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Comprehensive engagement manual, Volume 3: Documentation, part II

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Comprehensive Engagement Manual

VOLUME 3: Documentation Part II

***Comprehensive
Engagement
Manual***

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VOLUME 3

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VOLUME 3: Documentation Part II

Comprehensive Engagement Manual

Authors:
George Marthinuss, CPA
Luis E. Cabrera, CPA

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V O L U M E 3

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The manual is issued as a nonauthoritative kit of practice aids and is not intended as a substitute for professional judgment or for authoritative technical literature.

The documentation in this manual is not a substitute for development and implementation by a firm of a system of quality control that is appropriately comprehensive and suitably designed in relation to the firm's organizational structure, its policies, and the nature of its practice.

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**AICPA INTEGRATED PRACTICE SYSTEM
COMPREHENSIVE ENGAGEMENT MANUAL**

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TIME CONTROL DOCUMENTS

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CHAPTER 11

TIME CONTROL DOCUMENTS

11.000 INTRODUCTION

11.001 This chapter contains time control documents. Budgets should be prepared for all engagements in excess of 40 hours by the in-charge at the conclusion of the preceding engagement and revised during the current engagement. Time budgets serve the purpose of (a) ongoing planning and time control, and (b) measure and control engagement profitability. Accumulated staff time should be compared to budgets biweekly to provide maximum opportunity for early identification of time problems and for taking corrective action.

11.100 USING THE BUDGETING AND TIME CONTROL DOCUMENTS

11.101 For budgets to benefit the firm and engagement personnel, they must be realistically prepared. Budgets must be based on engagement circumstances, *not* on fees.

11.102 All time spent on engagements must be charged to the client and entered on the Time Accumulation Sheet. At the completion of the engagement, the Time Accumulation Sheet should be reconciled to the Time Summary Form and the firm's billing records.

11.103 For engagements extending beyond one week of field work, the time should be accumulated and recorded on the Time Accumulation Sheet.

11.104 If the staff becomes aware of ways to reduce audit time in the future, the suggestions should be noted on the Summary of Time Savings for Next Year in section 11.202.

Time Summary Form

Client: _____

Financial Statement Date: _____

INSTRUCTIONS:

The Budgeted Hours section of the form should be prepared by the in-charge and approved by the engagement partner during the planning stage of the engagement. The amounts in the Total column should be posted to the Time Accumulation Sheet. The Actual Hours section of the form should be completed and the variances calculated at the conclusion of the engagement. Any significant variance should be analyzed and explained.

	Budgeted Hours				Actual Hours				Actual Over (Under)*		
	Asst.	I/C	Mngr.	Ptnr.	Tot.	Asst.	I/C	Mngr.		Ptnr.	Tot.
Planning & administration											
Internal control structure											
Cash											
Investments											
Receivables											
Inventories											
Prepayments and other assets											
Property & equipment											
Notes & loans payable											
Payables & accruals											
Income taxes											
Other liabilities											
Equity											
Revenues											
Expenses											

(continued)

* Attach memorandum explaining significant variances.

TIME SUMMARY FORM
(Continued)

	Budgeted Hours				Actual Hours				Actual Over (Under)*		
	Asst.	I/C	Mngr.	Ptnr.	Tot.	Asst.	I/C	Mngr.		Ptnr.	Tot.
Commitments, contingencies, & subsequent events											
Consideration of continued existence											
Related parties											
Trial balance & adjustments											
Supervision & review											
Management letter											
Report preparation											
<u>Totals</u>											

Prepared by: _____ Date: _____
(In-charge)

Reviewed by: _____ Date: _____
(Engagement Partner)

* Attach memorandum explaining significant variances.

Time Accumulation Sheet

Client: _____

Financial Statement Date: _____

INSTRUCTIONS:

The amount in the Budget column should be obtained from the Time Summary Form. The Actual Hours and Date columns should be completed on a daily basis and subtotaled weekly. For engagements in excess of three weeks, additional Time Accumulation Sheets should be completed. At the conclusion of the engagement, the amounts in the Total column should be posted to the Time Summary Form and reconciled to the firm's billing records.

WORK AREAS	Budget	ACTUAL TIME AND DATE		Total
		Sub-total	Sub-total	
Planning & administration	—	—	—	—
Internal control structure	—	—	—	—
Cash	—	—	—	—
Investments	—	—	—	—
Receivables	—	—	—	—
Inventories	—	—	—	—
Prepayments and other assets	—	—	—	—
Property & equipment	—	—	—	—
Notes & loans payable	—	—	—	—
Payables & accruals	—	—	—	—
Income taxes	—	—	—	—
Other liabilities	—	—	—	—
Equity	—	—	—	—
Revenues	—	—	—	—
Expenses	—	—	—	—

(continued)

TIME ACCUMULATION SHEET
(Continued)

WORK AREAS	Budget	ACTUAL TIME AND DATE		Sub- total	Total
Commitments, contingencies, & subsequent events	—	—	—	—	—
Consideration of continued existence	—	—	—	—	—
Related Parties	—	—	—	—	—
Trial balance & adjustments	—	—	—	—	—
Supervision & review	—	—	—	—	—
Management letter	—	—	—	—	—
Report preparation	—	—	—	—	—
TOTAL	==	==	==	==	==

Prepared by: _____ Date: _____
(In-charge)

Reviewed by: _____ Date: _____
(Engagement Partner)

11.202

Summary of Time Savings for Next Year
Client: _____
Financial Statement Date: _____

INSTRUCTIONS:

This form should be completed by any member of the engagement team that has a time saving suggestion, and reviewed by the in-charge and the engagement partner. The suggestion should indicate the engagement area, the procedure currently performed, and how that procedure can be improved.

SAVINGS SUGGESTIONS

Prepared by: _____ Date: _____
(Staff Member)

Reviewed by: _____ Date: _____
(In-charge)

_____ Date: _____
(Engagement Partner)

CHAPTER 12
SUPERVISION AND REVIEW CHECKLISTS

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CHAPTER 12

SUPERVISION AND REVIEW CHECKLISTS

12.000 INTRODUCTION

12.001 An often underestimated aspect of an audit engagement is supervision of engagement personnel and review of the audit working papers, financial statements, and reports. Included in this Chapter are discussions and practice aids that serve as guidance for and documentation of the various supervision and review requirements in a typical audit engagement:

- Review of the Tax Accrual/Provision Review Checklist and the preparation of the tax return by the tax specialist (referred to as the "tax partner") assigned to the engagement.
- Review of events that have occurred subsequent to the balance sheet date for any matters that could require adjustment to or disclosure in the financial statements.
- Review of the engagement working papers by the in-charge and engagement partner to ensure that the work performed complies with professional standards, including the quality control standards.
- Obtaining a technical review by someone not associated with the engagement on matters that require such review under the firm's quality control policies and procedures.
- Controlling the preparation of the financial statements, the signing of the auditor's report, and the release of the financial statements to the client.

12.100 AUTHORITATIVE PRONOUNCEMENTS

12.101 One of the nine elements of a system of quality control for CPA firms outlined in the AICPA's Statement on Quality Control Standards (SQCS) No. 1, *System of Quality Control for a CPA Firm*, effective supervision, is an essential element of quality, efficient engagements. SQCS No. 1 requires members of the AICPA to establish policies and procedures for the conduct and supervision of work at all organizational levels to provide the firm with reasonable assurance that work performed meets reasonable standards of quality.

12.102 AICPA Statement on Auditing Standards (SAS) No. 22, *Planning and Supervision* (AU 311), states:

The work performed by each assistant should be reviewed to determine whether it was adequately performed and to evaluate whether the results are consistent with the conclusions to be presented in the auditor's report.



12.103 These Checklists have been designed to facilitate compliance with these standards for audits.

12.200 TAX ACCRUAL/PROVISION REVIEW

12.201 The Tax Accrual/Provision Review Checklist (section 12.204) should be completed by the tax partner and approved by the engagement partner after all adjustments have been completed and all notes to the financial statements have been drafted. The Checklist documents the review of the propriety of the client's income tax liabilities and assets, and related expense (or benefit), and financial statement disclosures.

12.202 The tax partner should ascertain, based on his or her review of the applicable working papers and notes to the financial statements, that the tax provision and accruals are reasonable and adequate. This process includes reviewing differences between financial and income tax reporting to determine that the distinction between, and computation of, current and deferred taxes is appropriate. Any problems should be discussed with the engagement partner. The tax partner should initial and date each step as it is completed, sign and date the Checklist in the space provided, and submit the completed Tax Accrual/Provision Review Checklist to the engagement partner.

12.203 The engagement partner's signature on the Checklist indicates that he or she is satisfied that the review has been properly performed.

12.204

Tax Accrual/Provision Review Checklist
Client: _____ Financial Statement Date: _____

INSTRUCTIONS:

This Checklist documents the tax partner's and engagement partner's review of the income tax provision and accruals, and the related financial statement disclosures. The Checklist should be completed by the tax partner and reviewed by the engagement partner.

	<u>Done By</u>	<u>Date</u>
1. Review current file working trial balances, possible journal entries, adjusting journal entries, eliminating journal entries, memoranda, post-balance sheet review sections, legal letters, minutes, etc.	_____	_____
2. Review current file assets schedules—such as allowance for doubtful accounts, inventory (including all LIFO calculations, if applicable), prepaid items, deferred charges, plant and equipment (depreciation methods, recapture, etc.).	_____	_____
3. Review current file liabilities and equity schedules—such as notes payable to officers or shareholders, accrued liabilities, deferred credits, capital stock, retained earnings, paid-in capital, etc.	_____	_____
4. Review operations files—such as revenues, costs of sales, general and administrative expenses, selling expenses, and other income and expense.	_____	_____
5. Review the calculations performed to determine the deferred tax liability and/or asset, including the schedule of temporary differences, net operating loss carrybacks and carryforwards, tax credits, the tax rate used and, if applicable, the deferred tax asset valuation allowance.	_____	_____
6. Review and initial the following working papers: All tax provision/accrual working papers, tax memoranda, LIFO calculations (if applicable), other (please list).	_____	_____
_____	_____	_____
7. Review tax-related notes to financial statements and other tax-related financial statement disclosures—such as deferred tax and LIFO disclosures.	_____	_____





TAX ACCRUAL/PROVISION REVIEW CHECKLIST
(Continued)

	<u>Done By</u>	<u>Date</u>
8. Review firm's tax return preparation checklist.	_____	_____
9. In my opinion, the tax provision and accruals set forth in the working paper schedules, the financial statements and the related disclosures are reasonable and adequate.	_____	_____

Tax Partner's Signature: _____ Date: _____

Engagement Partner's Signature: _____ Date: _____



12.300 SUBSEQUENT EVENTS

12.301 Completing the audit includes performing certain procedures to identify whether any events have occurred since the balance-sheet date that would require adjustment to or disclosure in the financial statements. SAS No. 1, Section 560, *Subsequent Events* (AU 560.12), states:

. . . the independent auditor should perform other auditing procedures with respect to the period after the balance-sheet date for the purpose of ascertaining the occurrence of subsequent events that may require adjustment or disclosure essential to a fair presentation of the financial statements. . . . These procedures should be performed at or near the completion of the field work.

12.302 Procedures the auditor should perform to identify and evaluate subsequent events include:

- Read the latest available interim financial statements, compare them with the financial statements being reported on, and make any other comparisons considered necessary. The auditor should determine whether the interim statements have been prepared on the same basis as that used for the audited financial statements.
- Inquire of and discuss with management and owners having responsibility for financial and accounting matters as to:
 - The existence of any substantial contingent liabilities or commitments at the balance-sheet date or at the date of inquiry.
 - Any significant changes in long-term debt or working capital that have occurred up to the date of inquiry.
 - The current status of items that were accounted for on the basis of tentative, preliminary, or inconclusive data.
 - Any unusual adjustments made during the period from the balance-sheet date to the date of inquiry.
- Read the available minutes of meetings of shareholders, directors, and committees.
- Inquire of the client's legal counsel concerning litigation, claims, and assessments.
- Obtain a representation letter from the client that includes a statement about whether any events have occurred subsequent to the balance-sheet date that, in the client's opinion, would require adjustment to or disclosure in the financial statements.
- Make any other inquiries or perform other procedures considered necessary.

12.303 To document performance of these procedures, the Subsequent Events Review Program is included in section 12.304.



12.304

Subsequent Events Review Program
Client: _____
Financial Statement Date: _____

INSTRUCTIONS:

This program has been developed for use on all audit engagements. It is not a substitute for professional judgment.

Each step should be initialed and dated by the engagement personnel who performed the work. References to supporting workpapers should be placed in the "W/P Ref." column. Also, "N/A" should be placed in the "W/P Ref." column for any steps that are not applicable.

Procedure	Done By	Date	W/P Ref.
A. If available, review financial statements and schedules or general ledger and source journals for the period subsequent to the balance-sheet date to _____ (last day of field work).	_____	_____	_____
B. Refer to latest reconciliations of major bank accounts and inquire into any unusual items.	_____	_____	_____
C. Refer to latest aging of accounts receivable and compare with aging totals at the balance-sheet date. Inquire into material or troublesome accounts.	_____	_____	_____
D. Discuss with management and investigate the following matters for the period from the balance-sheet date to _____ (last day of field work). (Names of management should be recorded in working papers.)			
1. Company's operations.	_____	_____	_____
2. Sales and profit trends of the company as compared to budget and trends in the industry.	_____	_____	_____
3. Subsequent bookings or cancellations of sales orders.	_____	_____	_____



SUBSEQUENT EVENTS REVIEW PROGRAM
(Continued)

Procedure	Done By	Date	W/P Ref.
4. Status of items accounted for at the balance-sheet date based on tentative data.	_____	_____	_____
5. Commitments or plans for major purchases of capital additions or material and consideration of possible losses due to price trends.	_____	_____	_____
6. Federal, state and local taxes, changes in law, agents' reports, deficiency assessments, etc.	_____	_____	_____
7. Dividends declared or paid.	_____	_____	_____
8. Litigation, claims, and assessments.	_____	_____	_____
9. Liabilities in dispute or being contested, such as customers' claims, creditors' invoices or claims, warranties, guarantees, state and local tax assessments.	_____	_____	_____
10. Losses of important customers, exceptional bad debt losses, or pledging of receivables.	_____	_____	_____
11. Changes in accounting and financial policies.	_____	_____	_____
12. New pension plans.	_____	_____	_____
13. Issuance of capital stock, new borrowings or other financing including any related dividend restrictions or other important covenants.	_____	_____	_____
14. Potential losses on investment securities, carrying amounts of equity investments, receivables, inventory, or other assets not already considered.	_____	_____	_____
15. Regulatory commissions or governmental requirements or laws that could adversely affect the entity.	_____	_____	_____
16. Purchase or sale of major plant and equipment; destructions or abandonments of plant, etc.	_____	_____	_____
17. Status and impact of wage negotiations in progress.	_____	_____	_____



SUBSEQUENT EVENTS REVIEW PROGRAM
(Continued)

Procedure	Done By	Date	W/P Ref.
18. Effect of changes in management, development of substitute products, etc.	_____	_____	_____
19. Related-party transactions.	_____	_____	_____
E. Read and evaluate the lawyers' responses to the letters of inquiry. (Letters should be requested from legal counsel so that replies will cover the status of litigation, etc., to a date as close as possible to the date of the auditor's report.)	_____	_____	_____
F. Read and excerpt the available minutes of meetings of the board of directors and committees of the board. Inquire as to matters discussed at meetings for which minutes are not available and obtain a letter from management confirming the subject matters discussed and any decisions reached.	_____	_____	_____
G. Consider adjustment of year-end financial statements or disclosure of any items resulting from the above procedures.	_____	_____	_____
H. Consider the possible effects on financial statements and disclosures of any matters causing substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time.	_____	_____	_____
I. Additional procedures:	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____

Prepared by: _____ Date: _____

Reviewed by: _____ Date: _____





12.400 ENGAGEMENT PERFORMANCE REVIEW

12.401 Effective supervision, one of the nine elements of a system of quality control for CPA firms outlined in the SQCS No. 1, is an essential element of quality, efficient engagements. This Statement requires firms to establish policies and procedures for conducting and supervising work at all organizational levels in order to provide reasonable assurance that the work performed meets professional standards. The sample quality control policies and procedures found in QC 90.16 provide the following three basic objectives for designing a quality control system for supervision:

- Provide procedures for planning engagements.
- Provide procedures for maintaining the firm's standards of quality for the work performed.
- Provide procedures for reviewing engagement working papers and reports.

Each firm should design quality control policies and procedures for supervision and review that fit its unique organizational and operating characteristics.

12.402 Proper supervision should include, among other things, the following:

- Helping assistants design procedures to resolve engagement problems early.
- Making sure assistants thoroughly understand the objectives and procedures of an assignment before beginning.
- Helping assistants to prioritize, organize, and control the approach to assigned work areas.
- Periodically checking on the assistant's progress.
- Keeping assistants informed of other engagement matters affecting the assigned work area.
- Rotating work assignments and offering assistants opportunities to work in new areas.
- Motivating assistants to maximum performance levels.
- Supervising paraprofessionals and temporary help.
- Appraising staff performance.

