

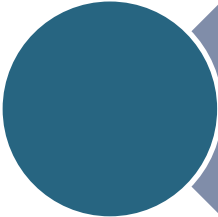
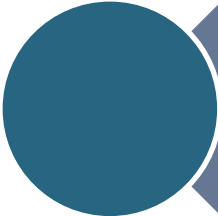
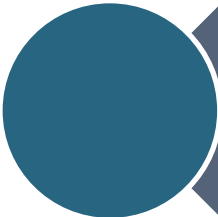
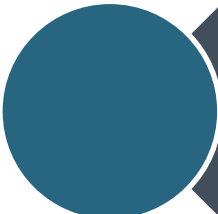
Auditing Cash (1 Series)

A Comprehensive Guide

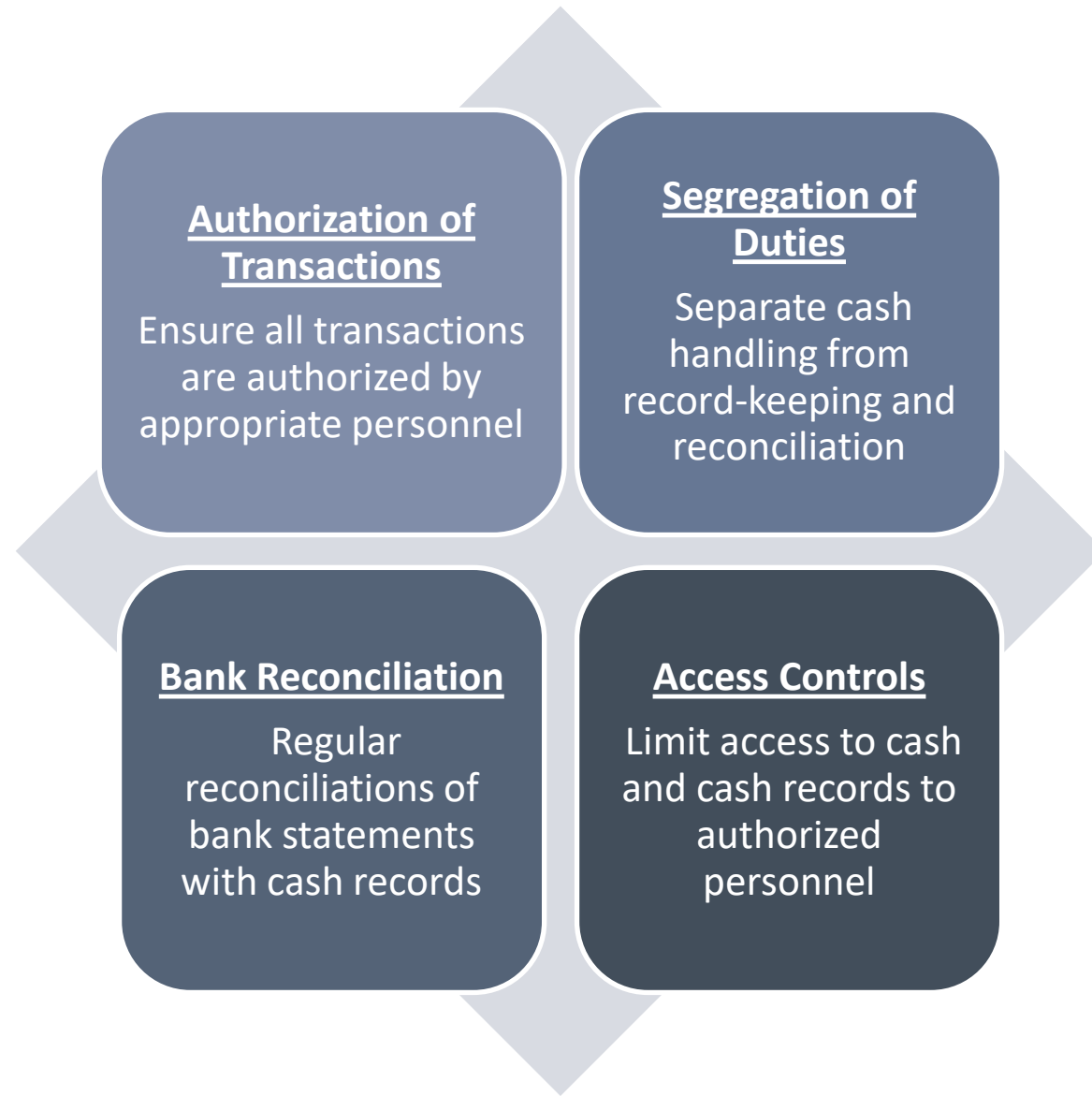
The cash section of an audit focuses on verifying the accuracy and completeness of a company's cash transactions and balances. It ensures that cash resources are properly recorded, managed, and safeguarded. This guide integrates fraud risks, internal controls, substantive procedures, detailed checks for bank reconciliations and statements, relevant financial statement assertions, financial statement presentation and disclosure, and custodial credit risk related to FDIC insurance.



