

Internal Audit Policy

Section 1. Mandate

The Audit Committee, being an independent body, shall conform to the Standards for the Professional Practice of Internal Auditing. It shall provide consulting activity designed to add value and improve on the organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of internal control and governance process. They are required to observe confidentiality and propriety of information accessed during the review.

Section 2. Authority

The Audit Committee shall have full, free and unrestricted access to all areas, activities, records, property, information sources and personnel necessary to carry out its activities. They shall be free from control or undue influence in the selection of scope of activities to be examined, its audit procedures, frequency, timing and report content to observe independence and objectivity.

During the course of audit, the audit committee may uncover evidence of errors, irregularities, or fraud. Though they may not be solely held responsible for the detection and prevention of all errors, irregularities or fraud but they are mandated to assist in the investigation of fraudulent activities.

Section 3. Internal Audit Plan

The Audit Committee shall be responsible for the development and implementation of an Annual Audit Plan. The internal audit plan shall be risk-based plan to determine the priorities of the internal audit activity. It shall include the scope, budget, and resource requirements.

Section 4. Audit Report

The Chairperson of the Audit Committee shall communicate the results of its engagements as well as applicable conclusions, recommendations and action plans to the Board of Directors during its regular monthly meeting and during the General Assembly.

Section 5. Internal Accounting Controls

Cash Receipts, Revenues and Receivables

- a. There is adequate separation of duties among the personnel cashiering, reading the POS machine, billing receivables, issuance of Officials Receipts, and recording of transactions in the computerized accounting system.
- b. All invoices and official receipts are pre-numbered and registered with the BIR and must be used sequentially.
- c. Authorized POS machine/s are maintained in the canteen where there is substantial over-the-counter receipts. Z-reading shall be conducted daily during closing time and all cash receipts must be properly accounted and turned-over to the Treasurer.
- d. Photocopying machine operators shall likewise account the number of good copies and spoilages for the day using the prescribed daily report segregating the cash sales from sales on account.
- e. All cash receipts other than from cash from POS machines shall be covered with Official Receipts or Acknowledgement Receipt, whichever is applicable.
- f. Subsidiary ledgers are balanced and aged regularly.
- g. Authorized personnel who do not have access to the accounting records handle cash receiving functions.
- h. Incoming receipts are deposited intact the following banking day.
- i. The receipt of cash is provable by other separately maintained records.

- j. Periodic reconciliation of detailed cash receipt records to duplicate deposit slips, receivable and cash control accounts, etc., are prepared by personnel independent of cash functions.

Purchasing and Accounts Payable

- a. Adequate separation of functions in handling purchase requisitions and receiving items purchased.
- b. All purchases must be supported by an approved purchase order.
- c. Purchases involving P5,000.00 and above, other than office supplies and inventories intended for sale, shall secure authorization form the Board of Directors.
- d. Numerical and physical control is maintained over unused purchase orders and food deliveries.
- e. Purchased Orders are used in numerical sequence.
- f. The purchasing system is designed to accurately and promptly record purchase payables and the taking of all discounts.
- g. Copies of purchase orders are sent to receiving and accounting staff.
- h. Purchasing personnel are not involved in receiving, disbursing or other conflicting functions.
- i. Supplier's invoices are checked against purchase orders and receiving reports. Clerical accuracy is proven before approval for payment.
- j. Independent personnel check suppliers' statements regularly against recorded liabilities.
- k. Subsidiary ledgers for accounts payable must be maintained and updated.

Cash Disbursements

- a. Systems-generated check voucher are used on all disbursements.
- b. Numerical and physical control is maintained over blank as well as issued checks.
- c. Authorized signatories are approved by the Board of Directors and are periodically reviewed and updated.
- d. Countersignatures are required on all checks.
- e. All supporting documents are presented to authorized signatories along with check for signature and should be stamped "paid" at the time of signing.
- f. Checks are adequately safeguarded before releasing and are handed by someone independent of disbursing.
- g. Voided or spoiled checks are marked cancelled and retained on file in sequence.
- h. Disbursing personnel are not involved in purchasing, and receiving stocks.

Payroll and Personnel

- a. All regular employees are covered with employment contract.
- b. Current and complete personnel files are maintained.
- c. All salary and wage payments are made thru bank debits, which are signed and approved by authorized officer.
- d. All payroll computations are supported with daily time records and are independently double-checked.

Inventory Control

- a. Inventory of stocks for sale and book papers in the hands of the photocopying operators and office custodian are counted every end of month.
- b. Complete physical inventories of properties and equipment are taken at least once a year or more if necessary in accordance with sound written procedures adequately supervised.
- c. All properties and equipment must be covered with duly signed Acknowledgement Receipt of Equipment (ARE).