Review of Working Papers

12.403 The firm's quality control system for supervision should address procedures for reviewing working papers, including who performs these reviews, and how the reviews are documented. In most firms the in-charge performs a detailed review of the work of all assistants to determine that sufficient evidence has been gathered to accomplish the engagement objectives and that the engagement procedures and documentation are in accordance with the firm's quality control policies and procedures. The engagement partner generally reviews all of the working papers, and documents this review by initialling and dating each working paper.

12.404 The engagement partner is responsible for reviewing work performed by the in-charge and the results of the in-charge's review of assistants' working papers. The objectives of his or her review are to determine that sufficient evidence has been gathered to accomplish engagement objectives and that the engagement procedures and documentation are in accordance with the firm's quality control standards. The engagement partner generally reviews all of the working papers, and documents this review by initialing and dating each working paper. The engagement partner's review should determine that all firm quality control standards have been met.

12.405 The In-charge Review. The in-charge's detailed review of assistant's work should be performed as frequently as possible, as each audit area is completed. Immediate feedback is often difficult to give under the time constraints of an audit, but is essential to providing effective on-the-job training. The in-charge's review procedures should include at least the following:

- Review applicable section of last year's working papers.
- Review the applicable section of the work program.
- Compare current and prior period trial balance accounts related to the work area and note variations.
- Briefly review the content of the working papers.
- Read the conclusions.
- Review the working papers in detail for:
 - Mathematical accuracy.
 - Accomplishment of the purposes of the documentation, i.e., engagement objectives.
 - Proper performance of procedures.
 - Reasonableness of judgments.
 - Identification and follow-up of exceptions.
 - Resolution of problems and questions.
 - Projection of sample results to the population.
 - Determine that all work program procedures have been completed correctly.

12.406 The Engagement Manager Review. Some firms use an engagement manager to review the work of engagement personnel as frequently as practical. Acceptable reasons for reviewing the engagement only after its final completion are rare. The engagement manager review should be conducted in the field whenever possible. Field reviews allow problem resolution while staff is working on the engagement, prevent typical office interruption, enable the engagement manager to schedule review time, and allow the engagement manager to be seen by client personnel.



12.407 The Engagement Partner Review. The engagement partner's review may be conducted in greater or lesser detail depending on the complexity and size of the engagement and on the experience of engagement personnel. The engagement partner's review also should be conducted in the field whenever possible. Except for periodic discussions with engagement personnel, the engagement partner's review ordinarily will occur during the final stages of the engagement.

Using the Engagement Performance Review Checklist

12.408 Completion of the Engagement Performance Review Checklist documents that the in-charge and engagement partner are satisfied that engagement personnel have been properly supervised and the work performed has been properly reviewed.

12.409 The Engagement Performance Review Checklist should be completed to document the review of engagements. Foregoing the technical review (section 12.500) must be approved by the firm or office accounting and auditing partner. Such approval must be documented in a memo to the engagement file. Any problems discovered in the technical review should be discussed with the engagement partner. Resolution of the problems should be documented in separate memoranda.

12.410 The Checklist should be completed by the in-charge and reviewed by the engagement partner upon completion of the auditing procedures. A sample Engagement Performance Review Checklist is presented in section 12.411.

12.411

Engagement Performance Review Checklist
Client: _____ Financial Statement Date: _____

INSTRUCTIONS:

This checklist documents the in-charge and engagement partner review responsibilities, as required by the firm's quality control policies and procedures.

Part I of the checklist should be completed by the in-charge at the completion of the engagement. Part II should be completed by the engagement partner.

<u>Part I</u>	<u>Yes</u>	<u>No</u>	<u>See Additional Comments</u>
Administrative Considerations			
1. Have all required engagement programs, forms, and checklists been completed, signed, and dated?	_____	_____	_____
2. Have all working papers been reviewed for—			
a. Initials and dates of preparation and review?	_____	_____	_____
b. Proper format, that is, headings, tickmark explanations, indexing, and cross-referencing?	_____	_____	_____
c. Footing and testing of schedules prepared by the client?	_____	_____	_____
d. Posting of adjustments and cross-referencing to the trial balance?	_____	_____	_____
e. Agreeing beginning balances to prior year's working papers?	_____	_____	_____
3. Do financial statements agree with the trial balance?	_____	_____	_____
4. Has the Time Summary Form been completed, and significant variances between budget and actual been explained?	_____	_____	_____



ENGAGEMENT PERFORMANCE REVIEW CHECKLIST
(Continued)

	<u>Yes</u>	<u>No</u>	<u>See Additional Comments</u>
5. Have the following letters been obtained and reviewed for proper dating and propriety?			
a. Client representation letter (dated as of the auditor's or accountant's report date).	_____	_____	_____
b. Lawyers' letters (dated within two to three weeks of the auditor's report date).	_____	_____	_____
Other Considerations			
1. Have you reviewed all work done by assistants and cleared all review points?	_____	_____	_____
2. Does the work performed accomplish the objectives of the engagement?	_____	_____	_____
3. Do the conclusions in the working papers support the type of report issued?	_____	_____	_____
4. Are you satisfied there are no material errors, and no irregularities or illegal acts unless they are clearly inconsequential?	_____	_____	_____
5. Has the engagement been completed in accordance with firm policy and authoritative standards?	_____	_____	_____
6. Have all problems been adequately resolved?	_____	_____	_____
7. If a situation has been encountered that impairs the firm's independence, has a disclaimer of opinion been issued for public companies or a step-down to a compilation with lack of independence noted for nonpublic companies?	_____	_____	_____
8. Were any transactions or events encountered that, according to the firm's policy, require consultation?	_____	_____	_____
● If yes, was consultation obtained and properly documented?	_____	_____	_____
● If applicable, were the resolutions of differences of opinion among firm personnel properly documented?	_____	_____	_____



**ENGAGEMENT PERFORMANCE REVIEW CHECKLIST
(Continued)**

	<u>Yes</u>	<u>No</u>	<u>See Additional Comments</u>
9. Has the Subsequent Events Review Program been completed?	_____	_____	_____
10. Have all communications been made as required by SAS Nos. 53, 54, and 60 for:			
a. Internal control structure related matters?	_____	_____	_____
b. Irregularities?	_____	_____	_____
c. Illegal acts?	_____	_____	_____
11. If the entity has an audit committee or other formally designated group responsible for oversight of the financial reporting process, have the other matters required by SAS No. 61 been communicated?	_____	_____	_____
12. Additional comments:			

Prepared by: _____ Date: _____
(In-charge)

Reviewed by: _____ Date: _____
(Engagement Partner)





ENGAGEMENT PERFORMANCE REVIEW CHECKLIST
(Continued)

Part II (To be completed by engagement partner)

Initials

- 1. I have reviewed the engagement working papers, work programs, checklists, etc. to the extent required by firm policy. _____
- 2. I have reviewed the financial statements for appropriate form and conformity with professional standards. _____
- 3. I have reviewed the independent auditor's (accountant's) report for conformity with professional standards, and have determined that the conclusions reached in the working papers support our report. _____
- 4. I authorize issuance of the financial statements and the report. _____

Prepared by: _____ Date: _____
(Engagement Partner)



12.500 THE TECHNICAL REVIEW

12.501 As part of their quality control systems for the supervision element, many firms require preissuance, technical reviews of reports and related financial statements, and often the engagement working papers, by persons not involved with the engagement. Such reviews are performed to give the firm assurance that the auditor's report, related financial statements and the engagement working papers comply with professional standards and the firm's quality control system.

12.502 As with all quality control policies and procedures, each firm should develop policies and procedures for technical reviews that are appropriate for its practice. For example, many firms require these technical reviews only for certain types of engagements, such as audits of clients who operate in high-risk industries, and special reporting situations, such as modified auditor's reports. The authors recommend that firms carefully identify the situations in which an independent technical review is required and identify the firm personnel who have the qualifications and authority to perform such reviews.

12.503 Included in section 12.504 is a Technical Review Checklist that can be used to document technical reviews of reports, financial statements and, if necessary, the engagement working papers. Requirements for completion of this Checklist should interface with each firm's quality control policies and procedures for technical reviews.

12.504

Technical Review Checklist
Client: _____ Financial Statement Date: _____

Technical Reviewer: _____ Date: _____

INSTRUCTIONS:

This Checklist should be completed by the technical reviewer on those engagements in which a technical review is required by the firm's quality control policies and procedures.

	<u>Initials</u>
1. Review the financial statements for appropriate form and content. Consider the appropriateness of:	
a. Titles.	_____
b. Captions.	_____
c. Classifications within captions.	_____
d. Descriptions.	_____
e. Reference to auditor's (accountant's) report and financial statement notes.	_____
2. Compare the Financial Statements and Notes Checklists to the notes to the financial statements. Consider whether the notes are complete and worded appropriately.	_____
3. Review the financial statements for any obvious departures from GAAP or OCBOA.	_____
4. Read the auditor's (accountant's) report for appropriateness and conformity with professional standards.	_____
5. If applicable, review the engagement checklists:	
a. To determine that they support the conclusions reached in the engagement.	_____
b. For potential problems.	_____
6. Describe any problems noted and the way they were resolved.	_____



12.600 USING THE FINANCIAL STATEMENT CONTROL FORM

12.601 The Financial Statement Control Form is included in section 12.604. This form should accompany drafts of financial statements, notes, and reports for all engagements. Final disposition of the Financial Statement Control Form is the responsibility of the engagement partner. In completing the Financial Statement Control Form, the engagement partner has the responsibility for:

- Making sure all processing levels are completed and signed.
- Completing the report release questions.
- Releasing the report.

12.602 Uneven work loads, engagement completion delays and other problems will occasionally cause report processing schedules to be altered. The in-charge has primary responsibility for controlling the processing function and should communicate with the engagement partner whenever unexpected delays occur. The engagement partner should communicate with the client to apprise them of any processing difficulties. If client deadlines cannot be altered, the engagement partner should request the firm or office managing partner to allow prioritizing of the report's processing.

Signing the Report

12.603 As indicated in the Financial Statement Control Form, the engagement partner is the primary authorized signer of an engagement report. Signing responsibilities can be delegated to other partners, but in no event should a staff person sign the firm name to an engagement report.

12.604

Financial Statement Control Form
Client: _____
Financial Statement Date: _____

INSTRUCTIONS:

This Form should be prepared by the in-charge to accompany the draft of the financial statements and report. Each step should be initialed and dated as it is completed, or checked "N/A." Step 8 must be initialed and dated by the engagement partner in order to release the financial statements and report.

SERVICE PERFORMED:

AUDIT COMPILATION
 REVIEW OTHER (describe): _____

	<u>Performed By</u>		<u>N/A</u>
	<u>Name</u>	<u>Date</u>	
1. Submit financial statements and report to typing.	_____	_____	
2. Proofread the financial statements and report.	_____	_____	
3. Resubmit the financial statements and report for corrections.	_____	_____	<input type="checkbox"/>
4. Submit to technical or concurring reviewer, if applicable.	_____	_____	<input type="checkbox"/>
5. Resubmit the financial statements and report for corrections.	_____	_____	<input type="checkbox"/>
6. Foot and crossfoot all pages.	_____	_____	<input type="checkbox"/>
7. Submit to engagement partner for final review.	_____	_____	
8. Release the financial statements and report.	_____	_____	

Number of Copies: Bound: _____ Unbound: _____

Other: _____

Word Processing Filename: _____



12.700 MANAGEMENT MEETING

12.701 The Management Meeting Checklist is designed to help engagement personnel identify reportable conditions and operational needs on audits. The Checklist is a source of meaningful suggestions that can be presented to clients that can become the source of additional services for a firm. The Checklist is oriented towards making suggestions informally at a client meeting as opposed to the traditional formal presentation of a letter. It may, however, also be used to generate suggestions for presentation in a written letter.

12.702 Continued good client service requires extending work beyond the professional standards for the level of service performed. Suggestions for improving the client's accounting and operational methods can make significant contributions to helping the client accomplish its operational objectives. Such suggestions can also help generate additional services. The Management Meeting Checklist will help organize and collect information to satisfy professional standards and benefit the client and the firm.

12.703 The Checklist should be completed by the in-charge at the conclusion of an engagement and reviewed by the engagement partner prior to presenting suggestions at a meeting with client management personnel. The engagement partner should prepare a memorandum for the file documenting the results of the management meeting.

12.704

Management Meeting Checklist
Client: _____ Financial Statement Date: _____

INSTRUCTIONS:

This Checklist should be completed by the in-charge and reviewed by the engagement partner. The "Reference" column should be used for comments or cross-referencing to applicable working papers. The "Meeting" column should be checked for items that should be considered for the current management meeting. The possible suggestions should be explained on a supporting working paper and considered for inclusion in the reportable conditions letter. If an item is not applicable, enter N/A in the "Yes" column.

	<u>Yes</u>	<u>No</u>	<u>MEETING</u>	<u>REFERENCE</u>
I. Organization:				
A. Does the company's legal form of organization suit the business?	_____	_____	_____	_____
B. Is the company's fiscal year its natural business year?	_____	_____	_____	_____
C. Is management spread among several individuals?	_____	_____	_____	_____
D. Are lines of authority and supervision clear?	_____	_____	_____	_____
E. Are departments, or line managers, responsible for planning, controlling, and reporting results of operations?	_____	_____	_____	_____
F. Do employees understand their responsibilities?	_____	_____	_____	_____
G. Are all positions necessary?	_____	_____	_____	_____
H. Have company policies been documented?	_____	_____	_____	_____
I. Are company policies appropriate?	_____	_____	_____	_____





MANAGEMENT MEETING CHECKLIST
(Continued)

	<u>Yes</u>	<u>No</u>	<u>MEETING</u>	<u>REFERENCE</u>
J. Are management styles and philosophies effective?	_____	_____	_____	_____
 II. Planning and Controlling Operations:				
A. Are formal operations forecasts and budgets prepared for the next year?	_____	_____	_____	_____
B. Are long-range forecasts also made?	_____	_____	_____	_____
C. Are the forecasting and budgeting effective?	_____	_____	_____	_____
D. Are budgets broken down by department or manager?	_____	_____	_____	_____
E. Are budgets used effectively to control operations?	_____	_____	_____	_____
F. Are monthly or quarterly budget variances analyzed, and is corrective action taken?	_____	_____	_____	_____
G. Does management receive monthly or quarterly reports of results compared to budgets?	_____	_____	_____	_____
H. Are monthly or quarterly reports broken down by department or manager?	_____	_____	_____	_____
I. Are reports prepared in a timely manner?	_____	_____	_____	_____
J. Are reports designed to facilitate use by management?	_____	_____	_____	_____
K. Are other reports such as sales analysis by territory, break-even analysis, or more detailed variance analysis in use?	_____	_____	_____	_____
L. Have the results of our analytical procedures been communicated to management?	_____	_____	_____	_____
M. Is there an effective production control, scheduling, and reporting system being used?	_____	_____	_____	_____



MANAGEMENT MEETING CHECKLIST
(Continued)

	<u>Yes</u>	<u>No</u>	<u>MEETING</u>	<u>REFERENCE</u>
N. Are current bills of materials and work standards used and monitored?	_____	_____	_____	_____
O. Are space utilization and materials handling efficient?	_____	_____	_____	_____
P. Are the company's quality control procedures adequate?	_____	_____	_____	_____
Q. Does management stay abreast of new technology, products, by-products, and service?	_____	_____	_____	_____
III. Accounting Records, Systems, and Financial Reports:				
A. Does the client have a formalized descriptive chart of accounts?	_____	_____	_____	_____
B. Are the categories in the chart of accounts meaningful for management purposes?	_____	_____	_____	_____
C. Does the client have a standard entry journal for monthly recurring entries (a journal whereby the account titles, etc., are not repeated each month)?	_____	_____	_____	_____
D. If the general ledger has a separate page or card for each account, could related accounts be grouped on one page by use of columns, thereby reducing posting references, dates, etc.?	_____	_____	_____	_____
E. Is the general ledger (i.e., chart of accounts) arranged for ease in preparing monthly statements?	_____	_____	_____	_____
F. Are the analyses and reclassifications for monthly reports, and for other reports, the minimum number possible (consider better account classification)?	_____	_____	_____	_____
G. Does the client get adequate monthly financial statements?	_____	_____	_____	_____





MANAGEMENT MEETING CHECKLIST
(Continued)