Fraud Risks in Cash

-  **Skimming** – Theft of cash before it's recorded in the books
-  **Lapping** – Concealing cash theft by delaying the recording of receivables
-  **Fictitious Disbursements** – Recording fake expenses to cover cash theft
-  **Kiting** – Transferring money between bank accounts to overstate cash balances, creating an illusion of higher cash availability

Internal Controls for Cash



Substantive Procedures for Auditing Cash

Bank Confirmation

- **Objective:** Confirm the existence, ownership, and accuracy of cash held in bank accounts.
- **Procedure:**
 - Send confirmation letters to all banks where the company holds accounts.
 - Compare the bank's response to the ledger balances.
 - Investigate and explain any discrepancies.

Bank Reconciliation

- **Objective:** Ensure the completeness and accuracy of cash balances.
- **Procedure:**
 - Obtain the year-end bank reconciliation statements.
 - Verify the arithmetic accuracy of the bank reconciliation.
 - Review outstanding checks and deposits in transit for appropriateness.

Substantive Procedures for Auditing Cash, Cont.

Cut-Off Testing

- **Objective:** Ensure cash transactions are recorded in the correct accounting period.
- **Procedure:**
 - Review the last few cash receipts and disbursements before and after year-end.
 - Verify that transactions are recorded in the appropriate period.

Review of Bank Statements

- **Objective:** Identify any unusual transactions or patterns.
- **Procedure:**
 - Obtain bank statements for a period and scan for large or unusual transactions.
 - Investigate any unexplained or suspicious transactions.

Substantive Procedures for Auditing Cash, Cont.

Examination of Cash Receipts and Disbursements

- **Objective:** Verify the accuracy and authorization of cash transactions.
- **Procedure:**
 - Trace selected cash receipts and disbursements to supporting documentation.
 - Ensure transactions are properly authorized and recorded.

Evaluation of Internal Controls

- **Objective:** Assess the effectiveness of controls over cash.
- **Procedure:**
 - Review and assess the design and operating effectiveness of internal controls over cash handling and recording.
 - Perform walkthroughs of cash processes to ensure controls are functioning as intended.

Substantive Procedures for Auditing Cash, Cont.

Testing of Petty Cash

- **Objective:** Verify the accuracy and existence of petty cash funds.
- **Procedure:**
 - Count petty cash on hand and reconcile with the petty cash ledger.
 - Review petty cash vouchers to ensure proper authorization and documentation.

Analytical Procedures

- **Objective:** Identify any unusual trends or variances in cash balances.
- **Procedure:**
 - Perform a trend analysis on cash balances over the audit period.
 - Investigate significant or unexpected variances.

Financial Statement Assertions Related to Cash

Existence

- **Description:** Cash balances reported in the financial statements actually exist at the reporting date.
- **Importance:** Ensures that the reported cash is real and not overstated.

Completeness

- **Description:** All cash transactions that should have been recorded are included in the financial statements.
- **Importance:** Confirms that no cash transactions have been omitted from the records.

Rights and Obligations

- **Description:** The entity holds or controls the rights to reported cash balances.
- **Importance:** Assures that the company has the legal rights to the cash reported, preventing misrepresentation of ownership.

Financial Statement Assertions Related to Cash, Cont.

Valuation and Allocation

- **Description:** Cash balances are recorded at their appropriate amounts and any resulting valuation adjustments are appropriately recorded.
- **Importance:** Ensures that cash is valued accurately, reflecting true financial condition and preventing misstatements.

Presentation and Disclosure

- **Description:** Cash is properly classified, described, and disclosed in the financial statements.
- **Importance:** Provides clear and accurate information to users, ensuring transparency and compliance with accounting standards.

