

Guidance Note on Audit of Property, Plant and Equipment

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The following is the text of the Guidance Note on Audit of Property, Plant and Equipment (PPE) issued by the Auditing and Assurance Standards Board (AASB) of the Institute of Chartered Accountants of India. This Guidance Note should be read in conjunction with the "Preface to the Standards on Quality Control, Auditing, Review, Other Assurance and Related Services" issued by the Institute.

1. Paragraph 13 of the "Preface to the Standards on Quality Control, Auditing, Review, Other Assurance and Related Services" states that "Guidance Notes are issued to assist professional accountants in implementing the Engagement Standards and the Standards on Quality Control issued by the AASB under the authority of the Council. Guidance Notes are also issued to provide guidance on other generic or industry specific audit issues, not necessarily arising out of a Standard. Professional accountants should be aware of and consider Guidance Notes applicable to the engagement. A professional accountant who does not consider and apply the guidance included in a relevant Guidance Note should be prepared to justify the appropriateness and completeness of the alternate procedures adopted by him to deal with the objectives and basic principles set out in the Guidance Note."
2. This Guidance Note, does not supersede the Institute's publications which provide guidance on audit of Property, Plant and Equipment (PPE) with special reference to certain statutory requirements, e.g., the guidance contained in the Statement on the Companies (Auditor's Report) Order, 2003.
3. The Guidance Note has been prepared considering the relevant Revised Accounting Standard 16, "Property, Plant & Equipment" (corresponding to IAS 16) which is being issued by the Institute pursuant to the decision to converge with the International Financial Reporting Standards (IFRS) in respect of accounting periods commencing on or after April 1, 2011 and the existing Accounting standards, AS 10 "Accounting for Fixed assets" and AS 6 "Depreciation Accounting" which are applicable to the entities who are not required to comply with the *relevant Revised AS*. Both the categories of the Accounting Standards are collectively referred to as the "relevant applicable AS".
4. The Guidance Note does not apply to audit of Investment Property and Intangible Assets.
5. In the event of a possible or perceived contradiction between the Guidance Note and a Standard on Auditing (SA) issued by the Institute, the Standard shall prevail.

Introduction

6. The term *Property, plant and equipment* in respect of those entities which are required to comply with the relevant Revised AS refers to such tangible items that:

- (a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
- (b) are expected to be used during more than one period.

In respect of such entities which need to apply AS 10 and AS 6, the term “Property, Plant and Equipment” comprises assets held for the purpose of providing or producing goods or services and which are not meant for sale in the normal course of business. Judgement is required to be exercised in recognizing what constitutes an item of property, plant and equipment having regard to an entity’s specific circumstances. For example, major spare parts, servicing equipment, and stand-by equipment, which an entity expects to use during more than one period, can be recognised as PPE as per the *relevant Revised AS*.

7. An asset can be classified as a PPE or otherwise, depending upon the use to which it is put or intended to be put. For example, assets which are classified as PPE in one type of business may be considered as current assets in another. Similarly, the same asset may be classified differently in an entity at different points of time. The recognition of Property, Plant and Equipment should be done as per the principles laid down in the “relevant applicable AS”.

8. PPE normally constitute a significant portion of the total assets, particularly in a manufacturing entity. Audit of PPE, therefore, assumes considerable importance.

9. The following features of PPE have an impact on the related audit procedures:

- (a) By their very nature, PPE are turned over much slower than current assets which are held for sale. Normally, PPE are carried over from year to year.
- (b) The average unit of PPE is normally of a relatively larger rupee value.
- (c) Since PPE are high value items, their acquisition is normally more closely controlled. The control aspect assumes special significance where PPE are self-constructed.

- (d) PPE are generally accounted for once unlike other assets like stock, because of which any error would affect the financial statements permanently or at least for a significant period of time.
- (e) In an inflationary situation, where cost model is adopted, normally, the book values of PPE are considerably lower than their replacement values.

