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Comprehensive engagement manual, Volume 2: Documentation, part I

George Marthinuss

Luis E. Cabrera

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Comprehensive Engagement Manual

VOLUME 2: Documentation Part I

***Comprehensive
Engagement
Manual***

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VOLUME 2

AICPA

VOLUME 2: Documentation Part I

Comprehensive Engagement Manual

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

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V O L U M E 2

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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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1 2 3 4 5 6 7 8 9 0 T I 9 9 8 7 6 5

**AICPA INTEGRATED PRACTICE SYSTEM
COMPREHENSIVE ENGAGEMENT MANUAL**

TABLE OF CONTENTS

VOLUME ONE – ENGAGEMENT PERFORMANCE

- 1 INTRODUCTION**
- 2 PRE-ENGAGEMENT CONSIDERATIONS AND AUDIT PLANNING**
- 3 THE AUDIT APPROACH: THE ABC SYSTEM OR THE ALL-SUBSTANTIVE APPROACH**
- 4 PERFORMING COMPILATION AND REVIEW ENGAGEMENTS**
- 5 EVIDENCE ACCUMULATION**
- 6 DOCUMENTATION**
- 7 COMPLETING AN AUDIT ENGAGEMENT**
- 8 SUPERVISION AND REVIEW**

INDEX

VOLUME TWO -- DOCUMENTATION -- PART I

- 9 INTRODUCTION**
- 10 DOCUMENTATION MATERIALS FOR AUDIT, REVIEW, AND COMPILATION ENGAGEMENTS**

INDEX

VOLUME THREE – DOCUMENTATION – PART II

- 11 TIME CONTROL DOCUMENTS**
- 12 SUPERVISION AND REVIEW CHECKLISTS**
- 13 CORRESPONDENCE LIST**
- 14 STANDARD WORKING PAPERS PACKAGE**

INDEX

VOLUME FOUR – REPORTING

- 15 INTRODUCTION**
 - 16 FIRM POLICIES AND PROCEDURES**
 - 17 FINANCIAL STATEMENT FORMAT, DISCLOSURES AND TERMINOLOGY**
 - 18 AUDITORS' REPORTS, AND FINANCIAL STATEMENTS AND NOTES
CHECKLISTS**
 - 19 REPORTING ON AUDITED FINANCIAL STATEMENTS**
 - 20 REPORTING ON COMPILATION AND REVIEW ENGAGEMENTS**
 - 21 CONSULTING SERVICES**
 - 22 CONTINUING PROFESSIONAL EDUCATION**
- INDEX**

CHAPTER 9
INTRODUCTION
Table of Contents

<u>Section</u>		<u>Page</u>
9.000	PURPOSE	9-3
9.002	Application	9-3
9.100	ENGAGEMENT DOCUMENTATION PACKAGES	9-3

CHAPTER 9

INTRODUCTION

9.000 PURPOSE

9.001 Volumes 2 and 3 of the *Comprehensive Engagement Manual* contain the documentation for use on audit, review, and compilation engagements. Volume 2 is referred to as *Documentation — Part I*, and Volume 3 is *Documentation — Part II*. The *Engagement Performance* volume (Vol. 1) contains guidance for their use. The engagement documentation included in Volumes 2 and 3 should be modified to comply with the firm's quality control policies and procedures and to fit the circumstances of each engagement.

Application

9.002 These volumes contain documentation designed primarily for accounting and auditing engagements for accrual basis, nonpublic commercial and industrial corporations. Some of the documentation will require modification and supplementation for use by clients in specialized businesses and industries.

9.100 ENGAGEMENT DOCUMENTATION PACKAGES

9.101 To facilitate staff's selection and use of the documentation in these volumes, engagement documentation packages should be prepared as follows:

- Large audit engagements.
- Small audit engagements.
- Review engagements.
- Full-disclosure compilation engagements.
- Disclosures-omitted compilation engagements.

9.102 A complete documentation package should be obtained by the in-charge for use during the engagement planning. Any unused documentation should be returned to the office for future use.

9.103 Individual copies of correspondence forms, illustrative working papers, Tests of Controls Programs, and certain other documentation, as considered necessary, should be prepared and filed for easy staff access and use.

CHAPTER 10
**DOCUMENTATION MATERIALS FOR AUDIT,
REVIEW, AND COMPILATION ENGAGEMENTS**

Table of Contents

<u>Section</u>		<u>Page</u>
10.000	CLIENT ACCEPTANCE AND CONTINUANCE FORM	10-5
10.100	INTERNAL CONTROLS QUESTIONNAIRE	10-13
10.101	RISK OF POTENTIAL MISSTATEMENTS EVALUATION FORM	10-53
10.102	Potential Misstatements Matrix	10-56
10.103	PLANNING MATRIX	10-59
10.200	ALL-SUBSTANTIVE APPROACH QUESTIONNAIRE	10-65
10.201	Use of Questionnaire	10-65
10.202	Instructions	10-65
10.203	All-Substantive Approach Questionnaire	10-67
10.204	All-Substantive Approach Questionnaire — Risk of Potential Misstatements and Impact on Tests of Balances	10-75
10.300	AUDIT PLANNING MEMORANDUM	10-77
10.301	MATERIALITY COMPUTATION FORM	10-81
10.302	SUMMARY OF POSSIBLE JOURNAL ENTRIES FORM	10-85
10.303	FIRST ENGAGEMENT PROCEDURES*	10-87
10.304	ALTMAN ZETA (Z) SCORE CALCULATION FORM	10-91
10.400	TESTS OF CONTROLS PROGRAMS	10-93

* As discussed in Chapter 3, section 3.213, the Analytical Procedures Program in section 10.303 of the 1994 edition of this Manual has been deleted and the related substantive analytical procedures were placed in the Tests of Balances Audit Program in section 10.700, as appropriate.

CHAPTER 10

DOCUMENTATION MATERIALS FOR AUDIT, REVIEW, AND COMPILATION ENGAGEMENTS

Table of Contents (Continued)

<u>Section</u>		<u>Page</u>
10.500	SAMPLING DOCUMENTATION**	
10.501	Random Selection With a Random Table Form	10-123
10.502	Random Selection With a Systematic Sample Form	10-125
10.503	Model Approach Working Paper—Tests of Balances Sampling	10-127
10.504	Audit Sample Evaluation Form—Tests of Balances Sampling	10-129
10.600	EDP DOCUMENTATION***	
10.601	Microcomputer Questionnaire	10-131
10.602	General Computer Controls Questionnaire	10-135
10.650	SERVICE ORGANIZATION DOCUMENTATION***	
10.651	Service Organization Application Controls Questionnaire	10-139
10.652	Service Auditor Report Evaluation Form	10-147
10.700	TESTS OF BALANCES AUDIT PROGRAM	10-151
10.800	CONSULTATION FORM	10-233
10.801	INTERNAL CONTROL STRUCTURE REPORTABLE CONDITIONS FORM	10-235
10.900	COMPILATION AND REVIEW ENGAGEMENTS	
10.901	Form for Documenting Understanding of Client's Business and Industry—Compilation and Review Engagements	10-237

** As discussed in Chapter 3, section 3.500, the sampling guidance in this Manual has been revised to make it easier to comply with the requirements of SAS No. 39, *Audit Sampling*. Accordingly, the following forms appearing in the prior edition of this Manual have been deleted: (1) Sampling Decisions Working Paper, (2) Sample Size Selection and Evaluation Form, (3) Attributes Sampling Summary Form, and (4) Nonstatistical Sample Size Selection Matrix—Tests of Controls.

*** As discussed in Chapter 3, section 3.310, the guidance and documentation for computer processing and service organization controls have been revised to enhance efficiency and to better reflect today's computer environment. Accordingly, the following forms appearing in the prior edition of this Manual have been deleted and replaced with new forms: (1) Small Business Microcomputer Installation Survey Form, (2) Initial Survey of EDP Controls—General Controls, (3) Initial Survey of EDP Controls—In-House System, and (4) Initial Survey of EDP Controls—Service Center-Produced Records Parts I and II.

CHAPTER 10

DOCUMENTATION MATERIALS FOR AUDIT, REVIEW, AND COMPILATION ENGAGEMENTS

Table of Contents (Continued)

<u>Section</u>		<u>Page</u>
10.902	Form for Documenting Understanding of Client's Business and Industry—Supplement for Review Engagements	10-241
10.903	Compilation Engagement Work Program	10-245
10.904	Review Engagement Work Program	10-249
10.905	Review Engagement Analytical Procedures Checklist	10-261
10.906	Review Engagement Checklist	10-265

10.000

Client Acceptance and Continuance Form — Part I
Client: _____
Financial Statement Date: _____

INSTRUCTIONS:

Part I: Part I of this form should be completed for all prospective clients for which audit, review, or compilation services are to be performed. The form should be completed by the in-charge and approved by the engagement partner as a basis for initially accepting the client. Part I should be updated and reviewed annually as a basis for deciding to retain the client.

Part II: Part II of this form should be completed by the engagement partner and concurring partner to document the firm's decision to either accept or reject the client.

CLIENT'S LEGAL NAME:

ADDRESS:

PHONE:

FEDERAL I.D. NO.:	STATE I.D. NO.:
-------------------	-----------------

1. Describe the nature of the client's business (and locations, if other than above address):



CLIENT ACCEPTANCE AND CONTINUANCE FORM—Part I
(Continued)

2. Circle the type of entity (corporation, S corporation, proprietorship, partnership, LLC, or LLP):

3. List key owners, officers, and directors of the client:

Name	% Owned	Position	Family Relationship

4. Identify any related businesses or individuals:

Name	Nature of Relationship

5. Identify the client's predecessor accountants:

Name:
Address:
Phone:
Contact person:

CLIENT ACCEPTANCE AND CONTINUANCE FORM—Part I
(Continued)

6. Indicate the results of our inquiries of the predecessor accountants regarding the following:

- a. Reasons for change of accountants: _____

- b. Integrity of management and owners: _____

- c. Disagreements on accounting principles and auditing, review, or compilation procedures: _____

- d. Fee disputes: _____

7. Describe the client's relationships with financial institutions: _____

Institution	Type of A/C's or Loans	Account Executive & Phone

Results of inquiries: _____

8. Describe the services to be provided: _____

Service	How Often?			Report Deadlines
	Monthly	Quarterly	Annually	



CLIENT ACCEPTANCE AND CONTINUANCE FORM—Part I
(Continued)

9. Will the financial statements and reports be used for high-risk purposes, e.g., reports to regulatory agencies, to obtain or renew significant amounts of credit, or performance bonding, or for sale of the business? If so, describe: _____

10. Read the latest financial statements and tax returns and indicate any unusual items:

11. Describe any potential going-concern problems: _____

12. Identify the client's legal counsel:

Name:
Address:
Phone:
Contact Person:

Results of inquiries: _____

CLIENT ACCEPTANCE AND CONTINUANCE FORM--Part I
(Continued)

13. State name(s) of other third parties contacted and results thereof concerning management's and owners' reputation, attitude, ability, and integrity:

14. Describe any significant engagement performance, accounting, or tax problems with which we should be concerned:

15. Describe any pending litigation against the client or its principals:

16. Describe the fee billing arrangements:

17. Describe any potential independence problems with respect to the client:



CLIENT ACCEPTANCE AND CONTINUANCE FORM—Part I
(Continued)

18. Describe any major changes in the above information since our last evaluation of this client. Also, describe any other matters that have come to our attention that would have caused us to reject the client had we been aware of them at the time of our initial acceptance of this client:

19____ 19____ 19____ 19____ 19____

Prepared or updated by:
In-charge

Reviewed by:
Engagement Partner

Client Acceptance and Continuance Form — Part II
Client: _____ Financial Statement Date: _____

- | | Yes | No |
|--|--------------------------|--------------------------|
| 1. Is there any reason to doubt the integrity of management or owners? | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. Are we aware of any significant disagreements between management or owners and the predecessor accountant? | <input type="checkbox"/> | <input type="checkbox"/> |
| 3. Does there appear to be any potential fee collection problems? | <input type="checkbox"/> | <input type="checkbox"/> |
| 4. Are the client's needs beyond our capabilities or staffing abilities? | <input type="checkbox"/> | <input type="checkbox"/> |
| 5. Are we aware of any independence problems that may affect our ability to meet the client's needs? | <input type="checkbox"/> | <input type="checkbox"/> |
| 6. Are there high-risk factors related to the engagement that may affect our decision to accept the client? | <input type="checkbox"/> | <input type="checkbox"/> |
| 7. Is there a potential problem with management or owners not fully understanding the limitations of the services to be provided (for example, management's expectation that we will be responsible for the detection of fraud)? | <input type="checkbox"/> | <input type="checkbox"/> |

For any "Yes" answers, explain how we plan to mitigate the problem (for example, by assigning more experienced personnel to the engagement, using outside consultants, obtaining a retainer from the client, etc.):

Acceptance Decision:

Yes _____ No _____

Engagement Partner: _____ Date: _____

Concurring Partner: _____ Date: _____

Note:

If you are using the All-Substantive Approach rather than the ABC System, do not use the next three forms, i.e., INTERNAL CONTROLS QUESTIONNAIRE, RISK OF POTENTIAL MISSTATEMENTS EVALUATION FORM, and PLANNING MATRIX; rather, use the ALL-SUBSTANTIVE APPROACH QUESTIONNAIRE in Section 10.200, then go to Section 10.300 — Audit Planning Memorandum.

10.100 INTERNAL CONTROLS QUESTIONNAIRE

Use of Questionnaire

This Questionnaire should be completed for all engagements using the ABC System. It is divided into the following sections:

- I. Cash.
- II. Accounts receivable confirmations and alternative procedures, and sales cutoff.
- III. Vouching and inspecting fixed assets, search for unrecorded liabilities, purchases cutoff, and expense account analysis.
- IV. Payroll tests.
- V. Part I Physical inventory observation, and pricing and clerical tests—no perpetual inventory records.
- V. Part II Physical inventory observation, and pricing and clerical tests—perpetual inventory records.
- VI. All areas.

Each of the six sections is further divided into three levels: Accounting System (System C); Primary Controls (System B); and Secondary Controls (System A).

System C will result in control risk being assessed at the maximum or slightly below the maximum for most financial statement assertions. The absence of significant aspects of an effective accounting system may mean the client's system is not auditable or that significant reconstruction of records must take place before the audit begins.

System B includes an adequate accounting system and significant primary control procedures, which allows control risk to be assessed at a moderate level for some financial statement assertions.

System A has a well-designed control environment, accounting system, and primary and secondary control policies and procedures. This system allows control risk to be assessed at a moderate or low level.

INSTRUCTIONS:

Whenever possible, the Internal Controls Questionnaire should be completed by the client. This questionnaire should be used to select the standard system classification and the related Tests of Controls Programs for each major audit area.

If a client's records and procedures consist only of an accounting system and few significant control procedures, the system should be classified as a System C. As a result, control risk for the related financial statement assertions would be assessed at the maximum or slightly below the maximum.

Existence of an accounting system and primary and secondary control procedures (System A) allows control risk to be assessed at a moderate or low level for the related financial statement assertions. Consequently, these systems allow for maximum opportunities for tests of controls and resulting lower levels of tests of balances.

INTERNAL CONTROLS QUESTIONNAIRE (Continued)

The existence of an accounting system and significant primary control procedures, but no significant secondary control procedures (System B) allows for assessment of control risk at a moderate level and, therefore, requires some tests of controls. These lower assessed levels of control risk allow for reductions in the related Test of Balances Program.

The client's systems may contain owner or manager controls. The term "manager", as used in this questionnaire, describes a person performing internal verification functions. That person may be the owner, a general manager, controller, bookkeeper, foreman, or other employee.

The systems selected in this questionnaire should be transferred to the Planning Matrix.



Internal Controls Questionnaire	Section I
Client: _____	
Financial Statement Date: _____	

MAJOR AUDIT AREA: Cash.

TRANSACTION CYCLES: 1. Collections.
 2. Payments.

INTERNAL CONTROL PROCEDURES:

Personnel Yes No N/A

(Answers to questions should be transferred from Section II for collections and from Section III for payments.)

ACCOUNTING SYSTEM CONTROLS (SYSTEM C)

Collections

- | | | | | |
|---|-------|-------|-------|-------|
| 1. A balancing cash receipts journal is maintained. | _____ | _____ | _____ | _____ |
| 2. Records of payments on accounts receivable by customer are maintained (prenumbered sales tickets, remittance advices, or duplicate deposit slips). | _____ | _____ | _____ | _____ |
| 3. Over-the-counter receipts are controlled by prenumbered sales or receipt tickets, or cash register tapes. | _____ | _____ | _____ | _____ |
| 4. Cash receipts are deposited intact. | _____ | _____ | _____ | _____ |
| 5. Cash receipts are deposited in separate bank accounts, when required. | _____ | _____ | _____ | _____ |
| 6. The individual(s) who opens the mail makes a log of cash receipts before the cash is routed to others. | _____ | _____ | _____ | _____ |
| 7. Sales invoices and credit memos are prenumbered. | _____ | _____ | _____ | _____ |



INTERNAL CONTROLS QUESTIONNAIRE
SECTION I (Continued)

	<u>Personnel</u>	<u>Yes</u>	<u>No</u>	<u>N/A</u>
Payments				
1. A balancing cash disbursements journal is maintained.	_____	_____	_____	_____
2. Cash disbursements are made by check (except for petty cash).	_____	_____	_____	_____
3. Cash disbursements are supported by vendors' invoices or other external documents.	_____	_____	_____	_____
4. Bank reconciliations are prepared for all accounts.	_____	_____	_____	_____

PRIMARY CONTROLS (SYSTEM B)

Collections

1. A restrictive endorsement is placed on all checks when received.	_____	_____	_____	_____
2. Cash receipts are deposited intact, daily.	_____	_____	_____	_____
3. Over-the-counter receipts are controlled by a cash register or prenumbered sales or receipts tickets.	_____	_____	_____	_____
4. Cash receipts are recorded in the receipts journal as received.	_____	_____	_____	_____
5. Persons directly receiving cash are independent of general ledger, cash receipts journal, and accounts receivable subsidiary ledger posting functions.	_____	_____	_____	_____
6. The bank reconciliation is prepared by the owner or manager or someone independent of the cash receipts function.	_____	_____	_____	_____
7. The cash receipts are posted to an accounts receivable subsidiary ledger.	_____	_____	_____	_____
8. The subledger is posted, balanced and reconciled to the general ledger monthly.	_____	_____	_____	_____
9. Cash discounts are approved by the owner or manager.	_____	_____	_____	_____



INTERNAL CONTROLS QUESTIONNAIRE
SECTION I (Continued)

	<u>Personnel</u>	<u>Yes</u>	<u>No</u>	<u>N/A</u>
10. Voided receipt forms, sales invoices, and credit memos are adequately defaced and are retained.	_____	_____	_____	_____

Payments

1. All checks are signed by the owner or manager.	_____	_____	_____	_____
2. The check signer compares data on supporting documents to checks.	_____	_____	_____	_____
3. Checks are recorded in the disbursements journal or other record as prepared.	_____	_____	_____	_____
4. Checks are prenumbered and accounted for.	_____	_____	_____	_____
5. An imprest petty cash fund is in use.	_____	_____	_____	_____
6. All invoices are approved for payment by the owner or manager.	_____	_____	_____	_____
7. Checks are prepared by the owner or manager or persons independent of vendor invoice approval.	_____	_____	_____	_____
8. Checks are signed based on approved invoices (not signed in advance).	_____	_____	_____	_____

SECONDARY CONTROLS (SYSTEM A)

Collections

1. Incoming mail is received, opened and logged by at least two individuals, each independent of the over-the-counter cash collections, cash receipts journal, general journal entry, and accounts receivable functions.	_____	_____	_____	_____
2. Persons receiving cash over-the-counter are independent of the mail opening, deposits, general ledger, cash receipts journal, and accounts receivable subledger posting functions.	_____	_____	_____	_____





INTERNAL CONTROLS QUESTIONNAIRE
SECTION I (Continued)

	<u>Personnel</u>	<u>Yes</u>	<u>No</u>	<u>N/A</u>
3. A person independent of cash receipts or posting functions reconciles over-the-counter receipts to accompanying detail such as cash register tapes, receipts tickets, etc.	_____	_____	_____	_____
4. Collections made by sales personnel are adequately controlled.	_____	_____	_____	_____
5. Account codings are reviewed by someone other than the preparer.	_____	_____	_____	_____
6. The bank reconciliation is reviewed by the owner or manager.	_____	_____	_____	_____
7. A restrictive endorsement is placed on all checks when received.	_____	_____	_____	_____
8. Deposits are prepared by a person independent of the mail opening and listing function.	_____	_____	_____	_____
9. Items returned by the bank are received and opened by a person independent of the functions of handling or recording cash receipts.	_____	_____	_____	_____
10. Prenumbered cash receipts tickets are accounted for.	_____	_____	_____	_____
11. When hiring individuals who will be involved with handling of incoming mail or the handling or recording of cash receipts, the owner or manager checks applicants' references or otherwise attempts to evaluate their integrity.	_____	_____	_____	_____

Payments

1. All supporting documents are canceled after check signing by the check signer or independent person to prevent duplicate payment.	_____	_____	_____	_____
2. The numerical sequence of checks issued is accounted for by someone independent of the preparation function.	_____	_____	_____	_____
3. Checks are mailed by the owner or manager or a person under his supervision after signing.	_____	_____	_____	_____



INTERNAL CONTROLS QUESTIONNAIRE
SECTION I (Continued)

	<u>Personnel</u>	<u>Yes</u>	<u>No</u>	<u>N/A</u>
4. Cash disbursements are posted to an accounts payable subledger.	_____	_____	_____	_____
5. The accounts payable subledger is posted, balanced, and reconciled to the general ledger monthly.	_____	_____	_____	_____
6. The bank reconciliation is prepared by the owner or manager or a person independent of the check-signing function.	_____	_____	_____	_____
7. Bank reconciliations are reviewed by the owner or manager.	_____	_____	_____	_____
8. The check preparation function is independent of purchases journal, general ledger, and accounts payable subledger posting functions.	_____	_____	_____	_____
9. Account codings are reviewed by someone other than the preparer.	_____	_____	_____	_____
10. Bank statements and enclosures are received and reviewed by the owner or manager before reconciliation.	_____	_____	_____	_____
11. A check protector is used.	_____	_____	_____	_____
12. Access to blank checks is limited to persons authorized to prepare checks.	_____	_____	_____	_____

Other comments:





INTERNAL CONTROLS QUESTIONNAIRE
SECTION I (Continued)

System selection (circle one):

System A¹

System B²

System C³

Modification of standard tests:

19____ 19____ 19____ 19____ 19____

Prepared by:

Client

In-Charge

Reviewed by:

Engagement Partner

-
- (1) Represents a decision to assess control risk at a moderate or low level for most financial statement assertions.
 - (2) Represents a decision to assess control risk at a moderate level for some of the financial statement assertions.
 - (3) Represents a decision to assess control risk at the maximum or slightly below the maximum for most financial statement assertions.



Internal Controls Questionnaire	Section II
Client: _____ Financial Statement Date: _____	

MAJOR AUDIT AREAS: 1. Accounts receivable and alternative procedures confirmations.
 2. Sales cutoff.

TRANSACTION CYCLES: Collections and sales.

INTERNAL CONTROL PROCEDURES:

	Personnel	Yes	No	N/A
ACCOUNTING SYSTEM (SYSTEM C)				
Collections				
1. A balancing cash receipts journal is maintained.	_____	_____	_____	_____
2. Records of payments on accounts receivable by customer are maintained (prenumbered sales tickets, remittance advices, or duplicate deposit slips).	_____	_____	_____	_____
3. Over-the-counter receipts are controlled by prenumbered sales or receipt tickets, or cash register tapes.	_____	_____	_____	_____
4. Cash receipts are deposited intact.	_____	_____	_____	_____
5. Cash receipts are deposited in separate bank accounts, when required.	_____	_____	_____	_____
6. The individual(s) who opens the mail makes a log of cash receipts before the cash is routed to others.	_____	_____	_____	_____
7. Bank accounts are reconciled monthly.	_____	_____	_____	_____
8. Sales invoices and credit memos are prenumbered.	_____	_____	_____	_____





INTERNAL CONTROLS QUESTIONNAIRE
SECTION II (Continued)

	<u>Personnel</u>	<u>Yes</u>	<u>No</u>	<u>N/A</u>
Sales				
1. Billings for sales are promptly recorded.	_____	_____	_____	_____
2. Prenumbered sales invoices evidencing shipping date and/or shipping reports are prepared.	_____	_____	_____	_____
3. Copies of sales invoices, reimbursement requests, or customer statements are mailed periodically.	_____	_____	_____	_____
4. Sales are documented, such as by cash register tapes or prenumbered sales invoices.	_____	_____	_____	_____
5. Procedures exist for deferral of unearned amounts, such as customer deposits or prorated service fees.	_____	_____	_____	_____
6. The accounting system identifies and captures reimbursable costs to facilitate the billing process.	_____	_____	_____	_____

PRIMARY CONTROLS (SYSTEM B)

Collections

1. A restrictive endorsement is placed on all checks when received.	_____	_____	_____	_____
2. Cash receipts are deposited intact, daily.	_____	_____	_____	_____
3. Over-the-counter receipts are controlled by a cash register tape or prenumbered sales or receipts tickets.	_____	_____	_____	_____
4. Cash receipts are recorded in the receipts journal as received.	_____	_____	_____	_____
5. Persons directly receiving cash are independent of general ledger, cash receipts journal, and accounts receivable subsidiary ledger posting functions.	_____	_____	_____	_____



INTERNAL CONTROLS QUESTIONNAIRE
SECTION II (Continued)

	<u>Personnel</u>	<u>Yes</u>	<u>No</u>	<u>N/A</u>
6. The bank reconciliation is prepared by the owner or manager or someone independent of the cash receipts function.	_____	_____	_____	_____
7. The cash receipts are posted to an accounts receivable subsidiary ledger.	_____	_____	_____	_____
8. The subledger is posted, balanced, and reconciled to the general ledger monthly.	_____	_____	_____	_____
9. Cash discounts are approved by the owner or manager.	_____	_____	_____	_____
10. Voided receipt forms, sales invoices, and credit memos are adequately defaced and are retained.	_____	_____	_____	_____
Sales				
1. Recording of sales is supported by prenumbered sales invoices, which are safeguarded.	_____	_____	_____	_____
2. Monthly statements or sales invoice copies are sent to customers.	_____	_____	_____	_____
3. Sales are recorded in a sales journal in the period shipped, or in accordance with shipping terms, if different.	_____	_____	_____	_____
4. The owner or manager approves all credit sales.	_____	_____	_____	_____
5. Prenumbered credit memos are safeguarded and accounted for.	_____	_____	_____	_____
6. Prenumbered shipping documents are safeguarded and accounted for.	_____	_____	_____	_____
7. Procedures are established to determine that all reimbursable costs are billed.	_____	_____	_____	_____
8. The sales journal is posted to an accounts receivable subledger.	_____	_____	_____	_____
9. The accounts receivable subledger is posted, balanced, and reconciled to the general ledger monthly.	_____	_____	_____	_____





INTERNAL CONTROLS QUESTIONNAIRE
SECTION II (Continued)

	<u>Personnel</u>	<u>Yes</u>	<u>No</u>	<u>N/A</u>
10. The owner or manager approves all discounts, allowances, and bad-debt write-offs.	_____	_____	_____	_____

SECONDARY CONTROLS (SYSTEM A)

Collections

1. Incoming mail is received, opened and logged by at least two individuals, each independent of the over-the-counter cash collections, cash receipts journal, general journal entry, and accounts receivable functions.	_____	_____	_____	_____
2. Persons receiving cash over-the-counter are independent of the mail opening, deposits, general ledger, cash receipts journal, and accounts receivable subledger posting functions.	_____	_____	_____	_____
3. A person independent of cash receipts or posting functions reconciles over-the-counter receipts to accompanying detail such as cash register tapes, receipts tickets, etc.	_____	_____	_____	_____
4. Collections made by sales personnel are adequately controlled.	_____	_____	_____	_____
5. Account codings are reviewed by someone other than the preparer.	_____	_____	_____	_____
6. The bank reconciliation is reviewed by the owner or manager.	_____	_____	_____	_____
7. A restrictive endorsement is placed on all checks when received.	_____	_____	_____	_____
8. Deposits are prepared by a person independent of the mail opening and listing function.	_____	_____	_____	_____
9. Items returned by the bank are received and opened by a person independent of the functions of handling or recording cash receipts.	_____	_____	_____	_____
10. Prenumbered cash receipts tickets are accounted for.	_____	_____	_____	_____



INTERNAL CONTROLS QUESTIONNAIRE
SECTION II (Continued)

	<u>Personnel</u>	<u>Yes</u>	<u>No</u>	<u>N/A</u>
11. When hiring individuals who will be involved with handling of incoming mail or the handling or recording of cash receipts, the owner or manager checks applicants' references or otherwise attempts to evaluate their integrity.	_____	_____	_____	_____
Sales				
1. Prenumbered shipping documents are prepared to support recording of sales.	_____	_____	_____	_____
2. The owner or manager reviews customer statements or invoices.	_____	_____	_____	_____
3. Sales invoices are matched with shipping reports and are posted to the sales journal by a person independent of the shipping or sales functions.	_____	_____	_____	_____
4. The person posting the sales journal and general ledger is independent of the accounts receivable subsidiary ledger posting function and/or the owner, manager or other independent person periodically reconciles the subsidiary ledger to the general ledger.	_____	_____	_____	_____
5. Prenumbered credit memos are used.	_____	_____	_____	_____
6. A monthly aged analysis of accounts receivable is reviewed by the owner or manager.	_____	_____	_____	_____
7. Bad debts written off are controlled by a person who does not have access to cash or by the owner or manager.	_____	_____	_____	_____
8. Account codings are reviewed by a person independent of the preparer.	_____	_____	_____	_____
9. The owner or manager follows up on customer complaints.	_____	_____	_____	_____
10. A sales price list is approved by the owner or manager and is in use.	_____	_____	_____	_____
11. Sales invoices and credit memo prices and calculations are doublechecked by a person independent of the preparer.	_____	_____	_____	_____
12. Prenumbered credit memos are accounted for.	_____	_____	_____	_____





**INTERNAL CONTROLS QUESTIONNAIRE
SECTION II (Continued)**

	<u>Personnel</u>	<u>Yes</u>	<u>No</u>	<u>N/A</u>
13. Prenumbered shipping documents are accounted for.	_____	_____	_____	_____
14. Prenumbered sales invoices are accounted for.	_____	_____	_____	_____

Other comments:

System selection (circle one):

System A¹ System B² System C³

Modification of standard tests:

	19_____	19_____	19_____	19_____	19_____
Prepared by:					
Client	_____	_____	_____	_____	_____
In-Charge	_____	_____	_____	_____	_____
Reviewed by:					
Engagement Partner	_____	_____	_____	_____	_____

-
- (1) Represents a decision to assess control risk at a moderate or low level for most financial statement assertions.
 - (2) Represents a decision to assess control risk at a moderate level for some of the financial statement assertions.
 - (3) Represents a decision to assess control risk at the maximum or slightly below the maximum for most financial statement assertions.



