**CHAPTER FOUR**

**The Audit of Accounting Information Systems**

**AUDIT OF CASH**

**Introduction**

This part examines the audit of cash. For the audit of cash much reliance is placed on third party confirmation of cash balance.

You should bear in mind that the control of cash is of prime importance in any business. The overall objective of the audit of cash is to determine that cash is fairly presented in conformity with generally accepted accounting principles. In most audits, the primary assertions that generate audit risk for cash are existence, completeness, right and obligation, and presentation and disclosure.

**Nature of cash**

Cash and bank balances are liquid assets and include:

1. Notes and units.
2. Bank current accounts.
3. Bank deposit accounts.

Because of their liquidity, these assets represent the most vulnerable of all the company’s assets. On the other hand, they are the most easily verified, because they can be confirmed directly by third parties or by physical counts.

**The auditors’ objectives in examination of cash**

The auditors have five objectives in the audit of cash**:**

* 1. Consider *internal control* over cash transactions.
  2. Determine the *existence* of recorded cash and the client’s ownership of this asset.
  3. Establish the *completeness* of recorded cash.
  4. Establish the *clerical accuracy* of cash schedules.
  5. Determine that the *statement presentation* of cash is appropriate.

The overall objective of the audit of cash is to determine that cash is fairly presented in conformity with generally accepted accounting principles.

**Internal Control over Cash**

(a) **Control Objectives**

The central control objectives are that:

* All sums are received and subsequently accounted for.
* No payments are made which should not be made.
* All receipts and payments are promptly and accurately recorded.

(b) **Control Procedures**

A detailed study of the operating routines of the individual business is necessary in developing the most efficient control procedures. These universal rules for achieving internal control over cash may be summarized as follows:

1. Do not permit any one employee to handle transaction from beginning to end.
2. Separate cash handling from record keeping.
3. Centralize receiving of cash as much as possible.
4. Record cash receipts immediately.
5. Encourage customers to obtain receipts and observe cash register totals.
6. Deposit each day’s cash receipts intact.
7. Make all disbursements by cheues with the exception of small from petty cash.
8. Have monthly bank Reconciliation prepared by employees not responsible for the issuance or custody of cash. The completed reconciliation should be reviewed promptly by an appropriate official.
9. Forecast expected cash receipts and disbursements and investigate variances from forecasted amounts.
   * 1. **Internal control over cash receipts**

Cash receipts resulted from a variety of activities. For example, cash is received from revenue transactions, short and long term borrowings, the issuance of stock, and the sale of marketable securities, long term investments, and other assets. The scope of this section is limited to cash receipts from cash sale and collection from customers on credit sales. The basic internal controls over cash receipts include the following:

* Authority to collect cash should be clearly defined.
* Collections should be recorded when received.
* The collector’s cash receipts should be reconciled to the eventual banking.
* Receipts should be banked immediately.
* Each day’s receipts should be recorded promptly in the cashbook.
* Sales ledger account should have not access to the cash.

The processing of receipts from cash and credit sales involves the following cash receipts functions:

* + - * Receiving cash receipts.
      * Depositing cash in bank.
      * Recording the receipts.

Segregation of duties in performing these functions is an important internal control activity.

**Receiving cash receipts**

A major risk in processing cash receipts transactions is the possible theft of cash before and after a record of cash is made. Thus, control procedures should provide reasonable assurance that documentation establishing accountability is created at the moment cash is received and that the cash is subsequently safeguarded.

**Depositing cash in bank**

Proper physical controls over cash require that all cash receipts be deposited *intact* daily. Intact means all receipts should be deposited; that is cash disbursements should not be made out of un-deposited receipts.

**Recording the receipts**

This function involves journalizing over the counter and mail receipts and posting mail receipts to customer accounts. Controls should ensure that only valid receipts are entered and that all actual receipts entered at the correct amount.

To ensure that only valid transactions are entered, physical access to the accounting records or computer terminals used in recording should be restricted to authorized personnel.

**Internal Control Over Cash Disbursements**

***There are two cash disbursements functions as follows****:*

* + 1. Paying the liability
    2. Recording the cash disbursements.

These functions should not be performed by the same department or individual. The basic internal controls over cash disbursements include:

Unused checks should be held in a secure place.