Financial Statement Presentation and Disclosure

Classification

Current Asset: Cash and cash equivalents are typically classified as current assets on the balance sheet.

Segregation: Separate line items should be provided for cash and cash equivalents, restricted cash, and cash held for specific purposes (e.g., collateral).

Statement of Cash Flows

Operating Activities: Cash flows related to primary business operations.

Investing Activities: Cash flows related to the acquisition and disposal of long-term assets.

Financing Activities: Cash flows related to activities that alter the equity and borrowing of the company.

Significant Accounting Policies

Cash and Equivalents Definition: Include a policy note defining what constitutes cash equivalents, typically short-term, highly liquid investments with maturities of three months or less.

Measurement Basis: State the basis of measurement and the criteria used for recognizing cash and cash equivalents.

Financial Statement Presentation and Disclosure, Cont.

Restrictions

Nature and Amounts: Disclose the nature, source, and amounts of any restrictions on cash, such as legal restrictions, contractual agreements, or board-imposed restrictions.

Purpose: Provide details on why cash is restricted (e.g., debt covenants, future capital projects).

Custodial Credit Risk

Definition: The risk that in the event of a bank failure, the entity's deposits may not be returned.

Disclosure Requirements: The amount of cash exposed to custodial credit risk; The entity's policies for managing this risk; The extent to which deposits are insured or collateralized.

Foreign Currency Considerations

Translation Policies: Detail the policies for translating foreign currency cash balances into the reporting currency.

Impact of Exchange Rates: Disclose the effect of exchange rate changes on cash and cash equivalents.

Custodial Credit Risk and FDIC Insurance

FDIC Insurance Disclosures

- Disclose whether cash balances exceed Federal Deposit Insurance Corporation (FDIC) limits.
- The standard insurance amount is \$250,000 per depositor, per insured bank, for each account ownership category.
- Provide specific information on uninsured cash amounts and how they are managed.