Internal Controls Questionnaire	Section III
Client: _____	
Financial Statement Date: _____	

- MAJOR AUDIT AREAS:
1. Vouching and inspecting fixed assets.
 2. Search for unrecorded liabilities.
 3. Purchase cutoff.
 4. Expense analysis.

TRANSACTION CYCLES: Payments and acquisitions.

INTERNAL CONTROL PROCEDURES:

	<u>Personnel</u>	<u>Yes</u>	<u>No</u>	<u>N/A</u>
ACCOUNTING SYSTEM (SYSTEM C)				
Payments				
1. A balancing cash disbursements journal is maintained for each bank account.	_____	_____	_____	_____
2. Cash disbursements are made by check (except for petty cash).	_____	_____	_____	_____
3. Cash disbursements are supported by vendors' invoices or other external documents.	_____	_____	_____	_____
4. Bank reconciliations are prepared timely for all bank accounts.	_____	_____	_____	_____
Acquisitions				
1. Vendor invoices, or receiving reports, contain the date goods were received.	_____	_____	_____	_____
2. Unpaid vendor invoices are filed separately from paid invoices.	_____	_____	_____	_____





INTERNAL CONTROLS QUESTIONNAIRE
SECTION III (Continued)

	<u>Personnel</u>	<u>Yes</u>	<u>No</u>	<u>N/A</u>
PRIMARY CONTROLS (SYSTEM B)				
Payments				
1. All checks are approved and signed by the owner or manager.	_____	_____	_____	_____
2. The check signer compares data on supporting documents to checks.	_____	_____	_____	_____
3. Checks are recorded in the disbursements journal or other record as prepared.	_____	_____	_____	_____
4. Checks are prenumbered and accounted for.	_____	_____	_____	_____
5. An imprest petty cash fund is in use.	_____	_____	_____	_____
6. Bank reconciliations are prepared by someone independent of all cash disbursement functions.	_____	_____	_____	_____
7. All invoices are approved for payment by the owner or manager.	_____	_____	_____	_____
8. Bank transfers are scheduled, and investigated to ascertain that both sides of the transaction are recorded.	_____	_____	_____	_____
9. Checks are prepared by the owner or manager or persons independent of the vendor invoice approval function.	_____	_____	_____	_____
10. The practice of cashing checks out of cash receipts is prohibited.	_____	_____	_____	_____
11. Checks are signed based on approved invoices (not signed in advance).	_____	_____	_____	_____
12. Voided checks are adequately defaced and are easily accessible for review.	_____	_____	_____	_____
Acquisitions				
1. Vendors' invoices or other documents are included as support for all purchases.	_____	_____	_____	_____



INTERNAL CONTROLS QUESTIONNAIRE
SECTION III (Continued)

	<u>Personnel</u>	<u>Yes</u>	<u>No</u>	<u>N/A</u>
2. Vendors' invoices are recalculated prior to payment.	_____	_____	_____	_____
3. All purchases are approved by the owner or manager.	_____	_____	_____	_____
4. A purchases journal is maintained and transactions are recorded on the accrual basis.	_____	_____	_____	_____
5. Vendors are approved by the owner or manager.	_____	_____	_____	_____
6. An account payable subsidiary ledger is maintained and is reconciled to the general ledger monthly.	_____	_____	_____	_____

SECONDARY CONTROLS (SYSTEM A)

Payments

1. All supporting documents are canceled after check signing by the check signer or independent person to prevent duplicate payment.	_____	_____	_____	_____
2. The numerical sequence of checks issued is accounted for by someone independent of the preparation function.	_____	_____	_____	_____
3. Checks are mailed by the owner or manager or a person independent of recording cash disbursements.	_____	_____	_____	_____
4. Cash disbursements are posted to an accounts payable subledger.	_____	_____	_____	_____
5. The accounts payable subledger is posted, balanced, and reconciled to the general ledger monthly.	_____	_____	_____	_____
6. The bank reconciliation is prepared by the owner or manager or a person independent of the check-signing function.	_____	_____	_____	_____
7. Bank reconciliations are reviewed by the owner or manager.	_____	_____	_____	_____
8. The check preparation function is independent of purchases journal, general ledger, and accounts payable subledger posting functions.	_____	_____	_____	_____



INTERNAL CONTROLS QUESTIONNAIRE
SECTION III (Continued)

	<u>Personnel</u>	<u>Yes</u>	<u>No</u>	<u>N/A</u>
9. Account codings are reviewed by someone other than the preparer.	_____	_____	_____	_____
10. Bank statements and enclosures are received and reviewed by the owner or manager before reconciliation.	_____	_____	_____	_____
11. Dual authorization is required for large disbursements.	_____	_____	_____	_____
12. A check protector is used.	_____	_____	_____	_____
13. Access to blank checks is limited to persons authorized to prepare checks.	_____	_____	_____	_____
Acquisitions				
1. Prenumbered receiving reports are prepared as support for purchases.	_____	_____	_____	_____
2. All supporting documents are marked in a way to prevent re-entry in purchases journal.	_____	_____	_____	_____
3. Purchases are posted to an accounts payable subledger.	_____	_____	_____	_____
4. The accounts payable subledger is posted and reconciled to the general ledger monthly.	_____	_____	_____	_____
5. The person posting the purchases journal and general ledger is independent of the accounts payable subledger posting function and/or the owner, manager or other independent person reconciles the subledger to the general ledger.	_____	_____	_____	_____
6. All supporting documents are matched by a person independent of the ordering function, or the owner or manager, before entry in the purchases journal.	_____	_____	_____	_____
7. Account codings are reviewed by someone other than the preparer.	_____	_____	_____	_____
8. Prenumbered purchase requisitions or purchase orders are prepared as authorization for purchases.	_____	_____	_____	_____
9. Approved price lists are in use.	_____	_____	_____	_____



INTERNAL CONTROLS QUESTIONNAIRE
SECTION III (Continued)

	<u>Personnel</u>	<u>Yes</u>	<u>No</u>	<u>N/A</u>
10. The numerical sequence of receiving reports is accounted for by a person independent of the preparation function.	_____	_____	_____	_____
11. The numerical sequence of purchase requisitions and purchase orders is accounted for by a person independent of the preparation function.	_____	_____	_____	_____
12. Accounts payable subledger balances are periodically reconciled to vendors' statements by a person independent of the ordering and payments functions.	_____	_____	_____	_____
13. A voucher system with prenumbered vouchers approved by the owner or manager is in use.	_____	_____	_____	_____

Other comments:

System selection (circle one):

System A¹ System B² System C³

Modification of standard tests (use reverse side if necessary):

- (1) Represents a decision to assess control risk at a moderate or low level for most financial statement assertions.
- (2) Represents a decision to assess control risk at a moderate level for some of the financial statement assertions.
- (3) Represents a decision to assess control risk at the maximum or slightly below the maximum for most financial statement assertions.





INTERNAL CONTROLS QUESTIONNAIRE
SECTION III (Continued)

19____ 19____ 19____ 19____ 19____

Prepared by:

Client

In-Charge

Reviewed by:

Engagement Partner





Internal Controls Questionnaire	Section IV
Client: _____ Financial Statement Date: _____	

MAJOR AUDIT AREA: Payroll tests.

TRANSACTION CYCLES: Payroll and personnel.

INTERNAL CONTROL PROCEDURES:

	<u>Personnel</u>	<u>Yes</u>	<u>No</u>	<u>N/A</u>
ACCOUNTING SYSTEM (SYSTEM C)				
1. A payroll journal is prepared and balanced.	_____	_____	_____	_____
2. Payroll disbursements are made by check.	_____	_____	_____	_____
3. Labor is classified by category, e.g., manufacturing or administrative.	_____	_____	_____	_____
4. Employees' time records are maintained.	_____	_____	_____	_____
5. W-4 forms are maintained.	_____	_____	_____	_____
6. Employees' earnings records are maintained.	_____	_____	_____	_____
7. A payroll bank account reconciliation is prepared.	_____	_____	_____	_____
8. Wage rates are authorized by the owner or manager (at least verbally).	_____	_____	_____	_____
PRIMARY CONTROLS (SYSTEM B)				
1. Time cards are prepared by employees.	_____	_____	_____	_____





INTERNAL CONTROLS QUESTIONNAIRE
SECTION IV (Continued)

	Personnel	Yes	No	N/A
2. The owner or manager approves:				
a. Rates of pay.				
b. Withholdings.				
c. Changes in above.				
3. The payroll bank account reconciliation is prepared by someone independent of payroll preparation and check signing or by the owner or manager.				
4. Payroll checks are prenumbered and accounted for.				
5. Checks are recorded in the payroll journal as prepared.				
6. Payroll journals are posted at least monthly to employees' earnings records.				
7. Payroll checks are signed by the owner or manager.				
8. Time cards are approved by a foreman, manager or owner.				
9. The payroll bank account reconciliation is approved by the owner or manager.				

SECONDARY CONTROLS (SYSTEM A)

1. A time clock is used to record time or time is logged by someone independent of payroll preparation, check-signing or distribution functions.				
2. An imprest payroll bank account is used.				
3. All payroll calculations are checked by an independent person.				
4. Employees' earnings records are periodically reconciled to the general ledger by persons independent of payroll preparation and distribution.				



INTERNAL CONTROLS QUESTIONNAIRE
SECTION IV (Continued)

	<u>Personnel</u>	<u>Yes</u>	<u>No</u>	<u>N/A</u>
5. Account codings are reviewed by someone other than preparer.	_____	_____	_____	_____
6. Adequate personnel files are maintained.	_____	_____	_____	_____
7. Payroll checks are accounted for by a person independent of the preparation function.	_____	_____	_____	_____
8. Payroll is prepared by persons independent of time card approval, check signing, and check distribution.	_____	_____	_____	_____
9. Payroll bank account reconciliation is reviewed by the owner or manager.	_____	_____	_____	_____
10. Unclaimed payroll checks are followed up on by the owner or manager.	_____	_____	_____	_____

Other comments:





INTERNAL CONTROLS QUESTIONNAIRE
SECTION IV (Continued)

System selection (circle one):

System A¹

System B²

System C³

Modification of standard tests:

19____ 19____ 19____ 19____ 19____

Prepared by:

Client

In-Charge

Reviewed by:

Engagement Partner

-
- (1) Represents a decision to assess control risk at a moderate or low level for most financial statement assertions.
 - (2) Represents a decision to assess control risk at a moderate level for some of the financial statement assertions.
 - (3) Represents a decision to assess control risk at the maximum or slightly below the maximum for most financial statement assertions.



Internal Controls Questionnaire	Section V — Part I
Client: _____ Financial Statement Date: _____	

MAJOR AUDIT AREAS: 1. Physical inventory.
 2. Pricing and clerical tests.

TRANSACTION CYCLE: No perpetual inventory records
 maintained—inventory and warehousing.

INTERNAL CONTROL PROCEDURES:

Personnel	Yes	No	N/A
------------------	------------	-----------	------------

(Controls apply to annual inventory taking.)

ACCOUNTING SYSTEM (SYSTEM C)

- | | | | | |
|--|--|--|--|--|
| 1. An annual physical inventory is taken and adequate count records (tags or sheets) are maintained. | | | | |
| 2. Adequate records of inventory pricing and summary are maintained. | | | | |
| 3. The inventory count is taken, checked, or supervised by the owner or manager. | | | | |

PRIMARY CONTROLS (SYSTEM B)

- | | | | | |
|---|--|--|--|--|
| 1. Obsolete and consigned goods are excluded from the count. | | | | |
| 2. Good physical cutoff procedures are utilized to insure an accurate count and recording of inventory. | | | | |
| 3. Physical inventory counters are given adequate instructions for an accurate count. | | | | |





INTERNAL CONTROLS QUESTIONNAIRE
SECTION V — Part I (Continued)

	<u>Personnel</u>	<u>Yes</u>	<u>No</u>	<u>N/A</u>
SECONDARY CONTROLS (SYSTEM A)				
1. Written inventory instructions are prepared and used.	_____	_____	_____	_____
2. The receiving department inspects the quantity and quality of materials when receiving reports are prepared.	_____	_____	_____	_____
3. Raw materials, work-in-process, and finished goods are stored under good physical controls.	_____	_____	_____	_____
4. The following functions are doublechecked on a test basis by an independent person:	_____	_____	_____	_____
a. Original inventory counts and recording of quantities.	_____	_____	_____	_____
b. Pricing of inventory items.	_____	_____	_____	_____
c. Extending and footing of inventory sheets and/or summaries.	_____	_____	_____	_____
d. Footing of sheets' or summaries' page totals to grand totals.	_____	_____	_____	_____

Other comments:

System selection (circle one):

System A¹

System B²

System C³

- (1) Represents a decision to assess control risk at a moderate or low level for most financial statement assertions.
- (2) Represents a decision to assess control risk at a moderate level for some of the financial statement assertions.
- (3) Represents a decision to assess control risk at the maximum or slightly below the maximum for most financial statement assertions.



INTERNAL CONTROLS QUESTIONNAIRE
SECTION V — Part I (Continued)

Modification of standard tests:

19____ 19____ 19____ 19____ 19____

Prepared by:

Client

In-Charge

Reviewed by:

Engagement Partner



Internal Controls Questionnaire

Section V — Part II

Client: _____

Financial Statement Date: _____

- MAJOR AUDIT AREAS:
1. Physical inventory.
 2. Inventory pricing and clerical tests.

TRANSACTION CYCLE: Perpetual inventory records maintained—
inventory and warehousing.

INTERNAL CONTROL PROCEDURES:

	<u>Personnel</u>	<u>Yes</u>	<u>No</u>	<u>N/A</u>
ACCOUNTING SYSTEM (SYSTEM B — There is no System C)				
1. All inventory movements and inventory withdrawals are recorded in the perpetual records and the general ledger.	_____	_____	_____	_____
2. Production activity is controlled by a report of the production process.	_____	_____	_____	_____
3. Excess, obsolete, and slow-moving inventory is periodically identified and removed from the perpetual records and the general ledger.	_____	_____	_____	_____
4. Prenumbered raw material requisitions are prepared for all raw materials used in production.	_____	_____	_____	_____
5. Withdrawals from inventory are based on prenumbered finished inventory requisitions and/or prenumbered shipping reports.	_____	_____	_____	_____
6. All inventory write-offs are approved by the owner or manager.	_____	_____	_____	_____



INTERNAL CONTROLS QUESTIONNAIRE
SECTION V—Part II (Continued)

	<u>Personnel</u>	<u>Yes</u>	<u>No</u>	<u>N/A</u>
7. All perpetual records are subjected to physical inventories at least annually.	_____	_____	_____	_____
8. Physical inventory counters are given adequate instructions.	_____	_____	_____	_____
9. Physical inventory records are posted to date of counts to obtain a good cutoff.	_____	_____	_____	_____

SECONDARY CONTROLS (SYSTEM A)

1. All classes of inventory are stored under good physical safeguards.	_____	_____	_____	_____
2. Materials costs, labor charges, and overhead costs are recorded in the perpetual records and the general ledger.	_____	_____	_____	_____
3. For a standard cost system:				
a. Significant variances are reported timely.	_____	_____	_____	_____
b. Standards are reviewed at least annually.	_____	_____	_____	_____
c. The system interfaces with the general ledger.	_____	_____	_____	_____
4. Periodic physical counts are made and agreed to perpetual records by persons independent of the inventory and warehousing functions or by the owner or manager.	_____	_____	_____	_____
5. Written instructions are prepared and used for periodic physical counts.	_____	_____	_____	_____
6. The receiving department inspects the quantity and quality of materials when receiving reports are prepared.	_____	_____	_____	_____
7. The following documents are periodically accounted for:				
a. Raw material requisitions.	_____	_____	_____	_____
b. Labor charge documents.	_____	_____	_____	_____





INTERNAL CONTROLS QUESTIONNAIRE
SECTION V—Part II (Continued)

	<u>Personnel</u>	<u>Yes</u>	<u>No</u>	<u>N/A</u>
c. Finished inventory requisitions.	_____	_____	_____	_____
d. Completed production orders.	_____	_____	_____	_____
8. The following functions are doublechecked on at least a test basis by foremen or independent persons:				
a. Completion of raw material and finished goods requisitions.	_____	_____	_____	_____
b. Labor distributions.	_____	_____	_____	_____
c. Overhead allocations.	_____	_____	_____	_____
d. Production activity reports.	_____	_____	_____	_____
e. Posting of above to perpetual records.	_____	_____	_____	_____
9. The following functions are doublechecked on a test basis by an independent person:				
a. Year-end summarization of labor, materials, and overhead from the perpetual records.	_____	_____	_____	_____
b. Footing of summary sheets to page totals.	_____	_____	_____	_____
c. Footing of page totals to grand totals.	_____	_____	_____	_____
10. All production activities are based on prenumbered production orders approved by the owner or manager.	_____	_____	_____	_____
11. Material and labor costs charged to inventory are controlled by bills of materials and charges approved by management.	_____	_____	_____	_____
12. Perpetual records are periodically reconciled to the general ledger by an independent person.	_____	_____	_____	_____



INTERNAL CONTROLS QUESTIONNAIRE
SECTION V—Part II (Continued)

Other comments:

System selection (circle one):

System A¹ System B²

Modification of standard tests:

19____ 19____ 19____ 19____ 19____

Prepared by:

Client

In-Charge

Reviewed by:

Engagement Partner

(1) Represents a decision to assess control risk at a moderate or low level for most financial statement assertions.

(2) Represents a decision to assess control risk at a moderate level for some of the financial statement assertions.





Internal Controls Questionnaire	Section VI
Client: _____ Financial Statement Date: _____	

MAJOR AUDIT AREAS: All areas.

TRANSACTION CYCLES: All cycles.

INTERNAL CONTROL PROCEDURES:

	Personnel	Yes	No	N/A
A. GENERAL CONTROL ENVIRONMENT AND ACCOUNTING SYSTEM				
1. The financial condition of the company is sound.	_____	_____	_____	_____
2. Financing sources other than the owner/manager are available.	_____	_____	_____	_____
3. The owner/manager's attitudes about income taxes and business risks are conservative.	_____	_____	_____	_____
4. The owner/manager understands the importance of control procedures.	_____	_____	_____	_____
5. The owner/manager understands and uses financial statements and reports prepared by accounting personnel.	_____	_____	_____	_____
6. Accounting personnel have experience and training appropriate for their jobs and understand their responsibilities.	_____	_____	_____	_____
7. The owner/manager and accounting personnel are competent, possess high integrity, and are concerned about the quality of their work.	_____	_____	_____	_____

INTERNAL CONTROLS QUESTIONNAIRE
SECTION VI (Continued)

Personnel Yes No N/A

8. Documents, records, and assets are physically controlled to prevent their destruction or unauthorized use.

9. Describe the following features of the control environment:

a. Describe the organization of management, accounting, and operations personnel below or attach an organization chart.

b. Describe the owner's attitudes and practices that may affect the risk of errors or irregularities in the financial statements. Consider such factors as deteriorating operations creating a need for working capital, financial statements ratios influencing lenders' decisions, motivation of owner to reduce income taxes, and owner's history of taking unnecessary business risks.

c. In the case of an absentee owner, describe the manager's compensation method and whether it is reasonable.

d. Describe the owner's awareness of the importance of a good accounting system, performing owner/manager controls and understanding and use of related financial information.



INTERNAL CONTROLS QUESTIONNAIRE
SECTION VI (Continued)

- e. List the accounting personnel, their positions and length of employment, describe briefly their education and experience and evaluate their job performance based on firm experience with the client.

- f. How does the client achieve an adequate cut-off of transactions when the financial statements are prepared?

- g. Describe how the client's financial statements are prepared, including the way in which major accounting estimates are made.

INTERNAL CONTROLS QUESTIONNAIRE
SECTION VI (Continued)

10. How are transactions processed?

Transactions	Describe how transactions are initiated, including the documents used	Describe how transactions are recorded and summarized
<u>Sales</u>		
<u>Collections</u>		
<u>Purchases</u>		



**INTERNAL CONTROLS QUESTIONNAIRE
SECTION VI (Continued)**

Transactions	Describe how transactions are initiated, including the documents used	Describe how transactions are recorded and summarized
<u>Payments</u>		
<u>Payroll</u>		
<u>Other</u>		

INTERNAL CONTROLS QUESTIONNAIRE
SECTION VI (Continued)

11. What is the form of the client's accounting records?

<u>Record</u>	<u>Form of the Records</u> <u>Manual/Computer</u>		<u>Personnel Responsible</u>
Journals:			
Cash receipts	M	C	_____
Cash disbursements	M	C	_____
Sales	M	C	_____
Purchases/voucher	M	C	_____
Payroll	M	C	_____
General	M	C	_____
_____	M	C	_____
_____	M	C	_____
Ledgers:			
General	M	C	_____
Accounts receivable	M	C	_____
Accounts payable	M	C	_____
Perpetual inventory	M	C	_____
Physical inventory schedule	M	C	_____
_____	M	C	_____
_____	M	C	_____



INTERNAL CONTROLS QUESTIONNAIRE
SECTION VI (Continued)

	<u>Personnel</u>	<u>Yes</u>	<u>No</u>	<u>N/A</u>
B. ACCOUNTING SYSTEM (SYSTEM C)				
1. A general ledger is posted and balanced.	_____	_____	_____	_____
2. A general journal is prepared and balanced.	_____	_____	_____	_____
3. General journal entries are adequately supported.	_____	_____	_____	_____
4. An adequate chart of accounts is in use.	_____	_____	_____	_____
5. All employees in a position of trust are adequately bonded.	_____	_____	_____	_____
6. All employees in a position of trust are required to take vacations.	_____	_____	_____	_____
7. The owner's personal income and expenses are segregated from the business.	_____	_____	_____	_____
C. PRIMARY CONTROLS (SYSTEM B)				
1. The owner or manager participates in the day-to-day operations of the business.	_____	_____	_____	_____
2. Adequate reports and financial information are available to and reviewed by the owner or manager.	_____	_____	_____	_____
3. All journal entries are approved by the owner or manager.	_____	_____	_____	_____
D. SECONDARY CONTROLS (SYSTEM A)				
1. Budgets are prepared and used to control operations.	_____	_____	_____	_____
2. Property and equipment records are maintained, periodically reviewed and checked to assets, and reconciled to the general ledger.	_____	_____	_____	_____
3. Hazard insurance coverage is periodically reviewed to determine adequacy.	_____	_____	_____	_____



INTERNAL CONTROLS QUESTIONNAIRE
SECTION VI (Continued)

	<u>Personnel</u>	<u>Yes</u>	<u>No</u>	<u>N/A</u>
4. All accounting records, securities, and other valuable papers and records are adequately safeguarded.	_____	_____	_____	_____

Other comments:

Modification of standard tests:

	19____	19____	19____	19____	19____
--	--------	--------	--------	--------	--------

Prepared by:

Client

In-Charge

	_____	_____	_____	_____	_____
	_____	_____	_____	_____	_____

Reviewed by:

Engagement Partner

	_____	_____	_____	_____	_____
--	-------	-------	-------	-------	-------



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10.101

Risk of Potential Misstatements Evaluation Form
Client: _____
Financial Statement Date: _____

INSTRUCTIONS:

This Form should be used on audit engagements under the ABC System to evaluate and document the risk of potential errors and irregularities. Answers should be based on inquiries of client personnel, the firm's understanding of the client's business and industry, experience from prior years' engagements, the current year's understanding of the internal control structure and assessment of control risk, and other special considerations. The impact of the risk of potential misstatements should be documented in the Planning Matrix.

	Yes	No
I. Special Considerations. ("Yes" answers, i.e., high risk, should be checked on accompanying Potential Misstatements Matrix.)		
1. Are there client-imposed limitations on the scope of our engagement? (Describe below.)	_____	_____
2. Is this an initial engagement?	_____	_____
3. Do discussions with prior engagement personnel or predecessor accountants indicate a high risk of potential errors? (Describe below.)	_____	_____
4. Are the client's accounting policies, methods, or estimates unusual or difficult to apply, or have they been changed recently? (Describe below.)	_____	_____
5. Are there significant related-party or other unusual transactions? (Describe below.)	_____	_____
6. Is the overall engagement risk evaluation high?	_____	_____



Describe the circumstances surrounding "yes" answers and record effects on Potential Misstatements Matrix:

II. Potential Misstatements Matrix:

Complete the accompanying Potential Misstatements Matrix and transfer the summary of risk by audit area to the Planning Matrix. In addition to classifying the risk of potential errors from special considerations above by engagement area, the Potential Misstatements Matrix includes similar classifications for:

1. High Risk or Material and Unusual Account Balances:

The nature of the client's industry or business may typically cause certain account balances, and the relative risk of misstatements, to be high. Marketable securities, for example, of a broker/dealer client would be such an account. Material account balances must also be unusual in the client's circumstances to be considered high risk. Sales of fixed assets, for example, would not be considered high risk unless increases or decreases were unusual in nature or amount.

2. Reportable Conditions in Internal Control Structure:

Reportable conditions are derived from the Internal Controls Questionnaire. The effects of reportable conditions on major engagement areas should be noted on the Potential Misstatements Matrix.