Risks Associated with Property, Plant and Equipment

Inherent Risks

10. The auditor needs to obtain an understanding of the client and its environment to consider inherent risk, including fraud risks, related to property, plant, and equipment. This includes:

- (a) Obtaining an understanding of the internal control over property, plant, and equipment. For example, preparation of and review of capital budgets, etc.
- (b) Assessing the risks of material misstatement and designing tests of controls and substantive procedures that cover the following aspects:
 - (i) Substantiate the **existence** of property, plant, and equipment. PPE may include assets that should have been derecognised following sale, other transfer of rights or abandonment. Auditor should verify title deeds, agreements or other ownership documents.
 - (ii) Establish the **completeness** of recorded property, plant, and equipment. Expenditure that should have been recognised as property, plant and equipment but has not been so recognized, including capitalised finance costs, failure to account for assets held under finance leases or hire purchase agreements.
 - (iii) Verify the **cutoff** of transactions affecting property, plant, and equipment.
 - (iv) Determine that the client has the **rights** to the recorded property, plant, and equipment.
 - (v) Establish the proper **valuation** or allocation of property, plant, and equipment and the **accuracy** of transactions affecting PPE.
 - (vi) Determine the correctness and appropriateness of classification of property, plant and equipment. For example, incorrect split between land and buildings or between long term and short term leaseholds.

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Classification may have a significant impact on the application of the accounting policies. As per relevant Accounting Standard, the entities have to follow the component approach, as may be applicable.

- (vii) *Depreciation value* - Depreciation may have been incorrectly calculated on account of factors such as:
- mechanical error; or
 - incorrect application of accounting policy; or
 - inappropriate assessment of remaining useful life; or
 - inappropriate assessment of residual value; or
 - incorrect classification of the asset.
- (viii) *Carrying cost* - Where a valuation model is followed - carrying amount may not reflect fair value due to factors including:
- failure to update valuations for current circumstances; or
 - failure to brief valuers correctly, use of invalid assumptions or data, etc., or
 - valuations not performed by competent personnel.
- (ix) *Existence / valuation* - tangible assets acquired in a business combination may not have been initially recognised at their fair value at that date.
- (x) *Value of impairment* - failure to recognise impairment or reversal of impairment.
- (xi) Determine that the ***presentation and disclosure*** of property, plant, and equipment are appropriate.

Fraud Risks and Errors

11. Some of the potential misstatements in PPE on account of frauds and errors include:

- (a) Purchase of an asset at an inflated price especially from a related party.
- (b) Wrong write-off of the asset as scrap, obsolescence, missing, donated, or destroyed.
- (c) Expenditures for repairs and maintenance recorded as PPE or *vice versa*.
- (d) Capitalisation of expenditure which are not normally attributable to the cost of the PPE.

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- (e) Recording of an asset purchased, which in effect has not actually been received by the entity at all.
 - (f) Removal of an asset paid for by the entity or use of an asset of the entity for the benefit of a person other than the entity.
12. Such errors and frauds could occur because of weak internal controls in the entity including:
- (a) Inadequate involvement of management in overseeing employees with access to cash or other assets susceptible to misappropriation.
 - (b) PPE which are small in size, marketable, or lacking observable identification of ownership.
 - (c) Lack of complete and timely verification and reconciliations of assets.
 - (d) Inadequate physical safeguards over PPE.
 - (e) The misuse of the entity's assets by an employee.
 - (f) Using an entity's assets for personal use (for example, using the entity's assets as collateral for a personal loan or a loan to a related party).
 - (g) The asset is intentionally sold below fair market value.
13. The auditor should perform risk assessment procedures to provide a basis for the identification and assessment of risks of material misstatements. These would include:
- (a) Inquiries of management and others within the entity to identify the risks. For example, control procedures, entity's objectives and strategies, incentive policies, etc.
 - (b) Analytical procedures, for example, Ratios, etc.
 - (c) Observation and inspection of the entity's premises and plant facilities.

Internal Controls

14. An auditor should review the system of internal controls relating to PPE, particularly the following:
- (a) *Control over expenditure incurred on PPE acquired or self-constructed-* An effective method of exercising this control is capital budgeting, which, apart from ensuring proper authorisation of the expenditure incurred, also shows, in general, how effectively such expenditure is being controlled through periodical comparisons of actuals with

budgeted figures. It also ensures that amounts expended do not exceed the amounts authorized, and controls allocation of expenditure between capital and revenue in the case of self constructed assets.