	<u>Yes</u>	<u>No</u>	<u>MEETING</u>	<u>REFERENCE</u>
H. Does management understand the monthly statements?	_____	_____	_____	_____
I. Are the statements submitted to management in a reasonable time?	_____	_____	_____	_____
J. Does the client's bookkeeper or accountant have the capabilities of preparing financial statements?	_____	_____	_____	_____
K. Are monthly financial statements prepared by the bookkeeper (is bookkeeper trainable)?	_____	_____	_____	_____
L. Do monthly reports contain all ratios, statistics, and other information that would be useful to management?	_____	_____	_____	_____
M. Are daily or weekly "flash reports" concerning sales or other important operating data in use?	_____	_____	_____	_____
N. Are the client's statements classified to facilitate industry comparison?	_____	_____	_____	_____
O. Does the company use an appropriate accounting system?	_____	_____	_____	_____
P. Is the cost accounting system tied into the general ledger?	_____	_____	_____	_____
Q. Are cost accounting standards and rates reviewed and revised periodically?	_____	_____	_____	_____
R. Does management receive monthly break-even, profit-volume, and variance data from the system?	_____	_____	_____	_____
S. Is data processing equipment being used where feasible?	_____	_____	_____	_____
IV. Personnel:				
A. Are there formal hiring and firing policies?	_____	_____	_____	_____



MANAGEMENT MEETING CHECKLIST
(Continued)

	<u>Yes</u>	<u>No</u>	<u>MEETING</u>	<u>REFERENCE</u>
B. Are hirings and firings documented in accordance with the policies?	_____	_____	_____	_____
C. Are personnel policies regarding holidays, vacation, and fringe benefits documented and communicated to employees?	_____	_____	_____	_____
D. Are employee orientation and training programs adequate?	_____	_____	_____	_____
E. Are there regular, formal employee performance evaluations?	_____	_____	_____	_____
F. Are wage and salary schedules competitive and related to job descriptions?	_____	_____	_____	_____
G. Are wages and salaries competitive?	_____	_____	_____	_____
H. Are adequate incentive systems in use?	_____	_____	_____	_____
I. Is overtime controlled by management?	_____	_____	_____	_____
J. Is there an employee suggestion system?	_____	_____	_____	_____
K. Are personnel responsibilities centralized?	_____	_____	_____	_____
L. Are there pension and profit-sharing plans?	_____	_____	_____	_____
V. Administration:				
A. Is there a policies and procedures manual?	_____	_____	_____	_____
B. Are office records and record-keeping procedures adequate?	_____	_____	_____	_____
C. Are all records, forms, or form copies necessary?	_____	_____	_____	_____
D. Do record retention policies need review or revision?	_____	_____	_____	_____





MANAGEMENT MEETING CHECKLIST
(Continued)

	<u>Yes</u>	<u>No</u>	<u>MEETING</u>	<u>REFERENCE</u>
E. Are forms and records designed for overall efficiency?	_____	_____	_____	_____
F. Is the physical control over records adequate?	_____	_____	_____	_____
G. Is the administrative function appropriately staffed considering the size of the company?	_____	_____	_____	_____
H. Is the office layout and environment designed for maximum efficiency?	_____	_____	_____	_____
I. Is the filing system adequate?	_____	_____	_____	_____
J. Has management been made aware of internal control structure weaknesses discovered during our engagement? (Summarize on Internal Control Reportable Conditions Report.)	_____	_____	_____	_____

VI. Cash Management:

A. Does management get a daily cash balance report?	_____	_____	_____	_____
B. Are formal cash projections prepared and coordinated with forecasts and budgets?	_____	_____	_____	_____
C. Is the client receiving maximum cash discounts?	_____	_____	_____	_____
D. Is cash managed effectively by taking cash discounts, by reducing bank loans, or by utilizing the cash for investments?	_____	_____	_____	_____
E. Are all bank accounts necessary?	_____	_____	_____	_____
F. Are receipts deposited promptly?	_____	_____	_____	_____
G. Has the client borrowed money at the best possible rate?	_____	_____	_____	_____
H. Are the client's methods of financing the most economical in the circumstances?	_____	_____	_____	_____



MANAGEMENT MEETING CHECKLIST
(Continued)

	<u>Yes</u>	<u>No</u>	<u>MEETING</u>	<u>REFERENCE</u>
VII. Sales and Accounts Receivable:				
A. Is appropriate product profitability and market analysis data available to, and used by, management?	_____	_____	_____	_____
B. Are product pricing decisions based on sound information and judgments?	_____	_____	_____	_____
C. Are credit and collection policies approved and controlled by management?	_____	_____	_____	_____
D. Are credit and collection policies adequate?	_____	_____	_____	_____
E. Are salesmen given appropriate sales goals, incentive, and collection responsibilities?	_____	_____	_____	_____
F. Is the sales program, i.e., advertising, literature, catalogs, displays, customer incentives, customer contracts, effective?	_____	_____	_____	_____
G. Does the accounting system provide sales data by product, territory, or salesman?	_____	_____	_____	_____
H. Are customers sent timely, monthly statements?	_____	_____	_____	_____
I. Would an invoice billing system be more effective than monthly statements?	_____	_____	_____	_____
J. Does management receive monthly, aged trial balances of accounts?	_____	_____	_____	_____
K. Is the accounts receivable record-keeping system and equipment efficient?	_____	_____	_____	_____
VIII. Purchasing and Inventories:				
A. Is management of inventory quantities adequate, i.e., are optimum quantities maintained?	_____	_____	_____	_____
B. Are physical controls of inventory adequate?	_____	_____	_____	_____





MANAGEMENT MEETING CHECKLIST
(Continued)

	<u>Yes</u>	<u>No</u>	<u>MEETING</u>	<u>REFERENCE</u>
C. Is a perpetual inventory system in use?	_____	_____	_____	_____
D. Does the perpetual inventory tie to the general ledger and is it effective?	_____	_____	_____	_____
E. Are inventory space and handling equipment adequate?	_____	_____	_____	_____
F. Is slow-moving or obsolete inventory identified and controlled?	_____	_____	_____	_____
G. Are the costs of services and supplies evaluated regularly and approved by management?	_____	_____	_____	_____
H. Are formal purchasing policies in use?	_____	_____	_____	_____
I. Is purchasing responsibility centralized?	_____	_____	_____	_____
J. Are purchase requisitions and purchase orders used effectively?	_____	_____	_____	_____
 IX. Property and Equipment:				
A. Are capital expenditures budgeted and are purchase alternatives properly evaluated?	_____	_____	_____	_____
B. Are physical controls over fixed assets adequate?	_____	_____	_____	_____
C. Are fixed assets records adequate?	_____	_____	_____	_____
D. Is a periodic fixed assets inventory taken?	_____	_____	_____	_____
E. Is equipment kept in good repair through regular maintenance?	_____	_____	_____	_____
F. Is all equipment effectively utilized?	_____	_____	_____	_____
G. Is the general condition of fixed assets good?	_____	_____	_____	_____
H. Are depreciation and capitalization policies reasonable?	_____	_____	_____	_____



MANAGEMENT MEETING CHECKLIST
(Continued)

	<u>Yes</u>	<u>No</u>	<u>MEETING</u>	<u>REFERENCE</u>
I. Are facilities and equipment adequate to meet production demands?	_____	_____	_____	_____
X. Accounts Payable and Other Liabilities:				
A. Is trade credit being used as a resource of financing, if appropriate?	_____	_____	_____	_____
B. Is long-term financing appropriate (should refinancing be considered)?	_____	_____	_____	_____
C. Are payroll, payroll tax, and employees' earnings records adequate and efficiently prepared?	_____	_____	_____	_____
D. Is the accounts payable record-keeping system adequate and efficient?	_____	_____	_____	_____
XI. Insurance:				
A. Does the company use a good insurance manager?	_____	_____	_____	_____
B. Is an annual review of insurance coverage made and is the coverage adequate?	_____	_____	_____	_____
C. Does insurance coverage include product or service liability and business interruption insurance?	_____	_____	_____	_____
D. Is key-person life insurance coverage carried?	_____	_____	_____	_____
XII. General:				
A. Has outside equity capital through a public offering been considered?	_____	_____	_____	_____
B. Have other financing alternatives been considered?	_____	_____	_____	_____





MANAGEMENT MEETING CHECKLIST
(Continued)

	<u>Yes</u>	<u>No</u>	<u>MEETING</u>	<u>REFERENCE</u>
C. Does management consider expansion through acquisition or merger?	_____	_____	_____	_____
D. Does the company consider leasing or a sale and lease-back arrangement as a major source of financing?	_____	_____	_____	_____
E. Does the company utilize good legal counsel?	_____	_____	_____	_____
F. Is management aware of federal and state safety requirements?	_____	_____	_____	_____
G. Has the business continuity been planned?	_____	_____	_____	_____

Prepared by: _____
(In-charge)

Date: _____

Reviewed by: _____
(Engagement Partner)

Date: _____



CHAPTER 13
CORRESPONDENCE LIST

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CORRESPONDENCE LIST

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CHAPTER 13

CORRESPONDENCE LIST

13.000 CORRESPONDENCE INSTRUCTIONS

13.001 The accompanying illustrative confirmations and request letters should be used as guides and modified for specific engagement circumstances. They should, wherever possible, be typed on the client's letterhead. All confirmations should be mailed by the accounting firm. All replies should be returned directly to the firm in enclosed, prestamped, preaddressed envelopes. Copies of all correspondence should be retained for future reference or for mailing second requests. The standard working papers should include a correspondence control schedule.

13.002

REQUEST FOR BANK CUTOFF STATEMENT

[Client's Letterhead]

[Date]

In connection with an audit of the financial statements of _____ [name of client] as of _____ [balance-sheet date] and for the _____ [period] then ended, we request that you send the following information directly to our auditors _____ [name and address of auditors] as of the close of business on _____ [balance-sheet date]:

1. The information requested on the enclosed standard form(s) to confirm account balance information with your financial institution.
2. For the account numbers listed below, statement(s) of our account(s) and the related paid checks for the period from _____ [balance-sheet date] to _____ [two weeks subsequent to the balance-sheet date] inclusive.

Account Number	Account Name
_____	_____
_____	_____
_____	_____
_____	_____

Very truly yours,

By: [Client's Authorized Signature]

Notes to User:

- (1) This letter should be addressed to a financial institution official who is responsible for the financial institution's relationship with the client or is knowledgeable about the transactions or arrangements. Some financial institutions centralize this function by assigning responsibility for responding to confirmation requests to a separate function. Independent auditors should ascertain the appropriate recipient.



- ◆
-
- (2) The request should be sent at least ten days prior to the balance-sheet date so the bank will be able to provide the information requested and to render the cutoff statements as requested. If the request does not reach the bank before the cutoff date, the cutoff statement will include transactions after that date.
- (3) The letter may also include requests for:
- Confirmation of all securities or other items held for the client's account as of the closing date for collection or safekeeping, or as agent or trustee (a listing should be provided including titles and account numbers).
 - Confirmation of the list of authorized signers for the above accounts. (This may have been previously requested at a preliminary date in connection with the assessment of control risk.)



13.003

**STANDARD FORM TO CONFIRM ACCOUNT
BALANCE INFORMATION WITH FINANCIAL INSTITUTIONS**

CUSTOMER NAME _____

Financial Institution's Name and Address []

We have provided to our accountants the following information as of the close of business on _____, 19____, regarding our deposit and loan balances. Please confirm the accuracy of the information, noting any exceptions to the information provided. If the balances have been left blank, please complete this form by furnishing the balance in the appropriate space below.* Although we do not request nor expect you to conduct a comprehensive, detailed search of your records, if during the process of completing this confirmation additional information about other deposit and loan accounts we may have with you comes to your attention, please include such information below. Please use the enclosed envelope to return the form directly to our accountants.

1. At the close of business on the date listed above, our records indicated the following deposit balance(s):

ACCOUNT NAME	ACCOUNT NO.	INTEREST RATE	BALANCE*

2. We were directly liable to the financial institution for loans at the close of business on the date listed above as follows:

ACCOUNT NO./ DESCRIPTION	BALANCE*	DATE DUE	INTEREST RATE	DATE THROUGH WHICH INTEREST IS PAID	DESCRIPTION OF COLLATERAL

(Customer's Authorized Signature)

(Date)

The information presented above by the customer is in agreement with our records. Although we have not conducted a comprehensive, detailed search of our records, no other deposit or loan accounts have come to our attention except as noted below.

(Financial Institution Authorized Signature)

(Date)

(Title)

EXCEPTIONS AND/OR COMMENTS

--

Please return this form directly to our accountants: []

* Ordinarily, balances are intentionally left blank if they are not available at the time the form is prepared. []

13.004

CONFIRMATION OF MONEY MARKET FUND
[Client's Letterhead]

[Date]

Our auditors, _____ [name and address of auditors] are conducting an audit of our financial statements. Accordingly, please confirm directly to our auditors the balance of our money market fund account(s) as of _____ [date].

Please indicate in the space provided below the account number(s) and balance(s) of our account(s) per your records.

Please sign and date your reply and return it directly to the auditors. A stamped, self-addressed envelope is enclosed for your convenience.

Very truly yours,

[Client's Authorized Signature]

<i>Account No.</i>	<i>Balance</i>

Date: _____ Signed: _____



13.005 ACCOUNTS RECEIVABLE—POSITIVE REQUEST
[Client's Letterhead]

[Date]

In connection with the audit of our financial statements, please confirm directly to our auditors _____ [name and address of auditors] the amount of your indebtedness to us which according to our records as of _____ [date] amounted to \$_____.

If the amount shown is in agreement with your records, please check "A" below.

If the amount is not in agreement with your records, please check and complete "B" below.

After checking the appropriate response, please sign and date your reply and mail it directly to our auditors in the enclosed envelope. Do not send any payments to our auditors.

Very truly yours,

[Client's Authorized Signature]

A _____ The balance above agrees with my records.

B _____ My records show a balance of \$_____.

The difference may be due to the following:

Signed by: _____

Date: _____



13.006

ACCOUNTS RECEIVABLE—NEGATIVE REQUEST

[May Be a Sticker or Stamp Used on Client's Statements to Customers]

PLEASE CHECK THIS STATEMENT

If this statement is *not correct* please write promptly (using the enclosed envelope), giving details of any differences, directly to our auditors,

(Name of auditors) _____

(Address of auditors) _____

who are now conducting an audit of our financial statements.

If you do not write to our auditors, they will consider this statement to be correct.

Remittances should NOT be sent to the auditors.

Notes to User:

- A negative confirmation may also be requested in letter form using similar wording.
- The auditor should consider sending confirmation requests at the time of the client's regular monthly billings. Coordination of confirmation procedures with the client's routine preparation and mailing of statements may offer efficiency to both the auditor and client.
- Negative confirmation requests may be used as a substantive procedure to reduce audit risk only when three conditions are met: (1) the combined assessed level of inherent and control risk is low, (2) a large number of small balances is involved, and (3) the auditor has no reason to believe that the recipients of the requests are unlikely to give them consideration.



13.007 NOTES RECEIVABLE CONFIRMATION — POSITIVE REQUEST
[Client's Letterhead]

[Date]

Our auditors _____ [name and address of auditors] are performing an audit of our financial statements. Accordingly, please confirm directly to our auditors the amount of your indebtedness due us as of _____ [date], which our records show as follows:

Type of indebtedness	_____
Initial date of indebtedness	_____
Original amount of indebtedness	_____
Unpaid principal	_____
Date due	_____
Interest rate	_____
Interest paid to	_____
Periodic payments required	_____
Description of collateral	_____

If the above information is in agreement with your records, please so indicate by signing in the place provided below and return the copy of this letter directly to our auditors in the enclosed envelope.

If the above is not in agreement with your records, please so note in the space provided the particulars shown in your records and any information which may help reconcile the difference from our records. **Payments should not be sent to the auditors.**

Very truly yours,

[Client's Authorized Signature]

The above information is correct as of _____ [date] with the following exceptions (if any):

Date: _____ Signed: _____



13.008

**INVENTORIES HELD BY WAREHOUSES OR OTHERS
WHEN LISTING IS PROVIDED BY CLIENT**

[Client's Letterhead]

[Date]

Our auditors _____ [name and address of auditors] are conducting an audit of our financial statements. Accordingly, please confirm directly to our auditors the following information about the merchandise held by you for our account as of _____ [date]:

1. The correctness of the quantities shown on the enclosed listing of such merchandise prepared from our records (a second copy is enclosed for your files). If the enclosed listing differs from the quantities you held for us as of _____ [date], please include details of the specific differences in your response to our auditors.
2. Your statement on how you determined the correctness of the quantities you are confirming; please specify whether determined by physical count, weight or measure, or whether the quantities are from your records.
3. A list of negotiable or nonnegotiable warehouse receipts issued, if any, and whether or not such receipts have, to your knowledge, been assigned or pledged.
4. Statement of any known liens against these goods.
5. Amount of any unpaid charges as of _____ [date].

Please mail your reply directly to _____ [name and address of auditors]. A stamped, addressed envelope is enclosed for your convenience.