3. Significant Prior-Year Adjustments and Exposure Areas:

Significant prior-year adjustments, made or passed, and exposure areas that may recur and affect the current period should also be noted on the Potential Misstatements Matrix.

The risk categories on the Potential Misstatements Matrix for each engagement area should contain a check mark (✓) when the risk of potential misstatements is high. Low risk is otherwise assumed. After considering the number and significance of misstatements in each engagement area, the in-charge should use professional judgment to summarize the risk of potential misstatements as low or high. The summary should be transferred to the Planning Matrix. Describe below the modifications to the Tests of Balances Audit Program that will be made to compensate for the high risks of potential misstatements (low risks require no modification).

POTENTIAL MISSTATEMENTS MATRIX

10.102

<u>Engagement Area</u>	<u>Special Considerations</u>	<u>High Risk/Unusual and Material Account Balances</u>	<u>Reportable Conditions in Internal Control Structure</u>	<u>Prior-Year Adjustments or Exposure Areas</u>	<u>Risk Summary (Low or High)</u>
Cash	_____	_____	_____	_____	_____
Trade accounts receivable	_____	_____	_____	_____	_____
Inventories	_____	_____	_____	_____	_____
Fixed assets	_____	_____	_____	_____	_____
Accounts payable	_____	_____	_____	_____	_____
Shareholders' equity	_____	_____	_____	_____	_____
Payroll tests	_____	_____	_____	_____	_____
Expense account analysis and vouching	_____	_____	_____	_____	_____

Note: The engagement areas listed are not all-inclusive. Practitioners should tailor the items to the particular engagement.

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10.103

Planning Matrix
Client: _____
Financial Statement Date: _____

INSTRUCTIONS:

The Planning Matrix should be prepared by the in-charge for audit engagements under the ABC System. The Matrix coordinates the evaluations of the risk of potential misstatements and the assessment of control risk to guide the selection of tests of controls, analytical procedures, and tests of balances procedures and sample sizes. The Matrix should be completed after the following documents have been finalized:

1. Client Acceptance and Continuance Form.
2. Audit Planning Memorandum.
3. Internal Controls Questionnaire.
4. Risk of Potential Misstatements Evaluation Form.

The Matrix and related documentation should be reviewed by the engagement partner before the tests of controls are started. A discussion on the use of this Matrix is presented in Chapter 3, sections 3.316-3.320.

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

Reviewed by: _____ Date: _____
(Partner)

PLANNING MATRIX

	(1)	(2)	(3)	(4)	(5)
Audit Area	System Classification (Circle One)	Assessed Level of Control Risk* (Circle One)	Risk of Potential Misstatement (High or Low)	Risk That Analytical Procedures Will Not Detect Material Misstatement* (Circle One)	Resulting Evidence Required From Detailed TOBs
Cash, including Collections & Payments					
a. Existence & Rights	A B C	M S Md L	_____	M Md L	_____
b. Completeness	A B C	M S Md L	_____	M Md L	_____
Trade Accounts Receivable & Sales					
a. Existence & Rights	A B C	M S Md L	_____	M Md L	_____
b. Completeness	A B C	M S Md L	_____	M Md L	_____
c. Valuation (i.e., Allowance for Uncollectible Acct.)	A B C	M S Md L	_____	M Md L	_____
Inventories & Purchases					
a. Existence & Rights	A B C	M S Md L	_____	M Md L	_____
b. Completeness	A B C	M S Md L	_____	M Md L	_____
c. Valuation	A B C	M S Md L	_____	M Md L	_____

* M — Maximum
 S — Slightly below the maximum
 Md — Moderate
 L — Low

PLANNING MATRIX (Continued)

(1)	(2)	(3)	(4)	(5)
Audit Area	System Classification (Circle One)	Assessed Level of Control Risk* (Circle One)	Risk That Analytical Procedures Will Not Detect Material Misstatement* (Circle One)	Resulting Evidence Required From Detailed TOBs
	A B C	M S Md L	M Md L	_____
	A B C	M S Md L	M Md L	_____
	A B C	M S Md L	M Md L	_____
	A B C	M S Md L	M Md L	_____
	A B C	M S Md L	M Md L	_____
	A B C	M S Md L	M Md L	_____
	A B C	M S Md L	M Md L	_____
	A B C	M S Md L	M Md L	_____
	A B C	M S Md L	M Md L	_____
	A B C	M S Md L	M Md L	_____

Other Accounts:

Prepared by: _____ Approved by: _____ Date: _____

Note: For any assertions not contained on the form, it is assumed that control risk is assessed at the maximum.

Planning Matrix Legend

- (1) The systems classification is obtained from the Internal Controls Questionnaire. It may vary by financial statement assertion.
- (2) Assessing control risk at less than the maximum will decrease the amount of evidence required from substantive tests. Control risk may be assessed at the Maximum (M), Slightly below the Maximum (S), Moderate (Md), or Low (L).
- (3) From the Risk of Potential Misstatements Evaluation Form, the risk of potential misstatements (low or high) may vary for different financial statement assertions. These risk factors may increase or decrease the needed evidence from substantive tests. The risk may be assessed as high or low.
- (4) Evidence from analytical procedures can reduce the extent of the evidence required from other substantive tests (i.e., detailed tests of balances). The Planning Matrix rates this evidence in terms of the risk that the analytical procedures will fail to detect a material misstatement in the account or the assertions about the account. For example, maximum risk means no evidence is obtained from analytical procedures.
- (5) The required evidence from detailed tests of balances (TOBs) is a product of the assessed level of control risk, the risk of potential misstatements and the evidence obtained from analytical procedures. The examples below illustrate this relationship.

System Classification	Control Risk	Risk of Potential Misstatements	Risk That Analytical Procedures Will Not Detect a Material Misstatement	Resulting Required Evidence from Detailed Tests of Balances
A	M S Md (L)	Low	M (Md) L	None
A	M S Md (L)	High	M (Md) L	Low
A	M S Md (L)	Low	(M) Md L	Low
A	M S (Md) L	Low	(M) Md L	Moderate
B	M S (Md) L	Low	(M) Md L	None
B	M S (Md) L	High	M (Md) L	Moderate
B	M S (Md) L	Low	M (Md) L	Moderate
C	M S (Md) L	Low	M (Md) L	Low
C	M (S) Md L	High	M (Md) L	Moderate
C	M (S) Md L	Low	(M) Md L	Slightly Below High
C	M (S) Md L	Low	M (Md) L	Moderate
C	M (S) Md L	Low	(M) Md L	High

The Planning Matrix contains assessments for assertions about those accounts where audit efficiencies are usually obtained. Assertions about other accounts not contained on the Matrix can be added when control risk for those assertions is assessed at below the maximum. For assertions about accounts not included or added to the Planning Matrix, control risk is assessed at the maximum and maximum reliance is placed on analytical procedures and detailed tests of balances.

These guidelines presume account balances are material. If balances are immaterial, so state in the Final Resulting Evidence Required from Detailed TOBs column. No evidence is required for immaterial account balances.

High degree of evidence from detailed tests of balances will require procedures with high reliability, e.g., large sample sizes with tests performed primarily at the balance-sheet date. Low degree of evidence from detailed tests of balances will allow less reliable tests, e.g., small sample sizes and performing tests at interim dates.

The ABC System presumes high reliance on analytical procedures for all engagements to the maximum extent practical.

Final modification of the Tests of Balances Audit Program will be made based on the results of performing the tests of controls on the internal control structure policies and procedures.

- (6) Nonstatistical sample size ranges for tests of controls may be determined using the following table unless otherwise directed by the engagement partner. Sample sizes so selected should be entered directly on the appropriate Tests of Controls Program. The in-charge should document in the Planning Memorandum consideration of the factors that affect the sample sizes selected. The partner should approve the Planning Memorandum *before* the tests of controls are begun.

**TESTS OF CONTROLS
SAMPLE SIZE SELECTION TABLE**

<u>Assessed Level of Control Risk</u>	<u>Sample Size*</u>
Maximum	0
Slightly below the maximum	15
Moderate	30
Low	40

* The numbers in the table were determined using a risk of assessing control risk too low of 10% and an expected population deviation rate of 0%. If one or more deviations are found in the sample, the sample size should be increased or the assessed level of control risk should be increased.

- (7) When deviations are expected or found in a sample, the following table may be used to determine the sample size or evaluate the sample results:

Deviations (Expected or Actual)	Assessment of Control Risk		
	Slightly Below Maximum	Moderate	Low
0	15	30	40
1	25	50	65
2	34	67	90
3	43	85	115

Tests of controls consisting of observation of performance and inquiries are not normally subject to audit sampling.

10.200 ALL-SUBSTANTIVE APPROACH QUESTIONNAIRE

Use of Questionnaire

10.201 This Questionnaire is designed to be used on small, noncomplex audit engagements. It consists of two sections: Section I contains questions about the entity's internal control structure and Section II deals with the risk of potential misstatements. Completion of Section I provides the auditor with the basic understanding of the internal control structure. It requires the auditor to document any special internal control matters that would affect substantive testing. Section II requires the auditor to consider the risk of potential misstatements in the financial statements, and consider their impact on the design of the audit.

This Questionnaire replaces the Internal Controls Questionnaire, the Planning Matrix, and the Risk of Potential Misstatements Evaluation Form required under the ABC System. The decision to use this Questionnaire should be made during planning and should be based on engagement circumstances and economic considerations. For example, if tests of controls produced unacceptable results in prior years, or if the nature of the client's operations causes tests of balances to be the most efficient evidence collection methods, the All-Substantive Approach would be more efficient than the ABC System approach. Use of this Questionnaire presumes minimum tests of controls and maximum substantive tests will be performed, and that tests of balances will be performed as of the balance-sheet date.

INSTRUCTIONS

10.202 Where appropriate, client personnel should complete the Questionnaire for review by the in-charge. In the "Personnel" column insert the name and title of the individual that performs the control procedure. "No" answers to the control environment and accounting systems questions (Section I) represent potential reportable conditions. Reportable conditions, including material weaknesses should be posted to the Internal Control Structure Reportable Conditions Form (section 10.801). Most small clients' control environment include owner or manager controls. The term "manager", as used in this Questionnaire, describes a person performing internal verification functions. That person may be the owner, a general manager, controller, bookkeeper, foreman, or other employee. The risks of potential misstatements, and the resulting program modification, should be summarized in Section II by the in-charge. Both sections should be reviewed by the engagement partner before field work is started.

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10.203

All-Substantive Approach Questionnaire	Section I
Client: _____ Financial Statement Date: _____	

	Personnel	Yes	No	N/A
General Control Environment and Accounting System				
1. A general ledger is posted and balanced.	_____	_____	_____	_____
2. A general journal is prepared and balanced.	_____	_____	_____	_____
3. Journal entries have adequate support.	_____	_____	_____	_____
4. An adequate chart of accounts is in use.	_____	_____	_____	_____
5. The owner or manager participates in the day-to-day activities of the business.	_____	_____	_____	_____
6. All employees in a position of trust are bonded.	_____	_____	_____	_____
7. All employees in a position of trust are required to take vacations.	_____	_____	_____	_____
8. The owners' personal income expenses are segregated from the business.	_____	_____	_____	_____
9. Hazard insurance coverage is periodically reviewed to determine adequacy.	_____	_____	_____	_____
10. Management receives financial statements on a regular basis.	_____	_____	_____	_____
11. The owner/manager's attitudes about income taxes and business risks and uncertainties are conservative.	_____	_____	_____	_____
12. The owner/manager understands the importance of control procedures.	_____	_____	_____	_____





ALL-SUBSTANTIVE APPROACH QUESTIONNAIRE
Section I (Continued)

Table with 5 columns: Question, Personnel, Yes, No, N/A. Contains 19 numbered questions regarding financial statements, accounting personnel, and control environment features.



ALL-SUBSTANTIVE APPROACH QUESTIONNAIRE
Section I (Continued)

- c. In the case of an absentee owner, describe the manager's compensation method and whether it is reasonable.

- d. Describe the owner's awareness of the importance of a good accounting system, performing owner/manager controls, and understanding and use of related financial information.

- e. List the accounting personnel, their positions and length of employment. Describe briefly their education and experience and evaluate their job performance based on firm experience with the client.

- f. How does the client achieve an adequate cut-off of transactions when the financial statements are prepared?





ALL-SUBSTANTIVE APPROACH QUESTIONNAIRE
Section I (Continued)

- g. Describe how the client's financial statements are prepared, including the way in which major accounting estimates are made.

Sales and Collections Transaction Cycle

	Personnel	Yes	No	N/A
1. A cash receipts journal is prepared and balanced.	_____	_____	_____	_____
2. A sales journal is prepared and balanced.	_____	_____	_____	_____
3. Cash receipts are recorded as received.	_____	_____	_____	_____
4. Sales are recorded in the period the sale was made or the merchandise was shipped.	_____	_____	_____	_____
5. Records of customer payments on accounts receivable are maintained (remittance advice or duplicate deposit slip).	_____	_____	_____	_____
6. Collections are deposited intact.	_____	_____	_____	_____
7. Over-the-counter receipts are controlled by a cash register or prenumbered receipts tickets.	_____	_____	_____	_____
8. Prenumbered sales invoices and/or shipping reports evidencing shipping date are prepared.	_____	_____	_____	_____
9. Copies of sales invoices or customers' statements are mailed periodically.	_____	_____	_____	_____
10. The owner or manager reviews copies of sales invoices or customers' statements and resolves customer disputes.	_____	_____	_____	_____
11. Receivables are aged regularly and reviewed by the owner or manager.	_____	_____	_____	_____



ALL-SUBSTANTIVE APPROACH QUESTIONNAIRE
Section I (Continued)

	Personnel	Yes	No	N/A
12. The person who opens the mail maintains a log of mail receipts.	_____	_____	_____	_____
Acquisitions and Payments Transaction Cycle				
1. A cash disbursements journal is prepared and balanced.	_____	_____	_____	_____
2. A detailed depreciation schedule is prepared and balanced to the general ledger.	_____	_____	_____	_____
3. All checks are signed by the owner or manager.	_____	_____	_____	_____
4. Checks are signed only when disbursement is made (not in advance).	_____	_____	_____	_____
5. The check signer compares data on supporting documents to checks.	_____	_____	_____	_____
6. Vendor invoices are canceled when checks are signed.	_____	_____	_____	_____
7. Checks are recorded in the disbursements journal as prepared.	_____	_____	_____	_____
8. Checks are prenumbered.	_____	_____	_____	_____
9. Vendor invoices support purchases.	_____	_____	_____	_____
10. Vendor invoices or receiving reports contain the date goods were received.	_____	_____	_____	_____
11. Unpaid vendor invoices are filed separately from paid invoices.	_____	_____	_____	_____
12. Purchases are approved by the owner or manager.	_____	_____	_____	_____
13. The bank reconciliation is reviewed by the owner or manager.	_____	_____	_____	_____





ALL-SUBSTANTIVE APPROACH QUESTIONNAIRE
Section I (Continued)

	Personnel	Yes	No	N/A
Payroll and Personnel Transaction Cycle				
1. A cash disbursements journal is prepared and balanced.	_____	_____	_____	_____
2. Payroll disbursements are made by check.	_____	_____	_____	_____
3. Checks are prenumbered.	_____	_____	_____	_____
4. Payroll checks are recorded in the payroll journal as prepared.	_____	_____	_____	_____
5. Employees' time records are maintained.	_____	_____	_____	_____
6. W-4 forms are maintained.	_____	_____	_____	_____
7. Employees' earnings records are maintained.	_____	_____	_____	_____
8. The payroll bank reconciliation is reviewed by the owner or manager.	_____	_____	_____	_____
9. Wage rates are authorized by the owner or manager.	_____	_____	_____	_____
10. Payroll checks are signed by the owner or manager.	_____	_____	_____	_____
11. Payroll checks are distributed by the owner or manager.	_____	_____	_____	_____
Inventory and Warehousing Transaction Cycle				
1. An annual physical inventory is taken and adequate count records (tags or sheets) are maintained.	_____	_____	_____	_____
2. Adequate records of inventory pricing and summary are maintained.	_____	_____	_____	_____
3. The inventory count is taken, checked, or supervised by the owner or manager.	_____	_____	_____	_____
4. Obsolete and consigned goods are excluded from the count.	_____	_____	_____	_____
5. Good physical cutoff procedures are utilized to insure an accurate count and recording of inventory.	_____	_____	_____	_____



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10.204

All-Substantive Approach	Section II
Questionnaire — Risk of Potential Misstatements and Impact on Tests of Balances	
Client: _____	
Financial Statement Date: _____	

I. Describe any special considerations such as scope limitations, first engagement circumstances, unusual or difficult accounting principles, methods or estimates, related parties, or other unusual circumstances causing risk. Identify engagement areas affected.

II. Describe high risk or unusual and material account balances.





**ALL-SUBSTANTIVE APPROACH QUESTIONNAIRE—
RISK OF POTENTIAL MISSTATEMENTS AND IMPACT
ON TESTS OF BALANCES
Section II (Continued)**

III. Describe prior-year adjustments or exposure areas with potential impact on this year's engagement.

IV. Describe the impact of the risks of potential misstatements on the tests of balances, i.e., the resulting program modifications.

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

Reviewed by: _____ Date: _____
(Partner)



10.300

Audit Planning Memorandum
Client: _____
Financial Statement Date: _____

INSTRUCTIONS:

This memorandum should be completed for all audit engagements by the in-charge and reviewed by the engagement partner, before engagement personnel begin field work.

I. ENGAGEMENT ADMINISTRATION

A. Presentation of Engagement Letter

B. Use of Client Assistance or Paraprofessionals

C. Planning for Proper Work Space and Equipment



AUDIT PLANNING MEMORANDUM (Continued)

D. Assignment of Staff

E. Target Dates

Start of interim field work	_____
Start of year-end field work	_____
Audit report	_____
Management letter	_____
Tax returns	_____
Other	_____

F. Use of Specialists

G. Use of Audit Software

H. Audit Budget

◆ **AUDIT PLANNING MEMORANDUM (Continued)**

I. Other Considerations

II. TECHNICAL AUDIT PLANNING DECISIONS

A. Overall Engagement Risk

B. Understanding of Internal Control Structure

C. Overall Materiality Limit

D. Sampling



AUDIT PLANNING MEMORANDUM (Continued)

E. Audit Approach

F. Key Engagement Area(s)

G. Planning Analytical Procedures

H. Other Considerations

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

Reviewed by: _____ Date: _____
(Partner)

10.301

Materiality Computation Form¹
Client: _____
Financial Statement Date: _____

INSTRUCTIONS:

This Form should be completed by the in-charge during planning and approved by the partner before field work is started.

I. Overall Materiality Limit Computation

Approximate balances at or near financial statement date:

A. Total Assets	\$ _____	X	_____ %	=	\$ _____
B. Total Revenue	\$ _____	X	_____ %	=	\$ _____
Overall Materiality Limit					\$ _____

<u>Materiality Base — Greater of Total Assets or Total Revenues</u>	<u>Percentage of the Base</u>	
<u>Over</u>	<u>But Not Over</u>	
\$ 0	\$ 30,000	6.00%
30,000	100,000	\$ 1,800 + 5.00% in excess of \$ 30,000
100,000	300,000	\$ 5,300 + 3.00% in excess of \$ 100,000
300,000	1,000,000	\$ 11,300 + 2.00% in excess of \$ 300,000
1,000,000	3,000,000	\$ 25,300 + 1.50% in excess of \$ 1,000,000
3,000,000	10,000,000	\$ 55,300 + 1.00% in excess of \$ 3,000,000
10,000,000	30,000,000	\$ 125,300 + .50% in excess of \$ 10,000,000
30,000,000	100,000,000	\$ 225,300 + .25% in excess of \$ 30,000,000
100,000,000	300,000,000	\$ 400,300 + .20% in excess of \$100,000,000
300,000,000	—	\$ 800,300 + .15% in excess of \$300,000,000

¹ Subscribers to the 1994 edition of this Manual will notice that changes have been made to this table. These changes were made to better reflect the amounts and percentages used in current practice, and will result in lower materiality thresholds:



MATERIALITY COMPUTATION FORM (Continued)

Rationale for overall materiality limit (if other than the larger of above computations):

II. Basic Allowance for Unknown Misstatement Computation:

For nonstatistical sampling applications, the basic allowance can be used in place of tolerable misstatement amount. If used in the table approach or model approach, it should also be considered when comparing total actual, projected, and estimated misstatement to the final financial statement amounts.

Overall materiality limit from above	\$ _____
Less estimated known misstatement from sampling and nonsampling tests (e.g., 1/3 of overall materiality)	\$ _____
Basic allowance for unknown misstatement (tolerable misstatements)	\$ <u>_____</u>

III. Individually Significant Items — Computation of Lower Limit:

The lower limit for individually significant items usually will be set at 1/3 of the basic allowance. Individually significant items may also be determined judgmentally for each sampling application. The rationale for such judgmentally determined limits should be explained at the bottom of the page.

Lower limit for individually significant items \$ _____

Rationale for lower limit:

◆ _____
MATERIALITY COMPUTATION FORM (Continued)

This uniform lower limit will normally be used for determining individually significant items to derive sampling populations and for determining sampling populations and account balances that are not material which can be excluded from testing.

If different lower limits are used for certain accounts, or for such procedures as sales and purchases cutoff tests and search for unrecorded liabilities, the reasons for their use should be documented below:

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

Reviewed by: _____ Date: _____
(Partner)

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page 1

		BALANCE SHEET				INCOME STATEMENT			TOTAL*
W/P Ref	Journal Entry Debit (Credit)	Current Assets	Noncurrent Assets	Current Liabilities	Noncurrent Liabilities	Stockholders' Equity	Known misstatements	Estimated misstatements	Projected misstatements
	Totals from previous page								
Total Unrecorded Misstatements									
Corresponding Financial Statement Amounts									
% of Total Unrecorded Misstatements to Corresponding Financial Statement Amounts									

Tax effect on total unrecorded misstatements (income statement)**

Tax effected unrecorded misstatements

Net income

% of tax effected unrecorded misstatements to net income

* Total of known, estimated and projected misstatements columns.

** Apply the client's effective tax rate to the total unrecorded misstatements (income statement). Subtract the tax amount from the total unrecorded misstatement amount for the tax effected amount.

Conclusion: The above misstatements do not _____ do _____ materially affect the financial statements

Prepared by: _____ Date: _____

(In-charge)

Reviewed by: _____ Date: _____

(Engagement Partner)

† If there are material adjustments to income statement accounts, consider redoing Step III B of the Audit Planning Memo.



10.303

First Engagement Procedures
Client: _____ Financial Statement Date: _____

INSTRUCTIONS:

This Form should be used the first time an entity is audited under both the ABC System and the All-Substantive Approach. It should be used to determine that beginning balances are presented fairly and that generally accepted accounting principles have been consistently applied. It should be prepared by the in-charge and approved by the engagement partner.

Procedures	Done by	Date	N/A	W/P Ref.
1. Examine bank reconciliations for the first month of the current period for unusual entries. Consider tracing balances and reconciling items to supporting sources.	_____	_____	_____	_____
2. Reconcile the aged trial balance to the general ledger at the end of the prior period. Review the aged categories and inquire about subsequent collection of older accounts.	_____	_____	_____	_____
3. Review the computation of the allowance for doubtful accounts at the end of the prior period for consistency and reasonableness.	_____	_____	_____	_____
4. Perform a limited sales cutoff test by examining shipping reports and sales invoices for ____ days before and after the end of the prior period.	_____	_____	_____	_____
5. Perform a limited purchases cutoff test by examining vendors' invoices or receiving reports for ____ days before and after the end of the prior period.	_____	_____	_____	_____





FIRST ENGAGEMENT PROCEDURES (Continued)

Procedures	Done by	Date	N/A	W/P Ref.
6. Examine the summary of inventories and count sheets for checks of clerical accuracy and pricing, and for controls over the count at the end of the prior period. Consider limited clerical and pricing tests, compare inventories' composition with the current year-end and prepare and analyze gross margin and inventory turnover by product line for the prior period. Carefully follow up on exceptions and determine, in the absence of our or predecessors' observation of prior year's inventory taking, if we can issue an unqualified opinion on the current earnings statement.	_____	_____	_____	_____
7. Analyze property and equipment and related accumulated depreciation accounts for the _____ previous years. Vouch _____ percent of the major additions. Physically inspect another percent of the recorded assets. Determine the company's capitalization and depreciation policies. Compare repair accounts for several prior periods and investigate significant variations. Review beginning accumulated depreciation balances for reasonableness.	_____	_____	_____	_____
8. Analyze prepaid expenses, intangibles and other assets for the _____ previous years. Challenge their nature and valuation. Where applicable, review amortization methods and lives for consistency and reasonableness.	_____	_____	_____	_____
9. Challenge the adequacy of income tax liabilities for open years. Obtain information concerning deferred taxes from the date of inception of each temporary difference. Challenge the consistency of computation methods.	_____	_____	_____	_____
10. Obtain copies of outstanding debt agreements.	_____	_____	_____	_____



FIRST ENGAGEMENT PROCEDURES (Continued)

Procedures	Done by	Date	N/A	W/P Ref.
11. Obtain an analysis of capital stock and additional paid-in capital accounts for the ____ previous years. Supporting data for opening entries, and other large or unusual entries should be traced to supporting documents. Account for stock certificates issued, retired, and unused.	_____	_____	_____	_____
12. Obtain an analysis of retained earnings for the ____ previous years. Investigate large or unusual entries.	_____	_____	_____	_____
13. Review and excerpt minutes for the ____ preceding years.	_____	_____	_____	_____
14. Determine that major contractual obligations relating to sales, purchases, wages, vacation pay, deferred compensation, product guarantees, etc., have been properly reflected in the financial statements. Obtain copies of agreements.	_____	_____	_____	_____
15. Obtain and read prior year's report and financial statements.	_____	_____	_____	_____
16. Other procedures:	_____	_____	_____	_____
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____

Prepared by: _____
(In-Charge)

Date: _____

Reviewed by: _____
(Engagement Partner)

Date: _____



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10.304

Altman Zeta (Z) Score Calculation Form
Client: _____
Financial Statement Date: _____

I. The Z Score may be used as one indicator of an entity's financial "health" and ability to continue as a going concern. It is used when the auditor becomes aware of conditions and events that raise questions about the entity's ability to continue as a going concern. If Total Z Score determined under this calculation exceeds 2.6, the entity can probably be considered sound and secure. If less than 1.1, long-range survival prospects can probably be considered dim.

The calculation presented here is a general one. Somewhat different calculations, constants, and values apply to manufacturing and service entities. In those cases, additional research should be performed. Adjust the calculations as necessary for the client's situation.

The trend of the Z Score should also be part of the analysis. If a negative trend exists, even though Z Score is in the healthy range, a problem may be developing. On the other hand, if Z Score indicates that survival prospects are not favorable, but the trend is positive, a brighter future may be in store.

This Form should be prepared by the in-charge and reviewed and approved by the engagement partner. The conclusions should be documented in the Client Acceptance and Continuance Form and in the Audit Planning Memorandum.

	Results	×	Constant =	=	Value		
					<u>Current</u>	<u>Prior Years</u>	
					Year	19__	19__
					19__	19__	19__
1. <u>Working Capital</u> Total Assets	_____	×	6.56	=	_____	_____	_____
2. <u>Retained Earnings</u> Total Assets	_____	×	3.26	=	_____	_____	_____
3. <u>Earnings Before Interest and Taxes</u> Total Assets	_____	×	6.72	=	_____	_____	_____
4. <u>Equity</u> Total Liabilities	_____	×	1.05	=	_____	_____	_____
Total Z Score					=====	=====	=====



Discuss and evaluate any significant factors that might mitigate a low score (for example, "large back order of business") and list any suggestions that might help entity improve its financial status:

II. Discuss and evaluate any significant factors (including non-financial items) that might impact upon the entity's ability to continue as a going concern (including loss of significant customers, legal issues or management plans). If necessary, evaluate prospective financial information. Attach all items used.