* The person who prepares checks should have no responsibility over purchase ledger or sales ledger.
* Checks should be signed only when evidence of a properly approved transaction is available.
* These checks should be evidenced by signing the supporting documents.
* Check signatories should be restricted to the minimum practical number.
* Two signatories at least should be required except perhaps for checks of small amounts.
* Checks should be crossed before being signed.
* Supporting documents should be cancelled as paid to prevent their use to support further check payments.
* Checks should preferably dispatch immediately.

**Control over Petty Cash**

* The level and location of cash floats should be laid down formally.
* Cash should securely hold.
* There should be restricted access to the floats.
* All expenditure should require a voucher system signed by a responsible official, not the petty cashier.
* Vouchers should be produced before the check is signed for reimbursement.
* A maximum amount should be placed on a petty cash payment to discourage normal purchase procedures being by passed.
* Periodically the petty cash should be reconciled by an independent person.

**Audit program for cash**

The following audit program indicates the general pattern of work performed by the auditors in the verification of cash.

1. **Consider internal control for cash.** 
   1. Obtain an understanding of internal control for cash.
   2. Assess control risk and design additional tests of controls for cash.
   3. Perform additional tests of control for those controls, which the auditors plan to consider in their assessment of control risk.

(a) Test the accounting records and reconciliation by re-performance.

* + 1. Compare the detail of a sample of recorded disbursements in cash payments journal to accounts payable postings, purchase orders, receiving reports, invoices, and paid checks.
       1. Compare the detail of a sample of recorded cash receipts listings to the cash receipts, journal, accounts receivable postings, and authenticated deposit slips.
  1. Reassess control risk and design substantive tests for cash.

**B. Perform substantive tests of cash transaction and balances**.

1. Obtain analysis of cash balances and reconcile to the general ledger.
2. Send standard confirmation forms to banks to verify amounts on deposit.
3. Obtain or prepare reconciliation of bank accounts as of the balance sheet date and consider the need to reconcile bank activity for additional months.
4. Obtain a cutoff bank statement containing transactions of at least seven business days subsequent to balance sheet date.
5. Count and risk cash on hand.
6. Verify the client’s cutoff of cash receipts and disbursements.
7. Trace all bank transfers for last week of audit year and first week of following year.
8. Evaluate proper financial statement presentation and disclosure of cash.
9. **Consider internal control for cash.**
   1. Obtain an understanding of internal control

By understanding internal control over cash receipts and cash disbursements helps auditors to observe whether there is appropriate segregation of duties and to enquire who performed various functions throughout the year.

* + 1. Assess control risk and design additional tests of control.

After obtaining an understanding of the client’s internal control for cash receipts and disbursements, the auditors perform their initial assessment of control risk.

1. Perform additional tests of control.

Tests directed toward the effectiveness of control help to evaluate the client’s internal control and determine the extent to which the auditors are justified in reducing the assessed levels of control risk for assertions about the cash account.

*The following are examples of typical tests of controls****.***

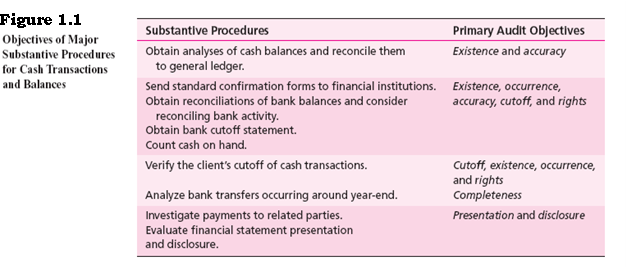
* Test the accounting records and Reconciliation by re-performance.
* Compare detail of cash receipts listings to cash receipts journal, accounts receivable postings, and authenticated deposit slips.
* Compare detail of a sample of recorded disbursements in cash payments journal, accounts payable postings, purchase orders, receiving reports, invoices, and paid checks.
  1. Reassess control risk and design substantive tests.