- (b) *Accountability and utilisation controls* - Accountability over each PPE (or each class or component of PPE (in the case of companies following the *relevant Revised AS*)) is established, among other things, by maintaining appropriate records. This facilitates control over custodianship of such assets, for example, physical verification by the management or establishment of procedures relating to disposal of PPE. On the other hand, utilisation controls ensure that the individual PPE have been properly used for meeting the objectives of the entity.
- (c) *Information controls* - These controls ensure that reliable information is available for calculating and allocating depreciation, recording disposals or retirements, preparing tax returns, establishing the amount of insurance coverage, filing insurance claims, controlling repairs and maintenance charges or expenses incurred for inspection to assess the condition of the asset, replacement cost of specific parts, useful life of assets or specific parts, eg, specified number of hours of use, etc.
- (d) *Safeguarding of assets* - These controls ensure that the assets owned by the entity are safeguarded and any loss on damage / destruction of such assets are made good, through for example, insurance of assets, warranties, etc. The entity may have a process by which responsibility to safeguard the assets could be identified to specific personnel.

Substantive Procedures

15. Verification of PPE consists of examination of related records and physical verification. The auditor should, normally, verify the records with reference to the documentary evidence and by evaluation of internal controls. Physical verification of PPE is primarily the responsibility of the management.

16. The auditor must also consider the appropriateness of the accounting policies, including policies for determining which costs are capitalised, whether a cost or valuation model is followed and depreciation (including assessment of residual values) appropriately calculated.

17. As per the *relevant Revised AS*, the auditor should ensure that the entity has capitalised the assets as per the component approach, whereby a component or part of an asset which is significant in value compared to the total value of the asset or the useful life of which is different from that of the asset, has to be capitalised separately.

Verification of Records

Opening Balances

18. The opening balances of the existing PPE should be verified from records such as the schedule of PPE, ledger or register balances. In the case of initial engagements, as per SA 510 (Revised), "Initial Audit Engagements – Opening Balances", for the purpose of ascertaining the accuracy of the opening balance of PPE, some audit evidence may be obtained by examining the accounting records and other information underlying the opening balances.

19. The auditor would also need to obtain summary of changes to PPE and reconcile the same to the ledgers.

Capital Work in Progress

20. The auditor must verify records to ensure that the assets under construction or pending installation and not yet ready for intended use are classified as work in progress.

21. Capital work in progress should be verified with reference to the underlying contractor bills, work orders, certification of work performed by independent persons, comparison of the progress and the costs incurred up-to-date with the budgets, capital asset management policy and plan, pending commitments, etc.

22. It must be ensured that an appropriate system is in place to capture all directly identifiable costs, which can be capitalized, to be so accumulated to the capital work in progress (WIP) whilst expenses which are not eligible for being capitalized are identified and charged to revenue in the normal course. The auditor should reconcile the movement of capital work in progress from opening to closing, specifically verifying additions during the year, capital assets completed during the years and impairment of any opening capital work in progress items. The closing work in progress value should be bifurcated asset class wise or project wise so that reconciliation of the capital WIP is made easier and more logical. The Capital work in progress should be reviewed with respect to the intention and ability of the management to carry forward and bring the asset to its state of intended use. The auditor should also specifically verify the date on which the assets are moved from the capital work in progress account to the fixed assets (the date on which the asset is ready for intended use), so that the depreciation on fixed assets may be computed correctly.

Additions to PPE

23. Acquisition of new PPE and improvements to the existing ones should be verified with reference to supporting documents such as orders, invoices, receiving reports and title deeds and applicable customs or excise documents. Due care needs to be taken when the purchase is from a related party. The auditor may employ procedures such as possible comparative prices prevalent in a ready market, evaluation, justification and approvals for the purchase.

24. Self-constructed PPE and improvements thereto should be verified with reference to the supporting documents such as contractors' bills, work-order records, installation certification, completion certificates and independent confirmation of the work performed.

25. The auditor should make appropriate enquiries and examine lease contracts to provide evidence that PPE acquired under finance leases or hire purchase agreements have been properly capitalized.

26. In respect of the additions to PPE during the year, the supporting documentation and information for the date on which the asset was put to use / was ready to use is required to be verified.

27. Assets acquired in exchange for a non monetary asset(s) should be verified with reference to the supporting documents for the commercial substance of the transaction (cash flows from the assets acquired against those given up) and the value of the asset given up.

28. The auditor should review expense accounts (e.g., Repairs and Renewals) to ascertain that new capital assets and improvements have not been included therein.

Ownership of PPE

29. The ownership of assets, like land and buildings, may be verified by examining the title deeds. In case the title deeds are held by other persons, such as solicitors or bankers, confirmation should be, at least where significant, obtained directly by the auditors through a request signed by the client.