III. Conclusion:

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

Approved by: _____ Date: _____
(Engagement Partner)

10.400 TESTS OF CONTROLS PROGRAMS

Use of Programs

The programs are divided into the following sections:

- I. There is no Test of Controls Program for cash (tests of controls included with Sections II and III).
- II. Accounts receivable confirmations and alternative procedures, and sales cutoff.
- III. Vouching and inspecting fixed assets, search for unrecorded liabilities, purchases cutoff, and expense account analysis.
- IV. Payroll tests.
- V. Part I There is no Tests of Controls Program for inventories — no perpetual records.
- V. Part II Physical inventory observation and pricing and clerical tests — perpetual records.
- VI. All cycles.

These sections correspond to similar sections in the Internal Controls Questionnaire. The sections represent groupings of major audit areas that are affected by the same transaction cycles. Section I (Cash) tests of controls are included in Section II (Collections) and Section III (Payments). These programs are designed to test the existing controls in the various systems classifications, i.e., Systems A, B and C.

INSTRUCTIONS:

Under the ABC System, after completion of the Internal Controls Questionnaire, the in-charge's selection of a standard system classification should be documented on the Planning Matrix. The Planning Matrix is used as a general guide to select, assemble, and modify the various sections of this program. Modifications indicated on the Internal Controls Questionnaire should be added. The in-charge should also enter the sample sizes determined during planning on the standard Tests of Controls Programs. The Planning Matrix and internal control documentation should be reviewed by the engagement partner before staff begins the tests of controls.

Under the All-Substantive Approach, limited tests of controls are performed. Only System C Test of Controls Programs should be used.

All program steps should be initialed in the "Done By" column and dated by engagement personnel when completing the work. The "W/P Ref." column should include references to working papers evidencing the procedures performed. It should also be marked. "N/A" for steps not applicable and marked "N/R" for steps *not required* because of immateriality or other reasons.



Tests of Controls Programs	Section II: System A
Client: _____	
Financial Statement Date: _____	

Note: There is no separate Tests of Controls Program for cash, which is Section I in the corresponding Internal Controls Questionnaire.

MAJOR AUDIT AREAS: 1. Accounts receivable confirmations and alternative procedures.
 2. Sales cutoff.

TRANSACTION CYCLES: Collections and sales.

Procedure	Done By	Date	W/P Ref.
Collections			
1. Determine by inquiry, observation, or inspection that the incoming mail is received, opened and logged by at least two individuals who are independent of cash receipts and general journal entry and accounts receivable functions.	_____	_____	_____
2. Determine by observation or inquiry that persons receiving cash over-the-counter are independent of the mail opening, deposit, and cash receipts journal, general ledger, and accounts receivable posting functions.	_____	_____	_____
3. Determine by inquiry, observation, or inspection that collections made by sales personnel are adequately controlled.	_____	_____	_____
4. Examine evidence or observe that persons reconciling bank accounts are independent of the cash collections function or that the re-conciliation is reviewed by the owner or manager.	_____	_____	_____
5. Examine evidence of monthly balancing of the accounts receivable subledger to the general ledger.	_____	_____	_____
6. Examine approval of account codings on _____ daily cash receipts listings.	_____	_____	_____
7. Determine by inquiry, observation, or inspection that items returned by the bank are received and opened by the owner or manager.	_____	_____	_____



TEST OF CONTROLS PROGRAMS
SECTION II: SYSTEM A (Continued)

Procedures	Done by	Date	W/P Ref.
8. Examine evidence of accounting for prenumbered cash receipts tickets.	_____	_____	_____
9. Determine by observation or inspection that a restrictive endorsement is placed all checks.	_____	_____	_____
10. Select a sample of _____ entries in the cash receipts journal and trace amount and date to supporting daily listings.	_____	_____	_____
11. Select a sample of _____ daily cash receipts listings and perform the following steps:			
a. Foot each listing.	_____	_____	_____
b. Trace to posting in cash receipts journal and compare for name, date and amount.	_____	_____	_____
c. Determine proper account coding and trace to cash receipts journal.	_____	_____	_____
d. Obtain supporting authenticated detailed deposit slip and remittance advices and:			
(1) Trace deposit slip total to bank statement noting agreement of date and amount.	_____	_____	_____
(2) Compare total and individual amounts on deposit slips and remittance advices to daily cash receipts.	_____	_____	_____
e. Trace individual amounts to postings in the accounts receivable subledger noting agreement of names, dates and amounts.	_____	_____	_____
f. Recalculate cash discounts and compare to company policy or obtain owner or manager approval.	_____	_____	_____
12. Select a sample of _____ daily cash register reports and/or daily over-the-counter receipts tickets and trace to duplicate deposit slips.	_____	_____	_____
13. Select a representative sample of _____ shipping reports issued during the year, compare to sales invoices and entries in the sales journal for name, date and amount.	_____	_____	_____





TEST OF CONTROLS PROGRAMS
SECTION II: SYSTEM A (Continued)

Procedures	Done by	Date	W/P Ref.
14. Select a sample of _____ entries in the sales journal and perform the following:			
a. Trace to sales invoices and shipping reports and compare similarity of name, date, and amount.	_____	_____	_____
b. Verify prices and recalculate invoices.	_____	_____	_____
c. Check for owner or manager approval of credit sales.	_____	_____	_____
d. Check for owner or manager approval of discounts and allowances.	_____	_____	_____
e. Trace postings to accounts receivable subledger and compare name, date and amount.	_____	_____	_____
f. Check propriety of account codings.	_____	_____	_____
15. Select _____ credit memo entries from the sales journal or credit memo journal and compare to credit memos for:			
a. Name, date, and amounts.	_____	_____	_____
b. Approval of owner or manager.	_____	_____	_____
c. Examine supporting documents for propriety.	_____	_____	_____
16. Other procedures:			

_____	_____	_____	_____



TEST OF CONTROLS PROGRAMS
SECTION II: SYSTEM A (Continued)

Procedures	Done by	Date	W/P Ref.
Sales			
1. Determine by observation and examining evidence that sales invoices are matched with shipping reports and are posted to the sales journal by persons independent of the shipping or sales functions.	—	—	—
2. Determine by inquiry, observation, or inspection that the persons posting the sales journal and general ledger are independent of the accounts receivable subledger posting function, and/or the owner or manager or other independent person periodically reconciles the subsidiary ledger to the general ledger.	—	—	—
3. Examine evidence of the owner's or manager's review of the monthly aged analysis of accounts receivable.	—	—	—
4. Examine evidence or observe that the owner or manager approves all discounts and allowances.	—	—	—
5. Examine evidence of the owner's or manager's review of monthly statements or invoices.	—	—	—
6. Examine evidence of the monthly balancing of the accounts receivable subledger to the general ledger. (Same as Collections Step No. 5.)	—	—	—
7. Select a sample of ___ entries in the sales journal, obtain sales invoices or credit memos and examine for:			
a. Evidence of approval of account codings.	—	—	—
b. Doublechecking of calculations and prices.	—	—	—
8. Examine evidence and/or observe owner or manager follow up on customer complaints.	—	—	—
9. Observe that an approved sales price list is in use.	—	—	—
10. Examine evidence that the following prenumbered documents are accounted for:			
a. Credit memos.	—	—	—
b. Shipping reports.	—	—	—
c. Sales invoices.	—	—	—





TEST OF CONTROLS PROGRAMS
SECTION II: SYSTEM A (Continued)

Modification of analytical procedures and tests of balances (cross-referenced to related tests of control step above) and reasons therefor:

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

Reviewed by: _____ Date: _____
(Engagement Partner)



Tests of Controls Programs	Section II: System B
Client: _____	
Financial Statement Date: _____	

MAJOR AUDIT AREAS: 1. Accounts receivable confirmation and alternative procedures.
 2. Sales cutoff.

TRANSACTION CYCLES: Sales and collections.

Procedure	Done By	Date	W/P Ref.
-----------	---------	------	-------------

Collections

- | | | | |
|--|-------|-------|-------|
| 1. Examine evidence or observe that persons reconciling bank accounts are independent of the cash collections function or that the reconciliation is reviewed by the owner or manager. | _____ | _____ | _____ |
| 2. Observe that over-the-counter receipts are controlled by a cash register or prenumbered receipts. | _____ | _____ | _____ |
| 3. Examine evidence of accounting for prenumbered cash receipts tickets. | _____ | _____ | _____ |
| 4. Examine evidence of monthly balancing of the accounts receivable sub-ledger to the general ledger. | _____ | _____ | _____ |

Sales

- | | | | |
|--|-------|-------|-------|
| 1. Examine evidence that sales invoices are prenumbered and accounted for. | _____ | _____ | _____ |
| 2. Examine evidence that monthly statements or sales invoices are mailed to customers. | _____ | _____ | _____ |
| 3. Examine evidence that the owner or manager approves credit sales. | _____ | _____ | _____ |
| 4. Examine evidence that the owner or manager approves discounts, allowances, and bad debt write-offs. | _____ | _____ | _____ |
| 5. Other procedures: | | | |
| _____ | | | |
| _____ | | | |
| _____ | | | |
| _____ | | | |





TESTS OF CONTROLS PROGRAMS
SECTION II: SYSTEM B (Continued)

Modification of analytical procedures and tests of balances (cross-referenced to related tests of control step above) and reasons therefor:

Lined area for notes and modifications.

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

Reviewed by: _____ Date: _____
(Engagement Partner)



Tests of Controls Programs

Section II: System C

Client: _____

Financial Statement Date: _____

- MAJOR AUDIT AREAS: 1. Accounts receivable and alternative procedures.
 2. Sales cutoff.

TRANSACTION CYCLES: Collections and sales.

Procedure	Done By	Date	W/P Ref.
-----------	---------	------	-------------

Collections

- | | | | |
|--|-------|-------|-------|
| 1. Examine evidence that over-the-counter sales are controlled by sales or receipts tickets. | _____ | _____ | _____ |
| 2. Observe and inquire about the timely deposit of cash receipts. | _____ | _____ | _____ |

Sales

- | | | | |
|--|-------|-------|-------|
| 1. Observe and inquire about the preparation and mailing of sales invoices and statements. | _____ | _____ | _____ |
| 2. Other procedures: | | | |
| _____ | | | |
| _____ | | | |
| _____ | | | |
| _____ | | | |

Modification of analytical procedures and tests of balances (cross-referenced to related tests of control step above) and reasons therefor:



Tests of Controls Programs	Section III: System A
Client: _____ Financial Statement Date: _____	

- MAJOR AUDIT AREAS:**
1. Vouching and inspecting fixed assets.
 2. Search for unrecorded liabilities.
 3. Purchase cutoff.
 4. Expense analysis.

TRANSACTION CYCLES: Payments and acquisitions.

Procedure	Done By	Date	W/P Ref.
Payments			
1. Examine evidence to determine that supporting documents are approved and canceled at time of check signing.	_____	_____	_____
2. Examine evidence or observe that the numerical sequence of checks is accounted for by someone independent of the preparation function.	_____	_____	_____
3. Inquire or observe that checks are mailed by the owner or manager or someone under his/her supervision after signing.	_____	_____	_____
4. Examine evidence of the monthly balancing of the accounts payable subledger to the general ledger.	_____	_____	_____
5. Examine evidence, inquire, or observe that the bank reconciliation is prepared by the owner or manager or a person independent of the check signing function or that the reconciliation is reviewed by the owner or manager.	_____	_____	_____
6. Determine by inquiry, observation, or inspection that the check preparation function is independent of the purchases journal, general ledger and accounts payable subledger posting functions.	_____	_____	_____
7. Determine by inquiry, observation, or inspection that items returned by the bank are received and opened by the owner or manager.	_____	_____	_____
8. Determine by observation or inspection that a check protector is in use.	_____	_____	_____





TESTS OF CONTROLS PROGRAMS
SECTION III: SYSTEM A (Continued)

Procedure	Done By	Date	W/P Ref.
9. Select a sample of ____ entries in the cash disbursements journal and perform the following procedures:			
a. Obtain paid check and:			
(1) Examine signature and endorsement for propriety.	___	___	___
(2) Compare to entry for payee, date and amount.	___	___	___
b. Obtain supporting documents and:			
(1) Determine that documents agree with disbursement and that vendor and nature of purchase are proper.	___	___	___
(2) Examine for owner or manager approval for payment.	___	___	___
(3) Compare vendor name and amount to entry.	___	___	___
(4) Determine if discount was taken where appropriate.	___	___	___
(5) Examine approval of disbursement account coding.	___	___	___
(6) Determine if supporting documents are canceled to prevent duplicate payment. (Note—A System A normally includes a purchases journal. Additional supporting documents will be examined in the acquisitions tests.)	___	___	___
c. Trace postings to the accounts payable subledger.	___	___	___
10. Count ____ petty cash funds on a surprise basis, examine vouchers and supporting documents and reconcile to general ledger balance.	___	___	___
11. Other procedures:			



TESTS OF CONTROLS PROGRAMS
SECTION III: SYSTEM A (Continued)

Procedure	Done By	Date	W/P Ref.
Acquisitions			
1. Determine by inquiry, observation, or inspection that the persons posting the purchases journal and general ledger are independent of the accounts payable subledger posting function and/or the owner manager or other independent person reconciles, or reviews the reconciliation of the subledger to the general ledger.	---	---	---
2. Determine by inquiry, observation, or by examining evidence that all supporting documents are matched by a person independent of the ordering function, or by the owner or manager, before entry in the purchases journal.	---	---	---
3. Examine evidence of the monthly balancing of the accounts payable subledger to the general ledger. (Same as Payments step No. 4.)	---	---	---
4. Examine evidence of an independent review of purchases account codings.	---	---	---
5. Examine evidence, or observe, that approved vendors' price lists are being used.	---	---	---
6. Examine evidence, or observe, that the numerical sequence of receiving reports is being accounted for.	---	---	---
7. Examine evidence, or observe, that the numerical sequence of purchase orders and/or purchase requisitions is being accounted for.	---	---	---
8. Examine evidence, or observe, that accounts payable subledger balances are periodically reconciled to vendors' statements by a person independent of the ordering and payments function.	---	---	---
9. Examine evidence or observe that the receiving department inspects the quantity and quality of materials when receiving reports are prepared.	---	---	---
10. Select a sample of _____ receiving reports issued during the year and trace to vendor invoices entries in the purchase journal. Compare:			
a. Type of merchandise.	---	---	---
b. Name of vendor.	---	---	---





**TESTS OF CONTROLS PROGRAMS
SECTION III: SYSTEM A (Continued)**

Procedure	Done By	Date	W/P Ref.
c. Dates received.	—	—	—
d. Quantities.	—	—	—
e. Amounts.	—	—	—
11. Select a sample of _____ entries in the purchases journal and perform the following:			
a. If paid, trace check number to entry in cash disbursements journal. If unpaid, investigate reasons.	—	—	—
b. Obtain vendor invoice, receiving report, purchase order and/or purchase requisition and perform the following:			
(1) Compare name, dates and amounts.	—	—	—
(2) Review invoice for approval of purchase by owner or manager.	—	—	—
(3) Review receiving report for proper approval.	—	—	—
(4) Review purchase order and/or purchase requisition for proper approval.	—	—	—
(5) Verify prices and recalculate footings and extensions on invoices.	—	—	—
(6) Compare quantities and descriptions.	—	—	—
(7) Check propriety of account codings.	—	—	—
(8) Determine that supporting documents are canceled to prevent reuse.	—	—	—
12. Other procedures:			





Tests of Controls Programs	Section III: System B
Client: _____	
Financial Statement Date: _____	

- MAJOR AUDIT AREAS:
1. Vouching and inspecting fixed assets.
 2. Search for unrecorded liabilities.
 3. Purchase cutoff.
 4. Expense analysis.

TRANSACTION CYCLES: Payments and acquisitions.

Procedure	Done By	Date	W/P Ref.
Payments			
1. Examine evidence that checks are signed only by the owner or manager.	___	___	___
2. Test by observation and inquiry that the owner or manager reviews supporting documents before signing checks.	___	___	___
3. Examine evidence that checks are prenumbered and accounted for.	___	___	___
4. Test by observation and inquiry that checks are prepared by the owner or manager of a person independent of the vendor invoice approval function.	___	___	___
5. Other procedures:			

Acquisitions

1. Test by observation and inquiry that the owner or manager approves purchases. ___



TESTS OF CONTROLS PROGRAMS
SECTION III: SYSTEM B (Continued)

<u>Procedure</u>	<u>Done By</u>	<u>Date</u>	<u>W/P Ref.</u>
2. Test by observation and inquiry that "vendors" invoices or other documents are included as support for all purchases.	_____	_____	_____
3. Examine evidence that vendors are approved by the owner or manager.	_____	_____	_____
4. Other procedures:			

Modification of analytical procedures and tests of balances (cross-referenced to related tests of control step above) and reasons therefor:

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

Reviewed by: _____ Date: _____
(Engagement Partner)





Tests of Controls Programs	Section III: System C
Client: _____	
Financial Statement Date: _____	

- MAJOR AUDIT AREAS:
1. Vouching and inspecting fixed assets.
 2. Search for unrecorded liabilities.
 3. Purchase cutoff.
 4. Expense analysis.

TRANSACTION CYCLES: Acquisitions and payments.

Procedure	Done By	Date	W/P Ref.
Payments			
1. Examine evidence that cash disbursements are supported by vendors invoices or other external documents.	_____	_____	_____
2. Examine evidence that bank accounts are reconciled.	_____	_____	_____
Acquisitions			
1. Examine evidence that payments are approved by the owner or manager.	_____	_____	_____
2. Other procedures:			

Modification of analytical procedures and tests of balances (cross-referenced to related tests of control step above) and reasons therefor:

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

Reviewed by: _____ Date: _____
 (Engagement Partner)



Tests of Controls Programs	Section IV: System A
Client: _____	
Financial Statement Date: _____	

MAJOR AUDIT AREA: Payroll tests.

TRANSACTION CYCLES: Payroll and personnel.

Procedure	Done By	Date	W/P Ref.
1. Observe that a time clock is used to record time or that time is logged by persons independent of payroll preparation, check signing, or distribution functions.	_____	_____	_____
2. Examine evidence of doublechecking payroll rates and calculations by an independent person.	_____	_____	_____
3. Examine evidence of periodic reconciliation of employees' earnings records to general ledger by persons independent of payroll preparation and distribution.	_____	_____	_____
4. Select ___ payroll labor distributions and examine evidence that account codings are reviewed by someone other than preparer.	_____	_____	_____
5. Select _____ personnel files and examine written evidence of the following:			
a. Wage rate authorization.	_____	_____	_____
b. W-4 form signed by the employee.	_____	_____	_____
c. Withholdings authorizations signed by employee and approved by the owner or manager.	_____	_____	_____
6. Examine evidence or observe that payroll checks are accounted for by a person independent of the preparation function.	_____	_____	_____
7. Examine evidence that the payroll bank account reconciliation is reviewed by the owner or manager.	_____	_____	_____





TESTS OF CONTROLS PROGRAMS
SECTION IV: SYSTEM A (Continued)

Procedure	Done By	Date	W/P Ref.
8. Select a sample of ___ series of ___ duplicate payroll checks and:			
a. Account for the numerical sequence.	___	___	___
b. Trace to payroll journal entries for name, date and amounts.	___	___	___
9. Select a sample of ___ entries in the payroll journal, obtain canceled checks, time cards (hours) and personnel files (rate and withholding information) and:			
a. Recompute gross pay. Scan withholdings and other deductions for reasonableness.	___	___	___
b. Examine time cards for approval by foreman, owner or manager.	___	___	___
c. Examine check for signature of owner or manager.	___	___	___
d. Examine or obtain owner or manager approval of rates of pay and withholdings.	___	___	___
e. Compare signature on W-4 form to check endorsement.	___	___	___
f. Trace postings to employees' earnings records.	___	___	___
g. Check account classification.	___	___	___
10. Obtain _____ unissued payroll checks and control distribution to employees. Check the following:			
a. Proper identification.	___	___	___
b. Employee satisfaction with net pay computations.	___	___	___
11. Other procedures:			

_____	___	___	___



TESTS OF CONTROLS PROGRAMS
SECTION IV: SYSTEM A (Continued)

Modification of analytical procedures and tests of balances (cross-referenced to related tests of control step above) and reasons therefor:

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

Reviewed by: _____ Date: _____
(Engagement Partner)



Tests of Controls Programs	Section IV: System B
Client: _____	
Financial Statement Date: _____	

MAJOR AUDIT AREA: Payroll tests.

TRANSACTION CYCLES: Payroll and personnel.

Procedure	Done By	Date	W/P Ref.
1. Test by observation and inquiry that time cards are prepared by employees.	_____	_____	_____
2. Test by observation and inquiry that time cards are approved by a supervisor, manager or owner.	_____	_____	_____
3. Test by observation, inquiry, and inspection that the owner or manager approves rates of pay and withholding and changes thereto.	_____	_____	_____
4. Examine evidence that the payroll bank account is reconciled by someone independent of payroll preparation, approvals and check signing or by the owner or manager.	_____	_____	_____
5. Examine evidence that payroll checks are prenumbered and accounted for.	_____	_____	_____
6. Other procedures:			

Modification of analytical procedures and tests of balances (cross-referenced to related tests of control step above) and reasons therefor:



**TESTS OF CONTROLS PROGRAMS
SECTION IV: SYSTEM B (Continued)**

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

Reviewed by: _____ Date: _____
(Engagement Partner)





Test of Controls Programs	Section IV: System C
Client: _____ Financial Statement Date: _____	

MAJOR AUDIT AREA: Payroll tests.

TRANSACTION CYCLES: Payroll and personnel.

Procedure	Done By	Date	W/P Ref.
1. Review selected payroll journals and personnel records.	_____	_____	_____
2. Other procedures:			

Modification of analytical procedures and tests of balances (cross-referenced to related tests of control step above) and reasons therefor:

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

Reviewed by: _____ Date: _____
(Engagement Partner)



Test of Controls Programs	Section V — Part II: System A
Client: _____	
Financial Statement Date: _____	

- MAJOR AUDIT AREAS:
1. Physical inventory observation.
 2. Pricing and clerical tests.

TRANSACTION CYCLES: Inventory and warehousing—perpetual inventory records maintained

Procedure	Done By	Date	W/P Ref.
1. Observe that all classes of inventory are stored under good physical safeguards:			
a. Raw materials.	—	—	—
b. Work-in-process.	—	—	—
c. Finished goods.	—	—	—
2. Examine evidence or observe that physical counts are made and agreed to perpetual records by persons independent of the inventory and warehousing cycle, or that they are supervised by the owner or manager.	—	—	—
3. Examine copies of instructions for periodic physical counts.	—	—	—
4. Examine evidence or observe that the receiving department inspects the quantity and quality of materials when receiving reports are prepared.	—	—	—
5. Examine evidence that the following documents are accounted for:			
a. Raw material requisitions.	—	—	—
b. Labor charge documents.	—	—	—
c. Completed production orders.	—	—	—
d. Finished inventory requisitions.	—	—	—
6. Examine evidence or observe that the computations on the following documents are double-checked on at least a test basis by foremen or other independent persons:			
a. Completion of raw material goods requisitions.	—	—	—
b. Labor charge documents.	—	—	—
c. Completed production records.	—	—	—



TESTS OF CONTROLS PROGRAMS
SECTION V — PART II: SYSTEM A (Continued)

Procedure	Done By	Date	W/P Ref.
d. Finished inventory requisitions.	—	—	—
e. Perpetual records posting.	—	—	—
7. Examine evidence of reconciliation of perpetual records with the general ledger by an independent person.	—	—	—
8. Select a sample of the following, examine evidence of doublechecking of computations and account coding by an independent person and trace to the perpetual records and the source for general ledger entry:			
a. Raw material requisitions. Sample Size ____.	—	—	—
b. Labor charge documents. Sample Size ____.	—	—	—
c. Completed production records approved by the owner or manager. Sample Size ____.	—	—	—
d. Finished inventory requisitions. Sample Size ____.	—	—	—
9. Select a sample of ____ perpetual inventory records and perform the following:			
a. Trace all postings to supporting documents, i.e., raw material requisitions, labor charge documents, completed production bills of materials and charges, finished inventory requisitions, inventory adjustments approved by the owner or manager, and to the source of the general ledger entries.	—	—	—
b. Examine owner or manager approval of related bills of materials and charges.	—	—	—
c. Foot the inventory records.	—	—	—
d. Recalculate unit costs on the records.	—	—	—
e. Review record for evidence of obsolete or slow-moving items.	—	—	—
f. Recalculate overhead charged to the record, if applicable.	—	—	—
10. For ____ dates, agree the perpetual records control totals, if available, to the general ledger. (If not available, see step 4.)	—	—	—
11. For ____ periods, recompute standard labor, material and overhead costs charged to production.	—	—	—
12. Account for the numerical sequence of ____ series of ____ for the following:			
a. Raw material requisitions.	—	—	—
b. Labor charge documents.	—	—	—



TESTS OF CONTROLS PROGRAMS
SECTION V – PART II: SYSTEM A (Continued)

Procedure	Done By	Date	W/P Ref.
c. Completed production records.	___	___	___
d. Finished inventory requisitions.	___	___	___
13. Other procedures:			

Modification of analytical procedures and tests of balances (cross-referenced to related tests of control step above) and reasons therefor:

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

Reviewed by: _____ Date: _____
(Engagement Partner)



Tests of Controls Programs

Section V — Part II: Systems B and C

Client: _____

Financial Statement Date: _____

MAJOR AUDIT AREAS: 1. Physical inventory observation.
 2. Pricing and clerical tests.

TRANSACTION CYCLES: Inventory and warehousing—perpetual inventory records maintained

Procedure	Done By	Date	W/P Ref.
1. Test by observation and inquiry that inventory counters are given adequate instructions.	_____	_____	_____
2. Test by observation and inquiry that adequate cut-off procedures are utilized to insure an accurate count.	_____	_____	_____
3. Test by observation and inquiry that obsolete and consigned goods are excluded from the count.	_____	_____	_____
4. Other procedures: _____ _____ _____	_____	_____	_____

Modification of analytical procedures and tests of balances (cross-referenced to related tests of control step above) and reasons therefor:

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

Reviewed by: _____ Date: _____
 (Engagement Partner)





Tests of Controls Programs	Section VI: System A
Client: _____	
Financial Statement Date: _____	

MAJOR AUDIT AREAS: All areas.

TRANSACTION CYCLES: All cycles.

Procedure	Done By	Date	W/P Ref.
1. Obtain and review operations budgets.	_____	_____	_____
2. Observe adequate safeguards over the following:			
a. Accounting records.	_____	_____	_____
b. Securities and other valuable papers.	_____	_____	_____
c. Other records.	_____	_____	_____
3. Examine evidence that fixed assets records are periodically reviewed, checked to assets and reconciled to the general ledger.	_____	_____	_____
4. Other procedures:			

Modification of analytical procedures and tests of balances (cross-referenced to related tests of control step above) and reasons therefor:

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

Reviewed by: _____ Date: _____
 (Engagement Partner)



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10.501

Random Selection With a Random Table Form

Client: _____

Financial Statement Date: _____

INSTRUCTIONS:

A discussion of the methods that may be used to select sample units is presented, Chapter 3, section 3.525. To use the random selection method with a random number table:

- Assign each element of the population a unique address that corresponds to the random number table.
- Decide how to read the table, i.e., the number of digits and location, and if top to bottom, left to right.
- Place a pencil on a page to determine a random starting point.
- Modify the population numbers to the smallest possible number of digits to reduce discards.
- Pure random sampling should be applied to the entire population; stratified random sampling would separate the population according to some characteristic such as size of elements or features of the underlying transaction. This form should be used to document random selection with a random table or calculator. If a computer is used, a copy of the computer printout should be retained as documentation.

POPULATION DESCRIPTION

1. Type of document designated as the sampling unit. _____
 - a. Largest document number plus 1 _____
 - b. Smallest document number _____
 - c. Population size _____
2. Nature of the sampling unit if not a document. _____
3. Description of the population if No. 2. is applicable (including population size and numbering of population). _____



RANDOM NUMBER TABLE

Name of table. _____

Page(s) used. _____

Correspondence between the table and sampling units
(normally document number). _____

Number of digits used. _____

Starting point in table. _____

First usable sample number. _____

Last usable sample number. _____

Stopping point in table. _____

Number of sample items selected. _____

Modifications to reduce discards. _____

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

Reviewed by: _____ Date: _____
(Engagement Partner)

10.502

Random Selection With a Systematic Sample Form

Client: _____

Financial Statement Date: _____

INSTRUCTIONS:

This form is used to document systematic selection methods with random starts. A discussion of how to select sample units is presented in section 3.527, in Chapter 3.