General Accounting and Miscellaneous

- a. There is separation of functions and duties such that no employee originates and completes a transaction without adequate check and review by responsible officials.
- b. Accounting records are complete and current.

Petty Cash and Cash on Hand

- a. Petty cash fund of P1,000.00 are maintained on an imprest basis with one individual responsible for the fund. They are not commingled with other receipts and funds.
- b. Maximum disbursements from petty cash fund shall only be up to P300.00.
- c. Disbursements are supported with pre-numbered petty cash vouchers and pertinent documents; e.g., receipts, invoices.
- d. Supporting documents are checked and cancelled at the time the fund is reimbursed.
- e. Frequent and surprise counts of funds are made by internal audit or other authorized independent personnel.

Change Fund

- a. Change fund of P1,000.00 is maintained in the POS machine.
- b. Separate fund of P19,000 is likewise maintained by the treasurer to answer the immediate need of loose change for canteen operation.
- c. Frequent and surprise counts of funds are made by internal audit or other authorized independent personnel.

Revolving Fund

- a. The revolving fund of P40,000.00 is maintained by the treasurer to answer the immediate need of the canteen operation.
- b. Frequent and surprise counts of funds are made by internal audit or other authorized independent personnel.

Cash Advance

- a. Approval/authorization for granting, extension and/or renewal of cash advance to officers and employees are vested with the BOD and other approving body.
- b. Subsidiary records are maintained for all cash advances accounts and are reconciled monthly to general ledger control.
- c. Accounts are reviewed periodically for propriety of changes and observance of liquidation within the prescribed period.

Loans and Other Accounts Receivable

- a. Approval by the Board of Directors or Audit Committee is required for acceptance, terms, extensions, renewals and write-offs of significant notes and other account receivable, subject to the provision in the Credit Policy.
- b. The Credit Committee shall maintain an updated subsidiary ledger separate from the records maintained in the computerized accounting system.

Prepaid Expenses and Other Current Assets

- a. Subsidiary records are maintained for all accounts and are reconciled monthly to general ledger controls.
- b. Accounts are reviewed periodically for propriety of charges and amounts applicable to future periods.
- c. Significant changes are reviewed and approved by responsible employee.

Marketable and Other Securities, Investments, Other Assets and Intangibles

- a. All transactions including purchases, sales, transfers and exchanges are approved by the Board of Directors/General Assembly.
- b. Detailed records such as: certificate numbers, date and amount of purchases, written off, reserved or held for others, and income derived therefrom are maintained by a person/employee independent of cash function.
- c. All evidences of ownership are in the name of the cooperative and kept in a safety deposit box.
- d. Access to evidences of ownership is restricted to specific officer/employee and at least two (2) must be present when negotiable instruments are handled.
- e. Authorized officers periodically inspect and confirm securities held by outside custodian.

Property, Plant and Equipment

- a. Subsidiary records exist for fixed assets and depreciation reserves, which are reconciled periodically to general ledger controls and are periodically compared to physical inventories of fixed assets.
- b. Approved depreciation and capitalization policies exist in writing and are adhered to by accounting.

Notes Payable and Long-Term Liabilities

- a. Responsibility for authorization of long-term borrowing is vested with the Board of Directors or other management personnel.
- b. Two (2) signatures are required on all loan agreements and evidences of indebtedness.
- c. Subsidiary records, periodically reconciled with general ledger controls, are maintained for all notes payable and long-term liabilities including related interest.
- d. Physical and accounting controls exist for all unused, issued, and cancelled notes and other certificates of indebtedness.
- e. Specified written procedures exist on all aspects of authorization, issuance, and redemption of notes and long-term liabilities and method and amount of paying interest.

Other Liabilities and Reserves

- a. All annual credits to reserve funds are in accordance with the provisions of R.A 9520 and the by-laws of the cooperative.
- b. Utilization of reserve funds are authorized and approved by the approving body.
- c. Regulatory reserves are funded and separate bank accounts for each type of reserves are maintained.
- d. Charges against/debits to these accounts are adequately supported and documented.
- e. Allocation for apex organization is computed in accordance with the provisions of R.A 9520.
- f. Annual remittance to secondary/tertiary level cooperatives where DABIREMCO is affiliated is made.
- g. Debits/credits are recognized, and recorded when remittances are made.

Member's Equity

- a. Detailed members' shares of stock and transfer book is maintained, periodically examined, reconciled with control accounts and checked by an authorized personnel who do not have access to cash collections.
- b. Functions related to handling of blank certificates and issuance of shares are segregated.
- c. Blank and surrendered certificates and treasury shares are adequately controlled and physically safeguarded.