30. The auditor would also need to perform procedures to obtain corroborating evidence that the client actually possesses the rights associated with the assets under consideration. For example, the fact that the cash flows or economic benefits associated with it are actually accruing to the client.

Impairment of PPE

31. The auditor needs to consider whether there are circumstances as per AS that indicate a possible impairment of property, plant and equipment and if such circumstances exist, how the same have been dealt with by the entity. Decline in the market value of assets, changes in technological, legal or economic environment in which the entity operates, evidence of physical damage of assets, are some indications of impairment.

Deletions from PPE

32. Where PPE have been written-off or fully depreciated in the year of acquisition/construction, the auditor should examine whether these were recorded in the PPE register before being written-off or depreciated.

33. In respect of PPE retired, i.e., destroyed, held for sale, scrapped or sold, the auditor needs to examine the following aspects, *inter alia*:

- (a) whether the retirements have been properly authorised and appropriate procedures for invitation of quotations have been followed wherever applicable;
- (b) whether the assets and depreciation accounts have been properly adjusted;
- (c) whether the sale proceeds, if any, have been fully accounted for; and
- (d) whether the resulting gains or losses, if material, have been properly adjusted and disclosed in the Profit and Loss Account.

34. It is possible that certain assets destroyed, scrapped or sold during the year have not been recorded. The auditor may use the following procedures to ascertain such omissions:

- (a) Review work orders/physical verification reports to trace any indicated retirements.
- (b) Examine major additions to ascertain whether they represent additional facilities or replacement of old assets, which may have been retired.
- (c) Make enquiries of key management and supervisory personnel.
- (d) Obtain a certificate from a senior official and/or departmental managers that all assets scrapped, destroyed or sold have been recorded in the books.

35. The auditor would also need to review the board minutes and other correspondence for indications of significant asset acquisitions, disposals or retirements.

36. Where there has been a change of use, the auditor would need to consider whether this gives rise to a need to change classification of the asset (eg, to inventory), assets held for sale, investment property, etc.

Physical Verification

37. It is the responsibility of the management to carry out physical verification of PPE at appropriate intervals in order to ensure that they are in existence. However, the auditor should satisfy himself that such verification was done by observing the verification being conducted by the management wherever possible and by examining the written instructions issued to the staff by the management and the relevant working papers. The auditor should also satisfy himself that the persons conducting the verification, whether the employees of the entity or outside experts have the necessary competence.

38. The auditor should examine whether the method of verification was reasonable in the circumstances relating to each asset. For example, in the case of certain process industries, verification by direct physical check may not be possible in the case of assets which are in continuous use or which are concealed within larger units. SA 501, "Audit Evidence – Specific Considerations for Selected Items" contain principles related to the auditor's responsibilities and procedures in respect of attendance at physical inventory counting undertaken by the management. It would not be realistic to expect the management to suspend manufacturing operations for conducting a physical verification of the PPE, unless there are compelling reasons which would justify such an extreme procedure. In such cases, indirect evidence of the existence of the assets may suffice. For example, the very fact that an oil refinery is producing at normal levels of efficiency may be sufficient to indicate the existence of the various process units even where each such unit cannot be verified by physical or visual inspection. It may not be necessary to verify assets like building by measurement except where there is evidence of alteration/demolition. At the same time, in view of the possibility of encroachment, adverse possession, etc., it may be necessary for a survey to be made periodically of open land. Where the PPE can be moved and where verification of all assets cannot be conducted at the same time, they should be marked with distinctive numbers.

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39. The auditor should apply appropriate emphasis on the verification of assets by the management of the assets which are outside the premises of the company, with third parties. This may be by way of a process of physical verification by the management or by way of obtaining confirmation from the third party holding the asset, depending on the management's risk assessment of such assets and the materiality of such assets.

40. The auditor should examine whether the frequency of verification was reasonable in the circumstances of each case. Where the assets are few and can be easily verified, an annual verification may be considered as reasonable. However, where the assets are numerous and difficult to verify, verification, say, once every three years by rotation - so that all assets are verified at least once in every three years – may be sufficient.

41. The auditor should test check the records of PPE with the physical verification reports. He should examine whether discrepancies noticed on physical verification have been properly dealt with. In this regard the auditor should use his judgement as to whether having regard to the circumstances, the discrepancy is material enough to warrant an adjustment in the accounts and/or modification in the internal control system.