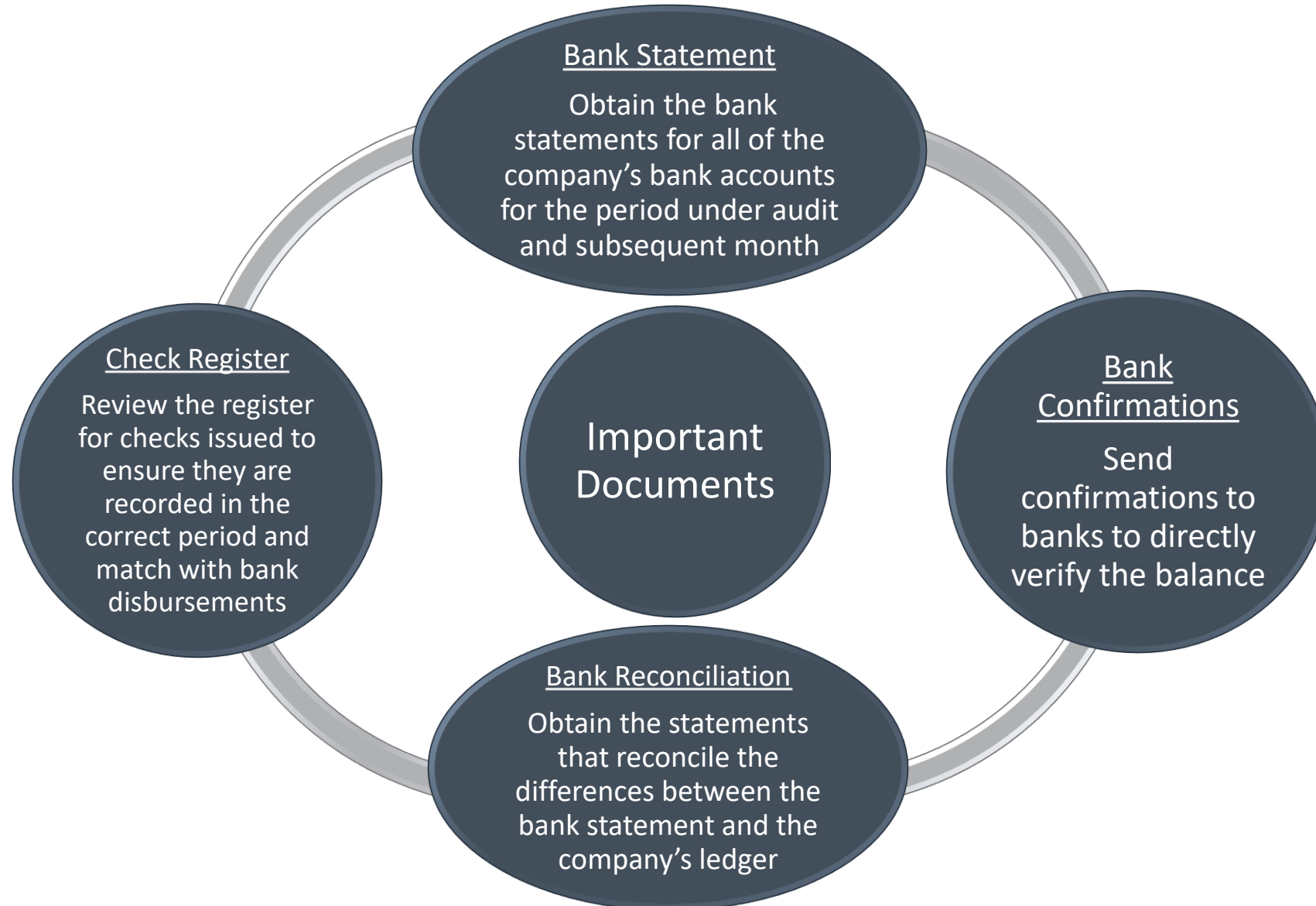
Risk Management Disclosures

- Describe any policies or measures in place to manage and mitigate custodial credit risk, such as diversifying bank accounts or using additional insurance products.