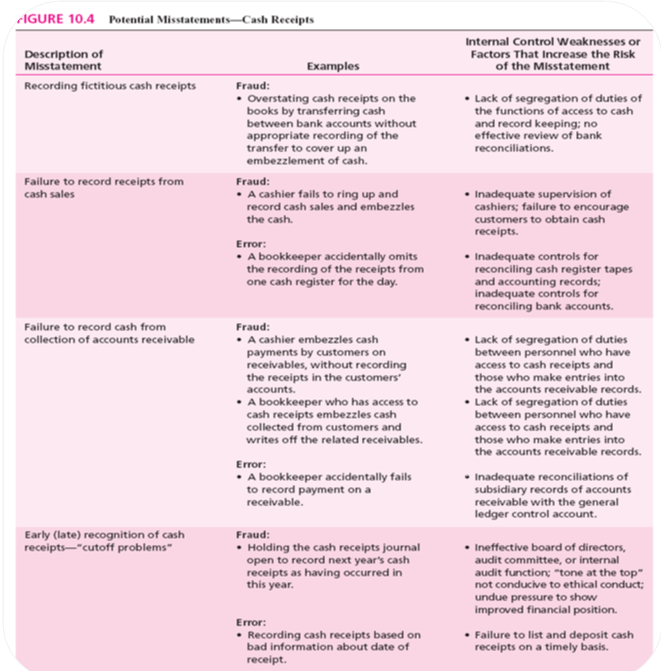
When the auditors have completed the procedures described above, they should reassess control risk and design substantive tests of cash transactions and balances.

**B. Substantive tests**

* + Obtain analyses of cash balances and reconcile to the general ledger.
  + Send standard confirmation forms to banks to verify amounts on deposit.
  + Obtain or prepare reconciliation’s of bank accounts as of the balance sheet date and consider the need to reconcile bank activity for additional months.
  + Obtain a cut off bank statement.
  + Count and list cash on hand.
  + Verify the client’s cutoff of cash receipts and disbursements.
  + Trace all bank transfers for the last week of audit year and first week of following year.
  + Investigate any cheques representing large or unusual payments to related parties.
  + Determine proper financial statement presentation and disclosure of cash.

**Substantive Tests for Cash Balances**





**Figure 1.2**

**AUDIT OF RECEIVABLE**

**Introduction**

This part examines the audit of sales and receivables. You should bear in mind in the audit of receivables that receivables are a product of the sales cycle and therefore the control objectives of the sales cycle are relevant. Receivable is a general term that may refer to many types of receivables whose origin and nature may be different.

Receivables include amounts due from customers, employees, and affiliates on open accounts, notes, and loans and accrued interest on such balances.

**Sources and nature of receivable**

The sales and collection cycle including the receiving of orders from customers are delivery and billing of merchandise to customers, and the recording and collection of receivables. Receivables from customers include both accounts receivable and various types of notes receivable.

It is important to differentiate the origin and nature of receivables to ensure their appropriate classification and valuation.

**Financial reporting standards**

Financial reporting standards for receivables require:

* Separation of trade from non – trade receivables.
* Establishment of genuine of trade receivables transactions ensuring terms of sales.
* Assurance of ownership disclosure.
* Assurance of collectability of receivables.
* Assurance of consideration for returns and allowances.
* Appropriate classification of current and non - current.

**Audit objectives**

The audit objectives for the receivables and sales relate to obtain to sufficient competent evidence about each significant financial statement assertion that pertains receivables and sales transactions and balances.

To achieve each of these specific audit objectives, the auditors employ various parts of the audit planning and audit testing methodology.

The auditors’ objectives in the examination of receivables and sales are:

1. To consider internal control over receivables and sales transactions.
2. To determine the existence of receivables, the clients ownership of these assets, and the occurrence of sales transactions.
3. To establish the completeness of receivables and sales transactions.
4. To establish the clerical accuracy of records and supporting schedules of receivables and sales.
5. To determine that the valuation of receivables is at appropriate net realizable values.
6. To determine that the statement presentation of receivables and sales is adequate.