Very truly yours,

[Client's Authorized Signature]



**13.009 INVENTORIES HELD BY WAREHOUSES OR OTHERS
WHEN LISTING IS NOT PROVIDED BY CLIENT**
[Client's Letterhead]

[Date]

Our auditors _____ [name and address of auditors] are conducting an audit of our financial statements. Accordingly, please send directly to our auditors the following information about merchandise held in your custody for our account at _____ [date]:

1. Quantities on hand; for each lot please indicate the following:
 - (a) Lot number (list each lot separately)
 - (b) Date received
 - (c) Kind of merchandise
 - (d) Unit of measure or package
 - (1) Number of units
 - (2) Kind of units (box, can, crate, quart, pound, dozen, etc.)
2. A statement about how you determined the above requested quantities; specify whether they were determined by physical count, weight or measure, or if they represent your book record.
3. A list of negotiable or nonnegotiable warehouse receipts issued, if any, and whether or not such receipts have, to your knowledge, been assigned or pledged.
4. Statement of any known liens against this merchandise.
5. Amount of unpaid charges, if any, as of (insert date).

Please mail your reply directly to the auditors. A stamped, addressed envelope is enclosed for your convenience.

Very truly yours,

[Client's Authorized Signature]



13.010

SECURITIES HELD BY BROKERS

[Client's Letterhead]

[Date]

In connection with the audit of our financial statements, please send directly to our auditors _____ [name and address of auditors], a statement of our account(s) with you as of _____ [date], indicating the following information:

1. Securities held by you for our account.
2. Securities out for transfer to our name.
3. Any amounts payable to or due from us.

Please mail your reply directly to the auditors. A stamped, addressed envelope is enclosed for your convenience.

Very truly yours,

 [Client's Authorized Signature]

Notes to User:

- (1) The request should be sent so it reaches the broker sufficiently in advance of the listing date for the broker to respond in a practical manner.
- (2) It may be helpful to include the account number(s) used by the broker for the client's account(s).



13.011

STANDARD CONFIRMATION INQUIRY
FOR LIFE INSURANCE POLICIES

Developed by American Institute of
Certified Public Accountants,
Life Office Management Association and
Million Dollar Round Table

LIFE INSURANCE STANDARD CONFIRMATION INQUIRY

RETURN TO: _____

REPORT FROM INSURANCE COMPANY _____

Date: _____

Your completion of the following report will be sincerely appreciated. IF THE ANSWER TO ANY ITEM IS "NONE," PLEASE SO STATE. Use the enclosed envelope to return the original directly to our accountant (see name to left).

Yours truly,

(Name of owner as shown on policy contract)

By _____
Authorized Signature

Information requested as of: _____
(Date)

Additional forms available from
AICPA-ORDER
P.O. BOX 0946
NYC, NY 10108-0946

- A Policy Number
- B Insured-Name(s)
- C Beneficiaries as Shown on Policies (If Verification Requested in Item 11)

	Policy #1	Policy #2	Policy #3
1 Face Amount of Basic Policy			
2 Values Shown as of (Insert Date if Other Than Date Requested)			
3 Premiums, Including Prepaid Premiums, Are Paid to (Insert Date)			
4 Policy Surrender Value (Excluding Dividends, Additions & Indebtedness Adjustments)			
5 Surrender Value of All Dividend Credits, Including Accumulations & Additions			
6 Termination Dividend Currently Available on Surrender			
7 Other Surrender Values Available to Policy Owner	a. Prepaid Premium Value		
	b. Premium Deposit Funds		
	c. Other		
8 Outstanding Policy Loans, Excluding Accrued Interest			
9 If Any Policy Loans Exist, Complete Either "a" or "b"	a. Interest Accrued on Loans		
	b1. Loan Interest Is Paid to (Enter Date)		
	b2. Interest Rate Is (Enter Rate)		

NOTE: PLEASE ANSWER ANY ITEM(S) 10-12 INDICATED BY A (✓).

10 Is There an Assignee of Record? (Enter Yes or No)

11 Is Beneficiary of Record as Shown in Item C Above? (Enter Yes or No) * * *

12 Is the Name of Policy Owner (Subject to Any Assignment) as Shown on Top of Form: Yes No
If No, Enter Name of Policy Owner of Record:

* If Answer to Item 11 is "No." Please Give Name of Beneficiary or Date of Last Beneficiary Change.

Yours truly, (Insurance Company)

ORIGINAL
To be mailed to accountant

Date _____ Authorized Signature - Title _____

13.012

SAFE DEPOSIT BOX ACCESS CONFIRMATION

[Client's Letterhead]

[Date]

Our auditors, _____ [name and address of auditors], are conducting an audit of our financial statements. Accordingly, please confirm there has been no access to our safe deposit box number ____ between ____ and ____ o'clock.

Please indicate in the space below if the above is in agreement with your records. If it is not, please furnish the auditors any details concerning access to our safe deposit box during the period indicated.

After signing and dating your reply, please mail it directly to our auditors in the enclosed envelope.

Very truly yours,

[Client's Authorized Signature]

According to our records, there has been no access to the above described safe deposit box during the period specified, except as follows: _____

Signed: _____
[Name and Title]

Date: _____



13.013 NOTES PAYABLE OR LONG-TERM DEBT CONFIRMATION
[Client's Letterhead]

[Date]

Our auditors _____ [name and address of auditors] are conducting an audit of our financial statements.

Accordingly, please confirm directly to them the following information relating to our note(s) payable to you, as of _____ [date]:

Date of Note	_____
Original Amount	_____
Unpaid Principal	_____
Balance	_____
Periodic payments required	_____
Payment periods	_____
Maturity Date	_____
Interest Rate	_____
Date to which interest has been paid	_____
Amount and description of collateral	_____
Description of terms, e.g., demand provisions, prepayment penalties, etc.	_____
Any other direct or contingent liabilities to you	_____

If the above information is in agreement with your records, please so indicate by signing in the place provided below and return the copy of this letter directly to our auditors in the enclosed envelope.

If the above is not in agreement with your records, please note in the space provided the particulars shown in your records and any information which may help reconcile the difference from our records.

Very truly yours,

[Client's Authorized Signature]

The above information is correct as of _____ [date] with the following exceptions (if any): _____

[Date] _____

[Signature] _____
[Title] _____



13.014

MORTGAGE DEBT CONFIRMATION

[Client's Letterhead]

[Date]

Our auditors _____ [name and address of auditors] are concluding an audit of our financial statements. Accordingly, please confirm directly to our auditors the following information about our mortgage indebtedness to you as of _____ [date]:

1. Original amount _____
2. Date of note _____
3. Unpaid principal balance _____
4. Interest rate _____
5. Terms for payment of principal _____
6. Date to which interest has been paid _____
7. Nature of mortgage and description or address of property mortgaged _____
8. Amounts on deposit with you in escrow for:
 - a. Insurance _____
 - b. Real estate taxes _____
9. Amounts paid during the period _____ [dates from and to] for:
 - a. Insurance _____
 - b. Taxes _____
10. Amounts on deposit with you for the "reserve for repairs" _____
11. The nature of defaults, if any _____
12. Description of terms, e.g., prepayment penalties, demand provisions, etc. _____

A return envelope is enclosed for your reply.

Very truly yours,

 [Client's Authorized Signature]





The above information agrees with our records at _____ [date] with the following exceptions:

Four horizontal lines for listing exceptions.

Signed: _____ Date: _____
[Name and Title]

Note to User:

Many of the items requested will vary with the circumstances of the particular mortgage or other debt involved. The above sample assumes the indenture involves an escrow arrangement for insurance and real estate taxes and a deposit account for repairs.



13.015

ACCOUNTS PAYABLE CONFIRMATION

[Client's Letterhead]

[Date]

In connection with the audit of our financial statements, please confirm directly to our auditors _____ [name and address of auditors], the amount of our liability to you as of _____ [date]. Please attach a statement of our account due. If no balance is due, please attach a statement of our account showing payments made.

Please mail your reply directly to _____ [name of auditors]. A stamped, addressed envelope is enclosed for your convenience.

Very truly yours,

 [Client's Authorized Signature]

Our records indicate that a balance of \$ _____ was due from _____ [name of client] at _____ [date].

Signed: _____ Date: _____
 [Name and Title]



13.016

CONFIRMATION OF LINES OF CREDIT

[Date]

_____*

In connection with an audit of the financial statements of _____ [name of client] as of _____ [balance-sheet date] and for the _____ [period] then ended, we have advised our independent auditors of the information listed below, which we believe is a complete and accurate description of our line of credit from your financial institution as of the close of business on _____ [balance-sheet date]. Although we do not request nor expect you to conduct a comprehensive, detailed search of your records, if during the process of completing this confirmation additional information about other lines of credit from your financial institution comes to your attention, please include such information below.

The company has available at the financial institution a line of credit totaling _____ [amount]. The current terms of the line of credit are contained in letter dated _____ [date]. The related debt outstanding at the close of business _____ [date] was \$_____.

The amount of unused line of credit, subject to terms of the related letter, at _____ [date] was \$_____ [amount].

Interest rate at the close of business on _____ [date] was ____%.

Compensating balance arrangements are _____

This line of credit supports commercial paper (or other borrowing arrangements) as described below:

* This letter should be addressed to a financial institution official who is responsible for the financial institution's relationship with the client or is knowledgeable about the lines of credit. Some financial institutions centralize this function by assigning responsibility for responding to confirmation requests to a separate function. Independent auditors should ascertain the appropriate recipient.



Please confirm whether the information about lines of credit presented above is correct by signing below and returning this letter directly to our independent auditors _____ [name and address of auditors].

Very truly yours,

[Name of Client]

By: _____
[Authorized Signature]

Dear CPA Firm:

The above information regarding the line of credit arrangements agrees with the records of this financial institution.† Although we have not conducted a comprehensive, detailed search of our records, no information about other lines of credit came to our attention. [Note exceptions below or in attached letter.]

[Name of Financial Institution]

By: [Officer] _____
[Title] _____
[Date] _____

† If applicable, comments similar to the following may be added to the confirmation reply by the financial institution: "This confirmation does not relate to arrangements, if any, with other branches or affiliates of this financial institution." Information should be sought separately from such branches or affiliates with which any such arrangements might exist.



13.017 CONFIRMATION OF CONTINGENT LIABILITIES
 [Client's Letterhead]

[Date]

_____*

In connection with an audit of the financial statements of _____ [name of client] as of _____ [balance-sheet date] and for the _____ [period] then ended, we have advised our independent auditors of the information listed below, which we believe is a complete and accurate description of our contingent liabilities, including oral and written guarantees, with your financial institution. Although we do not request nor expect you to conduct a comprehensive, detailed search of your records, if during the process of completing this confirmation additional information about other lines of credit from your financial institution comes to your attention, please include such information below.

<u>Name of Maker</u>	<u>Date of Note</u>	<u>Due Date</u>	<u>Current Balance</u>
	<u>Date Through</u> <u>Which Interest</u>	<u>Description</u> <u>of</u>	<u>Description</u> <u>of Purpose</u>
<u>Interest Rate</u>	<u>Is Paid</u>	<u>Collateral</u>	<u>of Note</u>

Information related to oral and written guarantees is as follows:

* This letter should be addressed to a financial institution official who is responsible for the financial institution's relationship with the client or is knowledgeable about the lines of credit. Some financial institutions centralize this function by assigning responsibility for responding to confirmation requests to a separate function. Independent auditors should ascertain the appropriate recipient.



Please confirm whether the information about contingent liabilities presented above is correct by signing below and returning this directly to our independent auditors _____ [name and address of auditors].

Very truly yours,

[Client's Authorized Signature]

Dear CPA Firm:

The above information listing contingent liabilities, including oral and written guarantees, agrees with the records of this financial institution.† Although we have not conducted a comprehensive, detailed search of our records, no information about other contingent liabilities, including oral and written guarantees, came to our attention. [Note exceptions below or in attached letter.]

[Name of Financial Institution]

By: [Officer and Title] _____
[Date] _____

† If applicable, comments similar to the following may be added to the confirmation reply by the financial institution: "This confirmation does not relate to arrangements, if any, with other branches or affiliates of this financial institution." Information should be sought separately from such branches or affiliates with which any such arrangements might exist.



13.018

REGISTRAR—CAPITAL STOCK
[Client's Letterhead]

[Date]

Our auditors _____ [name and address of auditors] are conducting an audit of our financial statements. Accordingly, please confirm directly to our auditors the following information as of the close of business _____ [balance-sheet date] about each class of our preferred and common stock:

- 1. Authorized number of shares _____
- 2. Issued number of shares _____
- 3. Outstanding number of shares _____

Please also indicate the amount of any unpaid registrar fees due you as of _____ [balance-sheet date].

A return envelope is enclosed for your convenience.

Very truly yours,

[Client's Authorized Signature]

The above information agrees with our records at _____ [balance-sheet date] with the following exceptions:

Signed: _____ Date: _____
[Name and Title]

Notes to User:

- It may be helpful to include the registrar's account number for the client's account to receive a timely response.
- Some auditors prefer that the confirmation request include identification of each class of stock.
- The above illustration assumes the client has a separate transfer agent.



13.019

TRANSFER AGENT—CAPITAL STOCK
[Client's Letterhead]

[Date]

Our auditors _____ [name and address of auditors] are conducting an audit of our financial statements. Accordingly, please confirm directly to our auditors the following information as of _____ [balance-sheet date] about each class of our preferred and common stock:

1. Authorized number of shares _____
2. Number of shares issued and outstanding _____
3. Number of outstanding shares registered in the name of our Company _____

Please also indicate the amount of any unpaid transfer agent fees due you as of _____ [balance-sheet date].

A return envelope is enclosed for your convenience.

Very truly yours,

[Client's Authorized Signature]

The above information agrees with our records at _____ [balance-sheet date] with the following exceptions:

Signed: _____ Date: _____
[Name and Title]

Notes to User:

- It may be helpful to include the transfer agent's account number for the client's account to receive a timely response.
- Some auditors prefer that the confirmation request include identification of each class of stock.
- Depending on the auditor's judgment in the circumstances the confirmation request may also include inquiries about such matters as (i) the number of shares issued to each of specifically mentioned officers and directors, (ii) specified information about shareholders owning more than a stated percent of the total outstanding shares, and (iii) amounts deposited during the year for the payment of dividends.





13.020

RELATED-PARTY CONFIRMATION

[Client's Letterhead]

[Date]

In connection with an audit of our financial statements, please furnish answers to the attached questionnaire, sign your name, and return the questionnaire in the enclosed envelope directly to our auditors _____ [name and address of auditors]. The questionnaire is designed to provide the auditors with information about the interests of officers, directors, and other related parties in transactions with our Company.

Please answer all questions. If the answer to any question is "yes," please explain. Certain terms used in questions are defined at the end of the questionnaire.

Very truly yours,

[Client's Authorized Signature]

Related-Party Questionnaire

1. Have you or any related party of yours had any material interest, direct or indirect, in any sales, purchases, transfers, leasing arrangements or guarantees, or other transactions since _____ [beginning of client's year] to which the Company (or specify any pension, retirement, savings, or similar plan provided by the client) was, or is to be, a party?
2. Do you or any related party of yours have any material interest, direct or indirect, in any pending or incomplete sales, purchases, transfers, leasing arrangements, guarantees, or other transactions to which the Company (or specify any pension, retirement, savings, or similar plan provided by the client) was, or is to be, a party?
3. Have you or any related party of yours been indebted to the Company (or specify any pension, retirement, savings, or similar plan provided by the client) at any time since _____ [beginning of client's year]? Please exclude amounts due for purchases on usual trade terms and for ordinary travel and expense advances.

The answers to the foregoing questions are correctly stated to the best of my knowledge and belief.

Signed: _____

Date: _____

See definitions at end of questionnaire.



DEFINITIONS

COMPANY: Parent company and any subsidiary or affiliate.

RELATED PARTY: Any (1) corporation or organization (other than the Company) of which you are an officer, director, or partner or are, directly or indirectly, the beneficial owner of 10 percent or more of any class of equity securities; (2) any trust or other estate in which you have a substantial beneficial ownership or for which you serve as trustee or in a similar fiduciary capacity; and (3) any close relative of yours or your spouse's or other person you may significantly influence (control) or be significantly influenced by.

CONTROL: Possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a party, whether through ownership, by contract, or otherwise.

PERSON: An individual, a corporation, a partnership, an association, a joint-stock company, a business trust, or an unincorporated organization.

BENEFICIAL OWNER: Person who enjoys, or has the right to secure, benefits substantially equivalent to those of the ownership of securities, even though the securities are not registered in the person's name. Examples of beneficial ownership include securities held for the person's benefit in the name of others, such as nominees, custodians, brokers, trustees, executors, and other fiduciaries; a partnership of which the person is a partner; and a corporation for which the person owns substantially all of the stock. Shares (1) held (individually or in a fiduciary capacity) by the person's spouse, the person's or his or her spouse's minor children, or a relative of the person or his or her spouse who shares the same home with the person; or (2) as to which the person can vest or re-vest title in himself at once or at some future time are also considered as being beneficially owned.