- d. Personnel who do not have access to members' records do payments of dividends or interest in share capital and patronage refund.
- e. Unclaimed checks/cash for interest on share capital and patronage are properly accounted for and deposited to bank. It is recorded as Accounts Payable-Other until such time that the concerned members shall claim or request for crediting to their share capital.

Section 6. Audit Program - Cash

Audit Objective

To ascertain that cash balances represent cash on hand or held on deposit by third parties, completely recorded and properly accumulated in the underlying financial records.

Analytical Procedures

- a. Explain movements and investigate any unexpected or unusual relationships between current period, prior period and budgeted amounts.
- b. Review listing of bank accounts authorized by the board of directors or and compare to those accounts included in the general ledger.
- c. Review/Examine cash receipt and cash disbursement book.
- d. Review list of fund custodian and the amount authorized by the BOD or and compare those amounts with general ledger balances.

Detailed Test of Transactions and Balances

Obtain and review periodic bank reconciliation per bank account. Then, perform the following:

- a. Test mathematical accuracy of the reconciliation.
- b. Agree balances on the reconciliation to the general ledger and bank statements.
- c. Trace uncleared checks to the subsequent bank statements.
- d. Trace subsequent deposit of deposits in transit to subsequent bank statements
- e. Investigate long-outstanding, material and unusual reconciling items
- f. Perform desk review of bank reconciliation for the months prior to the end of accounting period.
- g. Perform cut-off tests for selected interbank or intercompany transfer made prior to and *subsequent to the period end*.
- h. Conduct surprise cash count on cash on hand and other funds on hand under the custody of the treasurer/cashier/fund custodian.
- i. Conduct other substantive procedures for Cash.

Section 7. Audit Program - Receivables

Audit Objective

To ascertain that trade accounts receivable represent enforceable claims for the sale of goods and/or the performance of services; cash advances to officers and employees exist and properly recorded in the books; appropriate allowances are established for receivables which are not expected to be collected in full; completely recorded and properly accumulated in the underlying financial records.

Analytical Procedures

- a. Explain movements and investigate any unexpected or unusual relationships between current period, prior period and/or budgeted amounts for:
 - i. Trade accounts, loans receivable and special and regular advances to officers and employees.
 - ii. *Aging of receivables*
 - iii. *Write-offs*

- iv. Allowance for doubtful accounts as a percentage of receivables/actual past due or bad debt expense as a percentage of revenues.
 - v. Bad debts expense
- b. Obtain from the client and test for accuracy and completeness as appropriate, or produce manually, a list of the following items, and investigate as considered necessary:
- i. Large or unusual balances in the period end receivables sub-ledger including, for example, credit balances, significant past due balances and balances which exceed customer credit limits;
 - ii. Large or unusual postings to the general ledger accounts for receivable and allowance for doubtful accounts, for the entire period;
 - iii. Receipts subsequent to the period end on specific overdue customer accounts.
- c. Review list/schedule of cash advances granted to officers and employees.

Detailed Tests of Transactions and Balances

- a. Test the mathematical accuracy of the receivables (including advances to officers and employees), allowance for doubtful accounts and bad debt expense general ledger accounts.
- b. Verify the mathematical accuracy of the period end accounts receivable sub-ledger.
- c. Obtain and test the period end reconciliation of the accounts receivable sub-ledger to the general ledger and investigate any large or unusual reconciling items.
- d. Check the transaction of selected foreign currency balances in the period end receivable sub-ledger.
- e. Perform confirmation and follow-up of selected receivable accounts to validate existence and accuracy of the account as of the given period.
- f. Use other aging of receivables report, after verifying its accuracy, to assess the reasonableness of the allowance for doubtful accounts and bad debt expense by:
 - i. Discussing collectability with credit committee, reviewing any supporting documentation and, if applicable, obtaining written representation from management.
 - ii. Examining subsequent payments for selected individual balances.
 - iii. Check supporting documents of cash advance liquidation for validity of utilization as authorized.
- g. Perform other substantive procedures for receivables.

Section 8. Audit Program - Inventories

Audit Objective

To ascertain that inventories physically exist and the cooperative has appropriate title to the inventories, are properly valued, completely recorded, and properly accumulated in the underlying financial records.