###### Figure 1.3 Selected specific audit objectives for receivables and sales

|  |  |  |
| --- | --- | --- |
| AssertionCategory | **Transaction class**  **Audit objective** | **Account balance**  **Audit objective** |
| Category Existence or Occurrence | Recorded sales transactions represent goods shipped during the period. Recorded cash receipts transactions represent cash received during the period. | Accounts receivable include all amounts owed by the customers exists at the balance sheet date. |
| Completeness | All sales, cash receipts sales adjustments that occurred during the period have been recorded. | Accounts receivable include all claims on customers at the balance sheet date. |
| Rights and Obligations | The entity has rights to the receivables and cash resulting from sales transactions. | Accounts receivable at the balance sheet date represents legal claims of the entity. |
| Valuation | All sales, cash receipts and sales adjustments transactions are correctly journalized, summarized, and posted. | Accounts receivable represent gross claims, On customers at the balance sheet date. The allowance for uncollectible accounts represent a reasonable estimate. |
| Presentation ad disclosure | The details of sales, cash receipts and sales adjustments support their presentation in the financial statements. | Accounts receivables are properly identified and classified. |

**Internal control of sales and receivables**

The objectives of internal controls over receivables are to ensure:

1. All goods dispatched are invoiced.
2. Invoicing is at correct price and discount.
3. Goods are only dispatched on credit to approved customers.
4. Invoices are recorded and related to subsequent cash receipts.
5. Receivables are controlled and bad debts pursued.
6. Credit notes approved.

In addition the internal control over receivables should be such that the possibility of any falsification of the receivables accounts is eliminated. An important part of the controls would be to ensure that the cashier does not have access to the sales ledger, and the sales ledger clerk does not have access to cash received. Control procedures, over sales and receivables include the following.

* 1. **Orders.**
     + - The orders should be checked against the customer’s account.
       - All orders received should be recorded on pre – numbered sales order documents.
       - All orders should be authorized before goods are dispatched.

**b. Dispatch.**

* + - * Dispatch notes should be pre - numbered and a register kept of them to relate to sales invoices and orders.
      * Goods dispatch notes should be authorized as goods leave.

**c. Invoicing**

* + - * Sales invoices should be authorized by a responsible official.
      * Sales invoices should be checked for prices and calculations by a person other than the one preparing the invoice.
      * All invoices should be pre – numbered consecutively.
      * Copies of cancelled invoices should be retained.

**d. Receivables.**

* + - * A receivable ledger control account should be prepared and checked to individual sales ledger balances.
      * Receivables ledger personnel should be independent of dispatch and cash receipt functions.
      * Statements should be sent regularly to customers.

1. **Bad debts.**
   * + - The authority to write off a bad debt should be given in writing and adjustments made to the accounts receivable ledger.
       - The use of court action or write – off of a bad debt should be authorized by an official independent of the cash receipts function.

**Audit program for receivables and sales transactions**

The following audit procedures are typical of the work done in the verification of notes, accounts receivable, and sales transaction.

* + 1. **Consider internal control for receivables and sales**.

1. Obtain an understanding of internal control for receivables and sales. The auditors’ consideration of internal controls over receivables and sales may begin with the preparation of a written narrative or flow chart and the completion of an internal control questionnaire. As the auditors’ confirm their understanding of the sales and collection cycle, they will observe whether there is appropriate segregation of duties, and enquire as to who performed various functions throughout the year.
2. Assess control risk and design additional tests of controls for receivables and sales. After obtain an understanding of the client’s internal control for receivables and sales transactions, the auditors perform their initial assessment of control risk for the variant financial statement assertions.
3. Perform additional tests and controls: Tests directed towards the effectiveness of control help to evaluate the client’s internal control, and determine the extent to which the auditors are justified in reducing their assessed levels of control risk for the assertion about the receivables and sales accounts. The following are examples of additional tests:
   * 1. Examine significant aspects of a sample of sales transactions.
     2. Compare a sample of shipping documents to related sales invoices.
     3. Review the use and authorization of credit memoranda.
     4. Reconcile selected cash register tapes and sales invoices with sales journals.
4. Reassess control risk and design substantial tests. When auditors have completed the procedures described in the preceding sections, they should assess the extent of control risk for each financial statement assertions regarding receivables and sales transactions. The assessment will determine the nature, extent, and timing of auditors’ substantive tests for receivables and sales.