13.021 UNIFORM COMMERCIAL CODE—REQUEST FOR INFORMATION OR COPIES—FORM UCC-11 Rev. 1-78

(Please type this form and present in duplicate to the filing officer)

DEBTOR(S) (LAST NAME FIRST) AND ADDRESS(ES)	PARTY REQUESTING INFORMATION OR COPIES	FILING OFFICER USE

PERIOD TO BE SEARCHED: FROM _____, 19____, TO _____, 19____, INCLUSIVE.

FEES: INFORMATION REQUEST: \$2.00 per name, for the first year searched, plus fifty cents for each additional year searched.

COPIES: \$1.25 per page, plus fifty cents for certification.

FILING OFFICER:

INFORMATION REQUEST: Filing officer please furnish certificate showing whether there is on file any presently effective financing statement, any other statement, or any federal tax lien notice (except real estate mortgages effective as financing statements) naming the debtor(s) listed above, give the date and hour of filing of each such statement, and the names and addresses of each secured party or grantee named therein.

COPY REQUEST: Filing officer please furnish copies of each statement or tax lien notice listed below which is on file with your office.

CERTIFIED COPIES: (Check only if desired). Please certify the requested statements or tax lien notices.

(Signature of requesting party)

FILE NUMBER	DATE AND HOUR OF FILING	NAME AND ADDRESS(ES) OF SECURED PARTY(IES)

CAUTION: THIS SEARCH REPORT DOES NOT PURPORT TO SHOW REAL ESTATE MORTGAGES (OR DEEDS OF TRUST) EFFECTIVE AS FINANCING STATEMENTS PURSUANT TO §4-9-402(6), C.R.S. 1973, AS AMENDED.

CERTIFICATE: I, the undersigned filing officer, hereby certify that I have made a diligent search of the records for the period requested above for the specific name(s) of the debtor(s) above designated (excluding similar names); and that

the above listing is a record of all presently effective financing statements, any other statements or federal tax lien notices, which name the above debtor(s) (except any real estate mortgages effective as financing statements) which were on file in my office from _____, 19____, to _____, 19____, inclusive, as per your request:

the attached _____ pages are true and exact copies of all statements or tax lien notices on file in my office listed in the above request.

Additional fee requested \$ _____ Date _____

Signature of Filing Officer

FILING COPY 1—To be returned with copies of information
FILING COPY 2—To be retained by filing officer
FILING COPY 3—To be retained by requesting party

Form UCC-11 Request for information or copies—
Bradford Publishing Company, 1846 Stout St. Denver, CO 80202 (573-5011) —12-78

13.022

**LETTER TO OTHER ACCOUNTANTS UPON
WHOSE WORK WE PLAN TO RELY**

[Firm's Letterhead]

[Date]

We are auditing the financial statements of _____ [client's name],
_____ [parent company]. The financial statements of _____ [other
accountants' client's name] that you are auditing are to be included in the financial statements of
_____ [client's name]. We will rely on your report on the financial statements in
expressing an opinion on the (consolidated) financial statements of _____ [client's
name] (and subsidiaries). In that connection, we will refer to your report.

Please confirm to us that your firm is independent with respect to _____
[client's name] and _____ [other accountants' client's name] within the
meaning of Rule 101 of the Code of Professional Conduct of the American Institute of Certified Public
Accountants.

Please provide us promptly, in writing, with the following information in connection with your current
audit of the financial statements of _____ [other accountants' client's name]
with respect to:

1. Related-party transactions or other matters that have come to your attention. We are aware of the
following related parties: _____ [names of known related parties].
2. Any limitation on the scope of your audit that is related to the financial statements of
_____ [client's name], or that limits your ability to respond to this
inquiry.

Please update your letter to indicate any additional matters of the type designated above that have come
to your attention through the date of your report on the financial statements of _____ [other
accountants' client's name].

Very truly yours,

[Engagement Partner's Signature]



13.023 REPRESENTATION LETTER TO OTHER ACCOUNTANTS
[Firm's Letterhead]

[Date]

In connection with the report you have been requested to reissue on the financial statements of _____ [client's name] for the year ended _____ [date], which statements are to be included comparatively with similar statements for the year ended _____ [date], we make the following representations.

We have audited (or reviewed or compiled) the balance sheet of _____ [client's name] as of _____ [balance-sheet date] and the related statements of earnings, retained earnings, and cash flows for the year then ended. Our procedures in connection with the engagement did not disclose any events or transactions subsequent to _____ [predecessor's balance-sheet date] that, in our opinion, would have a material effect upon the financial statements, or which would require mention in the notes to the financial statements of _____ [client's name] for the year then ended.

Should anything come to our attention prior to the date our report is issued that, in our judgment, would have a material effect upon the financial statements covered by your report, we shall notify you promptly.

Very truly yours,

[Engagement Partner's Signature]

Note to User:

If any matters come to the firm's attention that may require revision of the previous financial statements, they should be included in a separate paragraph after approval by the engagement partner.



13.024 ENGAGEMENT LETTER — AUDIT ENGAGEMENT
 [Firm's Letterhead]

[Date]

This letter is to confirm my (our) understanding of the terms and objectives of my (our) engagement.

(I) _____ [engagement partner name] will be the partner in charge of all work I (we) perform for you. Auditing and reporting on your financial statements is to be my (our) recurring basic assignment. I (We) would also like to help you with current problems as they arise throughout the year.

(I) We will audit the Company's financial statements for the year ending _____ [financial statement date] for the purpose of expressing an opinion on them. The proper recording of transactions, safeguarding of assets, and the financial statements are the responsibility of the Company's management. (My) Our responsibility is to express an opinion on the financial statements.

(I) We will conduct our audit in accordance with generally accepted auditing standards. Those standards require that (I) we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence which supports the amounts and disclosures included in the financial statements. It also includes assessing the accounting principles used and estimates made by management, as well as evaluating the overall financial statement presentation. If, for any reason, I am (we are) unable to express an unqualified opinion on the financial statements, I (we) will discuss the alternatives with you in order to arrive at an acceptable solution.

Although the audit is designed to provide reasonable assurance of detecting errors and irregularities that are material to the financial statements, it is not designed and cannot be relied upon to disclose all fraud, defalcations, or other irregularities. However, we will inform you of any material errors, and all irregularities or illegal acts, unless they are clearly inconsequential, that come to our attention.

Assistance to be supplied by your personnel, including the preparation of schedules and analyses of accounts, is described on a separate attachment. Timely completion of this work will facilitate the completion of my (our) audit.

As part of my (our) engagement for the year ending _____ [financial statement date], I (we) also will prepare the federal and state income tax returns for _____ [client name].

My (Our) fees will be billed as work progresses and are based on the amount of time required plus actual out-of-pocket expenses. Invoices are payable upon presentation. I (We) will notify you immediately of any circumstances I (we) encounter that could significantly affect my (our) initial estimate of total fees of \$_____.



If the foregoing is in accordance with your understanding, please sign and return to me (us) the duplicate copy of this letter.

I (We) very much appreciate the opportunity to serve you and trust that my (our) association will be a long and pleasant one.

Yours very truly,

[Engagement Partner's Name]

[Client's Name]

Accepted:

[Representative's Name]

[Title]

[Date]



13.025 ENGAGEMENT LETTER—COMPILATION ENGAGEMENT
 [Firm's Letterhead]

[Date]

This letter is to confirm my (our) understanding of the terms and objectives of my (our) engagement and the nature and limitations of the services I (we) will provide.

I (We) will perform the following services:

- I (We) will compile, from information you provide, the annual and interim balance sheets and related statements of income, retained earnings, and cash flows of _____ [client name] for the year 19___. I (We) will not audit or review such financial statements. My (Our) report on the annual financial statements of _____ [client name] is presently expected to read as follows:

I (We) have compiled the accompanying balance sheet of _____ [client name] as of _____ [financial statement date] and the related statements of income, retained earnings, and cash flows for the year then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements information that is the representation of management (owners). I (We) have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

My (Our) report on your interim financial statements, which will omit substantially all disclosures, will include an additional paragraph that will read as follows:

Management has elected to omit substantially all of the disclosures required by generally accepted accounting principles. If the omitted disclosures were included in the financial statements, they might influence the user's conclusions about the company's financial position, results of operations, and cash flows. Accordingly, these financial statements are not designed for those who are not informed about such matters.

If, for any reason, I am (we are) unable to complete the compilation of your financial statements, I (we) will not issue a report on such statements as a result of this engagement.



- I (We) will assist your bookkeeper in adjusting the books of account so that he or she will be able to prepare a working trial balance from which financial statements can be compiled. Your bookkeeper will provide me (us) with a detailed trial balance and any supporting schedules I (we) require.
- I (We) will also prepare the federal and _____ [state] income tax returns for _____ [client name] for the fiscal year ended _____.

My (Our) engagement cannot be relied upon to disclose errors, irregularities, or illegal acts, including fraud or defalcations, that may exist. However, I (we) will inform the appropriate level of management of material errors that come to my (our) attention and any irregularities or illegal acts that come to my (our) attention, unless they are clearly inconsequential.

My (Our) fees for these services....

I (We) shall be pleased to discuss this letter with you at any time.

If the foregoing is in accordance with your understanding, please sign the copy of this letter in the space provided and return it to me (us).

Sincerely yours,

Acknowledged:

Title

Date



13.026

ENGAGEMENT LETTER—REVIEW ENGAGEMENT

[Firm's Letterhead]

[Date]

This letter is to confirm my (our) understanding of the terms and objectives of my (our) engagement and the nature and limitations of the services I (we) will provide.

I (We) will review the balance sheet of _____ [client name] as of _____ [balance-sheet date], and the related statements of income, retained earnings, and cash flows for the year then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

My (Our) review will consist primarily of inquiries of company personnel and analytical procedures, and I (we) will require a client representation letter from you. A review does not contemplate obtaining an understanding of the internal control structure or assessing control risk, tests of accounting records and responses to inquiries by obtaining corroborating evidential matter, and certain other procedures ordinarily performed during an audit. Thus, a review does not provide assurance that I (we) will become aware of all significant matters that would be disclosed in an audit.

My (Our) engagement cannot be relied upon to disclose errors, irregularities, or illegal acts, including fraud or defalcations, that may exist. However, I (we) will inform the appropriate level of management of material errors that come to my (our) attention and any irregularities or illegal acts that come to my (our) attention, unless they are clearly inconsequential.

I (We) will not perform an audit of such financial statements, the objective of which is the expression of an opinion regarding the financial statements taken as a whole, and accordingly, I (we) will not express such an opinion on them.

My (Our) report is presently expected to read as follows:

I (We) have reviewed the accompanying balance-sheet of _____ [client name] as of _____ [balance sheet date], and the related statements of income, retained earnings, and cash flows for the year then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management of _____ [client name].



A review consists principally of inquiries of company personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, I (we) do not express such an opinion.

Based on my (our) review, I am (we are) not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with generally accepted accounting principles.

If, for any reason, I am (we are) unable to complete my (our) review of your financial statements, I (we) will not issue a report on such statements as a result of this engagement.

I (We) will provide your bookkeeper with such consultation on accounting matters as he or she may be required in adjusting and closing the books of account and in drafting financial statements for my (our) review. Your bookkeeper also will provide me (us) with a detailed trial balance and any supporting schedules I (we) require.

My (Our) fees for these services....

I (We) shall be pleased to discuss this letter with you at any time.

If the foregoing is in accordance with your understanding, please sign the copy of this letter in the space provided and return it to me (us).

Sincerely yours,

Acknowledged:

_____ Title

_____ Date



13.027

PROPOSAL LETTER

[Date]

We appreciate this opportunity to present a proposal for [nature of services] and a brief description of our firm and services.

Our firm was formed in 19__. We have _ partners and _ staff and support personnel working with clients in accounting and auditing, taxation, and various consulting services. Although we serve all size clients, our clientele consists primarily of small and medium-size business such as yours.

Our professional objectives are to provide the highest quality services on a timely basis. As a member of the AICPA Division of Firm's Private Companies Practice Section, our accounting and auditing practice has been subjected to a review by another firm of CPAs. We received an unqualified opinion as a result of that review. We extend our client relationships to include ongoing contact and services to achieve our services objectives.

We have extensive experience in the _____ industry. This experience and related understanding of your industry's operations permit us to design, perform, and complete engagements for your company effectively and at a reasonable cost.

Our services include the following:

- Accounting, Auditing, and Attestation Services

Our accounting, auditing, and attestation services include annual or special audits, compilations and reviews of financial statements, and the examination and review of financial and other information under the attestation standards. We accompany our report on audited financial statements with a reportable conditions letter and a management letter that include suggestions to correct internal control weaknesses and recommendations for operational efficiencies. Our purpose in making these suggestions is to help you accomplish your operational objectives. These suggestions often result in cost savings.

- Tax Services

We offer diversified tax service, including assistance in all phases of federal, state, and local income taxes; estate, inheritance, and gift taxes; and payroll and other taxes. These services include tax return preparation, tax research, and representation of clients at administrative proceedings before the various taxing authorities. The objectives of our tax services are to minimize taxes and potential problems.



- Consulting Services

Our consulting services are designed to assist clients in improving efficiency and profitability. Our approach offers assistance in such areas as developing plans for problem identification or implementing more effective operating controls, evaluating information systems and installing or upgrading data processing systems.

_____, an audit partner, will be primarily responsible for your engagement.

As you requested, our proposal is for _____ [state nature of services].

We estimate that our fees for the proposed services will be approximately \$_____, plus out-of-pocket expenses, billable as the work progresses. Our fees are based on time spent on the engagement. Should we encounter any unforeseen circumstances requiring additional time, you will be notified promptly of the situation.

Our fee estimate is based on the assumption that your personnel will prepare certain schedules and analyses for us. We also anticipate their assistance in locating invoices and other documents for our examination.

Our firm is organized and staffed to help you satisfy our business needs. Please call _____ with questions about this proposal.

Very truly yours,

[Firm Signature]



13.028

INQUIRY LETTER TO LEGAL COUNSEL

[Client's Letterhead]

[Date]

In connection with an audit of our financial statements at _____ [balance-sheet date] and for the _____ [period] then ended, management of the Company has prepared, and furnished to our auditors _____ [name and address of auditors], a description and evaluation of certain contingencies, including those set forth below involving matters with respect to which you have been engaged and to which you have devoted substantive attention on behalf of the Company in the form of legal consultation or representation. These contingencies are regarded by management of the Company as material for this purpose (management may indicate a materiality limit if an understanding has been reached with the auditor). Your response should include matters that existed at _____ [balance-sheet date] and during the period from that date to the date of your response.

Pending or Threatened Litigation

[Ordinarily the information would include the following: (1) the nature of the litigation, (2) the progress of the case to date, (3) how management is responding or intends to respond to the litigation (for example, to contest the case vigorously or to seek an out-of-court settlement), and (4) an evaluation of the likelihood of an unfavorable outcome and an estimate, if one can be made, of the amount or range of potential loss.]

Please furnish to our auditors such explanation, if any, that you consider necessary to supplement the foregoing information, including an explanation of those matters as to which your views may differ from those stated and an identification of the omission of any pending or threatened litigation, claims, and assessments or a statement that the list of such matters is complete.

Unasserted Claims and Assessments

[Ordinarily management's information would include the following: (1) the nature of the matter, (2) how management intends to respond if the claim is asserted, and (3) an evaluation of the likelihood of an unfavorable outcome and an estimate, if one can be made, of the amount or range of potential loss.]

Please furnish to our auditors such explanation, if any, that you consider necessary to supplement the foregoing information, including an explanation of those matters as to which your views may differ from those stated.

We understand that whenever, in the course of performing legal services for us with respect to a matter recognized to involve an unasserted possible claim or assessment that may call for financial statement disclosure, if you have formed a professional conclusion that we should disclose or consider disclosure



concerning such possible claim or assessment, as a matter of professional responsibility to us, you will so advise us and will consult with us concerning the question of such disclosure and the applicable requirements of Statement of Financial Accounting Standards No. 5. Please specifically confirm to our auditors that our understanding is correct.

Please specifically identify the nature of and reasons for any limitation on your response.

[The auditor may request the client to inquire about additional matters, for example, unpaid or unbilled charges or specified information on certain contractually assumed obligations of the company, such as guarantees of indebtedness of others.]

Very truly yours,

[Client's Authorized Signature]

Notes to User:

- (1) Auditors should carefully consider the provisions of Statement on Auditing Standards No. 12, *Inquiry of a Client's Lawyer Concerning Litigation, Claims, and Assessments* (AU 337), in drafting this letter.
- (2) Sending of this letter should be timed so that the lawyer's response is dated within two weeks of the auditor's report date. However, the auditor and client should consider early mailing of a draft inquiry as a convenience for the lawyer in preparing a timely response to the formal inquiry letter.
- (3) If a client has not needed to retain legal counsel, an unqualified opinion may be expressed on the financial statements even though a letter from legal counsel has not been obtained. In these circumstances, a written representation should be obtained from the Company that legal counsel has not been retained for matters concerning business operations that may involve current or prospective litigation (see AICPA *Technical Practice Aids*, section 8340.10).