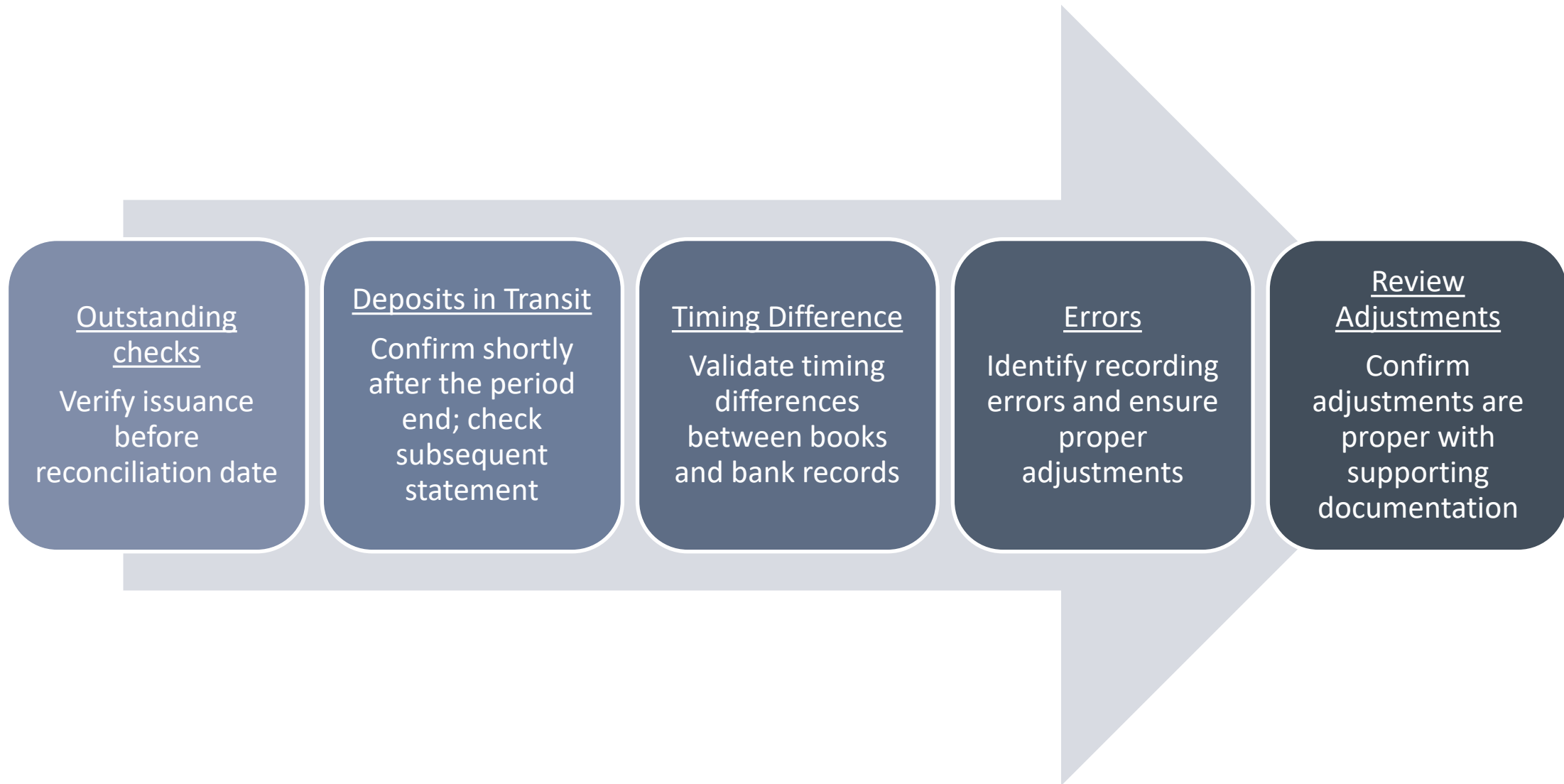
Presentation in Financial Statements

- Clearly disclose any portions of cash balances that are uninsured and potentially at risk in the notes to the financial statements.

Auditing Cash



Auditing Cash – Bank Reconciliations



Auditing Cash – Bank Statements

Unusual Transactions

Identify large or unusual transactions; frequent transfers indicating kiting

Check Endorsements

Inspect endorsements for validity; ensure payee details match records

Unauthorized Transactions

Scan for unauthorized withdrawals or fees

Cut-off Procedures

Ensure correct period transactions recording; confirm with next month's statement

Duplicate Payments

Check for duplicates, indicating errors or fraud

Auditing Cash Example

Step 1: Obtain Bank Statements at year-end – To ensure accuracy in financial reporting, begin by obtaining the client’s bank statements for each bank account as of the last day of the fiscal year. Once you have these statements, compare the closing balance with the amount reported on the trial balance. *If the two balances match, this indicates that there are no discrepancies or reconciling items between the bank statements and the general ledger, and therefore no further test work is necessary.* For example, in a case where a client's fiscal year ends on 12/31/2023, the closing balance is marked with a "TB" to indicate that the bank balance is consistent with the ending general ledger balance. This confirmation assures that the financial records are accurate and complete without the need for additional investigation.

Summary of Accounts

Account	Account Number	Closing Balance
Public Fund Money Management	XXXXXX1331	3,968.14 TB

Statement Of Account

Previous Balance	33,564.24	Number of Enclosures	2
Ending Balance	3,968.14	Statement Dates	12/01/23 thru 12/31/23
10 Checks/Debits	84,596.14	Days in the statement period	31
2 Deposits/Credits	55,000.00	Interest Earned	.04
Service Charge	.00	Average Ledger	1,679.57
Interest Paid	.04	Average Collected	1,679.57
		Annual Percentage Yield Earned	0.01%
		2023 Interest Paid	1.11

Bank
Balance as
of year-end

Auditing Cash Example

Step 2: Obtain Bank Reconciliations at year end – When the closing balance on a bank statement (WP 1.1) does NOT match the year-end balance recorded in the general ledger, it is essential to obtain the bank reconciliation for each relevant account. Bank reconciliations serve as crucial documents that explain any discrepancies between the bank statement and the general ledger by accounting for outstanding checks, deposits in transit, and any bank errors. If any of the deposits in transit or outstanding checks listed on the reconciliation are over scope, we need to trace them to the subsequent bank statement. In the example below, the client has a 3/31/2023 year end with a scope of \$1,000. Since Check #7446 is over \$1,000, we can trace to the subsequent bank statement to verify it was a proper reconciling item at 3/31/2023.