Analytical Procedures

- a. Explain movements and investigate any unexpected or unusual relationships between current period, prior period and budgeted amounts for:
 - i. Inventory by category (canteen goods, book papers, etc)
 - ii. Inventory by product and/or location
 - iii. Inventory obsolescence, spoilage, shrinkage and/or valuation write-down expense
- a. Obtain from the client and test for accuracy and completeness as appropriate, or produce manually, a list of the following items, and investigate as considered necessary:

- i. Large or unusual quantities or amounts in the period end detailed inventory records including, for example, negative quantities.
- ii. Large or unusual unit costs in the period and detailed inventory records including, for example, cost which have changed significantly from the previous year or costs which bear an unusual relationships to unit selling prices.
- iii. Large or unusual postings to the general ledger accounts for inventory and allowances for slow moving or obsolete items, for the entire period.
- c. Review the period end reconciliation of the detailed listing of inventories to the general ledger control account and investigate large or unusual items as considered necessary.

Detailed Tests of Transactions and Balances

- a. Test the mathematical accuracy of the inventory general ledger accounts.
- b. Attend physical inventory counts for selected locations at period end or a date close to the period end with detailed roll forward testing through the period end.
- c. Test the accumulation of the physical inventory and the comparison to the book value and trace adjustments to the general ledger.
- d. For selected inventory items in the general ledger or detailed records reconciled to the general ledger:
 - i. Confirm that correct unit costs have been applied
 - ii. Test the mathematical accuracy of the calculations and *extensions*
- e. Other substantive procedures for inventories

Section 9. Audit Program - Investment Balances

Audit Objective

To ascertain those investments exist and the cooperative owns the investment, investment transactions are authorized by the general assembly, properly valued, and recorded in the proper period.

Analytical Procedures

- a. Explain movements and investigate any unexpected or unusual relationships between current period, prior period and budgeted amounts for:
 - i. Investments portfolio by type
 - ii. Purchases and sales of investments
 - iii. Income or loss on investments

Detailed Tests of Transactions and Balances

- a. Obtain investment detailed records (including period end balances and Details of purchase and sale transactions) and:
 - i. Reconcile selected totals to the general ledger
 - ii. Test mathematical accuracy
- b. Perform other substantive procedures for investments.

Section 10. Audit Program - Property and Equipment

Audit Objective

To ascertain that property and equipment physically exist and owned by cooperative. Acquisitions and disposals are authorized, completely recorded; properly accumulated in the underlying financial records.

Analytical Procedures

- a. Explain movements and investigate any unexpected or unusual relationships between current period, prior and/or budgeted amounts, by location or segment of business where applicable for:

- i. Asset cost and accumulated depreciation balances by asset category
- ii. Acquisitions and disposal by asset category
- iii. Repair and maintenance expenses

Detailed Tests of Transactions and Balances

- a. Obtain property and equipment detailed records (including cost and accumulated depreciation balances and listing of acquisitions and disposal) and agree opening balances to the prior period, and
- b. Reconcile to the general ledger and test mathematical accuracy
- c. For selected acquisitions from throughout the period, including additions to projects in progress:
 - i. Agree details to supporting documents (e.g. contracts, invoices, receiving reports)
 - ii. Agree payment to cash record
 - iii. Test mathematical accuracy of the calculation of the cost and the depreciation charge for the period since the acquisition date
 - iv. Physically inspect the asset
- d. For selected disposals throughout the period:
 - i. Agree details to supporting documentation (sales records, shipping documents etc.)
 - ii. Agree receipt to cash records
 - iii. Test mathematical accuracy of the consideration, the depreciation charge up to the date of disposal and of the associated gain or loss on disposal.
 - iv. Trace gain or loss to appropriate entries in the general ledger
- e. Review minutes of board of directors meetings, budgets or business plans and verify that any noted asset acquisitions or disposal have been properly recorded
- f. For selected items from the property and equipment listing:
 - a. Physically inspect the asset
 - b. Trace to the depreciation transaction listing
- g. For selected repair and maintenance expenses, review supporting documentation to determine appropriateness of account coding (e.g. expense, property, and equipment)
- h. Perform other substantive procedures for plant, property and equipment

Section 11. Audit Program - Depreciation Charges

Audit Objective

To ascertain that depreciation relates to property and equipment and correctly calculated using acceptable depreciation methods and useful lives.

Analytical Procedures

- a. Explain movements and investigate any unexpected or unusual current period, prior period and/or budgeted amounts, location or business segment where applicable, for:
 - i. Periodic depreciation charges (e.g. monthly, quarterly) by assets category
 - ii. Depreciation charges by asset category in relation to the recorded cost or net book value of the property and equipment

Detailed Tests of Transactions and Balances

- a. Agree depreciable cost to supporting documentation
- b. Test mathematical accuracy of the calculation of the depreciation charge and ensure compliance with authorized policies

- c. Review Appropriateness of the account coding (e.g. expenses, production costs)
- d. Consider whether depreciation policies and estimated useful lives are appropriate and consistent with prior periods
- e. Other substantive procedures for depreciation charges

Section 12. Audit Program - *Deferred Costs and Intangibles*

Audit Objective

To ascertain that deferred costs and intangibles represent costs incurred which can reasonably be expected to benefit future periods; correctly calculated using appropriate method of amortization; and completely recorded in the proper period.