13.029 INQUIRY LETTER TO LEGAL COUNSEL IF MANAGEMENT HAS NOT PROVIDED DETAILS ABOUT PENDING OR THREATENED LITIGATION

[Client's Letterhead]

[Date]

In connection with an audit of our financial statements as of _____ [balance-sheet date], please furnish our auditors _____ [name and address of auditors] with information requested below for which you have been engaged to provide legal consultation or representation.

1. Pending or threatened litigation, claims and assessments (excluding unasserted claims and assessments):

Please furnish a list of all pending or threatened litigation, claims or assessments your firm is handling on our behalf, including the following: (1) the nature of the litigation (including the amount of monetary or other damages sought); (2) progress of the case to date; (3) how management is responding or intends to respond to the litigation (for example, to contest the case vigorously or to seek an out-of-court settlement); and (4) an evaluation of the likelihood of an unfavorable outcome and an estimate, if one can be made, of the amount or range of potential loss.

2. Unasserted claims and assessments:

We understand that whenever, in the course of performing legal services for us with respect to a matter recognized to involve an unasserted possible claim or assessment that may call for financial statement disclosure, if you have formed a professional conclusion that we should disclose or consider disclosing such possible claim or assessment, as a matter of professional responsibility to us, you will so advise us and will consult with us concerning the question of such disclosure and the applicable requirements of Statement of Financial Accounting Standards No. 5. Please specifically confirm to our auditors that our understanding is correct.

We have represented to _____ [name of auditors] that there are no unasserted claims, which are not specifically identified in this letter, that you have advised us are probable of assertion and must be disclosed in accordance with SFAS No. 5.

(If unasserted claims exist, management's listed information should include the following: (1) the nature of the matter; (2) how management intends to respond if the claim is asserted; and (3) an evaluation of the likelihood of an unfavorable outcome and an estimate, if one can be made, of the amount or range of potential loss.)



Please furnish our auditors any explanation you consider necessary to supplement the foregoing information, including an explanation of these matters as to which your views may differ from those stated.

Please specifically identify the nature of and reasons for any limitation on your response.

[The auditor may request the client to inquire about additional matters, for example, unpaid or unbilled charges or specified information on certain contractually assumed obligations of the organization, such as guarantees of indebtedness of others.]

Very truly yours,

[Client's Authorized Signature]

Notes to User:

- (1) Auditors should carefully consider the provisions of Statement on Auditing Standards No. 12, *Inquiry of a Client's Lawyer Concerning Litigation, Claims, and Assessments* (AU 337), in drafting this letter.
- (2) Sending of this letter should be timed so that the lawyer's response is dated within two weeks of the auditor's report date. However, the auditor and client should consider early mailing of a draft inquiry as a convenience for the lawyer in preparing a timely response to the formal inquiry letter.
- (3) If a client has not needed to retain legal counsel, an unqualified opinion may be expressed on the financial statements even though a letter from legal counsel has not been obtained. In these circumstances, a written representation should be obtained from the Company that legal counsel has not been retained for matters concerning its operations that involve current or prospective litigation (see AICPA *Technical Practice Aids*, section 8340.10).



13.030

PENSION PLAN ACTUARIAL INFORMATION

[Client's Letterhead]

[Date]

Gentlemen:

In connection with the audit of our financial statements for the period ending _____ [balance-sheet date] by our independent auditors, _____ [name and address of auditors], please furnish them the information described below as it pertains to the XYZ Company, Inc. pension plan, which is a defined benefit plan. For your convenience in response to those requests, you may supply pertinent sections, properly signed and dated, of your actuarial report, or pension expense report, if they are available and if they contain the requested information.

A. Please provide a brief description of the following:

1. The employee group covered.
2. The benefit provisions of the plan used in the calculation of the net periodic pension cost for the period and of the accumulated benefit obligation and the projected benefit obligation at the end of the period.

Please identify any such benefit provisions that had not taken effect in the year. Please also provide the date of the most recent plan amendment included in your calculation. Please identify any participants or benefits excluded from the calculations, such as benefits guaranteed under an insurance or annuity contract.

3. The plan sponsor's funding policy for the plan.
4. Any significant liabilities other than for benefits, such as for legal or accounting fees.
5. The method and the amortization period, if any, used for the following:
 - a. Calculation of a market-related value of plan assets, if different from the fair value.
 - b. Amortization of any transition asset or obligation.
 - c. Amortization of unrecognized prior service cost.
 - d. Amortization of unrecognized net gain or loss.
6. Any substantive commitments for benefits that exceed the benefits defined by the written plan that are included in the calculations.
7. Determination of the value of any insurance or annuity contracts included in the assets.
8. Nature and effect of significant plan amendments and other significant matters affecting comparability of net periodic pension cost, funded status and other information for the current period with that for the prior period.
9. The following information relating to the employee census data used in calculating the benefit obligations and pension cost:
 - a. The source and nature of the data is _____ and the date as of which the census data was collected is _____.
 - b. The following information concerning participants:



<u>Participants</u>	<u>Number of persons</u>	<u>Compensation (if applicable)</u>
Currently receiving payments	_____	_____
Active with vested benefits	_____	_____
Terminated with deferred vested benefits	_____	_____
Active without vested benefits	_____	_____
Other (describe)	_____	_____

Note: If information is not available for all the above categories, please indicate the categories that have been grouped and describe any group or groups of participants excluded from the above information.

c. Information for the following individuals contained in the census:

<u>Participants' name or number</u>	<u>Age or birth date</u>	<u>Sex</u>	<u>Salary</u>	<u>Date hired or years of service</u>
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Practice Tip:

The auditor should select information from employer records to compare with the census data used by the actuary. In addition, the auditor may wish to have the actuary select certain census data from his files to compare with the employer's records.

B. Please provide the following information on the net periodic pension cost for the period ending on _____:

1. Service cost
2. Interest cost
3. Actual return on assets
4. Other components
 - a. Net asset gain or (loss) during the period deferred for later recognition
 - b. Amortization of net loss or (gain) from earlier periods
 - c. Amortization of unrecognized prior service cost
 - d. Amortization of the remaining unrecognized net obligation or (asset) existing at the date of the initial application of FASB Statement No. 87—transition obligation or (asset)
 - e. Net total of components (a+b+c+d)
5. Net periodic pension cost (1+2+3+4e) \$ _____
6. The above measurement of the net periodic pension cost is based on the following assumptions:

Weighted-average discount rate	_____	%
Weighted-average rate of compensation increase	_____	%
Weighted-average expected long-term rate of return on plan assets	_____	%
Please describe the basis on which the above rates were selected and whether the basis is consistent with the prior period.	_____	%



Please briefly describe the other assumptions used in the above measurement.

- 7. The calculations of the items shown in B1 to B5 are based on the following:
 - Asset information at _____
 - Census data at _____
 - Measurement date (must be not more than three months before the end of the last fiscal year) _____

Please describe any adjustments made to project the census data forward to the measurement date or to project the results calculated at an earlier date to those shown in B1 to B5.

C. Please provide the following information on the benefit obligations for disclosure in the financial statements for the period ending _____ :

	<u>Estimated</u>
1. Pension benefit obligation	
a. Accumulated benefit obligation	
— Vested	\$ _____
— Nonvested	_____
— Total	_____
b. Additional benefits based on estimated future salary levels	_____
c. Projected benefit obligation (a+b)	_____
2. Fair value of plan assets	_____
3. Unfunded projected benefit obligation: (1c -2)	_____
4. Unrecognized prior service cost	_____
5. Unrecognized net loss or (gain)	_____
6. Unrecognized net transition liability or (asset)	_____
7. Additional liability	_____
8. Accrued or (prepaid) pension cost in the company financial statements (3-4-5-6+7)	\$ _____
9. The above amount of the projected benefit obligation is measured based on the following assumptions:	
Weighted-average discount rate	_____ %
Weighted-average rate of compensation increase	_____ %

Please provide a brief description of the other assumptions used in the measurement.

- 10. The calculation of the items shown in C1 to C8 is based on the following:
 - Asset information at _____
 - Census data at _____
 - Measurement date (must be not more than three months before the current fiscal year end) _____



Please describe any adjustments made to project the census data forward to the measurement date or to project the results calculated at an earlier date to those shown in C1 to C8.

11. Please describe any significant events noted subsequent to the current year's measurement date and as of the date of your reply to this request and the effects of those events, such as a large plant closing, which could materially affect the amounts shown in C1 to C8.
- D. Please provide an analysis for the period showing beginning amounts, additions, reductions and ending amounts of the:
1. Projected benefit obligation,
 2. Unrecognized prior service cost,
 3. Unrecognized net loss (gain), and
 4. Net transition obligation (asset).
- E. Please provide our independent accountants with descriptions and the amounts of gains or losses from settlements, curtailments or termination benefits during the year, such as:
1. Purchases of annuity contracts,
 2. Lump-sum cash payments to plan participants,
 3. Other irrevocable actions that relieved the company or the plan of primary responsibility for a pension obligation and eliminates significant risks related to the obligation and assets,
 4. Any events that significantly reduced the expected years of future service of employees,
 5. Any events that eliminated for a significant number of employees the accrual of defined benefits for some or all of their future service, or
 6. Any special or contractual termination benefits offered to employees.
- F. Was all of the information above determined in accordance with FASB Statements Nos. 87 and 88 (including the FASB's "Guides to Implementation of Statements 87 and 88" and the American Academy of Actuaries' "An Actuary's Guide to Compliance with Statement of Financial Accounting Standards No. 87") to the best of your knowledge? If not, please describe any differences.
- G. Describe the nature of your relationship, if any, with the plan or the plan sponsor that may impair or appear to impair the objectivity of your work.

Very truly yours,

[Client's Authorized Signature]



13.031

PENSION PLAN ASSETS HELD BY TRUSTEE
 [Client's Letterhead]

[Date]

Our auditors _____ [name and address of auditors] are conducting an audit of our financial statements. Accordingly, please provide our auditors directly with a listing of the assets including market values as of _____ [date] for our employees' pension trust _____ [title and trustee's account number].

Please also provide the auditors with the following information about our employees' pension trust for the period from [beginning of period] to [end of period] [see note below]:

1. Contributions by the Company during the above period.
2. Contributions by employees during the above period.
3. Payments to beneficiaries during the above period.
4. Any unpaid fees due for services rendered to _____ [balance-sheet date].

Please send your reply directly to our auditors. A stamped, addressed envelope is enclosed for your convenience.

Very truly yours,

 [Client's Authorized Signature]

 Note to User:

A listing of the assets might not be requested if one had already been received by the client. In that case, the auditor might want the trustee to confirm the total market value per the listing.



13.032 REPRESENTATION LETTER—AUDIT ENGAGEMENT
[Client's Letterhead]

[Date of Auditor's Report]

[To the Auditor]

In connection with your audit of the financial statements of _____ [client's name] for the year ended _____ [balance-sheet date], for the purpose of expressing an opinion as to whether the financial statements present fairly the financial position, results of operations, and cash flows of _____ [client's name] in conformity with generally accepted accounting principles, we confirm, to the best of our knowledge and belief, the following representations made to you during your audit:

1. We are responsible for the fair presentation in the financial statements of financial position, results of operations, and cash flows in conformity with generally accepted accounting principles.
2. We have made available to you:
 - a. All financial records and related data.
 - b. All minutes of the meeting of stockholders, directors, and committees of directors, or summaries of actions of recent meetings for which minutes have not yet been prepared.
 - c. Information relating to all statutes, laws or regulations that have a direct effect on our financial statements.
3. There have been no:
 - a. Irregularities involving management or employees who have significant roles in the internal control structure.
 - b. Irregularities involving other employees that could have a material effect on the financial statements.
 - c. Communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices that could have a material effect on the financial statements.
4. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
5. The following have been properly recorded or disclosed in the financial statements:
 - a. Related-party transactions and related amounts receivable or payable, including sales, purchases, loans, transfers, leasing arrangements, and guarantees.



- b. Capital stock repurchase options or agreements or capital stock reserved for options, warrants, conversions, or other requirements.
 - c. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances and line of credit or similar arrangements.
 - d. Agreements to repurchase assets previously sold.
 - e. Security agreements under the Uniform Commercial Code.
 - f. Contractual obligations for purchases of assets.
 - g. Liens, encumbrances, or subordination of assets pledged as collateral in any way.
 - h. Subordination of any liabilities.
 - i. All lease or rental obligations under long-term leases.
6. There are no:
- a. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.
 - b. Other material liabilities or gain or loss contingencies that are required to be accrued or disclosed by Statement of Financial Accounting Standards No. 5.
 - c. Estimates subject to material change in the near term or concentrations that make the entity vulnerable to risk of severe impact in the near term that are to be disclosed in accordance with SOP 94-6.
7. There are no unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with SFAS No. 5.
8. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements.
9. Provision, when material, has been made to:
- a. Reduce excess or obsolete inventories to their estimated net realizable value.
 - b. Reduce all investments for permanent declines in value.
10. The company has satisfactory title to all owned assets.
11. Provision has been made for any material loss to be sustained in the fulfillment of, or from inability to fulfill, any sales commitments.
12. Provision has been made for any material loss to be sustained as a result of purchase commitments for inventory quantities in excess of normal requirements or at prices in excess of the prevailing market prices.



- 13. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
- 14. No events have occurred subsequent to the balance sheet date that would require adjustment to, or disclosure in, the financial statements.

[Chief Executive Officer]

[Chief Financial Officer]



13.033 REPRESENTATION LETTER—REVIEW ENGAGEMENT
[Client's Letterhead]

[Date of Accountant's Report]

[To the Accountant] _____

In connection with your review of the balance of _____ [client's name] as of _____ [financial statement date] and the related statements of income, retained earnings, and cash flows for the _____ [period] then ended, for the purpose of expressing limited assurance that there are no material modifications that should be made to the statements in order for them to be in conformity with generally accepted accounting principles (or other comprehensive basis of accounting), we confirm, to the best of our knowledge and belief, the following representations made to you during your review.

1. The financial statements referred to above present the financial position, results of operations, and cash flows of _____ [name of client] in conformity with generally accepted accounting principles. In that connection, we specifically confirm that—
 - a. The Company's accounting principles, and the practices and methods followed in applying them, are as disclosed in the financial statements.
 - b. There have been no changes during the year in the Company's accounting principles and practices.
 - c. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
 - d. There are no material transactions that have not been properly reflected in the financial statements.
 - e. There are no material losses (such as from obsolete inventory or purchase or sales commitments) that have not been properly accrued or disclosed in the financial statements.
 - f. There are no violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency, and there are no other material liabilities or gain or loss contingencies that are required to be accrued or disclosed.
 - g. The Company has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged.
 - h. There are no related party transactions or related amounts receivable or payable that have not been properly disclosed in the financial statements.
 - i. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.



- j. No events have occurred subsequent to the balance sheet date that would require adjustment to, or disclosure in, the financial statements.
 - k. There are no estimates subject to material change in the near term or concentrations that make the entity vulnerable to risk of severe impact in the near term that are to be disclosed in accordance with SOP 94-6.
2. We have advised you of all actions taken at meetings of shareholders, board of directors, and committees of the board of directors (or other similar bodies) that may affect the financial statements.
 3. We have responded fully to all inquiries made to us by you during your review.

[Owner or Chief Executive Officer]

[Chief Financial Officer]



13.034

COMMUNICATION WITH AUDIT COMMITTEES

[Firm's Letterhead]

[Date]

_____*

AICPA Statement on Auditing Standards No. 61, *Communication With Audit Committees*, requires the auditor to communicate certain matters to those responsible for the oversight of the financial reporting process. The following comments regarding the scope and results of our audit of _____ [name of client] for the year ended _____ [date] will assist you in overseeing the financial reporting and disclosure process for which management is responsible.

Scope of Audit

Our responsibility is to express an opinion on the financial statements based on our audit. The audit is to be conducted in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation.

Results of Audit

[This part of the letter would address the following:

1. Management's choice of significant accounting policies and their application. This includes methods proposed for new transactions or events, significant unusual transactions, or controversial areas such as equity investments, off-balance sheet financing or revenue recognition.
2. Procedures used by management to determine accounting estimates and the data the auditor has considered to determine the reasonableness of the estimates.
3. Effects of audit adjustments that have or have not been recorded in the financial statements. Such adjustments, whether or not recorded, may have significant effects on current and future financial statements or on the company's internal control structure (i.e., a proposed adjustment may have resulted from errors detected during the audit that result from weaknesses in the internal control structure).
4. Other information presented by management that is included with the entity's audited financial statements. The auditor should discuss the nature of his responsibility for such information with the audit committee,* including procedures performed, if any, and the results.