POPULATION DESCRIPTION

1. Type of document designated as the sampling unit. _____
 - a. Largest document number plus 1 _____
 - b. Smallest document number _____
 - c. Population size _____
2. Nature of the sampling unit if not a document. _____
3. Description of the population if No. 2. is applicable (including population size and numbering of population). _____

$$\frac{\text{Population Size}}{\text{Sample Size}} = \text{initial interval}$$

$$\text{Initial interval} \times \text{number of desired starts} = \text{adjusted interval}$$

Rounded interval.

Random number(s) from the table.

First sample item(s).

Last sample item(s).

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

Reviewed by: _____ Date: _____
 (Engagement Partner)

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10.503

<h2 style="margin: 0;">Model Approach Working Paper — Tests of Balances Sampling</h2>
<p>Client: _____</p> <p>Financial Statement Date: _____</p>

1. Check the financial statement assertion(s) being tested:

a. Existence and occurrence _____	c. Completeness _____
b. Rights and obligations _____	d. Valuation or allocation _____

2. Description of sampling application: _____

3. Total recorded population for _____ \$ _____
 Less amount of individually significant items
 (Usually all items equal to or greater than 1/3
 of tolerable misstatement) (_____)

Sample population	\$ _____
-------------------	----------

4. Describe what will be considered to be a misstatement for testing purposes:

Assessment of inherent and control risk	Risk that other substantive procedures (e.g. analytical procedures) will fail to detect a material misstatement		
	Maximum	Moderate	Low
Maximum	3.0	2.3	1.9
Slightly below maximum	2.7	2.0	1.6
Moderate	2.3	1.6	1.2
Low	1.9	1.2	1.0



5. Calculate the initial sample size with the following formula:

Sampling Population		Basic Allowance (Tolerable Misstatement)		Assurance Factor		Initial Sample Size
\$ _____	÷	\$ _____	×	_____	=	_____

6. Allocate the sample items:

	Population		Sample	
	Items	Dollars	Items	Dollars
a. Stratum 1—Items above the mean of the sampling population (select 2/3 of the sample items from this subpopulation)	_____	\$ _____	_____	\$ _____
b. Stratum 2—Items less than the mean of the sampling population (select 1/3 of the sample items from this subpopulation)	_____	\$ _____	_____	\$ _____
c. Total	_____	\$ _____	_____	\$ _____

10.504

**Audit Sample Evaluation Form —
Tests of Balances Sampling**

Client: _____

Financial Statement Date: _____

1. Project the misstatement (use only one column if the sample population was not stratified):

	Stratum 1	Stratum 2
a. Misstatement in the sample	\$ _____	\$ _____
b. Dollar value of the sample	\$ _____	\$ _____
c. Dollar value of the strata	\$ _____	\$ _____
d. Projected misstatement in the sample stratum (c. ÷ b. × a.)	\$ _____	\$ _____
e. Total projected misstatement in the sample population (d.1 + d.2)	\$ _____	

2. Evaluate sample risk:

a. Misstatements found in the group audited 100%	\$ _____
b. Projected misstatement in the sample population (1.e.)	\$ _____
c. Total projected and known misstatement (2.a. + 2.b.)	\$ _____
d. Amount of above misstatement corrected	\$ _____
e. Remaining known and projected misstatement (2.c.-2.d.)	\$ _____*
f. Tolerable misstatement for the account (From the Model Approach Working Paper—Tests of Balances)	\$ _____
g. Is the remaining known and projected misstatement (e.) less than 1/3 of the amount of tolerable misstatement (f.)?	Yes ___ No ___

If the answer to g is "No" sampling risk may be unacceptably high and additional testing should be considered.

* This amount should be posted to the Summary of Possible Journal Entries Form (section 10.302).

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10.601

Microcomputer Questionnaire
Client: _____ Financial Statement Date: _____

INSTRUCTIONS:

This questionnaire should be used to document controls when a client uses microcomputers and one or more purchased, standard, UNMODIFIED accounting packages to process accounting information.

1. Names and models of computers: _____

2. Name of operating system: _____

3. Name and version of software:

Package 1 _____
 Package 2 _____
 Package 3 _____
 Package 4 _____

4. Major reports generated from software:

Package 1 _____
 Package 2 _____
 Package 3 _____
 Package 4 _____

5. Key operators and their responsibilities:

Key Operator	Responsibilities
_____	_____
_____	_____
_____	_____
_____	_____



MICROCOMPUTER QUESTIONNAIRE (Continued)

Are any of their duties incompatible? _____ Explain. _____

6. Describe any controls, such as user ID numbers, passwords and locking on/off switches that are used to prevent unauthorized access to programs and accounting data. _____

7. Describe controls that insure that all transactions are processed and that the same data is not processed twice.

8. Are users adequately trained and provided with adequate instructions on how to use the computer system? Yes _____ No _____

9. Who is responsible for reviewing the reports generated from the microcomputer?

Report	Reviewer
_____	_____
_____	_____
_____	_____
_____	_____

10. Have procedures been developed for periodic back-up of files? _____

11. Are backup files stored in a secure location? _____

12. Has management considered developing a disaster plan, including arrangements for emergency equipment, facilities, insurance, etc.? Yes ____ No ____

MICROCOMPUTER QUESTIONNAIRE (Continued)

13. Tests of Controls

Note:

The inquiry, observation, and inspection procedures used to obtain an understanding of the computer system are usually sufficient to support an assessment of control risk at less than the maximum.

Additional tests should be performed only if the auditor wishes to further reduce the level of control risk. For the All Substantive approach, no additional tests should be performed.

Describe any *additional* tests of microcomputer controls performed (e.g., inspection of evidence of review of computer output):

14. Summary of Findings

Describe the major control strengths noted:

Describe the major control weaknesses noted:

15. The auditor's understanding of computer controls, and the results of the tests of controls should be considered in the auditor's assessment of control risk for all financial statement assertions that are affected by computer processing:

MICROCOMPUTER QUESTIONNAIRE (Continued)

Note:

Computer processing controls usually have an impact on the existence, completeness, and dollar value of related transactions and balances. For example, if the client has good internal controls over processing of sales and cash receipts, the auditor may reduce the extent of the tests of existence, completeness and gross dollar value of accounts receivable (e.g., the number of confirmations mailed may be reduced).

	19____	19____	19____	19____	19____
Prepared or updated by:					
Client	_____	_____	_____	_____	_____
In-Charge	_____	_____	_____	_____	_____
Reviewed by:					
Engagement Partner	_____	_____	_____	_____	_____

10.602

General Computer Controls Questionnaire
Client: _____
Financial Statement Date: _____

INSTRUCTIONS:

This questionnaire should be completed and updated annually to document controls that are global to the client's computer system environment. For each item, place a "✓" in the "Yes" or "No" column to indicate whether the procedure is performed or in the "N/A" column if the procedure is not applicable to the client's control system. When you've completed the questionnaire, review your "Yes" and "No" responses and determine how they impact your assessment of control risk. The effects of any "No" answers should be considered and documented in the space provided. Also, "No" answers should be considered for required communication of internal control structure related matters as material weaknesses and reportable conditions. (See Chapter 7, sections 7.606-.608.) **(If the client's computer system uses only unmodified software products and the system is not complex, this questionnaire should not be completed. See section 10.601 for the Microcomputer Questionnaire.)**

Organizational Controls

	Yes	No	N/A
1. If available, attach a copy of the management information systems (MIS) department organization chart.	_____	_____	_____
2. Does the MIS department have adequate organizational status to be independent of the other organizational groups that it serves?	_____	_____	_____
3. Have written job descriptions been prepared for all key positions in the MIS department?	_____	_____	_____
4. Have procedures been established to ensure that MIS department employee qualifications are matched to the specific requirements for each employee's position?	_____	_____	_____
5. Are system operations, input, database control functions, and system development activities performed by separate individuals?	_____	_____	_____
6. Are operations personnel periodically rotated between jobs or applications?	_____	_____	_____
7. Are operations personnel required to take vacations?	_____	_____	_____

GENERAL COMPUTER CONTROLS QUESTIONNAIRE (Continued)

	Yes	No	N/A
8. Are operations personnel prohibited from initiating transactions or making master file (table) changes?	_____	_____	_____
9. Are departments (groups) that initiate changes to database master information provided a report showing changes actually made?	_____	_____	_____
Application Development Controls (includes standard spreadsheets, databases used for computer applications, Lotus programs, etc.)			
10. Have formal documentation standards and procedures been established?	_____	_____	_____
11. Have standards for systems development and programming been developed?	_____	_____	_____
12. Have formal operator and user instructions been developed?	_____	_____	_____
13. Have formal program testing procedures been established for new applications and revisions to existing applications?	_____	_____	_____
14. Are programs tested by persons independent of the programmer(s) who developed the software?	_____	_____	_____
15. Are the data used for testing and the results of testing maintained for supervisory review and historical purposes?	_____	_____	_____
16. Are personnel that test programs prohibited from testing new or revised programs on live data files?	_____	_____	_____
17. Have procedures been developed for the documentation of requests for program changes?	_____	_____	_____
18. Are program change requests approved in writing by a supervisory level person?	_____	_____	_____

GENERAL COMPUTER CONTROLS QUESTIONNAIRE (Continued)

Operations Controls

- 19. Have procedures been established to monitor operator/user adherence to prescribed instructions? _____
- 20. Are adequate computer operation logs maintained for batch processing of transactions? _____
- 21. Are adequate computer controls (transaction logging, etc.) established over interactive processing of transactions? _____
- 22. Is a schedule prepared of applications to be processed, and reports and documents to be produced? _____
- 23. Are control procedures over report distribution adequate? _____
- 24. Have procedures been established to prohibit computer operators or users from having access to system or program logic documentation? _____

Data, Program and Facilities Backup Controls

- 25. Have procedures been established for the periodic backup of critical data and programs from all centralized computers and file servers? _____
- 26. Is the backup media (diskettes, tapes, tape cartridges, etc.) stored at a secure location? _____
- 27. Have procedures been established for the restoring of backed up data and programs in the event of a system failure? _____
- 28. Has the client's ability to restore critical data and programs been tested? _____
- 29. Has a written disaster recovery plan been developed and have arrangements for emergency equipment and facilities been made? _____
- 30. If necessary, are virus tests performed on a regular basis? _____



GENERAL COMPUTER CONTROLS QUESTIONNAIRE (Continued)

31. Tests of Controls:

Note:

Inquiry observation, and inspection procedures are typically the only procedures that are used to test general controls. Therefore, the procedures used to obtain an understanding of the general controls are usually sufficient to support an assessment of control risk at less than the maximum.

Additional tests should be performed only if the auditor wishes to further reduce the level of control risk. For the All Substantive approach, no additional tests should be performed.

Describe any additional procedures designed to test general computer controls:

32. Summary of Findings:

Describe the major control strengths in the general controls:

Describe the major control weaknesses in the general controls:

33. This evaluation of general computer controls and the evaluations of application computer controls should be considered in the assessment of control risk for the financial statement assertions that are affected by computer processing.

19____ 19____ 19____ 19____ 19____

Prepared or updated by:
In-Charge

Reviewed by:
Engagement Partner

10.651

<p>Service Organization Application Controls Questionnaire</p>
<p>Client: _____</p>
<p>Financial Statement Date: _____</p>

INSTRUCTIONS:

This form should be used when (1) the service organization both authorizes and maintains records of significant transactions, and (2) there is no service auditor’s report available. The information should be used to evaluate the need to visit the service center to perform a detailed evaluation of the center's internal controls, to document information obtained during the visit and to identify any material weaknesses for follow-up.

This form should be completed by the in-charge, or computer specialist and reviewed by the engagement partner.

Any weaknesses or strengths noted should be evaluated by the auditor in assessing control risk.

Section 1 — General Information

Name of service center: _____

Address: _____

Name of individual(s) in client's organization responsible for service center application:

Is there a formal agreement? ____ If so, obtain copy.

Is there insurance protection for the following:

1. Program or software destruction? ____



**SERVICE ORGANIZATION APPLICATION
CONTROLS QUESTIONNAIRE (Continued)**

- 2. Loss of data? _____
- 3. Business interruption? _____
- 4. Errors and omissions? _____

Application Narrative: (describe in non-technical terms what the application does) _____

Describe how critical this application is to the client. Discuss the impact on the client of not having this application operational. _____

Section 2 — Technology Employed by the Application

Computer Hardware

Provide a general description of the service organization’s hardware that is used to process client transactions: _____

Systems and Application Software

Provide a general description of the service organization’s systems and application software that is used to process client transactions: _____

**SERVICE ORGANIZATION APPLICATION
CONTROLS QUESTIONNAIRE (Continued)**

Section 3 — Transaction Entry

Describe the nature of the transaction including:

Significant Source Documents and Contents _____

Input Screens _____

Retention Policy _____

Who is responsible for reviewing the completeness and accuracy of the input? _____



**SERVICE ORGANIZATION APPLICATION
CONTROLS QUESTIONNAIRE (Continued)**

Describe any forms, logs, reconciliations, etc. used to control input.

Form	Description
_____	_____
_____	_____
_____	_____
_____	_____

Describe the controls established to insure that all transactions are processed and that the same data is not processed more than once.

Describe how information is submitted to the service organization.

Section 4 – Report, Query, and Other Output Received From the Service Organization

Describe the nature of computer output including:

Printed Documents

**SERVICE ORGANIZATION APPLICATION
CONTROLS QUESTIONNAIRE (Continued)**

Listings, journals, subsidiary ledgers, ledgers, summaries, etc.

Describe any tests made by service organization personnel to verify the completeness and the accuracy of the information processed.

Describe any tests made by user accounting or other user personnel to verify the completeness and the accuracy of the information processed.

Describe the procedures for error correction and reprocessing.



**SERVICE ORGANIZATION APPLICATION
CONTROLS QUESTIONNAIRE (Continued)**

Section 5 — Information Retained by the Service Organization

Describe significant documents, transaction files, master tables/files, etc. retained by the service organization and the security and retention procedures employed.

Section 6 — Custody of Assets and Authorization of Transactions by the Service Organization

Describe the nature of service organization personnel’s access to client assets and ability to authorize transactions.

Section 7 — Security

Describe the segregation of duties related to the processing of the client’s transactions.

**SERVICE ORGANIZATION APPLICATION
CONTROLS QUESTIONNAIRE (Continued)**

Describe how the following security features of the operating system and/or network operating system are implemented for this application.

User numbers and password protection

Describe any other security features.

Section 8 — Summary of Findings

Describe the major control strengths noted.



**SERVICE ORGANIZATION APPLICATION
CONTROLS QUESTIONNAIRE (Continued)**

Describe the major control weaknesses noted.

Note:

Additional tests should be performed only if the auditor plans to rely on the controls of the service organization in assessing control risk for the client. For the All-Substantive approach, no additional tests should be performed.

Describe the effect of your understanding and the tests of controls performed on your assessment of control risk for the related financial statement assertions.

19____ 19____ 19____ 19____ 19____

Prepared or updated by:
In-Charge _____

Reviewed by:
Engagement Partner _____

10.652

<p>Service Auditor Report Evaluation Form</p>
<p>Client: _____</p> <p>Financial Statement Date: _____</p>

INSTRUCTIONS:

This form should be used when (1) the service organization both authorizes and maintains records of significant transactions, and (2) there is a service auditor's report available.

This form should be completed by the in-charge or computer specialist and reviewed by the engagement partner.

Include a copy of the service auditor's report in the workpapers.

Section 1 -- General Information

Name of service center: _____

Address: _____

Name of individual(s) in client's organization responsible for service center application:

Is there a formal agreement? ____ If so, obtain copy.

Is there insurance protection for the following:

1. Program or software destruction? ____
2. Loss of data? ____



SERVICE AUDITOR REPORT EVALUATION FORM (Continued)

3. Business interruption? _____

4. Errors and omissions? _____

Application Narrative: (describe in non-technical terms what the application does) _____

Describe how critical this application is to the client. Discuss the impact on the client of not having this application operational: _____

Section 2 — Service Auditor

Name of the service auditor: _____

Does the Service Auditor have a good reputation? _____

Section 3 — The Service Auditor's Report

A. Describe the type of report issued by the service auditor. _____

B. Describe the major control strengths in the service organization's processing.

C. Describe the major control weaknesses in the service organization's processing.

SERVICE AUDITOR REPORT EVALUATION FORM (Continued)

Note:

Section 3, item D. and Section 5 should be completed only if the auditor plans to rely on the controls of the service organization in assessing control risk for the client. These items should not be completed for the All-Substantive approach.

D. If the service auditor performed tests of the operating effectiveness of controls, identify those tests that will be relied upon in assessing control risk for the client.

Section 4 — Client Involvement

A. Describe any control procedures performed by client personnel to test the accuracy of service organization processing.

Section 5 — Summary of Findings:

Describe the effect of your understanding and the tests of controls performed on your assessment of control risk for the related financial statement assertions:

19____ 19____ 19____ 19____ 19____

Prepared or updated by:

In-Charge

Reviewed by:

Engagement Partner

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◆
10.700**Tests of Balances Audit 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. The minimum tests of balances procedures and sample sizes will be selected for areas assessed as System A and B provided the results from tests of controls and preliminary analytical procedures are satisfactory. Certain additional procedures and/or increased sample sizes in tests of balances may be required for financial statement assertions with assessed control risk at maximum, i.e., System C. The same will be required for the tests of balances under the All-Substantive Approach.

The Planning Matrix, the Internal Controls Questionnaire, the Risk of Potential Misstatements Evaluation Form, and the results of the tests of controls and preliminary analytical procedures should be used for guidance when modifying this program and selecting sample sizes under the ABC System. The All-Substantive Approach Questionnaire and the results of the tests of controls (System C) and preliminary analytical procedures should guide modification under the All-Substantive Approach.

After the tests of controls and the preliminary analytical procedures have been completed, this Tests of Balances Audit Program should be modified by the in-charge and reviewed by the engagement partner. 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.

**TESTS OF BALANCES
AUDIT PROGRAM****INDEX**

	<u>Page</u>
I. Cash	10-153
II. Trade Accounts Receivable	10-157
III. Other Accounts Receivable	10-161
IV. Notes Receivable	10-163
V. Allowance for Doubtful Accounts	10-165
VIa. Inventories (No Perpetual Records)	10-167
VIb. Inventories (Perpetual Records)	10-174
VII. Investment Securities	10-181
VIII. Prepaid Expenses	10-185
IX. Fixed Assets	10-187
X. Investments and Other Assets	10-192
XI. Deferred Charges and Intangibles	10-195
XII. Accounts Payable	10-197
XIII. Accrued Expenses, Income Taxes, and Other Liabilities	10-200
XIV. Notes Payable and Long-Term Debt	10-208
XV. Contingent Liabilities, Contracts, and Commitments	10-211
XVI. Shareholders' Equity	10-214
XVII. Related-Party Transactions	10-216
XVIII. Sales	10-218
XIX. Costs of Goods Sold	10-220
XX. Other Revenues and Expenses	10-222
XXI. Expense Account Analysis and Vouching	10-224
XXII. Payroll Tests	10-228
XXIII. Risks and Uncertainties	10-230

TESTS OF BALANCES AUDIT PROGRAM

I. CASH

Financial Statement Assertions: Existence or occurrence. (E)
 Completeness. (C)
 Rights and obligations. (R)
 Presentation and disclosure. (P)

- Objectives:
- Existence — To determine that cash exists and is owned by the entity. (Assertions E and R)
 - Proper cut-off — To determine that cash balances reflect a proper cut-off of cash receipts and disbursements. (Assertions E, C and P)
 - Complete — To determine that cash balances as presented in the balance sheet properly reflect all cash and cash items on hand, in transit, or on deposit with third parties. (Assertions E, C and P)
 - Proper classification — To determine that cash balances are properly classified in the financial statements and any restrictions on the availability of funds are properly disclosed. (Assertions R and P)

Procedure	Done By	Date	W/P Ref.
A. Review the results of applicable sections of the following to determine the nature, timing, and extent of procedures:			
1. Preliminary analytical procedures.	_____	_____	_____
2. All-Substantive Approach Questionnaire or Internal Controls Questionnaire.	_____	_____	_____
3. Tests of Controls Program.	_____	_____	_____
B. Compare account balances with preceding year's. (E, R, and C)	_____	_____	_____
C. Compute quick current ratios (cash, and net receivables) and compare with preceding year's. (E, R, and C)	_____	_____	_____
D. At the balance-sheet date, perform the following:			
1. Count undeposited funds on hand at _____ locations and control until deposited. (E and R)	_____	_____	_____



TESTS OF BALANCES AUDIT PROGRAM

I. CASH (Continued)

Procedure	Done By	Date	W/P Ref.
2. Count ____ petty cash and change funds paying particular attention to the nature of transactions in the fund. (E and R)	_____	_____	_____
<p>Practice Tip:</p> <p>It is often a good idea to scan petty cash vouchers to determine types of expenses that are paid out of petty cash. Be on the lookout for items that might need to be capitalized.</p>			
3. Obtain last unused check numbers by physical inspection. (C)	_____	_____	_____
4. List any checks prepared and recorded prior to the balance-sheet date, but not yet issued. (C)	_____	_____	_____
5. Prepare and mail standard bank confirmations for ____ demand and time deposit accounts. (E, R, and C)	_____	_____	_____
6. Prepare and mail a request for cutoff bank statements on ____ bank accounts to be sent directly to us. Prove any requested statement not received directly by agreeing the totals of enclosures to amounts on the statement. (E, R, and C)	_____	_____	_____
E. Obtain a bank reconciliation for _____ accounts as of the balance-sheet date and perform the following:			
1. Foot reconciliations.	_____	_____	_____
2. Trace book balances to general ledger.	_____	_____	_____
3. Trace bank balances to cutoff bank statement.	_____	_____	_____
4. Agree bank balances to confirmations from bank.	_____	_____	_____



TESTS OF BALANCES AUDIT PROGRAM

I. CASH (Continued)

Procedure	Done By	Date	W/P Ref.
5. Trace reconciling items to bank cutoff statements or other supporting documents. Items not clearing during cutoff period should be challenged for propriety and traced to supporting documents.	_____	_____	_____
6. Determine items in bank cutoff statement relating to periods before, or on, reconciliation date are properly reflected on the reconciliation.	_____	_____	_____
7. Agree last deposit amount and last unissued check number obtained at balance-sheet date to the source journals.	_____	_____	_____
8. Examine material enclosures returned with bank cutoff statements for any unusual items or unrecorded transactions taking place prior to the balance-sheet date.	_____	_____	_____
9. For checks dated for the first _____ days after the reconciliation date, examine the date of the first bank endorsement to determine if they precede the reconciliation date.	_____	_____	_____
10. Trace lists of any held checks to outstanding check lists. (E, R, and C)	_____	_____	_____
F. Schedule interbank and intrabank transfers for _____ days before and after the balance-sheet date by reference to:			
1. Deposits in transit and outstanding checks on bank reconciliations.	_____	_____	_____
2. Cash receipts and disbursements journals or duplicate deposit slips and check copies.	_____	_____	_____
3. Enclosures in cutoff bank statements. (E, R, and C)			



TESTS OF BALANCES AUDIT PROGRAM

I. CASH (Continued)

Procedure	Done By	Date	W/P Ref.
G. Determine that all such transfers were:			
1. Recorded on the books in the same period for both bank accounts.	_____	_____	_____
2. Uncompleted transfers were properly accounted for in the bank reconciliations. (E, R, and C)	_____	_____	_____
H. Review bank confirmations for details applicable to other areas of the financial statements. (P)	_____	_____	_____
I. Segregate any bank overdrafts or funds subject to withdrawal restrictions. (P)	_____	_____	_____
J. Review any compensating balances arrangements for the benefit of the company or related parties. (P)	_____	_____	_____
K. Additional procedures:			
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____

Prepared by: _____ Date: _____

Reviewed by: _____ Date: _____



TESTS OF BALANCES AUDIT PROGRAM

II. TRADE ACCOUNTS RECEIVABLE

Financial Statement Assertions: Existence or occurrence. (E)
 Completeness. (C)
 Rights and obligations. (R)
 Valuation or allocation. (V)
 Presentation and disclosure. (P)

- Objectives:
- Existence of trade accounts receivable — To determine that receivables exist, are authentic obligations owed to the entity, contain no significant amounts that should be written off, and that allowances for doubtful accounts are adequate and not excessive. (Assertions E, R and V)
 - Proper disclosure — To determine that proper disclosure is made of any pledged, discounted or assigned trade receivables. (Assertions R and P)
 - Revenue recognition — To determine that interest on trade accounts receivable has been properly recorded. (Assertions C, R and V)
 - GAAP conformity — To determine that presentation and disclosure of trade accounts receivable is in conformity with GAAP consistently applied. (Assertion P)

Procedure	Done By	Date	W/P Ref.
A. Review the results of applicable sections of the following to determine the nature, timing, and extent of procedures:			
1. Preliminary analytical procedures.	_____	_____	_____
2. All-Substantive Approach Questionnaire or Internal Controls Questionnaire.	_____	_____	_____
3. Tests of Controls Program.	_____	_____	_____
B. Compare balances of accounts receivable and revenues with preceding year's. (E, C, R, and V)	_____	_____	_____
C. Compute the following ratios and compare with preceding years's:			
1. Number of days net sales in trade accounts receivable. (E, C, R and V)	_____	_____	_____



TESTS OF BALANCES AUDIT PROGRAM

II. TRADE ACCOUNTS RECEIVABLE (Continued)

Procedure	Done By	Date	W/P Ref.
2. Year-end trade contracts receivable as a percentage of gross sales. (E, C, R, and V)	_____	_____	_____
D. Obtain a list of aged accounts receivable at the balance-sheet date, foot and trace to the general ledger (or prepare adjusting entry). (E and C)	_____	_____	_____
E. Trace ___ of the accounts receivable to the detail ledger for name, amount and aged categories. Select ___ accounts in the subledger and compare to the aging. If no subledger is available (System C), examine underlying sales invoices and collections documentation. (V)	_____	_____	_____
F. Review and document collections on accounts receivable for ___ days after the balance-sheet date. (E, R, and V)	_____	_____	_____
G. Request confirmation of accounts receivable as follows:			
1. Positive requests on individually significant accounts with balances in excess of \$ _____.	_____	_____	_____
2. Positive requests on accounts from the sampling population as follows:			

(E, R, and V)	_____	_____	_____
H. If customer addresses have not been verified during transactions tests, select _____ accounts (at least 10) and independently verify addresses by reference to phone or business directories, phone calls to customers, documents received from customer, credit checks, etc. (E, R, and V)	_____	_____	_____
I. Send second requests on positive nonreplies. (E, R, and V)	_____	_____	_____



TESTS OF BALANCES AUDIT PROGRAM

II. TRADE ACCOUNTS RECEIVABLE (Continued)

Procedure	Done By	Date	W/P Ref.
J. Perform alternative procedures on nonreplies to second requests by examining posting dates for subsequent collections on the accounts receivable subledger for System A. If no or partial subsequent collections, examine shipping and sales documents. Consider examining supporting documents for any unusually large account balances or for all nonreplies when such nonreplies are extensive. Examine subsequent collections documentation and shipping reports or sales invoices for Systems B and C. (E, R, and V)	_____	_____	_____
K. Reconcile all confirmation exceptions by reference to the accounts receivable subledger or other documents. Be alert to explanations that may be evidence of overall conditions affecting the financial statements. Follow up on such conditions. (E, R, and V)	_____	_____	_____
<p>Practice Tip:</p> <p>Be alert to large credits claimed by customers (especially close to the balance-sheet date). These credits may represent goods which were never sent thereby affecting ending inventory.</p>			
L. Summarize the results of the confirmation procedures. (E and V)	_____	_____	_____
M. Test the sales cutoff by tracing entries in the sales journal for ___ days before and after the balance-sheet date to shipping reports, if available, and/or sales invoices. (E and C)	_____	_____	_____
N. Determine, confirm and disclose accounts pledged, discounted, sold, assigned or guaranteed by others. (R and P)	_____	_____	_____
O. Reclassify any material credit balances. (P)	_____	_____	_____