Analytical Procedures

- a. Explain movements and investigate any unexpected or unusual relationships between current period, prior period and/or budgeted amounts for:
 - i. Deferred costs and intangible assets
 - ii. Additions to and disposals or write-offs of deferred costs and intangible assets
 - iii. Amounts of deferred costs and intangible assets amortized to expense

Detailed Tests of Transactions and Balances

- a. Obtain detailed analysis of movements in deferred costs and intangible assets for the entire period, including details of related amortization, and:
- b. Reconcile details of movements and period end balances to the general ledger
- c. Test mathematical accuracy
- d. Determine reasonableness of deferral to future periods
- e. Determine that amortization periods are reasonable and consistent with the prior period
- f. For selected items, agree details to supporting documentation (including prior period working papers, if appropriate) and test the mathematical accuracy of the calculation of the amortization charge for the period
- g. Other substantive procedures for deferred costs and intangibles

Section 13. Audit Program - Other Assets

Audit Objective

To ascertain that other assets represent costs incurred which can reasonably be expected to benefit future periods; correctly calculated in accordance with the nature and terms of the transaction and applicable accounting principles; and completely recorded and accumulated in the proper period.

Analytical Procedures

- a. Explain movements and investigate any unexpected or unusual relationships between current period, prior period and/or budgeted amounts, for other assets both in total and as a percentage of total assets

Detailed Tests of Transactions and Balances

- a. Obtain detailed records supporting other assets (including movements throughout the period) and:
 - i. Reconcile details of movements and period end balances to the general ledger
 - ii. Test mathematical accuracy

- b. For selected other assets from the detailed records:
 - i. Agree details to supporting documentation (including prior period working papers, if appropriate)
 - ii. Determine nature and business purpose of the asset and determine appropriateness of the carrying value
 - iii. Examine supporting documentation for and test calculations of adjustments or movements during the period (including amortization)
 - iv. Confirm balance or specific transactions directly with any third parties involved
- c. Conduct other substantive procedures for other assets

Section 14. Audit Program - Accounts Payable

Audit Objective

To ascertain existence and accuracy of liabilities; completely recorded; and properly accumulated in the underlying financial records.

Analytical Procedures

- a. Explain movements and investigate any unexpected or unusual relationships between current period and prior and/or budgeted amounts for:
 - i. Accounts payable in total
 - ii. Deposit liabilities
 - iii. Interest on deposit liabilities
 - iv. Payables in relation to the level and trend of purchases
 - v. Aging of payable
 - vi. Accruals and prepayments by supplier or type of *expense*

Detailed Tests of Transactions and Balances

- a. Test the mathematical accuracy of the payable general ledger account
- b. Test the mathematical accuracy of the period end payable sub-ledger
- c. Obtain and test the period end reconciliation of the payable sub-ledger to the general ledger and investigate any large or unusual reconciling items
- d. For selected supplier balances in the period end accounts payable sub-ledger, trace amounts to invoices or other supporting documentation and test the translation of balances denominated in a foreign currency
- e. For significant debit balances in payables consider the nature/reason of payment, collectability of the amount and the need for reclassification
- f. Perform confirmation and follow-up of selected payable balances as of the period end or a date close to the period end.
- g. Agree details of period end accruals (including list of goods received not invoiced) and prepayments to supporting documentation (e.g. supplier invoices, receiving reports, contracts and test the mathematical accuracy of the calculation
 - i. Perform a search of unrecorded accruals and prepayments, including a review of prior period balances, unmatched receiving reports, invoices received subsequent to the period end, significant expense classification and significant payments around the period end.
 - ii. Other substantive procedures for payables.

Section 15. Audit Program - Other Liabilities

Audit Objective

To ascertain that other liabilities have been incurred and unsettled and due to affiliated federation are properly appropriated, recognized and recorded in the underlying financial records. To ascertain that the interest of capital and patronage refund exist and outstanding, computed in accordance with the existing rules and regulations, and properly recorded in the underlying financial records. Also, to ascertain that provision for future

losses or expenses are correctly calculated or reasonably estimated in accordance with the nature and terms of the underlying transaction and applicable accounting principles, completely recorded and accumulated in the proper period.

