

FIXED ASSETS

TANGIBLE FIXED ASSETS

Key areas when testing for tangible fixed assets are:

- Confirmation of ownership
- Inspection of fixed assets
- Valuation by third parties
- Adequacy of depreciation rates

AUDIT OBJECTIVES FOR FIXED ASSETS

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

Financial statement assertion	Audit objective
Existence and occurrence	– Additions represent assets acquired in the year and disposals represent assets sold or 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	– Fixed 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, classification and understandability, accuracy and valuation, completeness)	– 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

INTERNAL CONTROL CONSIDERATIONS

The fixed asset register is a very important aspect of the internal control system. It enables assets to be identified, and comparisons between the general ledger, fixed asset register and the assets themselves provide evidence that the assets are completely recorded.

Another significant control is procedures over acquisitions and disposals, that acquisitions are properly authorised, disposals are authorised and proceeds accounted for.

Other significant aspects are whether:

- Security arrangements over fixed assets are sufficient
- Fixed assets are maintained properly
- Depreciation is reviewed every year
- All income is collected from income yielding assets

AUDIT PROCEDURES FOR TANGIBLE FIXED ASSETS

AUDIT PLAN: TANGIBLE FIXED ASSETS	
COMPLETENESS	• Obtain or prepare a summary of tangible fixed assets showing how: – Gross book value – Accumulated depreciation – Net book value reconcile with the opening position. • Compare fixed assets in the general ledger with the fixed assets register and obtain explanations for differences. • For a sample of assets which physically exist agree that they are recorded in the fixed asset register. • If a fixed asset register is not kept, obtain a schedule showing the original costs and present depreciated value of major fixed assets. • Reconcile the schedule of fixed assets with the general ledger.
EXISTENCE	• Confirm that the company physically inspects all items in the fixed 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 • Repperform calculation of revaluation surplus.

AUDIT PLAN: TANGIBLE FIXED ASSETS

- **Review** valuations of all assets that have been revalued to ensure they have been **updated regularly** (full valuation every five years and an interim valuation in year three generally).
- **Inspect** draft accounts to check that client has **recognised** in the **profit and loss account** revaluation losses which relate to clear consumption of economic benefits or which take the valuation below depreciated historical cost, and client has **recognised all other gains and losses** in **statement of total recognised gains and losses**.

ADDITIONS

- **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 and accounting policy
 - Possible obsolescence
- **Review** fixed asset 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 fixed assets (by category) with:
 - Previous years
 - Depreciation policy rates
- For a sample of fully depreciated assets, **inspect** the register to ensure no further depreciation is charged.
- **Review insurance policies** in force for all categories of tangible fixed assets and consider the adequacy of their insured values and check expiry dates.
- Evaluate fixed assets for significant write-offs or impairments by
 - **Identifying** any events or charges in circumstance that could indicate the carrying value of the asset may not be recoverable
 - Checking the impairment loss by **calculating** the recoverable amount and comparing it to the carrying value
 - **Inspecting** client documentation to support any impairment or write-off

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 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.

AUDIT OF TANGIBLE FIXED ASSETS	
ADDITIONS	These tests are to confirm rights and obligations, valuation and completeness. • Verify additions by inspection of architects' certificates, solicitors' completion statements, suppliers' invoices etc. • Review capitalisation of expenditure by examining fixed assets additions and items in relevant expense categories (repairs, motor expenses, sundry expenses) to ensure that: – Capital/revenue distinction is correctly drawn – Capitalisation is in line with consistently applied company policy • Inspect fixed asset accounts for a sample of purchases to ensure they have been allocated correctly. • Check purchases have been authorised by directors/senior management by inspecting board minutes. • Ensure that appropriate claims have been made for grants, and grants received and receivable have been received, by inspecting claims documentation and bank statement. • Check additions have been recorded by inspecting the fixed asset register and general ledger. • Physically examine a sample of capital additions and trace into the ledger.
SELF-CONSTRUCTED ASSETS	These tests are to confirm valuation and completeness. • Verify material and labour costs and overheads to invoices, wage records etc. • Ensure expenditure has been analysed correctly and properly charged to capital. • Expenditure should be capitalised if it: – Enhances the economic benefits of the asset in excess of its previously assessed standard of performance – Replaces or restores a component of the asset that has been treated separately for depreciation purposes, and depreciated over its useful economic life – Relates to a major inspection or overhaul that restores the economic benefits of the asset that have been consumed by the entity, and have already been reflected in depreciation • Review costs to ensure that no profit element has been included. • Review accounts to ensure that finance costs have been capitalised or not capitalised on a consistent basis, and costs capitalised in period do not exceed total finance costs for period.
DISPOSALS	These tests are to confirm rights and obligations, completeness, occurrence and accuracy. • Verify disposals with supporting documentation, checking transfer of title, sales price and dates of completion and payment. • Recalculate profit or loss on disposal. • Check that disposals have been authorised by inspecting board minutes. • Consider whether proceeds are reasonable. • If the asset was used as security, ensure release from security has been correctly made by inspection of relevant documentation.
CLASSIFICATION AND UNDERSTANDING	• Review fixed asset disclosures in the financial statements to confirm that they meet FRS 15 criteria. • Inspect draft accounts to ensure that depreciation policies and rates are correctly disclosed in the accounts.

INTANGIBLE FIXED ASSETS

Key assertions for intangible fixed 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 accounting standards (FRS10). 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 amortisation will be similar to that of depreciation.

AUDIT PROCEDURES FOR INTANGIBLE FIXED ASSETS

AUDIT PLAN: OTHER FIXED 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 amortisation calculation and ensure correct by recalculation. • If useful economic life considered indefinite, discuss reasons and assumptions with management to conclude if reasonable. • 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.
Other intangibles	• Agree purchased intangibles to purchase documentation by inspection. • Inspect specialist valuation of intangibles and ensure they are reasonable. • Review amortisation calculations and ensure they are correct by recalculation.
Research and development costs	• Confirm that capitalised development costs conform to SSAP 13 criteria by inspecting details of projects and through discussion with technical managers. • Confirm feasibility and viability by inspection of budgets. • Recalculate amortisation calculation, to ensure it commences with production/is reasonable. • Inspect purchase invoices to verify expenditure incurred on projects.