Recognition

42. The auditor should ensure that the cost of an item of property, plant and equipment is recognised as an asset only when the costs have been reliably measured and it has been ascertained by the management that future economic benefits will flow to the entity.

43. The auditor should also verify that the entity has recognised a fixed asset in accordance with the generally accepted accounting principles applicable to the entity.

44. *Capital work in progress:* The auditor should verify that PPE under construction are recognized as capital work in progress until such time they are ready for intended use. The auditor should also verify that only those costs that could be capitalised are included under work in progress.

45. *Component approach:* As per the relevant revised AS, in the component approach of accounting for the PPE, the auditor should verify that the relevant PPE are capitalised as components where the useful life of the components significantly vary from the useful life of the entire asset (e.g., Cost of relining a furnace, aircraft seats which require replacement at regular intervals and, thus, have a varying useful life from the rest of the furnace or aircraft, respectively). Each major part of the item of PPE with a cost that is significant in relation to the total cost of the item is depreciated separately.

However, where the entity has originally not recognised a component separately, but subsequently replaces the part or a component, the auditor needs to verify that such replacements are capitalised only if the capacity or useful life of the asset increased, or quality of output improved or operating costs were reduced over and above that which was originally intended or estimated for the asset. The replaced part is derecognised.

Valuation

Carrying Cost of PPE

46. The auditor should satisfy himself that the PPE have been valued in the financial statements according to the generally accepted bases of accounting and as per the applicable reporting framework which are determined by law, professional pronouncements of the Institute and the prevailing industry practices.

47. After initial recognition of the asset, in the case of subsequent measurement, the auditor should verify that the value of the asset is as per the model chosen by the entity as cost or revaluation model.

48. The auditor should also satisfy himself that the method by which the fair value has been determined is reasonable for the asset under consideration. For example, the market value method, income approach or the depreciated cost approach.

49. The auditor should also satisfy himself that the value has been determined with the help of a person competent to value the assets under consideration.

50. As per the *relevant Revised AS*, the auditor should verify that costs of major inspections, cost of spares used in connection with an asset and expected to be used for more than one period are added to cost of asset and derecognized earlier cost as per generally accepted accounting principles.

51. The auditor should consider whether the entity has reviewed the carrying value of its assets and how it determines the recoverable amount of the asset.

52. As per the *relevant Revised AS*, where several assets have been purchased for a consolidated price, the auditor should examine the method by which the consideration has been apportioned to the various assets. In case this has been done on the basis of an expert valuation, he should examine whether the same appears reasonable and based on adequate facts.

53. Where an entity owns assets jointly with others (otherwise than as a partner in a firm) the auditor should examine the relevant documents such as

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title deeds, agreements, etc., in order to ascertain the extent of the entity's share in such assets. The assets are used to obtain benefits for the entity and /or the entity recognizes its share of the assets. The auditor needs to verify the underlying agreements and the benefits which the entity receives or expects to receive as per generally accepted accounting principles.

54. As per the *relevant Revised AS*, where the entities have obligations to dismantle, remove and restore items of property, plant and equipment, the cost of an item of plant and equipment have to include such costs. The auditor should examine the method and process of identification, estimation and treatment of such costs based on the model in which the asset is measured in accordance with the generally accepted accounting principles.

55. The auditor must ensure that the cost of self constructed assets include all the items of costs which are to be capitalized including specific direct expenses related to the asset and appropriate borrowing costs.

56. As per the *relevant Revised AS*, the auditor should ensure that the cost of self constructed assets do not include cost of abnormal wastage of material labour or other resources.

57. As per the *relevant Revised AS*, the auditor should also verify the payment towards the assets beyond the normal credit terms to confirm the cost which can be capitalized.

PPE Acquired on/or as Government Grants

58. When the entity acquires land or other fixed assets as government grants at concessional rates, then the entity has to account for such assets at the acquisition cost. In case the asset is acquired free of cost, it should be accounted at nominal value.

59. The grant can be shown as a deduction from the gross value of assets or the asset can be shown in the balance sheet at the net value.

60. Entity following *relevant Revised AS* should capitalise the assets at the full value and account for the grant according to the relevant applicable Standard.

Depreciation

61. The auditor should test check the calculations of depreciation and the total depreciation arrived at should be compared with that of the preceding years to identify reasons for variations. He should particularly examine whether the depreciation charge is adequate keeping in view the generally accepted bases of accounting for depreciation.