Analytical Procedures

- a. Explain movements and investigate any unexpected or unusual relationships between current period, prior period and/or budgeted amounts for:
 - i. Accrued liabilities (e.g. warranty costs)
 - ii. Accrued contingent liabilities
 - iii. Changes in the percentage allocation/provision for *CETF*
 - iv. Interest on capital and patronage refund
 - v. Priority in remittance made
 - vi. Other liabilities

Detailed Tests of Transactions and Balances

- a. Obtain detailed records supporting accrued and other liabilities and:
 - i. Agree details to the general ledger
 - ii. Test mathematical accuracy
 - iii. Test translation from foreign currencies
 - iv. Determine if $\frac{1}{2}$ of the allocation for CETF is credited to the account.
- b. Verify changes in the percentage allocation/provision for reserves particularly CETF
- c. For selected accruals or other liabilities from the detailed records:
 - i. Agree details to supporting documentation (e.g. invoices, contracts, computations).
 - ii. Test mathematical accuracy.
 - iii. Determine reasonableness and consistency of assumptions used in estimates.
 - iv. Discuss with management procedures and reasonableness of assumption used in determining valuation adjustments (including translation from foreign currencies)
 - v. Examine subsequent cash disbursements
 - vi. Confirm significant other liability balances directly with third parties involved
- c. Determine whether all accrued liabilities have been recorded by review of prior period accruals, significant expense classifications and payments subsequent to the period end
- d. Obtain representations from legal counsel concerning the status of pending, threatened or active litigation and unasserted claims considered to be probable of assertion
- e. Obtain representation from the management concerning the status of significant accrued liabilities and contingent losses that have not been accrued
- f. Review representation from legal counsel and management to determine whether accrued liabilities noted have been reasonably estimated and recorded in the proper period
- g. Other substantive procedures for the other liabilities
- h. Conclude on the results of the work performed

Section 16. Audit Program - Borrowings

Audit Objective

To ascertain those borrowings represent amounts due to lenders under enforceable borrowing agreements; borrowing transaction are correctly calculated; completely recorded; and properly accumulated in the underlying financial records.

Analytical Procedures

- a. Explain movements and investigate any unexpected or unusual relationships between current period, prior period and/or budgeted amounts for:
 - i. Total borrowings, analyzed between current and long term
 - ii. Ratio of borrowings to equity and total assets
 - iii. Borrowings issue costs, discounts or premium
 - iv. Obligations under capitalized leases

Detailed Tests of Transactions and Balances

- a. Obtain detailed records of borrowings (including current and long term period end balances *and transaction and capitalized lease obligations*)
 - i. Agree details to the general ledger
 - ii. Test mathematical accuracy
 - iii. Agree selected balances to borrowings agreement, notes and lease agreements
 - iv. Confirm directly with lenders details of borrowings outstanding, including compensating balance arrangements, future maturities, collateral and other borrowing characteristics
 - v. Ensure compliance with covenants and other key clauses in borrowings agreements (including possible management representations)
 - vi. Test translation form foreign currencies
- b. *For selected new borrowings throughout the period and including any immediately prior to or subsequent to the period end:*
 - i. Agree details to borrowings agreements
 - ii. Test mathematical accuracy
 - iii. Agree to cash receipts or other supporting *documentation (giving consideration to premium, discount and issue cost)*
 - iv. For issue costs incurred (e.g. underwriter's fees, commissions legal and counting fees and filing fees), agree details to supporting documentation and/or confirm with third parties
- c. For selected borrowings repayments throughout the period and including any immediately prior to or subsequent to the period end:
 - i.* Agree payment amounts and dates to borrowing agreements
 - ii.* Test mathematical accuracy
 - iii.* Agree to *cash disbursements or other supporting documentation*
- d. Review minutes of board of directors or other committee meetings approving new borrowings and repayments and agree to detailed records of borrowings
- e. Other substantive procedures for borrowings

Section 17. Audit Program - Interest Payable

Audit Objective

To ascertain that interest relates to borrowing obligations of the client; interest transactions are correctly calculated in accordance with the terms of borrowing agreement and applicable accounting principles; completely recorded; and properly accumulated in the underlying financial records.

