

# GUIDANCE NOTE ON AUDIT OF CASH AND BANK BALANCES

## Background

It seems relatively simple. How to carry out audit of Cash and Bank Balances. Logical procedures like physically counting the cash, matching it with financial statements seems good enough to a layman. When an auditor is providing opinion on true and fairness of financial statements, she needs to be always careful about this caption. Why? Let me give an example. In one of a recent and famous accounting fraud case (read Satyam), the company's financial statements were showing huge bank balances whereas actually that money did not exist. The consequences included stringent action on the audit team by The Institute of Chartered Accountants of India (ICAI) as well as other regulators.

This guidance note on Audit of Cash and Bank Balances published more than 25 years ago, is still very relevant. Though the rules of games have changed dramatically with technology, and further amendments will be coming soon, yet the basic guidance to auditors remains the same. In this article, we will discuss what guidance Auditing Practice Committee (now known as Auditing and Assurance Standards Board – AASB) of the council of ICAI had given to the auditors. Please note that special aspects of audit of cash and bank balances in case of banks are dealt with separately in the Guidance Note on Audit of Banks.

## Synopsis

Attention of the auditor is drawn to Standard on Auditing (SA) 500 – “Audit Evidence”, which requires an auditor to apply appropriate procedures to obtain reasonable assurance about various assertions. For Cash and Bank Balance, the auditor should be particularly concerned about Existence, Completeness, Rights and Obligations besides valuation. In different words, the auditor needs to apply audit procedures to ascertain whether the Cash and Bank Balance disclosed in financial statements as asset of the entity actually exists and whether the entity has a right over that. Also, in case of foreign currency, whether it was appropriately valued.

## Internal Controls

The guidance note throws light on importance of evaluating related Internal Controls systems and advise auditors to particularly review the following aspects

- Segregation of duties for authorization of transactions and handling of cash and maintaining books
- Proper authorization of Cash and Bank transactions and daily recording in accounts books
- Safeguarding and periodic reconciliation of bank balances besides safe custody and insurance.

With latest developments, more focus is on Internal Controls and especially after the new requirement for auditors to report specifically on Internal Controls on Financial Reporting. Different Auditing Standards provide related details.

## Verification

Detailed guidance is provided in this publication on how to carry out verification of Cash and Bank Balances. It is suggested that the auditor should physically verify the Cash, may be as a surprise check, either on the date of balance sheet or date near to that. In case, the entity is maintaining high cash balance, the frequency of surprise checks should be increased. As per guidance note, post-dated cheques should not be accounted for as collection or payments in the year of receipt or payments.

Guidance related to direct confirmation has been given in this publication and in the appendix a format of confirmation letter has also been provided for convenience of the auditors. No doubt, review of bank reconciliation is an important part of audit procedures and guidance has been provided accordingly. To share an example sharing clause no. 16, which says - The auditor should pay special attention to those items in the reconciliation statements which are outstanding for an unduly long period. The auditor should ascertain the reasons for such outstanding items from the management. He should also examine whether any such items require an adjustment/write-off.

Balance confirmation for Bank deposits and interest earned thereon became critical area during audit procedures after an accounting scam had come into picture and all the audit firms - small, medium or large have become cautious about significance of this aspect. The guidance note was in existence then as well though.

Further a guidance is given to auditors on valuation and disclosures aspects.

## Conclusion

No doubt, auditors need to be extra careful while planning audit procedures for Cash and Bank Balances. As mentioned, now with online banking, application-based receipt and payments besides digital transactions and crypto currency have come into play, the accounting, disclosures, controls are undergoing significant change.

Physical cash transactions are being discouraged now, by reducing limits on allowable expenses and levying charges on deposits and withdrawals with the banks. Books of accounts are maintained in ERP systems and real time reconciliations are happening. There is a paradigm shift in the way audit procedures will be planned and carried out by the auditors. Audit Tools will be a necessity for auditors. ICAI is also taking steps in direction of facilitating members with such tool. Global community is preparing new standards on data collection and related matters. Remote audits are need of the hour. Certainly, a need of more guidance to our community. Hope to see a brand new guidance note soon.

---

**CA Parveen Kumar**

*National Head - Assurance*

*\*For use by clients and firm personnel only.*