Auditing Cash and Cash Equivalents

The ultimate cheat sheet for external auditors testing cash and cash equivalents in small and medium-sized organizations.

- Engagement Type: External Audit
- Client Industry: General Commercial
- Standards: US GAAS/ISA
- Area: Risk Assessment/Response to Risk

Risk Assessment

Typical Risks

Risk	Risk Level	Assertions
Balances may not exist	Normal	E
All balances have not been recorded	Normal	C
Entity does not hold or control the rights	Normal	RO
Balances have not been recorded appropriately	Normal	VA

Other Potential Risks

Legend: E = Existence, C = Completeness, RO = Rights & Obligations, VA = Valuation & Allocation

Risk	Assertions
Significant balances of cash on hand exist	E, C, VA
Foreign currency bank balances may not be accurately translated	VA

Ratio Analysis

Typical Ratios

Ratio	Calculation
Current Ratio	Current Assets / Current Liabilities
Quick Ratio	(Trade Receivables + Cash) / Current Liabilities
Average Payment Amount	Total of Credit Transactions to Cash / Number of Credit Transactions to Cash
Average Receipt Amount	Total of Debit Transactions to Cash / Number of Debit Transactions to Cash
Frequency of Payments	Number of Credit Transactions to Cash / Days in Period
Frequency of Receipts	Number of Debit Transactions to Cash / Days in Period

Response to Risk

Example Controls to Consider Testing

Control
New bank accounts are approved
Bank account closure is approved
New signatories are authorized
Signatories are regularly reviewed
Payments runs are reviewed and approved
Outstanding checks or payments are routinely reviewed
Significant individual payments are approved by Executives
Bank reconciliations are performed
Regular cash reconciliations are performed
Compliance with bank covenants is monitored
Segregation of duties across keying banking activities
Review and approval of general ledger reconciliations

Common Substantive Tests of Detail

Test	Assertions
Obtain and reconcile cash and cash equivalents detailed listing	C, VA
Confirm cash and cash equivalents balances	ALL
Test bank reconciliations	ALL

Additional Substantive Tests of Details

Test	Assertions
Count cash on hand	E, C, VA
Test translation of foreign currency balances	VA
Test significant transfers between accounts	RO, E
Test bank transactions around period-end	C, VA

Top Tips

- Include accounts which have been closed in your external confirmations testing.
- Ensure each cash account has a related general ledger account.
- Review for negative cash balances and consider proper classification.
- Review outstanding checks and consider proper treatment of any aged checks.
- Inquire of any held checks at period end (checks written but not sent).
- Consider additional risks where entities hold bank accounts in high-risk countries.
- Consider the need to validate the sender of any electronic confirmation responses via telephone to test the reliability of responses.
- Consider the design and operating effectiveness of the controls of a third-party electronic confirmation system when such controls are being relied upon.

Substantive Audit Data Analytics

Visualize cash transactions by period, user, source document, etc. to investigate and test notable items.

	ABLOGGS	EDAVIDS	FWRIGHT	JSMITH	STHOMPSON	TPOTTS
	621K	172K	1.42M	325K		310K
	105K	161K				
	278K		861K	397K		441K
			193K			111K
			489K			