TESTS OF BALANCES AUDIT PROGRAM

II. TRADE ACCOUNTS RECEIVABLE (Continued)

Procedure	Done By	Date	W/P Ref.
P. If sending confirmations at a date other than the balance-sheet date (Systems A and B), perform the following in addition to steps above:			
1. Select confirmations from a source that is reconciled to the general ledger.	_____	_____	_____
2. Review transactions from the confirmation date to the engagement date for material or unusual items. Review supporting documents for such transactions.	_____	_____	_____
3. Consider confirming several material account balances at the balance-sheet date:			
Positive _____	_____	_____	_____
Negative _____	_____	_____	_____
(E and V)			
Q. Additional procedures:			

_____	_____	_____	_____

Prepared by: _____ Date: _____

Reviewed by: _____ Date: _____



TESTS OF BALANCES AUDIT PROGRAM

III. OTHER ACCOUNTS RECEIVABLE

Financial Statement Assertions: Existence or occurrence. (E)
 Completeness. (C)
 Rights and obligations. (R)
 Valuation or allocation. (V)
 Presentation and disclosure. (P)

- Objectives:
- Existence of other accounts receivable — To determine that the other receivables exist, are authentic obligations owed to the entity, contain no significant amounts that should be written off, and that allowances for doubtful accounts are adequate and not excessive. (Assertions E, R and V)
 - Proper disclosure — To determine that proper disclosure is made of any pledged, discounted or assigned receivables. (Assertions R and P)
 - Revenue recognition — To determine that interest on other accounts receivable has been properly recorded. (Assertions C, R and V)
 - GAAP conformity — To determine that presentation and disclosure of other accounts receivable is in conformity with GAAP consistently applied. (Assertion P)

Procedure	Done By	Date	W/P Ref.
A. Review the results of applicable sections of the following to determine the nature, timing, and extent of procedures:			
1. Preliminary analytical procedures.	_____	_____	_____
2. All-Substantive Approach Questionnaire or Internal Controls Questionnaire.	_____	_____	_____
3. Tests of Controls Program.	_____	_____	_____
B. Compare balances of "other" accounts receivable with preceding year's. (E, C, R, and V)	_____	_____	_____
C. Investigate large and/or unusual balances.	_____	_____	_____
D. Inquire about the existence of other accounts receivable. Determine that all have been recorded. (C)	_____	_____	_____
E. Obtain a list of other accounts receivable and agree to the general ledger. (E, R, and C)	_____	_____	_____





TESTS OF BALANCES AUDIT PROGRAM

III. OTHER ACCOUNTS RECEIVABLE (Continued)

Procedure	Done By	Date	W/P Ref.
F. Request positive confirmations of all significant balances. Send second requests on nonreplies. (E, R, and V)	_____	_____	_____
G. Perform alternative procedures on accounts not responding to second requests. (E, R, and V)	_____	_____	_____
H. Reconcile any exceptions received. (E, R, and V)	_____	_____	_____
I. Separately classify related-party receivables. (P)	_____	_____	_____
J. Additional procedures: _____ _____ _____ _____	_____	_____	_____

Prepared by: _____ Date: _____

Reviewed by: _____ Date: _____



TESTS OF BALANCES AUDIT PROGRAM

IV. NOTES RECEIVABLE

Financial Statement Assertions: Existence or occurrence. (E)
 Completeness. (C)
 Rights and obligations. (R)
 Valuation or allocation. (V)
 Presentation and disclosure. (P)

- Objectives:
- Existence of other notes receivable — To determine that the notes receivable exist, are authentic obligations owed to the entity, contain no significant amounts that should be written off, and that allowances for doubtful accounts are adequate and not excessive. (Assertions E, R and V)
 - Proper disclosure — To determine that proper disclosure is made of any pledged, discounted or assigned notes receivable. (Assertions R and P)
 - Revenue recognition — To determine that interest on notes receivable has been properly recorded. (Assertions C, R and V)
 - GAAP conformity — To determine that presentation and disclosure of notes receivable is in conformity with GAAP consistently applied. (Assertion P)

Procedure	Done By	Date	W/P Ref.
A. Review the results of applicable sections of the following to determine the nature, timing, and extent of procedures:			
1. Preliminary analytical procedures.	_____	_____	_____
2. All-Substantive Approach Questionnaire or Internal Controls Questionnaire.	_____	_____	_____
3. Tests of Controls Program.	_____	_____	_____
B. Compare balances in notes receivable and interest income with the preceding year's. (E, C, R, and V)	_____	_____	_____
C. Compute the ratio of interest earned to the average notes receivable outstanding and compare with preceding year's. (E, C, R and V)	_____	_____	_____
D. Inquire about the existence of notes receivable. Determine that all have been recorded. (E, R, and C)	_____	_____	_____



TESTS OF BALANCES AUDIT PROGRAM

IV. NOTES RECEIVABLE (Continued)

Procedure	Done By	Date	W/P Ref.
E. Obtain a list of notes receivable and agree to the general ledger. (E and C)	_____	_____	_____
F. Examine properly signed and dated notes and any collateral supporting balances due. (E, R, and V)	_____	_____	_____
G. Request positive confirmation on all significant balances. Send second requests on nonreplies. (R and V)	_____	_____	_____
H. Examine evidence of periodic or subsequent payments on notes not responding to second requests. (E, R, and V)	_____	_____	_____
I. Reconcile any confirmation exceptions received. (E, R, and V)	_____	_____	_____
J. Separately classify notes from related parties. (P)	_____	_____	_____
K. Test calculation of any accrued interest receivable and consider reconciling to interest income. (E)	_____	_____	_____
L. Additional procedures:			

Prepared by: _____ Date: _____

Reviewed by: _____ Date: _____



TESTS OF BALANCES AUDIT PROGRAM

V. ALLOWANCE FOR DOUBTFUL ACCOUNTS

Financial Statement Assertions: Valuation or allocation. (V)
 Presentation and disclosure. (P)

- Objectives:
- To determine that allowances for doubtful accounts are adequate and not excessive. (Assertion V)
 - Proper disclosure — To determine that proper disclosure is made of any allowances for doubtful accounts. (Assertion P)
 - GAAP conformity — To determine that presentation and disclosure of allowance for doubtful accounts is in conformity with GAAP consistently applied. (Assertion P)

Procedure	Done By	Date	W/P Ref.
A. Review the results of applicable sections of the following to determine the nature, timing, and extent of procedures:			
1. Preliminary analytical procedures.	_____	_____	_____
2. All-Substantive Approach Questionnaire or Internal Controls Questionnaire.	_____	_____	_____
3. Tests of Controls Program.	_____	_____	_____
B. Compare balances in allowance for doubtful accounts, bad debts, sales returns, and allowances with the preceding year's. (V)	_____	_____	_____
C. Compute the following ratios and compare with preceding year's:			
1. Sales returns and allowances as a percentage of gross sales. (V)	_____	_____	_____
2. Sales returns and allowances as a percentage of gross sales by product line. (V)	_____	_____	_____
3. Bad debts expense as a percentage of gross sales. (V)	_____	_____	_____
4. Allowance for doubtful accounts as a percentage of trade accounts receivable. (V)	_____	_____	_____



TESTS OF BALANCES AUDIT PROGRAM

V. ALLOWANCE FOR DOUBTFUL ACCOUNTS (Continued)

Procedure	Done By	Date	W/P Ref.
5. Aging categories as a percentage of total accounts receivable compared to prior year's. (V)	_____	_____	_____
D. Obtain an analysis of the bad debt expense and allowance accounts for the year. Challenge the reasonableness of the chargeoffs and recoveries. Discuss with management. (V and P)	_____	_____	_____
E. Examine correspondence files and discuss with management significant accounts written off during the year. (V)	_____	_____	_____
F. Review the aged trial balance and other lists of notes and accounts and discuss balances over _____ days old with management. Determine the need to include such accounts in the allowance. (V)	_____	_____	_____
G. Examine credit memos issued after the balance-sheet date and determine need for an allowance for discounts, returns and allowances. (V)	_____	_____	_____
H. Summarize results of procedures above and evaluate the adequacy of the allowance. (V)	_____	_____	_____
I. Prepare a memo describing the procedures performed and conclusions reached. (V)	_____	_____	_____
J. Additional procedures:			

Prepared by: _____ Date: _____

Reviewed by: _____ Date: _____



TESTS OF BALANCES AUDIT PROGRAM

VIa. INVENTORIES (NO PERPETUAL RECORDS)

Financial Statement Assertions: Existence or occurrence. (E)
 Completeness. (C)
 Rights and obligations. (R)
 Valuation or allocation. (V)
 Presentation and disclosure. (P)

- Objectives:
- Inventory exists — To determine that the inventory exists and is the client's property. (Assertions E and R)
 - Clerical accuracy — To determine that the inventories are summarized and priced with clerical accuracy, and the records have been adjusted to the physical inventory. (Assertions C and V)
 - GAAP conformity — To determine that inventory classifications and carrying amounts are determined and presented in the financial statements in conformity with GAAP consistently applied (for example, assumptions about the cost flow, such as FIFO and LIFO, and lower of cost or market considerations). (Assertion P)
 - Encumbrances identified — To determine that any encumbrances such as pledges or liens are identified and adequately disclosed in the financial statements. (Assertions R, V and P)

Procedure	Done By	Date	W/P Ref.
A. Review the results of applicable sections of the following to determine the nature, timing, and extent of procedures:			
1. Preliminary analytical procedures.	_____	_____	_____
2. All-Substantive Approach Questionnaire or Internal Controls Questionnaire.	_____	_____	_____
3. Tests of Controls Program.	_____	_____	_____
B. Compare balances of inventory and costs of sales classifications with the preceding year's. (E, C, R, and V)	_____	_____	_____
C. Compare inventory classifications as a percentage of total inventory with preceding year's. (E, C, R, and V)	_____	_____	_____
D. Compute gross margin and compare with preceding year's. (E, C, R, and V)	_____	_____	_____



TESTS OF BALANCES AUDIT PROGRAM

Via. INVENTORIES (NO PERPETUAL RECORDS) (Continued)

Procedure	Done By	Date	W/P Ref.
E. Compute gross margin by product line or division and compare with preceding year's. (E, C, R, and V)	_____	_____	_____
F. Compute inventory turnover and compare with preceding year's. (E, C, R, and V)	_____	_____	_____
G. Compute inventory turnover by major product or division and compare with preceding year's. (E, C, R, and V)	_____	_____	_____
H. Review the client's plans for taking inventory at all locations, control over tags and count sheets, identifying obsolete items, consigned and customers' goods, controlling movement of inventory during the count and control over shipping and receiving. (E, C, R, and V)	_____	_____	_____
I. Review or assist in preparing physical inventory instructions. (E, C, R, and V)	_____	_____	_____
J. Review last year's inventory summaries and current production records. Consider selecting representative test count items in advance. Observe the taking of the physical inventory.			
1. Obtain a copy of the tag or sheet control form. (E, R, and C)	_____	_____	_____
2. Obtain last receiving and shipping report numbers and sales invoice numbers. (E and C)	_____	_____	_____
3. Determine that movement of goods is controlled during the count and that the physical cutoff is proper. (V)	_____	_____	_____
4. Identify and record any obsolete goods for follow-up. (E and C)	_____	_____	_____
5. Observe counting and recording procedure by all inventory crews to see that inventory instructions are being followed. (E and C)	_____	_____	_____



TESTS OF BALANCES AUDIT PROGRAM

VIa. INVENTORIES (NO PERPETUAL RECORDS) (Continued)

Procedure	Done By	Date	W/P Ref.
6. Make and record representative test counts for later tracing to inventory computation sheets as follows:			
a. Record counts for individually significant items with totals in excess of \$_____.	_____	_____	_____
b. Record counts for representative items from sampling population as follows:			

(E and C)	_____	_____	_____
7. See that tags or count sheets contain adequate descriptions, units of measure, last operation completed (WIP), and appraisal of inventory condition if obsolete or slow-moving. (E, C, and V)	_____	_____	_____
8. Make a final walk-through to determine that all goods were counted, obsolete or consigned goods were identified and that all inventory tags or sheets have been collected. (C and V)	_____	_____	_____
<p>Practice Tip:</p> <p>Be on the lookout for items that appear old, e.g., last year's inventory tag is still attached, items are dusty from nonuse. Sometimes, general conversation with client personnel doing inventory will help in identifying old goods.</p>			
9. Prepare a memo describing the observation procedures and conclusions reached. (E, C, and V)	_____	_____	_____



TESTS OF BALANCES AUDIT PROGRAM

VIa. INVENTORIES (NO PERPETUAL RECORDS (Continued))

Procedure	Done By	Date	W/P Ref.
K. Trace shipping and receiving report numbers obtained during the observation to determine they were recorded in the proper period.	_____	_____	_____
1. Examine shipping and receiving reports for ___ days before and after the inventory date, trace to the appropriate source journal and cutoff numbers and determine a proper cutoff was made. (E, R, and C)	_____	_____	_____
2. Review reconciliation of inventory to engagement date if counted at another date. Examine supporting documents or source journals for major items on reconciliation. (E and C)	_____	_____	_____
3. Review credit memos for ___ days before and after inventory to determine they were recorded in the proper period. (E and C)	_____	_____	_____
L. Obtain a copy of client's final inventory summary, agree to general ledger and trace ___ items to and from tags or sheets control form. Examine support for material or unusual reconciling items. (E and C)	_____	_____	_____
M. Trace test counts to summary. (E and C)	_____	_____	_____
N. Determine that all individually significant items test counted are included in the summary and extended and footed properly. (C and V)	_____	_____	_____
O. Foot ___ pages and ___ page totals and extend ___ line items in the sampling population. (V)	_____	_____	_____
P. Review summary to determine that obsolete goods noted during observation have been excluded or priced at net realizable value. (V)	_____	_____	_____
Q. Compare major items categories with the prior year and investigate material changes. (E, C, and V)	_____	_____	_____



TESTS OF BALANCES AUDIT PROGRAM

Via. INVENTORIES (NO PERPETUAL RECORDS (Continued)

Procedure	Done By	Date	W/P Ref.
R. 1. Determine client's pricing method for raw materials and make a selection of items for price testing from the sampling population as follows: _____ _____ _____ _____ (V)	_____	_____	_____
2. Compare prices to vendor invoices or price lists. If client uses LIFO method, additional procedures for testing base prices and computations should be designed and performed. Determine that the method is consistent. (V)	_____	_____	_____
3. Perform price tests for all individually significant items of raw materials that were included in test counts. (V)	_____	_____	_____
S. Review _____ price computations for work-in-process and finished goods for propriety and consistency. (V)	_____	_____	_____
T. 1. Verify price computations for work-in-process and finished goods items in the sampling population by reference to invoices, bills of materials and charges and cost accounting records as follows: _____ _____ _____ _____ (V)	_____	_____	_____
2. Verify price computations for all individually significant items of work-in-process and finished goods that were included in test counts. (V)	_____	_____	_____
U. Determine that all classes of inventory have been subjected to tests of replacement costs and/or net realizable value. (V)	_____	_____	_____
V. Test, or prepare, an allocation of overhead to work-in-process and finished goods. Determine if the method is consistent with prior years. (V and P)	_____	_____	_____



TESTS OF BALANCES AUDIT PROGRAM

VIa. INVENTORIES (NO PERPETUAL RECORDS (Continued))

Procedure	Done By	Date	W/P Ref.
W. Prepare any necessary inventory adjustments, or review client's adjustments. (E, C, and V)	_____	_____	_____
X. Determine that customers' goods have been excluded from inventory. If material, consider confirming. (E)	_____	_____	_____
Y. Determine any intercompany or interdepartmental profit to be eliminated in consolidation. (P)	_____	_____	_____
Z. Determine if any inventory has been pledged. (P)	_____	_____	_____
AA. For significant amounts of inventory stored at outside locations, consider performing the following procedures:			
1. Review and test the owner's control procedures for investigating the warehouseman and evaluating the warehouseman's performance. (E and C)	_____	_____	_____
2. Obtain an independent auditor's report on the warehouseman's system of internal accounting control relevant to custody of goods and, if applicable, pledging of receipts, or apply alternative procedures at the warehouse to gain reasonable assurance that information received from the warehouseman is reliable. (E and C)	_____	_____	_____
3. Observe physical counts of the goods, if practicable and reasonable. (E and C)	_____	_____	_____
4. If warehouse receipts have been pledged as collateral, confirm with lenders pertinent details of the pledged receipts (on a test basis, if appropriate). (E and P)	_____	_____	_____
5. Confirm goods out on consignment or at outside warehouses. (E and P)	_____	_____	_____
BB. Additional procedures:			
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____



TESTS OF BALANCES AUDIT PROGRAM

VIa. INVENTORIES (NO PERPETUAL RECORDS (Continued))

Note: Stronger controls over the count and inventory compilation may allow less observation time, fewer test counts and smaller pricing and clerical tests. The existence of internal controls over the count, however, must be verified during the count observation. Refer to the Internal Controls Questionnaire, the Planning Matrix, or the All-Substantive Approach Questionnaire for a determination of the extent of procedures to be performed. Pursuant to SAS No. 39, *Audit Sampling*, sample selections must be representative and consider the materiality of the inventory items. The following guidelines will apply to the nature and timing of tests unless otherwise approved by the engagement executive:

Systems B and C — all items counted simultaneously at or near the balance-sheet date.

System A — all items counted simultaneously within a reasonable time period near the balance-sheet date.

Prepared by: _____ Date: _____

Reviewed by: _____ Date: _____



TESTS OF BALANCES AUDIT PROGRAM

VIIb. INVENTORIES (PERPETUAL RECORDS)

Financial Statement Assertions: Existence or occurrence. (E)
 Completeness. (C)
 Rights and obligations. (R)
 Valuation or allocation. (V)
 Presentation and disclosure. (P)

- Objectives:
- Inventory exists — To determine that the inventory exists and is the client's property. (Assertions E and R)
 - Clerical accuracy — To determine that the inventories are summarized and priced with clerical accuracy, and the records have been adjusted to the physical inventory. (Assertions C and V)
 - GAAP conformity — To determine that inventory classifications and carrying amounts are determined and presented in the financial statements in conformity with GAAP consistently applied (for example, assumptions about the cost flow, such as FIFO and LIFO, and lower of cost or market considerations). (Assertion P)
 - Encumbrances identified — To determine that any encumbrances such as pledges or liens are identified and adequately disclosed in the financial statements. (Assertions R, V and P)

Procedure	Done By	Date	W/P Ref.
A. Review the results of applicable sections of the following to determine the nature, timing, and extent of procedures:			
1. Preliminary analytical procedures.	_____	_____	_____
2. All-Substantive Approach Questionnaire or Internal Controls Questionnaire.	_____	_____	_____
3. Tests of Controls Program.	_____	_____	_____
B. Compare balances of inventory and costs of sales classifications with the preceding year's. (E, C, R, and V)	_____	_____	_____
C. Compare inventory classifications as a percentage of total inventory with preceding year's. (E, C, R, and V)	_____	_____	_____
D. Compute gross margin and compare with preceding year's. (E, C, R, and V)	_____	_____	_____



TESTS OF BALANCES AUDIT PROGRAM

VII. INVENTORIES (PERPETUAL RECORDS) (Continued)

Procedure	Done By	Date	W/P Ref.
E. Compute gross margin by product line or division and compare with preceding year's. (E, C, R, and V)	_____	_____	_____
F. Compute inventory turnover and compare with preceding year's. (E, C, R, and V)	_____	_____	_____
G. Compute inventory turnover by major product or division and compare with preceding year's. (E, C, R, and V)	_____	_____	_____
H. Review the client's plans for taking inventory at all locations, control over tags and count sheets, identifying obsolete items, consigned and customers' goods, controlling movement of inventory during the count and control over shipping and receiving. (E, C, and V)	_____	_____	_____
I. Review or assist in preparing physical inventory instructions. (E, C, and V)	_____	_____	_____
J. Review last year's inventory summaries and current perpetual records. Select items for observation in advance. (E, C, and V)	_____	_____	_____
K. Observe the taking of the physical inventory of selected items:			
1. Obtain a copy of the tag or sheet control form. (E and C)	_____	_____	_____
2. Obtain last receiving and shipping report numbers, sales invoice numbers, and lost check numbers at date of count. (E and C)	_____	_____	_____
3. Determine that any movement of goods is controlled during the count and that the physical cutoff is proper. (E and C)	_____	_____	_____
4. Identify and record any obsolete goods for follow-up. (V)	_____	_____	_____



TESTS OF BALANCES AUDIT PROGRAM

Vib. INVENTORIES (PERPETUAL RECORDS) (Continued)

Procedure	Done By	Date	W/P Ref.
5. Observe counting and recording procedures by all inventory crews to ensure that inventory instructions are being followed. (E, C, and V)	_____	_____	_____
6. Make and record representative test counts for later tracing to inventory compilation sheets as follows:			
a. Record counts for individually significant inventory items with totals in excess of \$ ____.	_____	_____	_____
b. Record counts for representative items from sampling population as follows:			

(E and C)	_____	_____	_____
7. See that tags or count sheets contain adequate description, units of measure, last operations completed (WIP) and appraisal of inventory condition if obsolete or slow-moving. (E, C, and V)	_____	_____	_____
8. Make a final walk-through to determine that all goods are counted, obsolete or consigned goods were identified, and that all inventory tags or sheets have been collected. (E, C, and V)	_____	_____	_____
9. Prepare a memo describing the observation procedures and conclusions reached. (E, C, and V)	_____	_____	_____
L. Trace shipping and receiving report numbers obtained during the observation to determine that they were recorded in the proper period. (E and C)	_____	_____	_____
M. 1. Examine shipping and receiving reports for ____ days before and after the inventory date, trace to the appropriate source journal and cutoff numbers and determine a proper cutoff was made. (E and C)	_____	_____	_____



TESTS OF BALANCES AUDIT PROGRAM

Vib. INVENTORIES (PERPETUAL RECORDS) (Continued)

Procedure	Done By	Date	W/P Ref.
2. Review credit memos for ____ days before the inventory to determine that they were recorded in the proper period. (E and C)	_____	_____	_____
N. Obtain a copy of client's inventory summary, agree to general ledger and trace ____ items to tags or sheets and control form. (E and C)	_____	_____	_____
O. Trace all test counts to summary. (E and C)	_____	_____	_____
P. Determine that perpetual records have been adjusted to the physical count. Obtain balance-sheet date inventory summary:			
1. Foot ____ pages and ____ page totals and extend ____ line items in the sampling population. (V)	_____	_____	_____
2. Determine that all individually significant items test counted are included in the summary and extended and footed properly. (C and V)	_____	_____	_____
3. Review summary to determine that obsolete goods noted during observation have been excluded or priced at net realizable value. (V)	_____	_____	_____
4. a. Determine client's pricing method for raw materials, work-in-process and finished goods, and select items for price testing from the sampling population as follows: _____ _____ _____ (V)	_____	_____	_____
b. Compare prices to perpetual records. Determine that the method is consistent. (V and P)	_____	_____	_____



TESTS OF BALANCES AUDIT PROGRAM

VII. INVENTORIES (PERPETUAL RECORDS) (Continued)

Procedure	Done By	Date	W/P Ref.
c. Examine support for price computations for all individually significant items of raw materials, work-in-process and finished goods that were included in test counts. (V)	_____	_____	_____
5. Trace _____ items to perpetual records. Compare amounts and unit prices. (V)	_____	_____	_____
Q. Confirm goods out on consignment at the balance-sheet date. (E and C)	_____	_____	_____
R. Determine that all classes of inventory have been subjected to tests of replacement cost and/or net realizable value. (V)	_____	_____	_____
S. If standard or job costs are used, review calculations and variances to determine that they approximate actual amounts computed on the client's costing method. (V and P)	_____	_____	_____
T. Determine if any inventory has been pledged. (P)	_____	_____	_____
U. Determine that customers' goods have been excluded from inventory. If material, consider confirming. (E and C)	_____	_____	_____
V. If overhead allocations were not tested during Tests of Controls, test the allocation of overhead to work-in-process and finished goods. Determine if the method is consistent with prior years. (V and P)	_____	_____	_____
W. Determine if intercompany or interdepartmental profit is to be eliminated in consolidation. (V)	_____	_____	_____
X. For significant amounts of inventory stored at outside locations, consider performing the following procedures:			
1. Review and test the owner's control procedures for investigating the warehouseman and evaluating the warehouseman's performance. (E and C)	_____	_____	_____



TESTS OF BALANCES AUDIT PROGRAM

Vib. INVENTORIES (PERPETUAL RECORDS) (Continued)

Procedure	Done By	Date	W/P Ref.
2. Obtain an independent auditor's report on the warehouseman's system of internal accounting control relevant to custody of goods and, if applicable, pledging of receipts, or apply alternative procedures at the warehouse to gain reasonable assurance that information received from the warehouseman is reliable. (E and C)	_____	_____	_____
3. Observe physical counts of the goods, if practicable and reasonable. (E and C)	_____	_____	_____
4. If warehouse receipts have been pledged as collateral, confirm with lenders pertinent details of the pledged receipts (on a test basis, if appropriate). (E and P)	_____	_____	_____
Y. Additional procedures:			





TESTS OF BALANCES AUDIT PROGRAM

Vib. INVENTORIES (PERPETUAL RECORDS) (Continued)

Note — A stronger perpetual inventory system and stronger controls over physical counts and inventory compilations may allow observation of the count of fewer items, fewer test counts and smaller pricing and clerical tests. Refer to the Internal Controls Questionnaire and the Planning Matrix for a determination of the extent of procedures to be performed. Pursuant to SAS No. 39, sample selections must be representative and consider the materiality of the inventory items. The following guidelines will apply to the nature and timing of tests, unless otherwise approved by the engagement executive:

System B — all items counted at or near the balance-sheet date. Not all counts observed.

System A — cycle counts taken. Observations take place throughout the year. Not all counts observed.

