

Identifying the Issue by Using Audit Trail Report

*K.A.H.S.K.K. Arachchi & M.W. Madurapperuma
harshi01.kas@gmail.com & wasanthi@kln.ac.lk*

Introduction

PQR (PVT) Ltd is one of the leading companies in Construction & Engineering sector which is importing and selling raw material for building constructions. The company uses Quick Book Accounting Software to record daily transactions.

Discussion of the Issue

According to LKAS 8 Accounting Policies, changes in Accounting Estimates and errors said that “**Prior period errors** are omissions from, and misstatements in, entity’s financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

- (a) Was available when financial statements for those periods were authorized for issue; and
- (b) Could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.”

(LKAS 08-Paragraph 05)

This issue regard with the amount at Rs.4.5 Mn of material sales receivable have been entered as material sales received in previous year in to the bank account. These amounts they have included in previous year bank reconciliation under deposit but not realized deposit and credits. But actually this cash has been received in this year. As a result of that the previous year bank account balance and the bank reconciliation balance were incorrect due to this reason. This is prior period Error or may be fraud According to the definition of LKAS 08.

According to the previous year audit report current year Audited Opening balance of bank account and Account receivables have been changed at about Rs.4.5Mn in General Ledger which is generated by Quick Book Accounting Software. According to the Audit trail report, some prior material sales receipts transactions were deleted and were reentered as material sales invoices by a new clerk who has entered the data to the system without the approval of the top management as following brake up of Audit Trail Report. When cash was received for these material sales, they have either deleted or passed the journal entry to remove the earlier transaction and enter correct entry.

Audit Trail Report								
Number	Entered/ Last Modified	Last Modified by	State	Date	Name	Memo	Account	Amount Rs.
Sales Receipt 7407	1/10/2015 8:46	Admin	Deleted					-
Sales Receipt 7407	10/1/2015 8:48	Admin	Prior	3/7/2014	Central Engineer ring	Materia l Sales	Seylan Bank Account	1,250,000
Invoice 7407	10/1/2015 8:50	Admin	Latest modification	3/7/2014	Central Engineer ring	Materia l Sales	Accounts Receivable	1,250,000

Implication of the Issue

- Impact to the Bank balance**
 Bank accounts represent incorrect balances. This company is running with bank overdraft according to this bank account. Therefore actual amount of bank overdraft is more than presented one.
- Impact to the Bank Reconciliation**
 Account receivable items have been under the category of deposit but not as realized deposits. As a result of that it is tallied bank account balance with bank reconciliation balance. Therefore management of the company is unable to get correct financial and investment decisions loss of the reliability and relevance of financial statements.
- Internal Control System Error**
 There is no proper internal control System in this Quick Book Accounting System. New clerk has been deleted some transaction without top management approval. There is no daily backup system to protect their documents. Proper security rules and regulations are not established to avoid making some changes without the approval and unauthorized access in to the system properly. As a result of that accounting information may be changed and destroyed with unauthorized access.

Conclusions and Recommendations

- Being Correction of Prior period errors**
 LKAS 08 says that "Subject to paragraph 43, an entity shall correct material prior period errors retrospectively in the first set of financial statements ".

PQR (PVT) Ltd- Statement of Financial Position		
Item	As at 31 st March 2015 Rs.	Restating the Comparative Figures As at 31 st March 2014 Rs.
<u>Current Asset</u>		
Account Receivable	24,500,000	11,500,000
<u>Current Liability</u>		(7,000,000+4,500,000)
Seylan Bank Over Draft	6,500,000	5,000,000 (500,000+4,500,000)

- There should be a proper internal control system in this accounting package system such as strong passwords, daily backup, proper security settings and rules and regulations.