**B. Substantive tests**

* 1. Obtain an aged trail balance of trade accounts receivable and analyses of other accounts receivable and reconcile to ledgers. When trial balances or analyses of accounts receivable are furnished to the auditors by the client’s employees, some independent verification of the listings is essential.
  2. Obtain analyses of notes receivable and related interest.
  3. Inspect notes on hand and confirm those not on hand with holders.
  4. Confirm receivables with debtors.
  5. Receive the year-end cutoff of sales transactions.
  6. Perform analytical procedures for accounts receivable, sales, notes receivable, and interest revenue.
  7. Verify interest earned on notes and accrued interest receivable.
  8. Evaluate the propriety of the client’s accounting for receivables and sales.
  9. Determine adequacy of allowance for uncollectible accounts.
  10. Ascertain whether any receivables have been pledged.
  11. Investigate fully any notes or accounts receivable from related parties.
  12. Evaluate financial statement presentation and disclosure.

**AUDIT OF INVENTORIES**

**Introduction**

Inventories are major items on the balance sheet, i.e. in total assets, especially in the current asset section. Inventories play also a very significant and important role in preparation of income statement and determination of net income or loss.

This unit discusses the typical internal control procedures and the auditors’ objectives in the examination of inventories /purchases.

The processing of purchases transactions involves the following purchasing functions:

* + - * Requisitioning goods and services.
      * Preparing purchase orders.
      * Receiving the goods.
      * Storing goods received for inventory.
      * Preparing the payment voucher.
      * Recording the liability.

**The auditors’ objectives in the examination of inventories and purchases**

The auditors’ have the following objectives in the examination of inventories and purchases.

1. To consider internal control over inventories and purchases.
2. To determine the existence of inventories, and the client’s ownership of these assets.
3. To establish the completeness of inventories and purchase transaction.
4. To establish clerical accuracy of records and supporting schedules for inventories and purchases.
5. To determine that the valuation inventories is based on appropriate methods.
6. To determine the statement presentation of inventories is adequate, including disclosure of classification of inventories, accounting records and any inventories pledged as collateral for loans.

**Internal control over inventories and purchases control objectives**

Although inventory records may vary considerably from client to client, the control objectives of a sound system of internal control over inventories are the same in all cases, namely:

* + Authorization and purchase procedures.
  + Control over goods inwards.
  + Inventory records substantiated by physical counts.
  + Control over dispatches and goods outwards.
  + Inventory levels should be controlled so that materials are available when required but that inventory is not unnecessarily large. Control procedures over inventories.

Internal control procedures for inventories affect nearly all the functions involved in producing and disposing of the company’s products, purchasing, receiving, storing, issuing, processing, and shipping are the physical functions directly connected with inventories. The basic internal control procedures are the following:

***Approval and control of documents***

* Issues from inventories should be recorded only on properly authorized requisitions.
* Reviews of damaged, obsolete and slow moving inventories should be carried out. Any write - offs should be authorized.

***Arithmetical accuracy***

* + - * + All receipts and issues should be recorded on inventory cards.
        + The costing department should allocate direct and overhead costs to the value of work – in – progress according to the stage of completion reached.

***Control accounts***

* + - * + Total inventory records may be maintained and integrated with the main accounting system.

***Comparison of assets to records***

* + - * Inventory levels should be checked against the records by a person independent of the stores personnel, and material differences investigated.
      * Where continuous inventory records are not kept adequately a full count should be held at least once a year.
      * Maximum and minimum inventory levels should be pre – determined and regularly reviewed for adequacy.

***Access to assets and records***

Separate centers should be identified at which goods are held.

Inventories should be held in their locations so that they are safe from damage or theft.

All 8 inventories should be identified and held together.

* Access to the stores should be restricted

**Audit procedures**

The following audit procedures for the verification of inventories and purchases may be used by auditors:

1. ***Consider internal control for inventories and purchases***
   1. Obtain an understanding of internal control for inventories and purchases.

In obtaining an understanding of internal control over inventory, the auditor should become thoroughly conversant with the procedures for purchasing, receiving, storing, and issuing goods as well as acquiring an understanding of the cost accounting system and the perpetual records.

* 1. Assess control risk and design additional tests of control for inventories and purchases.

After obtaining an understanding of the client’s internal control over inventories and purchases, the auditors perform their initial assessment of control risk for the various financial statement assertions.

* 1. Perform additional tests of controls.

Tests directed toward the effectiveness of controls help to evaluate the client’s internal control and to determine the extent to which the auditors are justified in reducing their assessed level of control risk for the assessments about the inventory and purchase accounts.