Prepared by: _____ Date: _____

Reviewed by: _____ Date: _____



TESTS OF BALANCES AUDIT PROGRAM

VII. INVESTMENT SECURITIES

Financial Statement Assertions: Existence or occurrence. (E)
 Completeness. (C)
 Rights and obligations. (R)
 Valuation or allocation. (V)
 Presentation and disclosure. (P)

- Objectives:
- Existence of investment securities — To determine that the entity owns the securities at the balance-sheet date and has physical evidence of ownership (securities, receipts from responsible custodians, etc.). (Assertions E, C and R)
 - Proper valuation — To determine that the market or other fair value of the securities has been determined as objectively as practicable. (Assertion V)
 - Income recognition — To determine that related income, gains, and losses from the investment securities is properly recorded and received. (Assertions C, R and V)
 - Identification of restrictions — To determine that restrictions, pledges, or liens on any of the investment securities and related liabilities are identified and adequately disclosed in the financial statements. (Assertions E, C, R and P)
 - GAAP conformity — To determine that the financial statements presentation and disclosure of investment securities, including off-balance sheet items such as options and other derivative instruments, and related income are in conformity with GAAP consistently applied. (Assertion P)

Procedure	Done By	Date	W/P Ref.
A. Review the results of applicable sections of the following to determine the nature, timing, and extent of procedures:			
1. Preliminary analytical procedures.	_____	_____	_____
2. All-Substantive Approach Questionnaire or Internal Controls Questionnaire.	_____	_____	_____
3. Tests of Controls Program.	_____	_____	_____
B. Compare balances in marketable securities and related revenue and expense accounts with the preceding year's. (E, C, R, and V)	_____	_____	_____



TESTS OF BALANCES AUDIT PROGRAM

VII. INVESTMENT SECURITIES (Continued)

Procedure	Done By	Date	W/P Ref.
C. Compute rate of return on major classes of securities and compare with preceding year's. (E, C, R, and V)	_____	_____	_____
D. Obtain a list of securities at the balance-sheet date including descriptions, number of shares, cost, carrying amount and market value. Foot and trace balances to the general ledger. Review subsequent transactions to determine completeness of list. (E and C)	_____	_____	_____
E. Examine securities on hand at the balance-sheet date and obtain a receipt for their return. (E)	_____	_____	_____
F. Obtain confirmation of securities held by others at the balance-sheet date. (E, R, and C)	_____	_____	_____
<div style="border: 1px solid black; padding: 10px; width: fit-content; margin: 10px auto;"> <p>Practice Tip:</p> <p>All confirmation requests should be mailed by the auditor.</p> </div>			
G. Determine that all debt and equity securities are properly classified as held-to-maturity, available-for-sale, or trading by reference to the nature of the security and management's ability and intention to hold. (P)	_____	_____	_____
H. For debt securities classified as held-to-maturity:			
1. Determine that they are valued at amortized cost. (V)	_____	_____	_____
2. Recalculate the amortized cost. (E, C, V, and P)	_____	_____	_____
I. For debt and equity securities classified as available-for-sale:			
1. Determine that they are valued at fair value and, on a test basis, agree to third-party market value quotations. (E, C, V, and P)	_____	_____	_____



TESTS OF BALANCES AUDIT PROGRAM

VII. INVESTMENT SECURITIES (Continued)

Procedure	Done By	Date	W/P Ref.
2. Recalculate unrealized gains and losses and determine whether they are properly included as a separate component of stockholders' equity. (V and P)	_____	_____	_____
J. For debt and equity securities classified as trading securities:			
1. Determine that they are valued at fair value and, on a test basis, agree to third-party market value quotations. (E, C, V, and P)	_____	_____	_____
2. Recalculate unrealized gains and losses and determine whether they are properly included in earnings. (V and P)	_____	_____	_____
K. Obtain a schedule of all sales of investment securities, by category, and transfers between categories during the year and determine whether they have been accounted for properly. (Sales of held-to-maturity securities may taint the category.)	_____	_____	_____
L. Examine brokers' advices and/or directors' approval for major transactions during the period. (V)	_____	_____	_____
M. Obtain a list of all derivative transactions. (E and C)	_____	_____	_____
1. Examine evidence of the transactions and directors' approval of the transactions. (E, C, and R)	_____	_____	_____
2. Obtain confirmations of outstanding transactions as of year end. (E)	_____	_____	_____
3. Review subsequent transactions to determine completeness of the list. (C)	_____	_____	_____
4. For disclosure purposes obtain and evaluate information concerning significant individual or group concentrations of credit risk. (P)	_____	_____	_____
5. Determine that any gains or losses have been properly recorded. (V and P)	_____	_____	_____



TESTS OF BALANCES AUDIT PROGRAM

VII. INVESTMENT SECURITIES (Continued)

Procedure	Done By	Date	W/P Ref.
N. Determine if any securities are pledged or restricted. (P)	_____	_____	_____
O. Ensure that all information needed for financial statement disclosures has been accumulated and documented in the workpapers.	_____	_____	_____
P. Additional procedures:			

_____	_____	_____	_____

Prepared by: _____ Date: _____

Reviewed by: _____ Date: _____



TESTS OF BALANCES AUDIT PROGRAM

VIII. PREPAID EXPENSES

Financial Statement Assertions: Existence or occurrence. (E)
 Completeness. (C)
 Rights and obligations. (R)
 Valuation or allocation. (V)
 Presentation and disclosure. (P)

- Objectives:
- Properly recorded — To determine that the balances represent costs which are properly allocable to future periods in conformity with generally accepted accounting principles. (Assertions E, C, R and V)
 - Additions supported — To determine that additions are adequately supported. (Assertions E, C, R and P)
 - Amortization appropriate — To determine that amortization is determined by a rational and systematic method consistently applied. (Assertions V and P)
 - Impairment recognized — To determine that any permanent impairment of balance is recognized by write-downs charged to operations. (Assertions E, C, V and P)
 - Proper classification — To determine that balances and related expenses are properly described and classified in the financial statements. (Assertion P)
 - Contingencies disclosed — To determine whether there are uninsured risks that should be considered for disclosure. (Assertion P)

Procedure	Done By	Date	W/P Ref.
A. Review the results of applicable sections of the following to determine the nature, timing, and extent of procedures:			
1. Preliminary analytical procedures.	_____	_____	_____
2. All-Substantive Approach Questionnaire or Internal Controls Questionnaire.	_____	_____	_____
3. Tests of Controls Program.	_____	_____	_____
B. Compare balances in prepaid expense accounts with preceding year's. (E, C, R, and V)	_____	_____	_____



TESTS OF BALANCES AUDIT PROGRAM

VIII. PREPAID EXPENSES (Continued)

Procedure	Done By	Date	W/P Ref.
C. Obtain a schedule of prepaid insurance and expense. Review for reasonableness. (E, C, and V)	_____	_____	_____
D. Inquire as to the adequacy of insurance coverage. (P)	_____	_____	_____
E. Obtain analysis of other prepaid expenses, deferred charges, and intangibles. Investigate and support as considered necessary. (E, C, and V)	_____	_____	_____

Practice Tip:

Be alert to insurance confirmations indicating locations of inventory. Trace locations listed to inventory totals to determine all locations listed as covered by insurance have been included in the inventory summary.

F. Additional procedures:

_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

Prepared by: _____ Date: _____

Reviewed by: _____ Date: _____



TESTS OF BALANCES AUDIT PROGRAM

IX. FIXED ASSETS

Financial Statement Assertions: Existence or occurrence. (E)
 Completeness. (C)
 Rights and obligations. (R)
 Valuation or allocation. (V)
 Presentation and disclosure. (P)

- Objectives:
- Fixed assets exist — To determine that fixed assets exist and are owned by the entity. (Assertion E)
 - Additions appropriate — To determine that fixed asset additions are authentic, recorded at cost, and properly distinguished from maintenance and repairs expense. (Assertions E, C and R)
 - Retirements recorded — To determine that retirements of fixed assets together with the proceeds from salvage and related cost to remove are properly recognized. (Assertions E, C and V)
 - Depreciation appropriate — To determine that a proper amount of depreciation expense is allocated to the period based on the asset cost, estimated life and salvage, and use of acceptable methods consistently applied, and adequately presented in the financial statements. (Assertions V and P)
 - Recoverable value — To determine that the net carrying value as presented in the financial statements is expected to be recoverable through the ordinary course of business. (Assertion V)
 - Encumbrances identified — To determine that any encumbrances and liens are identified and adequately disclosed in the financial statements. (Assertion P)
 - Proper classification — To determine that significant amounts of idle fixed assets are properly stated, classified and described. (Assertion P)
 - Proper disclosure — To determine that significant amounts of fully depreciated assets are considered for disclosure. (Assertion P)

Procedure	Done By	Date	W/P Ref.
A. Review the results of applicable sections of the following to determine the nature, timing, and extent of procedures:			
1. Preliminary analytical procedures.	_____	_____	_____



TESTS OF BALANCES AUDIT PROGRAM

IX. FIXED ASSETS (Continued)

Procedure	Done By	Date	W/P Ref.
2. All-Substantive Approach Questionnaire or Internal Controls Questionnaire.	_____	_____	_____
3. Tests of Controls Program.	_____	_____	_____
B. Compare balances in fixed assets, capitalized leased assets, accumulated depreciation, accumulated amortization, depreciation, repairs and maintenance, rents, supplies, small tools, and similar expense accounts with preceding year's. (E, C, R, and V)	_____	_____	_____
C. Obtain a schedule showing cost and accumulated depreciation and amortization by beginning balance, additions, retirements and ending balances and agree to the general ledger. (E, C, V, and P)	_____	_____	_____
D. Obtain detailed schedules of additions and retirements:			
1. Vouch major additions to vendors' invoices, construction cost records, titles or deeds or contracts to determine assets are being recorded in accordance with GAAP. (E and V)	_____	_____	_____
2. Physically inspect _____ assets and/or examine tax bills, deeds, licenses, etc. (E)	_____	_____	_____
3. Determine that the capitalization policy is being consistently applied. (V)	_____	_____	_____
4. Determine the investment credit and recapture on disposals. Summarize for tax return and provision computation. (V and P)	_____	_____	_____
E. Obtain or prepare a schedule of gain or loss on sale of assets. Trace major amounts to supporting documents and records and review for reasonableness. (V and P)	_____	_____	_____
F. Review repairs and maintenance, supplies, small tools and other accounts for any assets that should be capitalized. (V)	_____	_____	_____
G. Determine the carrying amount of assets pledged on notes or other indebtedness. (P)	_____	_____	_____



TESTS OF BALANCES AUDIT PROGRAM

IX. FIXED ASSETS (Continued)

Procedure	Done By	Date	W/P Ref.
H. 1. Determine the cost of any significant fully depreciated assets being carried in the accounts if meaningful for disclosure purposes. (P)	_____	_____	_____
2. Determine that any impairment of value of assets has been properly recognized. (V)	_____	_____	_____
I. If the entity has adopted SFAS No. 121, and if any events or changes in circumstances have occurred indicating that the carrying amount of long-lived asset may not be recoverable:			
1. Determine if an impairment loss should be recognized. [An impairment loss should be recognized if the carrying amount of an asset exceeds estimated future cash flows (undiscounted and without interest charges).] (V and P)	_____	_____	_____
a. Review the estimate of future cash flows for mathematical accuracy and, through discussion with management and review of any supporting documentation, determine whether assumptions used are reasonable. (V and P)	_____	_____	_____
2. If an impairment loss should be recognized, test the calculation of the loss. [The impairment loss is measured as the amount by which the carrying amount of an asset exceeds its fair value.] (V and P)	_____	_____	_____
a. Test the fair value calculation by vouching to quoted market prices in active markets or by reviewing the valuation technique used. (V and P)	_____	_____	_____
b. If the fair value is based on the present value of estimated future cash flows, test for mathematical accuracy and ensure that the assumptions used in the present value calculation, including the discount rate, are reasonable. (V and P)	_____	_____	_____
J. Inquire as to any significant expansion plans. (P)	_____	_____	_____
K. Review rental income and expense accounts to determine leased and subleased assets are properly recorded. (P)	_____	_____	_____



TESTS OF BALANCES AUDIT PROGRAM

IX. FIXED ASSETS (Continued)

Procedure	Done By	Date	W/P Ref.
L. Perform a reasonableness test of depreciation and amortization by using average rates and lives and one-half year for additions and disposals. (V)	_____	_____	_____
M. Challenge reasonableness of assets' lives used for accounting and income tax purposes. (V)	_____	_____	_____
N. Read client's depreciation schedules for consistency of methods and reasonableness. Test a selection of _____ computations. Agree schedule to general ledger. Consider deleting this step if step L results are acceptable. (V and P)	_____	_____	_____
O. Review lease agreements to determine if leases meet criteria for capitalization and see that they are accounted for properly.	_____	_____	_____
1. Lease terms:			
a. Lease term (from-to).	_____	_____	_____
b. Estimated economic life of property.	_____	_____	_____
c. Fair value of assets at inception of lease.	_____	_____	_____
d. Minimum annual rentals.	_____	_____	_____
e. Executory cost provisions.	_____	_____	_____
f. Renewal option terms.	_____	_____	_____
g. Interest rate implicit in the lease (if known or determinable).	_____	_____	_____
h. Client's incremental borrowing rate.	_____	_____	_____
i. Present value of minimum lease payments (less estimated executory costs) at beginning of lease term.	_____	_____	_____
j. Investment credit expected to be realized by the lessor.	_____	_____	_____
k. Purchase option amount.	_____	_____	_____
l. Purchase option terms (date, etc.).	_____	_____	_____
m. Expected fair value of leased property at option exercise date.	_____	_____	_____
2. "Type of lease" determination. (E, R, and V)	_____	_____	_____



TESTS OF BALANCES AUDIT PROGRAM

IX. FIXED ASSETS (Continued)

Procedure	Done By	Date	W/P Ref.
P. Gather and document information for report disclosure and tax return preparation. (P)	_____	_____	_____
Q. Consider and compute any capitalized interest. (V)	_____	_____	_____
R. Additional procedures:			

Prepared by: _____ Date: _____

Reviewed by: _____ Date: _____



TESTS OF BALANCES AUDIT PROGRAM

X. INVESTMENTS AND OTHER ASSETS

Financial Statement Assertions: Existence or occurrence. (E)
 Completeness. (C)
 Rights and obligations. (R)
 Valuation or allocation. (V)
 Presentation and disclosure. (P)

- Objectives:
- Existence of investment — To determine that the entity owns the investments at the balance sheet date and has physical evidence of ownership (securities, receipts from responsible custodians, etc.). (Assertions E, C and R)
 - Proper valuation — To determine that the fair value of the investments has been determined as objectively as practicable. (Assertion V)
 - Income recognition — To determine that related income from the investments is properly recorded and received. (Assertions C, R and V)
 - Restrictions identified — To determine that restrictions, pledges or liens on any of the investments and related liabilities are identified and adequately disclosed in the financial statements. (Assertions E, C, R and P)
 - GAAP conformity — To determine that the financial statement presentation and disclosure of investments and related income (classification, amounts such as cost, share of equity) is in conformity with GAAP consistently applied. (Assertion P)

Procedure	Done By	Date	W/P Ref.
A. Review the results of applicable sections of the following to determine the nature, timing, and extent of procedures:			
1. Preliminary analytical procedures.	_____	_____	_____
2. All-Substantive Approach Questionnaire or Internal Controls Questionnaire.	_____	_____	_____
3. Tests of Controls Program.	_____	_____	_____
B. Obtain schedules of investments and other assets and agree to general ledger. (E and C)	_____	_____	_____



TESTS OF BALANCES AUDIT PROGRAM

X. INVESTMENTS AND OTHER ASSETS (Continued)

Procedure	Done By	Date	W/P Ref.
C. Confirm:			
1. Securities held by others. (E and C)	_____	_____	_____
2. Cash surrender value of life insurance. (V)	_____	_____	_____
D. For life insurance, reconcile prepaid premiums at beginning of period, premiums paid and increase in cash surrender value with life insurance expense. (V)	_____	_____	_____
E. Review ____ calculations of investment earnings and related accruals for reasonableness. (V)	_____	_____	_____
F. Examine documentation supporting investment transactions during the year. (E, R, and V)	_____	_____	_____
G. For equity investments, determine current value at the balance-sheet date and at the report date. Challenge carrying amount. (V)	_____	_____	_____
H. If investments are carried on the equity method:			
1. Determine the company's equity in net assets at year-end and earnings (losses) and distributions for the year based on audited information.	_____	_____	_____
2. Obtain a reconciliation of intercompany transactions and balances. Determine reasonableness.	_____	_____	_____
3. Check computation of amortization of cost over book value. (V)	_____	_____	_____
I. Determine if any investments are pledged or restricted. (P)	_____	_____	_____
J. For consolidated statements, determine if presentation is in accordance with GAAP. (P)	_____	_____	_____



TESTS OF BALANCES AUDIT PROGRAM

X. INVESTMENTS AND OTHER ASSETS (Continued)

Procedure	Done By	Date	W/P Ref.
K. Additional procedures:			

Prepared by: _____ Date: _____

Reviewed by: _____ Date: _____



TESTS OF BALANCES AUDIT PROGRAM

XI. DEFERRED CHARGES AND INTANGIBLES

Financial Statement Assertions: Existence or occurrence. (E)
 Completeness. (C)
 Rights and obligations. (R)
 Valuation or allocation. (V)
 Presentation and disclosure. (P)

- Objectives:
- Properly recorded — To determine that the balances represent costs that are properly allocable to future periods in conformity with GAAP. (Assertions E, C, R and V)
 - Additions supported — To determine that additions are adequately supported. (Assertions E, C, R and P)
 - Amortization appropriate — To determine that amortization is determined by a rational and systematic method consistently applied. (Assertions V and P)
 - Impairment recognized — To determine that any permanent impairment of balance is recognized by write-downs charged to operations. (Assertions E, C, V and P)
 - Proper classification — To determine that balances and related expenses are properly described and classified in the financial statements. (Assertion P)

Procedure	Done By	Date	W/P Ref.
A. Review the results of applicable sections of the following to determine the nature, timing, and extent of procedures:			
1. Preliminary analytical procedures.	_____	_____	_____
2. All-Substantive Approach Questionnaire or Internal Controls Questionnaire.	_____	_____	_____
3. Tests of Controls Program.	_____	_____	_____
B. Compare balances in deferred charges, intangibles, accumulated amortization, and research and development accounts with the preceding year's. (E, C, R, and V)	_____	_____	_____
C. Obtain schedules of deferred charges and intangibles and agree to general ledger. (E, C, and V)	_____	_____	_____





TESTS OF BALANCES AUDIT PROGRAM

XI. DEFERRED CHARGES AND INTANGIBLES (Continued)

Procedure	Done By	Date	W/P Ref.
D. Examine documentation supporting major transactions during the year. (E, R, and V)	_____	_____	_____
E. Review capitalization policies and amortization computations as considered necessary. (V)	_____	_____	_____
F. Determine if there has been permanent impairment of carrying amounts. (V)	_____	_____	_____
G. Determine any required disclosures. (P)	_____	_____	_____
H. Additional procedures:			

_____	_____	_____	_____

Prepared by: _____ Date: _____

Reviewed by: _____ Date: _____



TESTS OF BALANCES AUDIT PROGRAM

XII. ACCOUNTS PAYABLE

Financial Statement Assertions: Existence or occurrence. (E)
 Completeness. (C)
 Rights and obligations. (R)
 Valuation or allocation. (V)
 Presentation and disclosure. (P)

- Objectives:
- Payables exist — To determine that accounts payable represent authorized current obligations. (Assertions E and C)
 - Proper classification — To determine that amounts included in accounts payable are properly classified. (Assertion P)
 - Obligations complete — To determine that accounts payable include all significant current obligations. (Assertions C, R and V)

Procedure	Done By	Date	W/P Ref.
A. Review the results of applicable sections of the following to determine the nature, timing, and extent of procedures:			
1. Preliminary analytical procedures.	_____	_____	_____
2. All-Substantive Approach Questionnaire or Internal Controls Questionnaire.	_____	_____	_____
3. Tests of Controls Program.	_____	_____	_____
B. Compare balances in trade accounts payable and purchases with the preceding year's. (E, C, R, and V)	_____	_____	_____
C. Obtain a list of accounts payable, foot and agree to general ledger. (E and C)	_____	_____	_____
D. Segregate amounts due to officers, employees, stockholders, affiliates and other related parties. (P)	_____	_____	_____



TESTS OF BALANCES AUDIT PROGRAM

XII. ACCOUNTS PAYABLE (Continued)

Procedure	Done By	Date	W/P Ref.
E. Send confirmation requests to _____ major suppliers and selected other accounts with zero balances. Reconcile and follow up on differences. (The number of requests can be reduced or eliminated for System A.) (E, C, and R)	_____	_____	_____
F. Review client reconciliations of available current vendors' statements to accounts payable subledger. Follow up on unresolved problems. (If a subledger is not in use, System B or C, step is not applicable.) (E, C, and R)	_____	_____	_____
G. Obtain the purchases journal (Systems A and B) and trace all entries over \$_____ for a period of _____ days after the balance-sheet date to supporting documents to determine recording in the proper period. (C and R)	_____	_____	_____
H. Obtain the cash disbursements journal and trace all entries over \$_____ for a period of _____ days after the balance-sheet date to supporting documents to determine recording in the proper period. (C and R)	_____	_____	_____
I. Review the open receiving report, open purchase order and open purchase requisition files for _____ days after the balance-sheet date for unrecorded liabilities. (C and R)	_____	_____	_____
J. Review the open vendor invoice files for _____ days after the balance-sheet date to determine recording in the proper period. (C and R)	_____	_____	_____
K. Investigate any disputed items that have not been recorded. (C and R)	_____	_____	_____
L. Determine that credit memos received _____ days after the balance-sheet date have been recorded in the proper period. (E and R)	_____	_____	_____
M. Determine any payables due after one year and consider imputing interest. (V)	_____	_____	_____
N. Consider reclassification and confirmation of material debit balances. (P)	_____	_____	_____



TESTS OF BALANCES AUDIT PROGRAM

XII. ACCOUNTS PAYABLE (Continued)

<u>Procedure</u>	<u>Done By</u>	<u>Date</u>	<u>W/P Ref.</u>
O. Additional procedures:			

Prepared by: _____ Date: _____

Reviewed by: _____ Date: _____



TESTS OF BALANCES AUDIT PROGRAM

XIII. ACCRUED EXPENSES, INCOME TAXES, AND OTHER LIABILITIES

Financial Statement Assertions: Existence or occurrence. (E)
 Completeness. (C)
 Rights and obligations. (R)
 Valuation or allocation. (V)
 Presentation and disclosure. (P)

- Objectives:
- Liabilities complete — To determine that expense accounts include costs and expenses applicable to the period. (Assertions E, C and P)
 - Amount reasonable — To determine that the provision for income taxes is reasonable. (Assertions E, C, R and V)
 - Amount comparable to amount to be paid — To determine that the liability for accrued income taxes is adequate and not excessive in relation to amounts reasonably expected to be payable. (Assertions R and V)
 - Temporary differences recognized — To determine that deferred income taxes represent the effect of temporary differences. (Assertions E, C and V)
 - Proper classification — To determine that income tax provisions, accruals and deferrals are properly described and classified in conformity with generally accepted accounting principles consistently applied. (Assertion P)
 - GAAP conformity — To determine that all contingencies and estimated future expenses that should be accrued in the period have been accrued, classified, and described in accordance with GAAP consistently applied. (Assertions E, C, R, V and P)

Procedure	Done By	Date	W/P Ref.
A. Review the results of applicable sections of the following to determine the nature, timing, and extent of procedures:			
1. Preliminary analytical procedures.	_____	_____	_____
2. All-Substantive Approach Questionnaire or Internal Controls Questionnaire.	_____	_____	_____
3. Tests of Controls Program.	_____	_____	_____
B. Compare balances in other liability accounts to the preceding year's. (E, C, R, and V)	_____	_____	_____



TESTS OF BALANCES AUDIT PROGRAM

XIII. ACCRUED EXPENSES, INCOME TAXES, AND OTHER LIABILITIES (Continued)

Procedure	Done By	Date	W/P Ref.
C. Obtain a schedule of all accrued expenses and other liabilities and agree to general ledger. (E and C)	_____	_____	_____
D. Examine subsequent payments and supporting documents such as tax returns, depository receipts, tax receipts, etc. (E, C, and R)	_____	_____	_____
E. Obtain copies and amendments for all pension plans. Confirm pension information with actuaries, insurance companies or other trustee. (V and P)	_____	_____	_____
F. Obtain a copy of the actuarial report and/or trustee's pension fund report and determine:			
1. Actuarial information agrees with client's records. (V and P)	_____	_____	_____
2. The accounting and funding policies, and employee groups covered by the plans. (P)	_____	_____	_____
3. Adequate provision has been made for current obligations. (V)	_____	_____	_____
4. Pension cost provisions agree. (V)	_____	_____	_____
5. Report disclosure information is available. (P)	_____	_____	_____
G. If applicable, obtain and document information concerning:			
1. The professional certification, license, or other recognition of the competence of the actuary. (V)	_____	_____	_____
2. The reputation of the actuary. (V)	_____	_____	_____
3. The relationship, if any, of the actuary to the client. (V)	_____	_____	_____
4. The understanding of the nature of the work to be performed by the actuary, if the work of the actuary is used in performing the audit. (V)	_____	_____	_____



TESTS OF BALANCES AUDIT PROGRAM

XIII. ACCRUED EXPENSES, INCOME TAXES, AND OTHER LIABILITIES (Continued)

Procedure	Done By	Date	W/P Ref.
H. Obtain and verify disclosure information for pension plans and vouch expense for the period.	_____	_____	_____
1. For defined contribution plans:			
a. If applicable, obtain copy of trustee's fund report. Consider confirming contents of report with trustee. (E, C, and R)	_____	_____	_____
b. Ascertain if there have been any adoptions or amendments of plans during the period and obtain copies. Note for financial statement disclosures and: (E, C, R, V, and P)	_____	_____	_____
(1.) Agree expense to minutes, when applicable. (R and V)	_____	_____	_____
(2.) Verify computations, where applicable. (E and C)	_____	_____	_____
c. Where applicable, test employee data. Test should consist of analytical and other procedures as considered necessary. (E, C, R, and V)	_____	_____	_____
2. For defined benefit plans obtain the following, where applicable:			
a. Copy of actuarial report as of a date no earlier than three months prior to balance-sheet date.	_____	_____	_____
b. If applicable, copy of trustee's report.	_____	_____	_____
c. Form 5500 for prior year and for current year, if already prepared.	_____	_____	_____
d. Actuary's certificate on Schedule B for Form 5500 for prior year and for current year if already prepared.	_____	_____	_____
e. Plan document(s).	_____	_____	_____



TESTS OF BALANCES AUDIT PROGRAM

XIII. ACCRUED EXPENSES, INCOME TAXES, AND OTHER LIABILITIES (Continued)

Procedure	Done By	Date	W/P Ref.
f. Census and plan asset date given to actuary. (E, C, and R)	_____	_____	_____
3. Consider confirming contents of Trustee report with Trustee. (E, R, and V)	_____	_____	_____
4. Reconcile aggregate census data, such as number of employees covered, compensation, to amounts shown in the actuarial valuation report or if not in the report, consider obtaining confirmation of such data from the actuary. (E and C)	_____	_____	_____
5. For selected employees, check census data (age, sex, marital status, current pay, term of employment, benefit election, etc.) to payroll records. [Check only those data important to the valuation. If analytical review of data and valuation report appear reasonable, a sample of 15 will generally be acceptable. If not, a sample up to 40 may be required.] (E, C, R, and V)	_____	_____	_____
6. Based on plan documents, make appropriate tests to determine whether all eligible employees are included in the census data provided to the actuary. (E and C)	_____	_____	_____
7. Reconcile plan assets per the trustee's report to amounts shown in the actuarial valuation report. (E and C)	_____	_____	_____
8. Ascertain that actuary is professionally qualified. (Membership in the Society of Actuaries, the Conference of Actuaries in Public Practice, American Academy of Actuaries is usually sufficient to indicate that actuary is qualified.) (V)	_____	_____	_____
9. Inquire as to any relationships between the actuary and the client that would impair independence. (V)	_____	_____	_____
10. Review the actuary's most recent certificate on Schedule B, Form 5500, and determine the reasons for qualifications expressed, if any. (V)	_____	_____	_____



TESTS OF BALANCES AUDIT PROGRAM

XIII. ACCRUED EXPENSES, INCOME TAXES, AND OTHER LIABILITIES (Continued)

Procedure	Done By	Date	W/P Ref.
11. Ascertain if there have been any adoptions or amendments of plans during the period. Obtain copies of any and note for financial statement disclosure. (E, C, V, and P)	_____	_____	_____
12. Review the latest plan document and compare with key provisions included in the actuarial valuation report. If the report does not include a description of key plan provisions, it may be necessary to confirm the actuary's understanding of such provisions. (E and C)	_____	_____	_____
13. Vouch the payment of the prior year's accrual to determine that it was paid prior to the filing of the year tax return. (If not paid at the tax return due date, or extended due date, the bank loses its tax deduction.) (E and C)	_____	_____	_____
14. Trace the authorization for the contribution to the plan to the board of directors' minutes, or obtain the management representation in the representation letter. (R)	_____	_____	_____
15. Inquire of the client as to any intent to terminate the plan. (E)	_____	_____	_____
16. Obtain and check disclosure information. (See Financial Statements and Notes Checklist.) (P)	_____	_____	_____
17. If not previously audited, obtain net transition obligation computations and agree amounts to actuarial report, trustees report, or other evidential sources. Recheck compensation. (V and P)	_____	_____	_____
18. Obtain calculation of pension cost for the current period and agree components to actuarial report or trustee's report. (V and P)	_____	_____	_____
19. Determine that a liability is recorded for unfunded accrued pension cost whenever the bank's contribution is less than its related expense or that prepaid pension costs is recorded when the amount funded exceeds the related expenses. (V and P)	_____	_____	_____



