

Inside the Audit: Part 7 - Fixed Assets (PPE)

Objective

To verify whether Property, Plant and Equipment recorded by the company exist, are complete, are owned or controlled by the entity, are accurately measured and depreciated as per the Companies Act / Ind AS, are recorded in the correct period, and are appropriately disclosed in the financial statements including CARO requirements.

Step 1: Control Testing (Check Internal Controls)

- Perform a walkthrough of the capital expenditure process from purchase requisition → approval → vendor invoice → payment → capitalisation.
- Trace one asset acquisition from initiation to accounting entry in the Fixed Asset Register (FAR).
- Understand approval matrix for capital expenditure and verify whether purchases are authorised as per limits.
- Review controls over asset tagging, asset numbering and maintenance of FAR.
- Understand process for physical verification of assets and frequency of verification.
- Review controls over depreciation calculation including useful life approval and system configuration.

Step 2: Substantive Testing (Detailed Fixed Asset Verification)

A) Obtain and verify population

1. Obtain Fixed Asset Register as at year end and reconcile opening balances with prior year audited figures.
2. Tie closing gross block, accumulated depreciation and net block with Trial Balance and Financial Statements.
3. Obtain movement schedule for additions, deletions, transfers and CWIP.

1. Existence (Assets recorded actually exist)

- Perform physical verification of selected assets and trace FAR to physical location (sheet to floor).
- Review management's physical verification report and investigate discrepancies, shortages or idle assets.
- Verify assets capitalised during the year are installed and put to use.

2. Completeness (All assets that should be recorded are included)

- Trace asset additions from bank statements and vendor invoices to FAR.
- Review repairs and maintenance ledger to identify items requiring capitalisation.
- Verify CWIP balances and ensure all ongoing projects are captured.
- Perform reverse testing (floor to sheet) during physical verification.

3. Accuracy & Valuation (Amounts are recorded correctly)

- Verify asset cost with supplier invoices, agreements and supporting documents.
- Ensure only directly attributable costs such as freight, installation and duties are capitalised.
- Check that revenue expenses are not capitalised.
- Verify capitalisation of borrowing costs where applicable.
- Assess indicators of impairment and verify impairment testing, if required.

4. Cut-off (Assets recorded in the correct accounting period)

- Verify assets capitalised near year end are ready for intended use.

- Ensure expenses incurred after the reporting date are not capitalised.
- Check depreciation commencement date aligns with date asset is available for use.

5. Depreciation (Correct rate, method and period)

- Verify depreciation method and useful life as per Schedule II of the Companies Act, 2013.
- Recalculate depreciation for selected assets.
- Ensure depreciation is not charged on land and CWIP.
- Check consistency of depreciation policy year on year and justification for any change.

6. Disposals / Retirements

- Verify sale invoices, scrap sale records or disposal approvals.
- Ensure asset cost and accumulated depreciation are removed from FAR.
- Check depreciation is charged only up to date of disposal.
- Verify gain or loss on disposal is correctly accounted for.

7. Rights & Obligations

- Verify ownership documents such as sale deeds, invoices and registration certificates.
- Review lease agreements and verify recognition of Right-of-Use assets.
- Identify assets given as security and verify disclosure of charges or hypothecation.

8. Companies Act – Schedule II Depreciation Rate Card (Indicative Useful Life)

- Buildings (other than factory buildings): 60 years
- Plant and Machinery (general): 15 years
- Computers and laptops: 3 years
- Motor vehicles (cars): 8 years
- Useful life may differ if supported by technical evaluation and proper disclosure in financial statements.
- Factory buildings: 30 years
- Furniture and Fixtures: 10 years
- Office equipment: 5 years
- Motor vehicles (commercial): 10 years

B) Analytical Review

- Compare current year capital additions with prior year and approved capex budget.
- Review depreciation expense trend and ratio to gross block.
- Analyse CWIP ageing and long-pending projects.
- Review major asset additions near year end for unusual trends.

CARO 2020 – Fixed Assets Focus Areas

- Physical verification of PPE and reporting of material discrepancies.
- Title deeds of immovable properties held in the name of the company.
- Disclosure of revaluation, if any.
- CWIP ageing and completion status.
- Reporting of benami properties.

Concept Clarity Byte

Capital Work-in-Progress (CWIP):

Assets under construction not ready for intended use; no depreciation charged until capitalised.

Ready for Intended Use:

Depreciation starts when asset is available for use, not necessarily when actually use.