Analytical Procedures

- a. Explain movements and investigate any unexpected or unusual relationships between current period, prior period and/or budgeted amounts, by borrowing and in total, for:
 - i. Interest expenses in total and as a percentage of borrowings
 - ii. Interest capitalized
 - iii. Amortization of issue cost, premiums and discounts
 - iv. Accrued interest payable

Detailed Tests of Transactions and Balances

- a. Obtain detailed records of interest expense transactions for the entire period and trace totals to the general ledger and also test mathematical accuracy
- b. For selected interest expense transactions from the listings throughout the period:
 - i. Recompute interest expense with reference to supporting documentation
 - ii. Agree payments, issue costs and early repayments to supporting documentation and cash records
 - iii. Confirm details of interest payments and early repayments with the lender
- c. Vouch significant period end interest expense accruals or trace to subsequent payment
- d. Perform a search for significant unrecorded period end accruals for interest expense, including a review of interest payments subsequent to the period end and terms and payment schedules for period borrowings.
- e. Test calculations of any capitalized interest and amortization of any issue costs
- f. Other *substantive procedures for interest payable*

Section 18. Audit Program - Equity and Reserves

Audit Objective

To ascertain that common and preferred stocks are based on the number of shares authorized, issued and outstanding; equity and reserves transaction exist, adequately funded and appropriately authorized; completely recorded; properly accumulated in the underlying financial records; and supported by documentary requirements.

Analytical Procedures

- a. Explain movements and investigate any unexpected or unusual relationships between current period, prior and/or budgeted amounts for:
 - i. Total equity by class, in terms of book value and/or number of shares
 - ii. Debit balances in the general reserved fund
 - iii. Charges/debits exceeding the budgeted amount
 - iv. Charges (increase/decrease) in the allocation of *reserves provision*
- b. Multiply shares outstanding by the par or stated value to confirm equity capital balance

Detailed Tests of Transactions and Balances

- a. Obtain an analysis of equity and reserve movements (including retained earnings) for the entire period together with a listing of the period end balances and:
 - i. Agree opening balances to prior period working *papers*
 - ii. Agree the movements and the period end balances to *the general ledger*
 - iii. Test mathematical accuracy

- b. For changes in equity during the period
 - i. Review minutes of board of directors meetings for authorization
 - ii. Inspect original issue or transfer documentation
 - iii. Agree proceeds or payments to cash records or other supporting documentation
- c. Obtain explanation and examine supporting documentation for any movements in reserves and retained earnings during the period
- d. Inspect incorporation documents in support of the number of shares requirements regarding the maintenance of share registers or other records
- e. For charges in reserves accounts *during the period*:
 - i. Review GA and/or BOD minutes and resolution for authorization for charges or debits to the accounts
 - ii. Inspect *propriety of supporting documents*.
- f. Obtain explanation for any movement in the reserves accounts during the period.
- g. Examine documentation of charges against reserve accounts.
- h. Conduct desk review of bank accounts for reserve funds.
- i. Other substantive procedures for equity and reserves

Section 19. Audit Program - Revenues

Audit Objective

To ascertain that revenues represent amounts derived from the sale of goods, the performance of services and/or loaning operations; revenue transaction are correctly calculated; completely recorded; properly accumulated; and proper cut-off has been established in the underlying financial records.

Analytical Procedures

- a. Explain movements and investigate any unexpected or unusual relationships between current period, prior period and/or budgeted amounts, by products or location where applicable, for:
 - i. Total revenues for the period
 - ii. Monthly revenues, including the months prior to and subsequent to the period end
 - iii. Monthly returns, discounts and allowances, including the months prior to and subsequent to the period end
 - iv. Deferred Revenue

Detailed Tests of Transactions and Balances

- a. For selected invoice and credit note transactions throughout the period:
 - i. Trace totals to the general ledger
 - ii. Test the mathematical accuracy of listings and the general ledger accounts
- b. For selected revenue and credit transactions throughout the period:
 - i. Agree details to invoice and evidence of delivery, performance (or receipt for return goods)
 - ii. Agree sales price to authorized price list
 - iii. Test the mathematical accuracy of the invoice or credit note
- c. For selected delivery documents, performance data, and receiving reports for returned goods throughout the period:
 - i. Agree details to related invoices or credit notes
 - ii. Trace to the transaction listing

- d. Perform cut-off testing for selected revenue and credit transactions from both prior to and subsequent to the period end.
- e. Perform a search for credit notes issued subsequent to the period end relating to sales prior to the period end.
- f. Review analysis of deferred revenue and agree details to supporting documentation.
- g. Perform random verification of POS daily transaction journal of an identified period to validate accuracy of cashier's daily sales report.
- h. Other substantive procedures *for revenues*.

Section 20. Audit Program - Costs of Good Sold

Audit Objective

To ascertain that costs are incurred and properly related to goods that have been sold; completely recorded; properly accumulated; and proper cut-off has been established in the underlying financial records.

