuracy of the movements in reserves

# (g) Audit of Non-current & Non-current liabilities



- i. **Long-term borrowings/Bank loans-E,M**
  - Risks;
    - May not be completely and accurately recorded
    - May not exist
    - Recorded at inappropriate values
    - May not be the obligation of the company.

# (g) Audit of Non-current & Non-current liabilities



- i. Long-term borrowings/Bank loans**
  - Work to be done;
    - Obtain and review the loan agreements
    - Circularization/obtain confirmations from the lender
    - Movements during the period (repayments & additions)
    - Securities and pledges
    - Re-compute interest or cross reference to Interest expense schedule

# **(f) Audit of Non-current & Non-current liabilities**



## **ii. Trade and other payables-E,C,V,R&O and P&D**

- Risks;
  - The trade payables on the balance sheet date may not be real debts due to suppliers/creditors
  - Understatement/overstatement of trade payables
  - Dispute with suppliers or invalid invoices

# **(f) Audit of Non-current & Non-current liabilities**



- ii. Trade and other payables-E,C,R&O and P&D**
  - Work to be done;
    - Agreements of sub ledger with general ledger
    - Unusual item review e.g. debit balances
    - Accounts payable cut-off test
    - Search for unrecorded liabilities
    - Confirmation of trade payables(for high risk)
    - For accruals & provisions, determine the basis of accrual/provisions and test reasonableness

## (g) Presentation & Disclosure

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- Refer to the Specimen FS 2011-Full IFRS ICPAK in the website

# Remember.....



'If it is not documented then it was  
not done'



**END**

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**Thank You**

**Questions & Answers**