Northfield SAVINGS BANK WP 1.1

Date 3/31/23 Page 1

**** CHECKING ACCOUNTS ****

Account Title:

ENTERPRISE CHECKING- INTEREST		Statement Dates	3/01/23 thru	4/02/23
Account Number	ENDING	Days in the statement period		33
Previous Balance	52,892.60	Average Ledger		77,848.98
13 Deposits/Credits	53,054.00	Average Collected		77,848.98
24 Checks/Debits	41,821.41	Interest Earned		21.12
Service Charge and Fee	.00	Annual Percentage Yield Earned		0.30%
Interest Paid	20.07	2023 Interest Paid		44.60
Ending Balance	64,145.26			

Ending GL Balance		\$61,254.27
Ending Bank Balance		WP 1.1 \$64,145.26
Total Deposits in Transit		0.00
Less: Outstanding Checks		
	03/24/2023	7437 82.95
	03/31/2023	7443 171.15
	03/31/2023	7444 104.98
	03/31/2023	7445 893.26
	03/31/2023	7446 1,057.35
	03/31/2023	7447 581.30
Total Outstanding Checks		2,890.99
Reconciled Balance		TB \$61,254.27
Unreconciled Difference		\$0.00

Auditing Cash Example

Step 3: Obtain subsequent bank statement – If the reconciliation reveals outstanding checks or deposits that are over the scope, it is necessary to obtain the subsequent bank statement, which, in this example, is from April 2023. After obtaining the April 2023 bank statement, verify that the outstanding check has cleared by examining the cleared check summary. You can observe in the example below that the outstanding check from March 2023 has cleared the bank in April 2023. Once it is confirmed that the check has cleared, label the outstanding check with a "T1" to indicate the amount was traced and verified to the subsequent bank statement and the amount was a proper reconciling item at 3/31/2023.

Ending Bank Balance				WP.1.1	\$64,145.26
Total Deposits in Transit					0.00
Less: Outstanding Checks					
	03/24/2023	7437	82.95		
	03/31/2023	7443	171.15		
	03/31/2023	7444	104.98		
	03/31/2023	7445	893.26		
	03/31/2023	7446	1,057.35	T1	
	03/31/2023	7447	581.30		
Total Outstanding Checks					2,890.99
Reconciled Balance				TB	\$61,254.27
Unreconciled Difference					\$0.00

SUMMARY BY CHECK NUMBER								
Date	Check No	Amount	Date	Check No	Amount	Date	Check No	Amount
4/03	7437	82.95	4/04	7446	1,057.35	4/18	7449	4,230.05
4/07	7443*	171.15	4/04	7447	581.30	4/27	7450	442.55
4/10	7445*	893.26	4/11	7448	736.29	4/27	7451	651.62

*Indicates Skipped Check Number

Auditing Cash Example

Step 4: Ensure untested deposits/outstanding checks are BELOW the Tolerable Misstatement (TM) - When the total outstanding checks or deposits exceed TM, a haphazard selection process needs to be done to bring the untested portion below the TM threshold. For instance, in the example below, if the TM is set at \$1,800 and the initial scope is \$1,000, an examination of the checks must begin. Initially, by tracing check #7446 to the subsequent bank statement, the untested balance is calculated as \$1,833.64 (calculated as \$2,890.99 - \$1,057.35), which still exceeds our TM of \$1,800. Consequently, another check must be traced. Choosing to trace check #7445 reduces the untested balance to \$940.38 (calculated as \$2,890.99 - \$1,057.35 - \$893.26), which successfully brings it below the TM. Once the untested balance is below the TM, further test work is deemed unnecessary.

Northfield SAVINGS BANK

WINOOSKI HOUSING AUTHORITY
 MAIN STREET GENERAL FUND
 83 BARLOW STREET SUITE 1
 WINOOSKI VT 05404-2004

**** CHECKING ACCOUNTS ****

Account Title:	
ENTERPRISE CHECKING- INTEREST	
Account Number	ENDING 1582
Previous Balance	52,892.60
13 Deposits/Credits	53,054.00
24 Checks/Debits	41,821.41
Service Charge and Fee	.00
Interest Paid	20.07
Ending Balance	64,145.26

Ending Bank Balance			WP.1.1	\$64,145.26
Total Deposits in Transit				0.00
Less: Outstanding Checks				
	03/24/2023	7437		82.95
	03/31/2023	7443		171.15
	03/31/2023	7444		104.98
	03/31/2023	7445	T1	893.26
	03/31/2023	7446	T1	1,057.35
	03/31/2023	7447		581.30
Total Outstanding Checks				2,890.99
Reconciled Balance			TB	\$61,254.27
Unreconciled Difference				\$0.00

Summary

Auditing cash requires a comprehensive approach that includes attention to fraud risks, internal controls, substantive procedures, specific checks on reconciliations and statements, financial statement assertions, and proper presentation and disclosure, including custodial credit risk related to FDIC insurance. This ensures the accuracy, transparency, and completeness of cash records in financial statements.