Analytical Procedures

- a. Explain movements and investigate any unexpected or unusual relationships between current period, prior period and/or budgeted amounts, by products or location where applicable, for:
 - i. Total cost of goods sold for the period
 - ii. Monthly cost of goods sold, including the months prior to and subsequent to the period end
 - iii. Gross margins, including the months prior to and subsequent to the period end
 - iv. Total production variances

Detailed Tests of Transactions and Balances

- a. Consider the appropriateness of the costing method and test the costing system, agreeing details to supporting documentation
- b. Perform revenue transaction cut-off testing, ensuring that the related cost of goods sold is recorded in the proper period
- c. Other substantive procedures for cost of goods sold

Section 21. Audit Program - Expenses

Audit Objective

To ascertain that expenses are incurred, properly authorized, documented, completely recorded and properly charged to appropriate cost centers..

Analytical Procedures

- a. Explain movements and investigate any unexpected or unusual relationships between current period, prior period and/or budgeted amounts.

Detailed Tests of Transactions and Balances

- a. For selected detailed expense listings throughout the period:
 - i. Trace totals to the general ledger; and
 - ii. Test the mathematical accuracy of the listings and the general ledger accounts.
- b. For selected expense transactions throughout the period:

- i. Agree details to invoice and to receiving documents or other evidence that goods or services were received and reviewed as to the appropriateness of the account coding
 - ii. Test mathematical accuracy of the invoice (including any rebates, discounts or allowances)
 - iii. Examine evidence (e.g. purchase order requisition of proper authorization for the expenses) of the transactions.
- c. Perform cut-off testing for selected expenses from both prior to and subsequent to the period end
- d. Check for unrecorded expenses at the period end including a review of goods or services received but not yet invoiced, unpaid invoices relating to goods or services received prior to the period end, payments subsequent to the period end and differences on period end supplier statements
- e. Other substantive procedures for expenses.

Section 22. Audit Program - Employees Compensation

Audit Objective

To ascertain that employee compensation relates to, and disbursements are made to, bonafide employees for services rendered; employee compensation rates and other arrangements are authorized; correctly calculated; completely recorded; and properly accumulated in the proper period.

Analytical Procedures

- a. Explain movements and investigate any unexpected or unusual relationships between current period, prior period and budgeted amounts.
 - i. Total compensation costs for the period
 - ii. Compensation costs on a payroll period basis, including the payrolls prior to and subsequent to the period end
 - iii. Average employees earnings by labor category
 - iv. Relationship of deductions, by type, to gross payroll
 - v. Period end accruals for employee compensation
- b. Consider overall reasonableness of employee compensation costs for the period by multiplying the total compensation costs for a test month by the total number of months during the period and reconcile the results thereof with the actual cost, taking into account average pay increases, new hires and termination, etc.

Detailed Tests of Transactions and Balances

- a. *For selected employees compensation costs transaction listings (e.g. payroll register):*
 - i. Trace totals to the general ledger
 - ii. Test mathematical accuracy of the listings and the general ledger accounts
- b. For selected individual employee compensation costs from the transaction listings throughout the period:
 - i. Agree rates pay and details of time worked to supporting documents (personnel files, time card, overtime report, piecework records) and examine authorization fee deductions
 - ii. Agree net pay and payee to cheque, pay envelope or bank transfer summary
 - iii. Test the mathematical accuracy of the gross pay and net pay calculations
 - iv. Determine through discussion and/or actual observation in work areas or at wage payout that employee exists

- v. Determine reasonableness of departmental or cost center classifications and appropriateness of account coding (e.g. expense, inventory production costs)
- c. Agree subsequent payment for deductions (e.g. income taxes, health contributions etc.) to cash records
- d. Obtain the calculation of period end accrual for the last payroll of the period and agree details to supporting documentation, test the mathematical accuracy of the allocation of gross pay between current and subsequent period and trace to the general ledger
- e. Examine cash disbursements subsequent to the period end related to compensation costs and determine whether the cost is recorded in the proper *period*.

Section 23. Subsequent Events Review

- a. Read latest available financial statements and compare with financial statements being reported upon. (Note: interim financial statements should be on the same basis as that used for the statement under examination.)
- b. Inquire and discuss with officers:
 - i. Any substantial contingent liabilities or commitments existing at the date of the balance sheet and at the date of inquiry.
 - ii. Any significant changes in capital stock, long-term debt or working capital to date of inquiry.
 - iii. Current status of items in the financial statements on the basis of tentative, preliminary and inconclusive data.
 - iv. Any unusual adjustment made during the period from balance sheet date of inquiry. Review journal entries taken up subsequent to balance sheet date.
- c. Read available minutes of meetings of stockholders, directors and appropriate committees. Where there are no minutes available, inquire about matters dealt with at such meetings.
- d. Obtain from legal counsel description and evaluation of any litigation, impending litigation, and claims contingent liabilities at date of balance sheet and date the information was furnished.