
MMASA Example ©

Checklist for obtaining an understanding of the transaction trail in respect of major classes of transactions

ISA 315 requires the auditor to obtain an understanding of internal control relevant to the audit. Such understanding contributes the auditor's overall knowledge about the financial statements and the context for an entity's financial statements, and provides the basis for the identification and consideration of risk factors pertaining to risks of material misstatement of the financial statements. The auditor performs risk assessment procedures to obtain audit evidence about the design and implementation of relevant controls.

The auditor's understanding of the transaction trail in respect of major classes of transactions forms an integral part of "understanding internal control relevant to the audit". Such understanding relates to the transaction trail from initiation of a transaction up to the recording of the transaction in the general ledger, including the nature of different transactions concerned, regularity of transactions, software applications utilised, manual and computerised procedures, etc. Internal control matters: Responsibility for transactions, segregation of duties, supporting documentation utilised, control over supporting documentation, authorisation and approval of transactions, execution of transactions, physical controls, recording in subsidiary records/batches, posting of transactions to the general ledger, type of and control over adjusting entries, regular monitoring and supervisory controls, etc.

A proper understanding of the transaction trail should generally cover the following matters, as relevant and appropriate in the auditee's circumstances:

- a Assigned responsibilities, including communication and understanding of financial reporting roles
- b Segregation of incompatible functions (authorisation, execution, recording, control over assets/resources)
- c Initiation of a transaction (*initiation event*), including authorisation and evidence of such authorisation
- d Initial source documentation
- e Initiation of transaction via the CIS, including access control, edit checks, numerical sequence checks, programmed approval checks, etc.
- f Documentation voucher pack (composition of voucher pack and adequacy in circumstances) – summary of all available supporting documentation for the transaction; both manual and electronic
- g Document design and numbering. Numbering of documents utilised to help ensure the completeness and validity of recorded transactions.
- h Approval along the transaction trail (one person checking another persons' work) and evidence of such checks performed
- i "Book of first entry", including relevant input and processing controls (edit checks, numerical sequence checks, programmed approval checks, etc.)
- j Checking transaction details before recording
- k How incorrect processing is identified and resolved
- l Ability to override the system (including access control and authorization levels), and how system overrides and bypasses are identified and followed up
- m Subsidiary ledger transaction processing. Subsidiary ledger utilised and normal/usual transactions recorded – timing and method of recording.

- n General ledger transaction processing. General ledger accounts utilised, including control accounts and suspense accounts. Normal/usual transactions recorded – timing and method of recording
- o Independent checks on transactions processed and processing results, including evidence that such checks have been performed (i.e. internal verification procedures)
- p Management information reviewed on a regular basis and evidence of such reviews performed
- q Regular and independent reconciliations
- r Physical inspections and comparing results to accounting records.