62. As per the *relevant Revised AS*, the auditor must check that each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. Such part of an item may also have different useful life over which the asset is to be depreciated. For example, it may be appropriate to depreciate separately the airframe and engines of an aircraft, whether owned or subject to a finance lease.

63. The auditor should review the depreciation method applied to the asset at least at the end of each financial year to confirm that the depreciation charge reflects the usage. A change in the method of depreciation should be treated appropriately as a change in an accounting estimate.

64. The auditor must verify that those assets under construction or installation are not depreciated until such time they are ready for intended use but these should be tested for impairment, if any.

Useful Life of PPE

65. The auditor should ensure that the management has reviewed the useful life and the residual value of the asset at least annually. The useful life is, ordinarily, estimated based on the future economic benefits embodied in the asset or such other factors prescribed by the Standard or the asset management policy of the entity.

Impairment of PPE

66. An asset is impaired when the carrying amount of the asset exceeds its recoverable amount. If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset should be reduced to its recoverable amount.

67. The auditor should enquire whether any compensation is receivable from third parties for items of PPE which are impaired, lost or given up and credit the same to the Profit & Loss Account when the amount becomes receivable.

68. An impairment loss recognised for an asset in prior accounting periods should be reversed if there has been a change in the asset's recoverable amount since the last impairment loss was recognised. If this is the case, the carrying amount of the asset should be increased to its recoverable amount. That increase is a reversal of an impairment loss.

69. The increased carrying amount of an asset due to a reversal of an impairment loss should not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior accounting periods.

Revaluation of PPE

70. Revaluation of PPE implies restatement of their book values on the basis of systematic scientific appraisal which would include ascertainment of working condition of each unit of PPE, technical estimates of future working life and the possibility of obsolescence. This is done where the fair value of the asset can be reliably measured. As per SA 620 (Revised), "Using the Work of an Auditor's Expert", if expertise in a field other than accounting or auditing is necessary to obtain sufficient appropriate audit evidence, the auditor needs to determine whether to use the work of an auditor's expert. For example, an expert may be used for valuation of land and buildings or plant and machinery. Such an appraisal is usually made by independent and qualified persons such as engineers, architects, etc. To the extent possible, the auditor should examine these appraisals. As long as the appraisals appear reasonable and based on adequate facts, he is entitled to accept the revaluation made by the experts.

71. Where valuation is performed internally, the auditor should consider the basis on which it was done, the adequacy of the evidence obtained to support the valuation and the overall reasonableness of the result.

72. The auditor must also satisfy himself that the frequency of revaluation is adequate and appropriate so that the fair value of the revalued asset does not materially differ from the carrying value of the asset.

73. The auditor should verify the basis of de-recognition and the accounting treatment of an asset on disposal or when no future economic benefits are expected from its use.

Disclosure

74. The auditor should verify that the entity has made relevant disclosures for PPE (or class of PPE) on depreciation methods, measurement bases, details of additions and deletions, the existence of rights and restrictions, carrying amount during the course of construction, contractual commitments, impairment of assets, revaluation of assets, etc, as per the Standards applicable to the entity.

Audit in IT environment

75. The auditor needs to check the controls based on the use of manual or automated elements which affect the manner in which transactions are initiated, recorded, processed and reported. The IT environment benefits the entity by:

- (i) Providing consistency in application of pre defined policies. For example, application of depreciation rate based on asset classification or useful life.
- (ii) Enhancing timeliness and accuracy of information, for example, monthly

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account closure procedures like passing depreciation entries.

- (iii) Generating analytical information, for example, Ratios, comparative information, etc.
- (iv) Reducing risks that controls can be circumvented, for example, authorisation for purchase of fixed assets.

76. The IT environment, however, may pose control threats like:

- (i) Reliance on systems which may inaccurately process data.
- (ii) Unauthorised access to data leading to data loss or destruction. For example, the Fixed Assets Register may be tampered with by other personnel.
- (iii) Unauthorised changes to data in master file.
- (iv) Inappropriate manual intervention.
- (v) Inability to access data as required.

77. The auditor needs to determine that the automated control is functioning as intended. Subsequently, the following also need to be verified:

- (a) That the changes to programs are subject to controls.
- (b) That the authorised version of the program is used.
- (c) Other general controls.
- (d) Inspection of the record of administration of IT.