

Synopsis of "Guidance Note on Audit of Property Plant and Equipment (PPE)"!

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Locus standi

Guidance notes are issued by the Auditing and Assurance Standard Board (AASB) of The Institute of Chartered Accountants of India (ICAI). These should be read in conjunction with the *"Preface to the Standards on Quality Control, Auditing, Review, other Assurance and Related Services"* issued by ICAI. The purpose is to assist professional accountants in implementing the Engagement Standards and the Standards on Quality Control issued by the AASB under the authority of council of ICAI. These publications provide guidance on generic or specific audit issues.

In case a professional accountant does not apply the guidance given in the Guidance note, she should be prepared to justify the appropriateness and completeness of the alternate procedures adopted by her to deal with the objectives and basic principles set out therein. Important to note here that [Guidance note on Audit of PPE](#) does not supersede the ICAI's publications which provide guidance on audit of PPE with special reference to certain statutory requirements. Needless to say, in case there is a conflict between an *Auditing Standard on Auditing* and the Guidance note, the Standard shall prevail.

Scope

Whether your audit client is preparing financial statements under IFRS converged Indian Accounting Standards (**Ind-AS**) or Accounting Standards (**AS**), this Guidance note is going to help, as it was prepared considering requirements of revised [Ind-AS-16](#) and revised [AS-10](#). Just keep in mind that audit of Investment Property and Intangible Assets are out of scope for this Guidance note.

This Guidance note carries lot of information and advice on audit procedures to be carried out by the auditors while auditing PPE. Generally, the tone of the Guidance note is in nature of advice to the auditors using the word '**should**', but few places '**must be ensured**' has also been used, conveying importance.

Synopsis

The Introduction part provides basic information like explaining the term PPE and what might be classified as such, with an understanding that subjectivity about classification might exist. Of course, recognition has to be according to principles laid down in relevant accounting standards.

The Guidance note conveys **importance of PPE** in financial statements, especially for manufacturing entities, due to significant amount in comparison to other assets and mentions about features which may impact audit procedures.

Risks associated with auditing of PPE have been explained in detail in clause 10 of this guidance note, including inherent risks and guidance is provided to the auditor on keeping in mind questions like how to substantiate existence, establish completeness, verify cut off, valuation and accuracy besides determination of rights and depreciation value.

Potential mis-statements in case of PPE due to **frauds and errors** have been given for auditors understanding and defines weakness in Internal Controls as one of the root causes. Further the guidance is given to the auditors on how to review the systems of **Internal Controls** related to PPE, for example controls over self-constructed or acquired PPE, accountability and utilization controls, information controls and safeguarding of assets related controls.

In next section, this publication provides guidance to the auditors on **substantive procedures**, which in my opinion, must be quite helpful to the auditors. What exactly the auditor should be looking at, while carrying out specific audit procedures. To share an example, 'physical verification of PPE is responsibility of the management' this fact has been highlighted again here. Perception that the audit team will physically verify the PPE every year, needs a correction in society as a whole.

Principles mentioned in [Standard on Auditing \(SA\) - 501](#) "*Audit Evidence - Specific Considerations for*

Selected Items” have been referred in clause 38 of this Guidance note to convey procedures like attendance of audit team during physical count. How to carry out alternate procedures in physical verification of PPE in complex industries like *Oil and Gas* companies has also been elaborated. Appropriateness of accounting policies, proper capitalization or non-capitalization should also be covered in audit procedures. Guidance is given to the auditors to consider ‘**component approach**’ as required by the standards.

How the auditors should verify the records to review opening balances, capital work in progress, addition or otherwise in PPE is all mentioned here. Verification of title deeds is an important part of audit procedures for ascertaining **ownership of PPE**. Guidance has also been provided to the auditors for procedures related to Impairment of and Deletion. The publication also discusses instances to help auditor understand various possibilities. Guidance related to auditing of **Recognition** of assets as PPE and its **Valuation** has also been given in this publication.

Auditors face challenge when **Government Grants** have been provided to the client for acquisition of PPE. You will find details on how the audit should be carried out. Besides detailed guidance on audit procedures related to **Depreciation** and **impairment**, the instances related to **Revaluation** has been given. Specific guidance related to audit in **IT environment** is quite practical and will help the auditors tremendously.

Conclusion



In nutshell, this Guidance note helps an auditor by throwing light on various aspects of PPE and touching different dimensions and possibilities. This publication should help the auditor in defining audit procedures and finally reaching the conclusion. Most important part will remain documentation. How you have documented audit planning, execution, evidence and communication - the audit working paper file **MUST** be self-speaking.

...And for those senior accountants and auditors, please don’t use the term ‘**Fixed Assets**’ in your financial statements and the schedules, Property Plant and Equipment is there.

[Click here](#) to access the Guidance Note issued by ICAI.

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