* The letter should be addressed to the audit committee or other formally designated oversight group that is equivalent to the audit committee such as a finance committee or budget committee.



-
5. Nature of and circumstances surrounding any disagreements with management about the application of GAAP, the determination of accounting estimates, or scope of the audit that could be significant to the entity's annual reporting.
 6. Auditor's views about any accounting or auditing matters discussed by management with other auditors (opinion shopping).
 7. Major discussions by management with the auditor about the initial or continued retention of the auditor.
 8. Any serious difficulties encountered in conducting the audit.]

This report is intended solely for the information and use of the audit committee, management and others in the organization (or specified regulatory agency or other specified third party).

Very truly yours,

[Engagement Partner]

Note to User:

SAS No. 61 (AU 380), is required to be followed for (1) entities that either have an audit committee or that have otherwise formally designated oversight of the financial reporting process to a group equivalent to an audit committee (such as a finance committee or budget committee) and (2) all Securities and Exchange Commission (SEC) engagements.



13.035

RELIANCE LETTER
[Firm's Letterhead]

[Date]

The following is in response to your letter to our firm dated _____ [date].

We performed an audit of _____ [client's name] balance-sheet dated _____ [date], and the related statements of income, retained earnings, and cash flows for the year then ended. The financial statements were audited as of _____ [date] and the audit procedures performed were completed on _____ [report date]. No additional audit procedures were performed subsequent to _____ [date].

The audit was conducted in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. However, a properly designed and executed audit may not detect a material irregularity. For example, generally accepted auditing standards do not require that an auditor authenticate documents, nor is an auditor trained to do so. Also audit procedures that are effective for detecting a misstatement that is unintentional may not be effective for a misstatement that is intentional and is concealed through collusion between client personnel and third parties or among management or employees of the client.

We understand that you intend to rely on the report and associated statements in connection with (describe as precisely as possible the transaction in connection with which the third party intends to rely on the report and statements). It should be noted that the audit procedures performed in order to render an opinion on the financial statements of _____ [client's name] may not be adequate or appropriate for this purpose. Because of the limitations inherent in the audit process we may not have detected all material misstatements. Accordingly, our audit was not intended for your benefit and should not be taken to supplant the inquiries and procedures that you should take to satisfy yourself as to _____ [client's name] creditworthiness. We recommend that you perform your own due diligence investigation which should include but not be limited to the following steps (itemize). We emphasize that this list of procedures may not be all inclusive and that we cannot provide any assurance that the procedures we have mentioned will be sufficient for your purposes.

Very truly yours,

[Engagement Partner]

Note to User:

In recent years, auditors have received an increasing number of requests from their clients for "reliance letters." Reliance letters affirm the independent auditor's knowledge that third parties, such as banks, will rely on the auditor's opinion on the client's financial statements. Third parties ask for these letters because in many states, in order to hold the auditor liable for negligence, the third party must prove that the auditor was *aware* that a third party would rely on the audited financial statements.



The authors of this manual recommend that CPAs try to avoid issuing reliance letters. However, this is not always practical, particularly when the client's interests will be adversely affected. With this in mind, the following are some guidelines the authors recommend for auditors who must provide a reliance letter:

1. Do not merely acknowledge a third party's intended reliance, but identify the various ways in which that reliance is qualified. This can be accomplished by asking the third party to provide a letter stating that it has performed other due diligence procedures, or by stating in the reliance letter that the auditor assumes that the third party has performed due diligence procedures.
2. Acknowledge the third party's *intention* to rely, not the actual reliance.
3. State in the letter that an audit is limited by the nature of the audit process and cannot be expected to detect all potential problems.
4. Indicate in the letter that the auditor's report and the client's financial statements are as of a specific date and that no updating procedures have been performed, that the audit procedures were directed towards the financial statements as a whole and may not be adequate for the third party's reliance.
5. State, as precisely as possible, the purpose of the third party's reliance. Avoid comments about the third party's intended after-the-fact general reliance.



13.036

REPORT ON REPORTABLE CONDITIONS

[Firm's Letterhead]

[Date of Auditor's Report on the Financial Statements]

In planning and performing our audit of the financial statements of the _____ [client's name] for the year ended _____ [financial statement date], we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure. However, we noted the following matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Bank Reconciliations

Bank reconciliations have been prepared for the operating cash account, but they have not been in agreement with the general ledger, often by as much as _____. At _____, the general ledger balance varied from the bank reconciliation by \$_____.

In prior years, the bank reconciliations did not reconcile exactly to the general ledger; however, the variances were not as significant as in 199X. To maintain effective internal controls over cash, it is critical that bank accounts be reconciled to the general ledger monthly with differences identified and resolved immediately. At the present time, an adjusting journal entry should be made to bring the general ledger balance into agreement with the reconciled balance.

Accounts Payable

A listing of accounts payable as of _____ could not be produced to support the general ledger amount. We were able to reconcile accounts payable to the general ledger amount by reviewing computer-generated accounts payable listings dated _____, along with examining unpaid invoices at the time of our field work.

As indicated in previous letters to the Board, accounts payable has been an ongoing problem due to the fact that the accounts payable listing is not reconciled to the general ledger monthly. Proper recording of accounts payable is a key to maintaining adequate financial statements. Whether computer-generated or manually prepared, a detailed accounts payable listing should be reconciled monthly to the general ledger balance. All reconciliations should be reviewed and approved by someone other than the preparer, with the reviewer being responsible for ensuring that all differences are resolved.

Property and Equipment

Documentation provided to support the changes in property and equipment was not in agreement with the changes in the general ledger balances, for some categories, by as much as _____. Also, the computer-generated list of property and equipment was not in agreement with the total property and equipment recorded in the general ledger; therefore, this listing was not a useful resource.



The property and equipment computer listing should be reviewed, revised, and reconciled to the general ledger. Changes in property and equipment should be recorded timely and the detailed property and equipment listing should be reconciled to the general ledger balances monthly.

The procedures for recording fixed asset additions and deletions should be reviewed to determine their adequacy. Adjusting journal entries with regard to trade-ins, sales and other retirements of fixed assets should be reviewed by the Treasurer or someone other than the person preparing the entry. Examples of problems encountered include improper capitalization of assets when a like kind exchange or trade-in is involved and improper recording of gain or loss on sale of assets.

An annual or biannual physical inventory of equipment is an effective management tool to help maintain detail property and equipment records and strengthen controls of safeguarding equipment. The Board should consider making a physical inventory a standard procedure.

This report is intended solely for the information and use of the Board of Directors, management, and others within the entity.

Very truly yours,

[Engagement Partner]



13.037

REPORT ON REPORTABLE CONDITIONS THAT ALSO IDENTIFIES A MATERIAL WEAKNESS

[Firm's Letterhead]

[Date of Auditor's Report on the Financial Statements]

In planning and performing our audit of the financial statements of the _____ [client's name] for the year ended _____ [financial statement date], we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure. However, we noted the following matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Accrued Vacation

Although accrued vacation has not been recorded on the financial statements, the amount of accrued vacation must be considered in determining the fair presentation of the financial statements. The year end analysis of accrued vacation had a balance significantly lower than the prior year's balance. The details of the analysis were traced to the "attendance control cards." We found (1) the number of days earned on the listing did not agree to that recorded in the cards, (2) individuals were reported in the cards with earned vacation but were not on the listing, and (3) some of the cards appeared to not have been maintained.

Detailed records of vacation days earned and used by employees should be timely and accurately maintained. At least annually, these days should be converted to dollar amounts. Management should review the conversion and consider reporting this liability on the financial statements for complete recognition of liabilities.

Discussions with the Office Manager revealed that not all employees are required to notify her when they use vacation days. All employees should be required to inform the Office Manager of all vacation days taken. Employees should also be asked to periodically review their vacation records with the Office Manager and to indicate their agreement by signing the records.

Bad Debts

During 199X, the Board approved the write-off of accounts receivable of about _____. The write-off was charged to revenue rather than to bad debt expense.

Procedures for recording bad debt write-offs should be reviewed for adequacy. All adjusting entries should be reviewed by the Treasurer or a member of management other than the person preparing the journal entry.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may



occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe that the following reportable condition is a material weakness.

Blank Checks

Blank checks are maintained in an unlocked cabinet along with the check signing machine.

Blank checks and the check signing machine should be locked in separate locations so as to prevent the embezzlement of funds.

This report is intended solely for the information and use of the Board of Directors, management, and others within the entity.

Very truly yours,

[Engagement Partner]



13.038 INSURANCE IN FORCE CONFIRMATION REQUEST
[Client's Letterhead]

[Date]

Our auditors, _____ [name and address of auditors], are conducting an audit of our financial statements. In that connection, please confirm the details of our insurance coverage in force at _____ [balance-sheet date] as described below:

Policy number	_____	_____
Insurance company	_____	_____
Type of coverage	_____	_____
Amount of coverage	_____	_____
Co-insurance, if any	_____	_____
Term of policy	_____	_____
Gross premium	_____	_____
Amount of unpaid premiums	_____	_____
Loss payees, if other than us	_____	_____
Claims pending at _____ [date]	_____	_____

Please compare this information with your records and inform our auditors, in the space below, if it is, or is not, in agreement with your records. After signing and dating your reply, please mail it directly to our auditors in the enclosed envelope.

Very truly yours,

[Client's Authorized Signature]

The above information agrees with our records at _____ [balance-sheet date] with the following exceptions:

Signed: _____
[Name and Title]

Date: _____



13.039

**ILLUSTRATIVE LETTER TO ACTUARY
REQUESTING EMPLOYER'S BENEFIT COST INFORMATION**
[Client's Letterhead]

[Date]

In connection with the audit of our financial statements for the period ending _____ [fiscal year end] by our independent auditors _____ [name, address], please furnish them a copy of the most recent actuarial valuation report for _____ [name of plan]. If a complete actuarial valuation was not prepared as of _____ [date], please provide any reports or letters that summarize end-of-period amounts. If the information requested below is included in the valuation report, you may refer to the location in your report rather than repeating such information.

A. Please provide a brief description of the following:

1. The participant group(s) (for example, employee, retiree and dependent group[s]) covered, and the types of benefits provided.
2. The provisions of the substantive plan at the beginning of the period used in the calculation of the net periodic postretirement benefit cost for the period.
3. Any changes between the provisions of the substantive plan at the beginning of the period used in the calculation of net periodic postretirement benefit costs and the substantive plan used in the calculation of the accumulated postretirement benefit obligation (APBO) at the disclosure date. Additionally, please specify the following:
 - a. The disclosure date (which cannot be more than three months prior to the end of the period).
 - b. How these changes were included in the net periodic postretirement benefit costs for the period.
4. The date and description of plan amendments adopted during the period and whether the amendment(s) were included in items 2. and 3. above.
5. Any participants, benefits or plan terms excluded from the calculations and the reasons for their exclusion.
6. The funding policy for the plan if other than pay-as-you-go.
7. Any significant liabilities other than for benefits.
8. The method and the amortization period, if any, used for amortizing:
 - a. Any transition asset or obligation.



- b. Unrecognized prior service cost.
 - c. Unrecognized net gain or loss.
9. If the plan is funded, provide:
- a. The amounts and types of securities used to value plan assets.
 - b. Calculation of fair value of plan assets.
 - c. The date as of which fair value was calculated.
 - d. The method of determining the value of any contracts with insurance companies and participation provisions included in the plan assets.
10. The following information relating to the participants' demographic and compensation data used in calculating the APBO and net periodic postretirement benefit cost:
- a. The source of the demographic data and the date as of which the data were collected.
 - b. The following information concerning the participants and their beneficiaries in the following (or a comparable) format. Please indicate any groups of participants excluded from the information.

<u>Participants</u>	<u>Number of persons</u>	<u>Compensation (if applicable)</u>
Retirees and beneficiaries eligible for benefits	_____	_____
Dependents of retirees eligible for benefits	_____	_____
Active employees fully eligible for benefits	_____	_____
Terminated employees fully eligible for benefits	_____	_____
Active employees not fully eligible for benefits	_____	_____
Other (identify)	_____	_____

c. Information for the following participants:

<u>Participants' name or number</u>	<u>Age or birth date</u>	<u>Sex</u>	<u>Salary</u>	<u>Date hired or year of initial eligibility</u>
_____	_____	_____	_____	_____

11. A summary of the per-capita claims costs used in the valuation and the basis for their development, including:
- a. In employer-specific claims data were used in connection with the development of per-capita claims cost by age, a description of the data, its source and the period from which it was taken.
 - b. If an external data source was used in connection with the development of per-capita claims costs by age, describe the nature of the external data source and how it was used.
 - c. The extent to which external data sources were used to adjust the historical claims data.



B. Please provide the following components of the net periodic postretirement benefit cost for the period (see A.2. above):

- 1. Service cost \$ _____
- 2. Interest cost _____
- 3. Actual return on plan assets _____
- 4. Other components, net:
 - a. Net asset gain (loss) during the period deferred for later recognition \$ _____
 - b. Amortization of net loss (gain) from earlier periods _____
 - c. Amortization of unrecognized prior service cost _____
 - d. Amortization of the transition obligation _____
 - e. Net total of other components (a+b+c+d) _____
- 5. Net periodic postretirement benefit cost (1+2-3+4e) \$ _____

C. Please provide the following information related to the APBO as of the disclosure date (see A.3. above):

	Beginning of period (transition date)*	End of period
1. Accumulated postretirement benefit obligation (APBO)		
a. Retirees and beneficiaries eligible for benefits	\$ _____	\$ _____
b. Dependents of retirees eligible for benefits	_____	_____
c. Active employees fully eligible for benefits	_____	_____
d. Terminated employees fully eligible for benefits	_____	_____
e. Active employees, not fully eligible for benefits	_____	_____
f. Other (identify)	_____	_____
g. Total (sum of 1.a.-1.f.)	_____	_____

* This column should be included only in the initial year of application of FASB Statement No. 106.



	<u>Beginning of period (transition date)*</u>	<u>End of period</u>
2. Fair value of plan assets	_____	_____
3. Funded status (1.g.-2.)	_____	_____
4. Unrecognized prior service cost	_____	_____
5. Unrecognized net loss (gain)	_____	_____
6. Unrecognized transition obligation (asset)	_____	_____
7. Accrued (prepaid) postretirement benefit cost (3 less items 4-6)	\$ <u>_____</u>	\$ <u>_____</u>

D. Please provide the following information regarding the assumptions used to compute the net periodic postretirement benefit cost and APBO. If a published standard table was used, provide its name.

ECONOMIC ASSUMPTIONS

	<u>Net periodic cost</u>	<u>APBO</u>
1. General inflation (e.g., CPI)	_____%	_____%
2. Weighted-average discount rate	_____%	_____%
3. Weighted-average rate of compensation increase	_____%	_____%
4. Weighted-average expected long-term rate of return on plan assets	_____%	_____%
5. Estimated income tax rate included in rate of return	_____%	_____%
6. Method used to determine market-related value of assets	_____%	_____%

EMPLOYEE DEMOGRAPHIC DATA

7. Employee turnover rates by age Describe or attach table

* This column should be included only in the initial year of application of FASB Statement No. 106.



- | | | |
|---|--------------------------|--------|
| 8. Rates of retirement by age | Describe or attach table | |
| 9. Rates of disability by age | Describe or attach table | |
| 10. Rates of mortality by age | Describe or attach table | |
| 11. Percentage of employees with dependents at retirement | _____% | _____% |
| 12. Spouse age difference | _____% | _____% |

If participants in this plan are covered by a defined benefit pension plan for which expense is determined in accordance with FASB Statement No. 87, *Employers' Accounting for Pensions*, please state whether the above assumptions are consistent with those used in calculations in determining those pension amounts. If not, please explain the difference and the reasons for the difference.