The following are examples of typical additional test.

* + - * 1. Examine significant aspects of a sample of purchase transactions.
        2. Test the cost accounting system.
  1. Reassess control risk and design substantive tests.
     1. ***Substantive test.***
        1. Obtain listings of inventory and reconcile to ledgers.
        2. Evaluate the client’s planning of physical inventory.
        3. Observe the taking of physical inventory and make test counts.
        4. Review the year – end cutoff of purchases and sales transactions.
        5. Obtain a copy of the completed physical inventory, test its clerical accuracy, and trace test counts.
        6. Evaluate the bales and methods of inventory pricing.
        7. Review inventory quality and condition.
        8. Perform analytical procedures.
        9. Determine whether any inventories have been pledged and review purchase and sales commitments.
        10. Evaluate financial statement presentation of inventories, including the adequacy of disclosure.

**AUDIT OF NON-CURRENT ASSETS**

This Part covers the audit of non-current assets, a key area of the statement of financial position. It highlights the key objectives for each major component of non-current assets. You must understand what objectives the various audit tests are designed to achieve in relation to the financial statement assertions. Objectives of particular significance for tangible non-current assets are rights and obligations (ownership), existence and valuation. Valuation is the other important assertion. The auditors will concentrate on testing any external valuations made during the year, and whether other values appear reasonable given asset usage and condition. A very important aspect of testing valuation is reviewing depreciation rates. Using the work of an expert, may well be important in the audit of non-current assets in respect of valuation.

**Audit of tangible and non-tangible assets**

1. ***AUDIT OF TANGIBLE NON-CURRENT ASSETS***
   1. **Audit objectives for tangible non-current assets**

|  |  |
| --- | --- |
| **Financial statement assertion** | **Audit objective** |
| Existence and occurrence | * + Additions represent assets acquired in the year and disposal   represent assets sold o scrapped in the year   * + Recorded assets represent those in use at the year-end |
| Completeness | * + All additions and disposals that occurred in the year have been   recorded   * + Balances represent assets in use at the year-end |
| Rights and obligations | * + The entity has rights to the assets purchased and those recorded at the year-end |
| Accuracy, classification and  Valuation | * + Non-current assets are correctly stated at cost less accumulated   depreciation   * + Additions and disposals are correctly recorded |
| Assertions relating to  presentation and disclosure  (occurrence and rights and  obligations, completeness,  classification and  understandability, accuracy and  valuation) | * + Disclosures relating to cost, additions and disposals, depreciation policies, useful lives and assets held under finance leases are adequate and in accordance with accounting standards |

* 1. **Audit procedures for tangible non-current assets**

|  |  |
| --- | --- |
| **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** and **obtain explanations** for **differences**. * 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 depreciated value of major non-current assets. * **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 * **Reperform** calculation of revaluation surplus. * Confirm whether valuations 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 inquiries of Finance Director and inspection of previous financial statements. * Inspectdraft accounts to check that client has **recognised** 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 * 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. * **Reperform calculation** of depreciation rates to ensure it is correct. * **Compare ratios** of depreciation to non-current assets (by category) with:   + Previous years   + Depreciation policy rates * **Scrutinise** 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. |
| RIGHTS AND  OBLIGATIONS | * **Verify title** to land and buildings by inspection of:   + Title deeds   + Land registry certificates   + Leases * Obtain a certificate from solicitors/bankers:   + **Stating purpose** 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 covenants therein. * **Examine invoices received after year-end, orders** and **minutes** for evidence of capital commitments. |

1. ***INTANGIBLE NON-CURRENT ASSETS***

Key assertions for intangible non-current assets are **existence** and **valuation**.

The key assertions relating to intangibles are **existence** (not so much 'do they exist?', but 'are they genuinely assets?') and **valuation**. They will therefore be audited with reference to criteria laid down in the financial reporting standards. As only purchased goodwill or intangibles with a readily ascertainable market value can be capitalised, **audit evidence should be available** (purchase invoices or specialist valuations). The audit of **amortization** will be similar to the audit of depreciation.

**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 **inspection**. * **Inspect** specialist valuation of intangibles and ensure it is reasonable. * Review amortization calculations and ensure they are correct by **recalculation**. |