

CASH AND BANK

"Cash" in the financial statements represent cash in hand and cash on deposit in bank accounts. The controls relating to cash have been considered previously, we are now concerned with the substantive testing applied to the year end balances.

AUDIT OBJECTIVES FOR CASH AND BANK

The following table demonstrates the audit objectives for cash balances and how these are related to the financial statement assertions relevant to this balance sheet area.

Financial statement assertion	Audit objective
Existence	Recorded cash balances exist at the balance sheet date
Completeness	Recorded cash balances include the effects of all transactions that have occurred
Rights and obligations	The entity has legal title to all cash balances shown at the balance sheet date
Valuation	Recorded cash balances are realisable at the amounts stated
Assertions relating to presentation and disclosure (classification and understandability, occurrence and rights and obligations, accuracy and valuation, completeness)	Disclosures relating to cash are adequate and in accordance with accounting standards and legislation

AUDIT PROCEDURES FOR CASH BALANCES

Audit procedures for cash balances are set out in the table below.

AUDIT PLAN: BANK

These tests are to confirm **completeness, valuation, existence, cut-off and assertions related to presentation and disclosure.**

- **Obtain standard bank confirmations** from each bank with which the client conducted business during the audit period.
- **Reperform arithmetic** of bank reconciliation.
- **Trace cheques shown as outstanding** from the bank reconciliation to the cash book prior to the year-end and to the **after-date bank statements** and **obtain explanations** for any **large or unusual items** not cleared at the time of the audit.
- **Compare cash book(s) and bank statements** in detail for the last month of the year, and **match items outstanding** at the reconciliation date to bank statements.
- **Review bank reconciliation** previous to the year-end bank reconciliation and test whether **all items** are **cleared** in the last period or **taken forward** to the year-end bank reconciliation.
- Obtain satisfactory explanations for **all items** in the **cash book** for which there are **no corresponding entries** in the **bank statement** and vice versa by **discussion** with finance staff.
- **Verify contra items** appearing in the cash books or bank statements with original entry.
- Verify by **inspecting** paying-in slips that **uncleared bankings** are **paid in** prior to the year-end.
- **Examine all lodgements** in respect of which payment has been refused by the bank; ensure that they are cleared on representation or that other appropriate steps have been taken to effect recovery of the amount due.
- Verify balances per the cash book according to the bank reconciliation by **inspecting** cash book, bank statements and general ledger.
- **Verify the bank balances** with reply to **standard bank letter** and with the **bank statements**.
- **Scrutinise** the cash book and bank statements before and after the balance sheet date for **exceptional entries** or **transfers** which have a material effect on the balance shown to be in-hand.
- Identify whether any **accounts** are **secured** on the **assets** of the company by **discussion** with management.
- **Consider** whether there is a **legal right of set-off** of overdrafts against positive bank balances.
- Determine whether the bank accounts are **subject** to any **restrictions** by **inquiries** with management.
- **Review draft accounts** to ensure that disclosures for bank are complete and accurate and in accordance with accounting standards.

Remember that the bank confirmation letter contains the balance held by the client at the bank **per the bank's records**. This must be **reconciled** to the balance held with the bank **per the client's records**.