SPECIFIC ASSUMPTIONS FOR RETIREE HEALTH CARE BENEFITS

- | | <u>Net periodic cost</u> | <u>APBO</u> |
|--|--------------------------|-------------|
| 13. Weighted-average administrative (e.g., claims settlement, legal, accounting, plan administration, etc.) as a percentage of claims or other basis for assumption | _____% | _____% |
| 14. Percentage expecting to elect coverage under the plan: | | |
| a. Future retirees | _____% | _____% |
| b. Their dependents | _____% | _____% |
| 15. Health care cost trend rates (please provide rates for each year to the ultimate rate) | Describe or attach table | |
| a. Please state whether these rates are applicable to gross eligible charges or to net incurred claims cost. If applied to net incurred claims, please state what adjustments were made and what rates are to be shown for disclosure. | | |
| b. The effect of a one-percentage-point increase in assumed health care cost trend rate on: | | |
| i. The aggregate of service and interest cost components of net periodic postretirement benefit costs. | | |
| ii. APBO. | | |
| 16. Please state whether the above assumptions are consistent with the prior period, and, if not, explain the reason for the changes. | | |



17. Please describe any other significant assumptions used in the above measurement and the basis on which they were determined.
- E. Please provide a description and the amounts of gains or losses from settlements, curtailments or termination benefits during the year, such as:
1. Purchase of insurance contracts where the risk of benefit payments is fully assumed by the insurance company.
 2. Lump-sum cash payments to plan participants.
 3. Other irrevocable actions that relieved the employer, plan sponsor or the plan of primary responsibility for a postretirement benefit obligation and eliminated significant risks related to the obligation and assets.
 4. Any events that significantly reduced the expected years of future service of employees.
 5. Any events that eliminated for a significant number of employees the accrual of defined benefits for some or all of their future service.
 6. Any special or contractual termination benefits offered to employees.
- F. Please describe any significant events (for example, plant closings) noted subsequent to the current year's measurement date, and the effects of those events, that could materially affect the amounts shown in B. or C.
- G. If you have been notified of a decision by the plan sponsor to fully or partially terminate the plan, please describe the effect on the APBO and the net periodic postretirement benefit cost.
- H. Was all of the information above determined in accordance with FASB Statement No. 106 to the best of your knowledge? If not, please describe any differences.
- I. Describe the nature of your relationship, if any, with the plan or the plan sponsor that may impair or appear to impair the objectivity of your work.
- J. Indicate your professional qualifications for performing actuarial valuations under FASB Statement No. 106.

Yours very truly,

[Client Official]



CHAPTER 14
STANDARD WORKING PAPERS PACKAGE

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CHAPTER 14

STANDARD WORKING PAPERS PACKAGE

14.000 STANDARD WORKING PAPERS

14.001 This illustrative set of working papers has been developed to assist in the organization, planning and completion of engagements. They are not a substitute for common sense and professional judgment. They are presented as guides for your modification and use in audit and accounting services engagements.

14.002 These standard working papers are not all-inclusive. Other commonly prepared working papers include:

- Detailed trial balance
- Minutes of directors' meetings
- Listings of accounts payable
- Schedules supporting various other balance sheet and earnings statement accounts

14.003 Copies of client-prepared schedules and documents should be used wherever feasible. If possible, clients should be instructed in advance to use these standard working papers when preparing schedules for our use. Any client schedules and documents not conforming in size should be taped on your standard size working papers to facilitate their filing and future use.



14.100

Working Paper Indexing

ASSETS:

A	Cash
B	Accounts and notes receivable
C	Inventories
D	Prepaid expense
E	Securities and investments
F	Other assets
K	Fixed assets and accumulated depreciation
O	Intercompany accounts

OPERATIONS:

TOC	Tests of controls
AP	Analytical procedures
10	Sales
20	Costs of sales
30	Selling expenses
40	General and administrative expenses
50	Other income
60	Other expenses
70	Other

LIABILITIES:

AA	Notes payable and long-term debt
BB	Accounts payable
CC	Accrued expenses and other current liabilities
DD	Income Taxes
GG	Commitments and contingencies
RR	Other noncurrent liabilities
SS	Equity

ILLUSTRATIVE INDEXING:

Lead sheet—fixed assets	K
Summary of additions and deletions	K-1
Individual schedules of additions and deletions	$\frac{K-1}{1}$ $\frac{K-2}{2}$
Supporting documents for individual schedules	$\frac{K-1}{1}$ $\frac{K-2}{2}$

14.102

CORRESPONDENCE CONTROL

				PREPARED BY	
				DATE	
	Addressee	Date First Request	Date Second Request	Date Subsequent Requests	Date Confirmation Completed
Description					
Bank confirmations					
Cutoff statement					
Account balances					
Contingent liabilities					
Credit lines					
Compensating balances					
Securities custodian confirmations					
Notes receivable confirmations					
Accounts Receivable confirmations					
Consigned inventory confirmations					
Warehoused inventory					
Deposit receivable confirmations					
Safe deposit box access confirmations					
Insurance in force confirmations					
Notes payable confirmations					
Accounts payable confirmations					
Customer deposit payable confirmations					
Employee benefit plan confirmations					
Related party confirmations					
Lawyer letters					
Client representation letter					
Other					

14.105

WORKING TRIAL BALANCE - REVENUES, COSTS AND EXPENSES

Working Paper Reference	Description	Final Prior Year	Per Ledger This Year	Adjustments Dr. (CR.)	Adjusted This Year	RECLASSIFICATIONS		Final This Year
						Dr. (CR.)	Dr. (CR.)	
	Revenues:							
	Net sales							
	Other							
	Costs and expenses:							
	Cost of sales							
	Selling expenses							
	General and administrative expenses							
	Interest expense							
	Other							
	Earnings before taxes							
	Provision for taxes:							
	State							
	Federal							
	Current							
	Deferred							
	Net earnings (loss)							

PREPARED BY
DATE

14.112

ACCOUNTS RECEIVABLE CONFIRMATION STATISTICS

				PREPARED BY	
				DATE	
		Number		Dollars	
		Amount	%	Amount	%
Circularization:					
Positive requests					
Negative requests					
Total circularized					
No requests sent					
Total accounts receivable at					
Date of confirmation			100%		100%
Results (Replies received through _____)					
No differences reported:					
Positive replies:					
Negative requests					
Differences reported					
and resolved:					
Positive replies					
Negative replies					
No positive replies					
Total confirmed					

(CONTINUED)

STATEMENT OF CASH FLOWS WORKING PAPER (INDIRECT METHOD) - BALANCE SHEET DATE:

	Balances	Net Change	Reclass. Adj.	Investing Activities		Financing Activities		Noncash Activities	Description	PREPARED BY	DATE
				Cash out	Cash in	Cash out	Cash in				
Liabilities:											
Accounts payable and accrued expenses											
Interest payable (A)											
Income taxes payable											
Short-term debt											
Lease obligation											
Long-term debt											
Deferred taxes											
Other liabilities											
Total Liabilities											
Stockholders' Equity:											
Capital stock											
Retained earnings											
Current earnings											
Total Stockholders' Equity											
Total Liabilities and Stockholders' Equity											
Net cash provided											

14.130

FAS 109 YEAR END RECONCILIATION

WP REF	Prior Year Workpaper DR (CR)	CUMULATIVE Difference DR (CR)	Prior Year Tax Return DR (CR)	CURRENT YEAR			Cumulative Current Year Balance DR (CR)	Tax Rate %	Tax Effect DR (CR)	Valuation Allowance (CR)	FOOTNOTE	PREPARED BY DATE	BALANCE SHEET
				Sch M-1 DR (CR)	Other DR (CR)	Current DR (CR)							
Temporary Difference	A	B	C	D	E	F	G	H	I	J	K		
FUTURE BENEFITS (DR)													
NOL Carryforwards By Origination Year:													
Tax Credit Carryforwards:													
GROSS ASSET													
FUTURE LIABILITIES (CR)													
GROSS LIABILITY													
TOTAL-NET DR (CR)		(1)		(2)	(3)								

(1) Material net differences should be tax effected and a reclassification adjustment made between the income tax payable and deferred tax accounts - see Analysis of Income Taxes Payable

(2) Total change in temporary differences to be shown on tax expense computation workpaper.

(3) All "Other" items must be explained, and, if appropriate, adjustments/reclassifications proposed.

14.131

Deferred Tax Asset Valuation Allowance

		Prepared By	
		Date	
INSTRUCTIONS: Prepare this workpaper whenever there is a gross deferred tax asset. If SCHEDULING of the reversal of the future deductions is required to evaluate recoverability, substitute the year-by-year schedule for this workpaper.			
Gross Deferred Tax Asset From FAS 109 year end reconciliation workpaper		\$	
Less: Income Taxes (Federal and State) Paid or Payable for Current and Immediately Preceding Two Years. (Exclude State Taxes if no carryback is permitted):			
Tax Paid for 19	\$		
Tax Paid for 19	\$		
Tax Paid/Payable for 19	\$		
Total Paid	\$ (A)		
Taxes Refundable accrued at _____, 19 (Year End)		\$	
Net Prior Tax		\$()	
Deferred Tax Asset not recoverable through carryback -- If negative, show ZERO and provide no allowance		\$()	
Less: Gross Deferred Tax Liability from FAS 109 year end reconciliation workpaper		\$()	
Caution: Deferred Tax Liabilities and Assets of separate jurisdiction (e.g., federal vs. state) should not be offset, if material.			
Deferred Tax Asset to be recovered from future taxable income other than reversal of temporary differences -- If negative, show ZERO and provide no allowance		\$()	(B)
Test of Profitability:			
i. If a going concern modification would be applicable to this entity, provide a valuation allowance equal to (B) above.			
ii. Amount from (A) above divided by 3		\$ (C)	
(B) divided by (C)		\$ (D)	
Is (D) greater than 3?		YES	NO
Do the immediately preceding two years show cumulative or zero GAAP earnings?		YES	NO
Is next year expected to have a GAAP loss or be break-even?		YES	NO
Are there unsettled circumstances that make it more than likely that GAAP profits will be significantly below the average profits of the last three years?		YES	NO
If all answers are NO, then no allowance is needed.			
iii. If neither i. nor ii. are applicable, prepare a workpaper analyzing the deferred tax assets and documenting the judgements leading to a partial or full allowance equal to (B).			

14.132

		Tax Expense Computation			Prepared By
					Date
					Reconciliation
		Tax Provision			of Expected to
					Actual
TAX RETURN					
	1.	Income (Loss) Before Income Taxes	\$	@ 34%	\$ Expected Federal Tax Provision
	2.	Change in temporary differences - Net Schedule M-1 Items from FAS 109 Reconciliation			
WP Ref	3.	Permanent Differences: (list)		Permanent Differences:	
		\$		@ 34%	
		\$		@ 34%	
		\$		@ 34%	
		\$		@ 34%	
		\$		@ 34%	
		\$		@ 34%	
		Total Permanent Differences			
	4.	Taxable Income BEFORE STATE TAXES			
	5.	State Income Tax (%) (Use separate worksheet, if necessary, for computation of state income tax)		@66%	State tax, net
	6.	Taxable Income - FEDERAL			
	7.	Federal Tax - Use Separate Worksheet, if necessary			Graduated rates
	8.	Additional accrual/Rounding			Additional accrual/Rounding
	9.	Total Current Provision			
DEFERRED TAX					
	10.	Beginning of Year (FAS 109 Year End Reconciliation times prior year rate PLUS Tax Credit Carryover)			
	11.	End of Year (FAS 109 Year End Reconciliation Column H)			
	12.	Gross Change			
	13.	Less changes related to Equity Items (FAS 109, par 36):			
		Prior Period Adjustments			
		Noncurrent Marketable Securities			
	14.	Net Change		(2)	Rate changes
	15.	Valuation Allowance			
		End of Year			
		Beginning of Year			
		Change in Valuation Allowance			Change in Valuation Allowance - Exclude (1) changes due to expiration or carryforwards and credits, and (2) purchase accounting.
	16.	Total Deferred Provision			Actual Tax Provision - prepare a separate column or workpaper for continuing operations if different than net income.
	17.	Total Provisions	\$		
			=====		
	18.	\$			
			=====		

(1) Note: If DR on FAS 109 year end reconciliation workpaper show as income, if CR on FAS 109 year end reconciliation workpaper show as a deduction.
 (2) If a change in tax rate is included, compute by multiplying the change in rate by the beginning of year, (FAS 109 year end reconciliation workpaper Column C) temporary difference and include in the expected to actual reconciliation.

14.133

ANALYSIS OF INCOME TAXES PAYABLE								
								PREPARED BY:
								DATE:
Federal			State		Additional			
Current	Payable		Current	Payable	Accrual (A)		Deferred	Taxes
DR	CR		DR	CR	DR	CR	DR	CR
1. Beginning balance (per Prior Year adjusted TB)								
2. Payment (Refunds) on 19 Tax Returns:								
Federal								
State								
Subtotal								
								Total
3. 19 Tax Provisions - per books before audit adjustment								
4. 19 Estimates Pd: 1st qtr. Fed								
1st qtr State								
2nd qtr Fed								
2nd qtr State								
3rd qtr Fed								
3rd qtr State								
4th qtr Fed								
4th qtr State								
5. Other Items:								
6. BALANCE per unadjusted trial balance								
7. AJE (to reclass current/deferred per FAS 109 Year end reconciliation, instruction 1								
8. AJE (to adjust to Tax Comp @ tax expense computation workpaper)								
9. Adjusted Balance								
		1			2			(B)
10 Reconciliation of Current Payable								
Federal			State					
Current			Current					
Payable			Payable					
Tax (Credit) per Current Year								
Return or Accrual:								
Estimates Paid:								
Federal								
State								
Balance								
		(1)			(2)			

(A) Entities will not normally have a separate additional accrual account. However, for our workpaper purposes, separately schedule any additional accrual and track it from year to year.

(B) Should be equal to the Total Provision on tax expense computation work paper.

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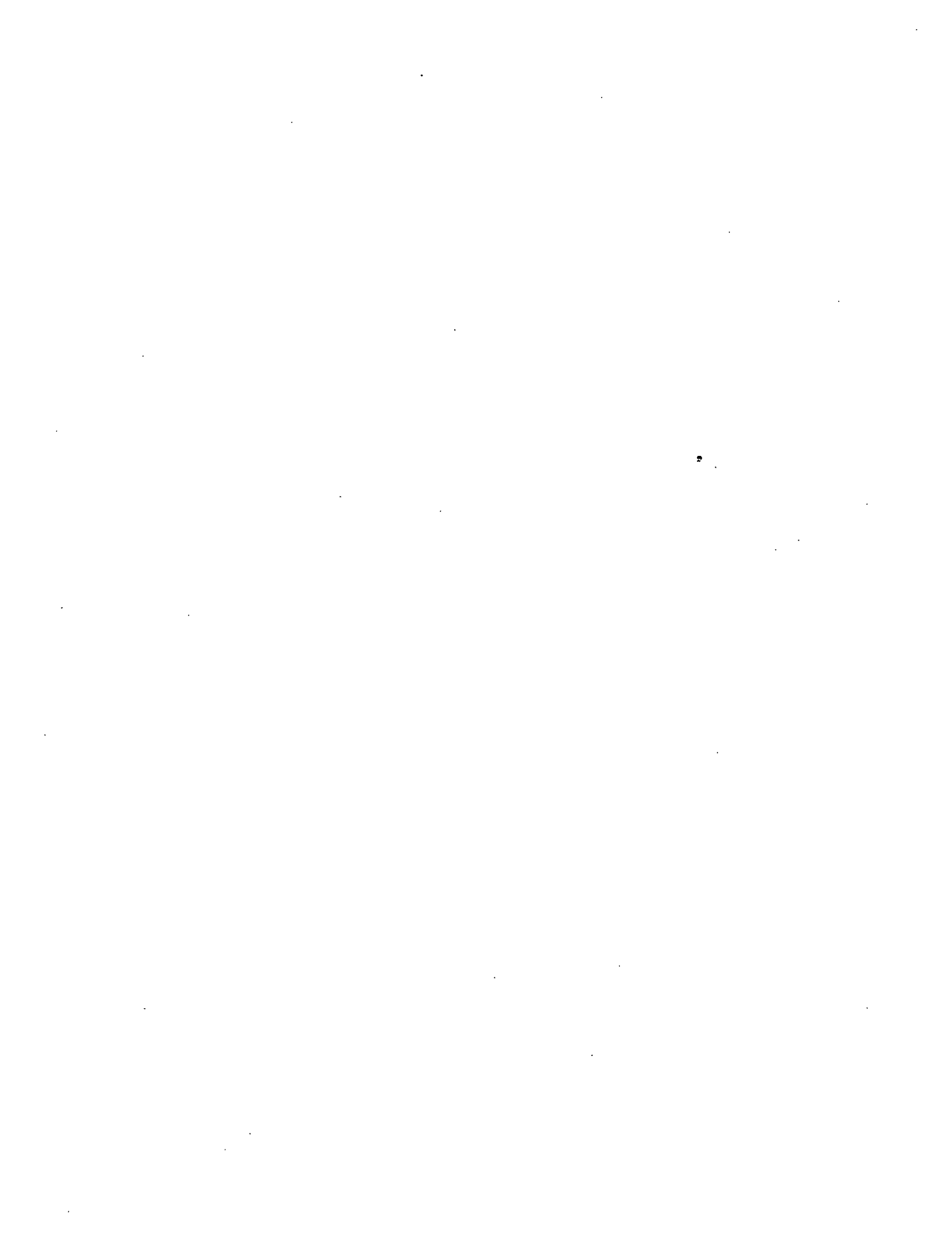
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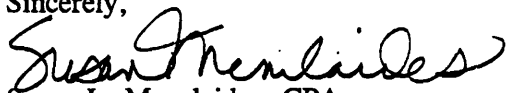
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**Comprehensive Engagement Manual
Letters and Reports for WordPerfect Diskette
and Forms in Lotus Files**

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