TESTS OF BALANCES AUDIT PROGRAM

XIII. ACCRUED EXPENSES, INCOME TAXES, AND OTHER LIABILITIES (Continued)

Procedure	Done By	Date	W/P Ref.
20. Determine that an additional liability is recorded equal to the excess, if any, of the accumulated benefit obligation over the fair value of plan assets. (Similar assets are not recorded except when the excess follows a business combination treated as a purchase.) (V and P)	_____	_____	_____
21. Prepare conclusion memo as to whether or not audit objectives have been met and accordingly whether or not the pension and related accounts are fairly stated for inclusion in the (consolidated, if applicable) financial statements in accordance with generally accepted accounting principles. (If not, document details of exception.) (E, C, R, V, and P)	_____	_____	_____
I. Test calculations of accrued expenses and examine support as considered necessary. (V)	_____	_____	_____
J. Discuss with management any accrued expenses or liabilities at the balance-sheet date not provided for currently. Be alert for unrecorded liabilities such as warranty costs, legal fees, compensated absences, etc. (C and R)	_____	_____	_____
K. Obtain analysis of all balance sheet and earnings statement federal and state income tax accounts. Examine supporting documents and challenge for reasonableness. (V)	_____	_____	_____
L. Review the reconciliation of earnings (loss) per books with the tax returns and the computation of current and deferred income tax expense and liabilities. (V)	_____	_____	_____
M. Determine that the nature of any significant differences between pretax earnings and income tax expense are disclosed. (P)	_____	_____	_____
N. Investigate the status of any unsettled prior years' tax matters and recent RARs. Determine impact of prior years' settlements on current year. (V)	_____	_____	_____
O. Review a schedule of net operating loss carryovers and unused investment tax credits for propriety. (P)	_____	_____	_____



TESTS OF BALANCES AUDIT PROGRAM

XIII. ACCRUED EXPENSES, INCOME TAXES, AND OTHER LIABILITIES (Continued)

Procedure	Done By	Date	W/P Ref.
P. Complete a Tax Return Preparation checklist. (P)	_____	_____	_____
Q. Obtain tax department review of the income tax working papers. (V and P)	_____	_____	_____
R. Obtain income tax disclosure information:			
1. Classification of deferred taxes.	_____	_____	_____
2. Composition of provision, i.e., amounts of taxes currently payable and deferred, and any investment tax credits.	_____	_____	_____
3. Prior-period adjustment allocations.	_____	_____	_____
4. Tax benefits of operating loss carryovers. (P)	_____	_____	_____
S. Compute, or obtain and test the client's computation of, deferred tax assets and liabilities to determine conformance with SFAS No. 109.	_____	_____	_____
T. For deferred tax assets, determine the likelihood that all or part of the recorded amount will not be realized.	_____	_____	_____
U. If it is determined that it is more likely than not that all or part of the deferred tax asset will not be realized, evaluate the adequacy of the valuation allowance account by performing the following:			
1. Review and test the process used by management to develop the estimate, or develop an independent expectation of the estimate, to corroborate the reasonableness of management's estimate.	_____	_____	_____
2. Determine whether any subsequent events or transactions have occurred prior to the completion of fieldwork that could affect the adequacy of the valuation allowance.	_____	_____	_____
V. Consider additional tax liabilities to any new states in which client does business. (R and C)	_____	_____	_____



TESTS OF BALANCES AUDIT PROGRAM

XIII. ACCRUED EXPENSES, INCOME TAXES, AND OTHER LIABILITIES (Continued)

Procedure	Done By	Date	W/P Ref.
W. Additional procedures:			

Prepared by: _____ Date: _____

Reviewed by: _____ Date: _____



TESTS OF BALANCES AUDIT PROGRAM

XIV. NOTES PAYABLE AND LONG-TERM DEBT

Financial Statement Assertions: Existence or occurrence. (E)
 Completeness. (C)
 Rights and obligations. (R)
 Valuation or allocation. (V)
 Presentation and disclosure. (P)

- Objectives:
- Payables exist — To determine that notes payable and long-term debt are authorized, properly classified, and described in the financial statements. (Assertions R and P)
 - Period recorded proper — To determine that liabilities are recorded in the proper period at the correct amounts. (Assertions E, C and V)
 - Expense recognized — To determine that related interest expense (including discount or premium) is accounted for in conformity with GAAP consistently applied. (Assertions C and P)
 - Adequate disclosure — To determine that the financial statements include adequate disclosure of restrictive covenants of loan agreements, pledged assets, etc. (Assertion P)

Procedure	Done By	Date	W/P Ref.
A. Review the results of applicable sections of the following to determine the nature, timing, and extent of procedures:			
1. Preliminary analytical procedures.	_____	_____	_____
2. All-Substantive Approach Questionnaire or Internal Controls Questionnaire.	_____	_____	_____
3. Tests of Controls Program.	_____	_____	_____
B. Compare balances in long-term debt and interest expense with preceding year's. (E, C, R, and V)	_____	_____	_____
C. Compute the following ratios and compare to preceding year's:			
1. Long-term debt to stockholders' equity. (E, C, R, and V)	_____	_____	_____
2. Interest expense as a percentage of average balance of notes payable and long-term debt outstanding. (E, C, R, and V)	_____	_____	_____



TESTS OF BALANCES AUDIT PROGRAM

XIV. NOTES PAYABLE AND LONG-TERM DEBT (Continued)

Procedure	Done By	Date	W/P Ref.
D. Obtain a schedule of notes and related interest expense showing beginning balance, additions, payments, ending balances and all terms of borrowing and payment. Recompute the mathematical accuracy of the schedule and agree to the general ledger. (E and C)	_____	_____	_____
E. Obtain copies of all notes and related agreements for the permanent file. (E, R, and V)	_____	_____	_____
F. Examine notes canceled during the period or related evidence of payment. (C and R)	_____	_____	_____
G. Confirm significant balances outstanding at any time during the period. (E, R, and V)	_____	_____	_____
H. Examine current notes and review compliance with restrictive loan covenants. (P)	_____	_____	_____
I. Determine if any assets are subject to lien and obtain carrying amounts for disclosure. (P)	_____	_____	_____
J. Examine notes for any guarantees. Be alert for related-party guarantees. All guarantee relationships should be disclosed. (P)	_____	_____	_____
K. Separate short-term notes and the current portion of long-term debt for report classification. Categorize by type of lender (related party, banks, loan company, etc.). Determine five year maturities for all long-term obligations. (P)	_____	_____	_____
L. Perform a reasonableness test of interest expense by multiplying average balances outstanding by average interest rates. (C)	_____	_____	_____
M. Consider need to impute interest on noninterest bearing notes. (V)	_____	_____	_____
N. Review or recompute the computation of balances in capitalized lease obligations accounts. Gather information for report disclosure. (V and P)	_____	_____	_____





TESTS OF BALANCES AUDIT PROGRAM

XIV. NOTES PAYABLE AND LONG-TERM DEBT (Continued)

<u>Procedure</u>	<u>Done By</u>	<u>Date</u>	<u>W/P Ref.</u>
O. Additional procedures:			

Prepared by: _____ Date: _____

Reviewed by: _____ Date: _____



TESTS OF BALANCES AUDIT PROGRAM

XV. CONTINGENT LIABILITIES, CONTRACTS, AND COMMITMENTS

Financial Statement Assertions: Existence or occurrence. (E)
 Completeness. (C)
 Rights and obligations. (R)
 Valuation or allocation. (V)
 Presentation and disclosure. (P)

- Objectives:
- Contingencies exist — Identify the existence of any contingencies arising from litigation, claims, and assessments; when the underlying cause occurred; the likelihood of an unfavorable outcome; and the amount or range of possible loss. (Assertions E, C, R and V)
 - Proper recording and disclosure — The financial statements include proper accruals and/or disclosure of the contingencies. (Assertion P)

Procedure	Done By	Date	W/P Ref.
A. Discuss with management its description and evaluation of possible and existing litigation, claims and assessments, including violations of laws. (E, C, R, V, and P)	_____	_____	_____
B. Examine all available documents concerning these matters. (E, C, R, V, and P)	_____	_____	_____
C. Request letter from client's attorneys regarding contingencies and commitments and other matters. Investigate reasons for any changes in legal counsel. (C, R, V, and P)	_____	_____	_____
D. Review minutes of directors' meetings and discuss all pertinent items with management. Make excerpts and agree to applicable working papers. (C, R, V, and P)	_____	_____	_____
E. Analyze legal expense for any undisclosed matters. (C, R, V, and P)	_____	_____	_____
F. Obtain a schedule of any purchase contracts or commitments. (C, R, V, and P)	_____	_____	_____
G. Investigate any product warranties. (V and P)	_____	_____	_____
H. Obtain or prepare a schedule of open letters of credit. (P)	_____	_____	_____





TESTS OF BALANCES AUDIT PROGRAM

XV. CONTINGENT LIABILITIES, CONTRACTS, AND COMMITMENTS (Continued)

Procedure	Done By	Date	W/P Ref.
I. Determine whether the entity has any commitments with off-balance-sheet risk (e.g., financial guarantees and letters of credit at floating rates). For any such commitments complete step M. of the Investments Securities Tests of Balances Audit Program.	_____	_____	_____
J. If considered necessary, obtain UCC information and agree to notes payable and debt working papers. (P)	_____	_____	_____
K. Consider the adequacy of financial statement disclosure for contingencies.	_____	_____	_____
L. Consider whether there are contingent liabilities regarding environmental matters.	_____	_____	_____
1. Inquire of management whether the company or any of its subsidiaries has been designated a potentially responsible party by the Environmental Protection Agency or otherwise has a high-risk exposure to environmental liabilities.	_____	_____	_____
2. Consider other possible indicators of increased risk of environmental liability, such as:	_____	_____	_____
a. Participation in real estate transaction or corporate merger involving properties with environmental risks.	_____	_____	_____
b. The purchase of land a price significantly below local market prices.	_____	_____	_____
c. The acquisition of new or increased insurance coverage against environmental risks or liability to third parties.	_____	_____	_____



TESTS OF BALANCES AUDIT PROGRAM

XV. CONTINGENT LIABILITIES, CONTRACTS, AND COMMITMENTS (Continued)

Procedure	Done By	Date	W/P Ref.
M. Additional procedures:			

Prepared by: _____ Date: _____

Reviewed by: _____ Date: _____



TESTS OF BALANCES AUDIT PROGRAM

XVI. SHAREHOLDERS' EQUITY

Financial Statement Assertions: Existence or occurrence. (E)
 Completeness. (C)
 Rights and obligations. (R)
 Valuation or allocation. (V)
 Presentation and disclosure. (P)

- Objectives:
- Proper authorization and classification — To determine that all transactions and commitments (options, warrants, rights, etc.) are properly authorized and classified. (Assertions E, C, R, V, and P)
 - Proper recognition and cut-off— To determine that all transactions and commitments are recorded at correct amounts in the proper period. (Assertions E, C and P)
 - GAAP conformity — To determine that all transactions and balances are presented in the financial statements in conformity with GAAP consistently applied and accompanied by adequate disclosures. (Assertion P)

Procedure	Done By	Date	W/P Ref.
A. Compare balances in shareholders' equity accounts with the preceding year's. (E, C, R, V, and P)	_____	_____	_____
B. Update or obtain a listing of all capital stock issued and outstanding, treasury stock, and other equity account transactions during the year and agree to the general ledger. (E, C, R, V, and P)	_____	_____	_____
C. Examine minutes, articles of incorporation, or other documents in support of transactions. (E, R, V, and P)	_____	_____	_____
D. Verify outstanding stock by agreeing open stubs in stock certificate book to the listing or confirm with the transfer agent the total issued shares and the total shares issued in the company's name. Determine that surrendered certificates have been canceled and accounted for. (E, C, R, and P)	_____	_____	_____
E. Inspect or confirm treasury stock certificates. (C and R)	_____	_____	_____
F. Determine that declared and unpaid dividends are properly recorded. Compare paid dividends to directors' minutes. (C, R, V, and P)	_____	_____	_____



TESTS OF BALANCES AUDIT PROGRAM

XVI. SHAREHOLDER'S EQUITY (Continued)

Procedure	Done By	Date	W/P Ref.
G. Determine and document any restrictions on equity accounts. (P)	_____	_____	_____
H. Inquire as to any options, warrants, stock purchase plans at engagement date. (P)	_____	_____	_____
I. Obtain information for each class of stock concerning preferences, dividend requirements and arrearages, redemption, or conversion rights and call provisions for disclosure. (P)	_____	_____	_____
J: Additional procedures: _____ _____ _____	_____	_____	_____

Prepared by: _____ Date: _____

Reviewed by: _____ Date: _____



TESTS OF BALANCES AUDIT PROGRAM

XVII. RELATED-PARTY TRANSACTIONS

Financial Statement Assertions: Existence or occurrence. (E)
 Completeness. (C)
 Rights and obligations. (R)
 Valuation or allocation. (V)
 Presentation and disclosure. (P)

- Objectives:
- To identify related parties and related-party transactions. (Assertions E and C)
 - To determine the substance of such transactions is reflected in the accounts. (Assertions C, R and V)
 - To obtain all information necessary for footnote and/or report disclosure. (Assertions C and P)

Procedure	Done By	Date	W/P Ref.
A. Make inquiries of management about related parties, obtain related-party confirmation if applicable, and inquire about any recorded or unrecorded transactions during the year. (E, C, R, V, and P)	_____	_____	_____
B. Obtain names of stockholders and directors for evidence of related-party transactions. (E and C)	_____	_____	_____
C. Review last year's working papers for evidence of related-party transactions. (E and C)	_____	_____	_____
D. Ask predecessor auditors about related parties. (E and C)	_____	_____	_____
E. Investigate transactions with major customers, suppliers and lenders for undisclosed relationships. (E and C)	_____	_____	_____
F. Review minutes of stockholders' and directors' meetings for evidence of related-party transactions. (E and C)	_____	_____	_____
G. Be alert for potential related-party transactions while examining confirmations of receivables and payables, large unusual transactions and attorneys' letters. (E and C)	_____	_____	_____
H. Obtain a list of major customers, amounts of sales during the year and amounts of receivables at year end. Agree to detail client records. Consider disclosure. (E, C, and P)	_____	_____	_____



TESTS OF BALANCES AUDIT PROGRAM

XVII. RELATED-PARTY TRANSACTIONS (Continued)

Procedure	Done By	Date	W/P Ref.
I. Examine supporting documents of significant related-party transactions to determine:			
1. Business purpose. (V and P)	_____	_____	_____
2. Board of directors' approval. (P)	_____	_____	_____
3. Reasonableness and consistency of amounts to be disclosed. (V and P)	_____	_____	_____
4. Financial capabilities of related parties. (V)	_____	_____	_____
J. Additional procedures:			

_____	_____	_____	_____

Prepared by: _____ Date: _____

Reviewed by: _____ Date: _____



TESTS OF BALANCES AUDIT PROGRAM

XVIII. SALES

Financial Statement Assertions: Existence or occurrence. (E)
 Completeness. (C)
 Rights and obligations. (R)
 Valuation or allocation. (V)
 Presentation and disclosure. (P)

- Objectives:
- Proper recognition — To determine that revenue transactions represent consideration applicable to goods shipped and/or completed services rendered to customers (or clients) in the normal course of business during the year. (Assertions E, R, V and P)
 - Revenue realized — To determine that revenue transactions have resulted in collections or bona fide receivables. (Assertions E and C)
 - Revenue recorded — To determine that all revenues earned during the year are recorded and included in the financial statements. (Assertions E, C and P)
 - Proper classification — To determine that revenues are properly classified and described in the financial statements and accompanied by adequate disclosure. (Assertions V and P)

Procedure	Done By	Date	W/P Ref.
A. Review the results of applicable sections of the following to determine the nature, timing, and extent of procedures:			
1. Preliminary analytical procedures.	_____	_____	_____
2. All-Substantive Approach Questionnaire or Internal Controls Questionnaire.	_____	_____	_____
3. Tests of Controls Program.	_____	_____	_____
B. Scan source journals for the period for unusual transactions. Determine that they are accounted for properly. Follow up on any unusual or related-party transactions. (E, V, and P)	_____	_____	_____
C. Review the source journal for any large or unusual sales transactions, especially near year end. Examine invoice and shipping document. (E, R, and V)	_____	_____	_____
D. Randomly select _____ shipping orders prepared at various times during the year, obtain related sales invoice, and trace to the sales journal. (C)	_____	_____	_____



TESTS OF BALANCES AUDIT PROGRAM

XVIII. SALES (Continued)

Procedure	Done By	Date	W/P Ref.
E. Obtain or prepare a schedule of monthly sales by financial statement classification.* (E, C, R, and V)	_____	_____	_____
F. Compare schedule to prior periods and investigate large or unusual fluctuations.* (E, C, R, and V)	_____	_____	_____
G. Determine proper income recognition when the right of return exists. (E, R, and V)	_____	_____	_____
H. Determine that any product financing arrangements are accounted for properly. (E, R, V, and P)	_____	_____	_____
I. Determine that sales of extended warranty and product maintenance contracts are accounted for properly. (E, R, and V)	_____	_____	_____
J. Additional procedures:**			
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____

* If results from tests of controls for Systems A and B are satisfactory, these steps may not be necessary.

** If no controls tests are performed, predictive analytical procedures, or other special procedures, may be necessary to verify the completeness assertion for revenues.

Prepared by: _____ Date: _____

Reviewed by: _____ Date: _____



TESTS OF BALANCES AUDIT PROGRAM

XIX. COSTS OF GOODS SOLD

Financial Statement Assertions: Existence or occurrence. (E)
 Completeness. (C)
 Rights and obligations. (R)
 Valuation or allocation. (V)
 Presentation and disclosure. (P)

- Objectives:
- Properly recorded — To determine that other costs of goods sold are properly allocable to the year. (Assertions E, C and V)
 - Proper recognition — To determine that recognition has been given to all costs. (Assertions E, C, R and V)
 - GAAP conformity — To determine that the costs of goods sold are in conformity with GAAP consistently applied. (Assertion P)
 - Proper classification — To determine that costs of goods sold are appropriately classified and described in the statement of income. (Assertion P)

Procedure	Done By	Date	W/P Ref.
A. Review the results of applicable sections of the following to determine the nature, timing, and extent of procedures:			
1. Preliminary analytical procedures.	_____	_____	_____
2. All-Substantive Approach Questionnaire or Internal Controls Questionnaire.	_____	_____	_____
3. Tests of Controls Program.	_____	_____	_____
B. If major, unexplained variances exist, scan entries in source journals and investigate timing, size and method of recording unusual items. Discuss findings with management. (E, C, V, and P)	_____	_____	_____
C. Calculate gross profit percentages by product line. Compare them to prior year amounts and investigate any unusual fluctuations. (E, C, R, and V)	_____	_____	_____



TESTS OF BALANCES AUDIT PROGRAM

XIX. COSTS OF GOODS SOLD (Continued)

<u>Procedure</u>	<u>Done By</u>	<u>Date</u>	<u>W/P Ref.</u>
D. Additional procedures:			

Prepared by: _____ Date: _____

Reviewed by: _____ Date: _____



TESTS OF BALANCES AUDIT PROGRAM

XX. OTHER REVENUES AND EXPENSES

Financial Statement Assertions: Existence or occurrence. (E)
 Completeness. (C)
 Rights and obligations. (R)
 Valuation or allocation. (V)
 Presentation and disclosure. (P)

- Objectives:
- Properly recorded — To determine that other revenues and expenses are properly allocable to the year. (Assertions E, C and V)
 - Proper recognition — To determine that recognition has been given to other revenue and expenses. (Assertions E, C, R and V)
 - GAAP conformity — To determine that the income statement is prepared in conformity with GAAP consistently applied. (Assertion P)
 - Proper classification — to determine that other revenues and expenses are appropriately classified and described in the statement of income. (Assertion P)

Procedure	Done By	Date	W/P Ref.
A. Review the results of applicable sections of the following to determine the nature, timing, and extent of procedures:			
1. Preliminary analytical procedures.	_____	_____	_____
2. All-Substantive Approach Questionnaire or Internal Controls Questionnaire.	_____	_____	_____
3. Tests of Controls Program.	_____	_____	_____

Practice Tip:

Be alert to potential mispostings in other revenue and expense accounts. Clients often post tax payments to miscellaneous expense accounts because there is no general ledger account set up for the payments.



TESTS OF BALANCES AUDIT PROGRAM

XX. OTHER REVENUES AND EXPENSES (Continued)

Procedure	Done By	Date	W/P Ref.
B. Obtain a schedule of other revenues and expenses and investigate large or unusual items. (E, C, and V)	_____	_____	_____
C. Vouch as considered necessary. (E, C, and V)	_____	_____	_____
D. Scan the source journals for major transactions omitted from the schedule. (E, C, V, and P)	_____	_____	_____
E. Additional procedures:			

_____	_____	_____	_____

Prepared by: _____ Date: _____

Reviewed by: _____ Date: _____



TESTS OF BALANCES AUDIT PROGRAM

XXI. EXPENSE ACCOUNT ANALYSIS AND VOUCHING

Financial Statement Assertions: Existence or occurrence. (E)
 Completeness. (C)
 Rights and obligations. (R)
 Valuation or allocation. (V)
 Presentation and disclosure. (P)

- Objectives:
- Properly recorded — To determine that reported expenses include costs that are properly allocable to the year and are properly matched with revenues. (Assertions E, C and V)
 - Proper recognition — To determine that recognition has been given to all costs and expenses (including losses) that should be recognized. (Assertions E, C, R and V)
 - Proper classification — To determine that extraordinary items have been properly classified and disclosed. (Assertions E and P)
 - GAAP conformity — To determine that the income statement is prepared in conformity with GAAP consistently applied. (Assertions V and P)
 - Proper classification — To determine that costs and expenses are appropriately classified and described in the statement of income. (Assertion P)

Procedure	Done By	Date	W/P Ref.
A. Review the results of applicable sections of the following to determine the nature, timing, and extent of procedures:			
1. Preliminary analytical procedures.	_____	_____	_____
2. All-Substantive Approach Questionnaire or Internal Controls Questionnaire.	_____	_____	_____
3. Tests of Controls Program.	_____	_____	_____
B. Compare balances in expense accounts with the preceding year's. (E, C, R, and V)	_____	_____	_____
C. Compare individual expense accounts with budgeted amounts. Investigate significant variances. (E, C, R, and V)	_____	_____	_____
D. Compare individual expense accounts as a percentage to total expenses for the following categories:			



TESTS OF BALANCES AUDIT PROGRAM

XXI. EXPENSE ACCOUNT ANALYSIS AND VOUCHING (Continued)

Procedure	Done By	Date	W/P Ref.
1. Selling expenses. (E, C, R, and V)	_____	_____	_____
2. Manufacturing expenses. (E, C, R, and V)	_____	_____	_____
3. General and administrative expenses. (E, C, R, and V)	_____	_____	_____
E. Scan source journals for the period for large or unusual transactions and determine they are properly recorded.* (E, C, R, V, and P)	_____	_____	_____
F. Obtain a detailed analysis of charges and credits to expense accounts with unusual fluctuations from prior years, and the following:*			
1. Officers' salaries and bonuses. Determine board of directors' authorization.	_____	_____	_____
2. Officers' expenses (for tax return).	_____	_____	_____
3. Contributions (eligible for deduction).	_____	_____	_____
4. Rents (look for potential capitalizable leases).	_____	_____	_____
5. Legal and professional services (look for any payments that may represent undisclosed legal matters).	_____	_____	_____
6. Taxes (for tax return).	_____	_____	_____
7. Repairs and maintenance (look for capitalizable items).	_____	_____	_____
8. Supplies and small tools (look for capitalizable items).	_____	_____	_____
9. Travel and entertainment expenses (look for adequate documentation).	_____	_____	_____
10. Miscellaneous expense.	_____	_____	_____



TESTS OF BALANCES AUDIT PROGRAM

XXI. EXPENSE ACCOUNT ANALYSIS AND VOUCHING (Continued)

Procedure	Done By	Date	W/P Ref.
11. Property tax expense (for unrecorded property).	_____	_____	_____
12. Other accounts:			

_____	_____	_____	_____

(E, C, R, V, and P)

Practice Tip:

An analysis of trial balance expense accounts can prove to be a valuable tool for both the audit and any tax engagements you have with the client. At tax time it's always beneficial to have the details of expenses required to prepare the client's tax return. It will always save you time (and money) to prepare these schedules during the audit engagement.

G. As considered necessary, obtain supporting vendor invoices or other documentation to determine that charges or credits to the accounts above apply to the company and are recorded at the proper amount in the proper period (primarily System C). Documentation for immaterial account balances need not be examined (E, C, R, and V)	_____	_____	_____
H. Additional procedures:			

_____	_____	_____	_____



TESTS OF BALANCES AUDIT PROGRAM

XXI. EXPENSE ACCOUNT ANALYSIS AND VOUCHING (Continued)

* Satisfactory results from tests of controls will allow examination of less detail. Stronger controls, Systems A and B, may permit omission of detailed analysis except for analytical procedures follow-up and certain accounts affecting financial statement disclosures or income tax return preparation.

Prepared by: _____ Date: _____

Reviewed by: _____ Date: _____



TESTS OF BALANCES AUDIT PROGRAM

XXII. PAYROLL TESTS

Financial Statement Assertions: Existence or occurrence. (E)
 Completeness. (C)
 Rights and obligations. (R)
 Valuation or allocation. (V)
 Presentation and disclosure. (P)

- Objectives:
- Properly recorded — To determine that reported payroll expenses include costs that are properly allocable to the year. (Assertions E, C and V)
 - Proper recognition — To determine that payroll expenses have been properly recognized. (Assertions E, C, R and V)
 - GAAP conformity — To determine that the income statement is prepared in conformity with GAAP consistently applied. (Assertion P)
 - Proper classification — To determine that payroll expenses are appropriately classified and described in the statement of income. (Assertion P)

Procedure	Done By	Date	W/P Ref.
A. Review the results of applicable sections of the following to determine the nature, timing, and extent of procedures:			
1. Preliminary analytical procedures.	_____	_____	_____
2. All-Substantive Approach Questionnaire or Internal Controls Questionnaire.	_____	_____	_____
3. Tests of Controls Program.	_____	_____	_____
B. Compare account balances with the preceding year's. (E, C, R, and V)	_____	_____	_____
C. Compute the following as a percentage of net sales:			
1. Direct labor. (E, C, R, and V)	_____	_____	_____
2. Indirect labor. (E, C, R, and V)	_____	_____	_____
3. Commissions. (E, C, R, and V)	_____	_____	_____
4. Office salaries. (E, C, R, and V)	_____	_____	_____



TESTS OF BALANCES AUDIT PROGRAM

XXII. PAYROLL TESTS (Continued)

Procedure	Done By	Date	W/P Ref.
D. Compute payroll tax expenses as a percentage of total of wages, salaries, and commissions. (E, C, R, and V)	_____	_____	_____
E. Scan source journals for unusual transactions to determine they are recorded properly. (E, C, R, and V)	_____	_____	_____
F. Prepare a schedule of monthly payroll costs by department.* (E, C, R, V, and P)	_____	_____	_____

Practice Tip:
 If the client has offices in different states, be sure to itemize payroll expense to aid in allocation for income tax calculations and returns.

G. Compare schedules to prior periods, budget and production records and investigate significant fluctuations.* (E, C, R, and V)	_____	_____	_____
H. Reconcile gross wages on payroll tax returns to general ledger.* (E, C, R, and V)	_____	_____	_____
I. Additional procedures:			
_____	_____	_____	_____

_____	_____	_____	_____

* If results from tests of controls for Systems A and B are satisfactory, these steps may not be necessary.

Prepared by: _____ Date: _____

Reviewed by: _____ Date: _____



TESTS OF BALANCES AUDIT PROGRAM

XXIII. RISKS AND UNCERTAINTIES

Financial Statement Assertion

Presentation and disclosure (P)

Objectives

- GAAP conformity—To determine that disclosure of certain significant estimates and certain concentrations is in conformity with GAAP consistently applied. (assertion P)

Procedures	Done by	Date	W/P Ref.
A. Obtain or prepare a listing of any estimates used in determining the carrying values of assets and liabilities and gain and loss contingencies that are sensitive to change. Using information obtained in other audit areas and through inquiries of management, determine that the listing is complete and accurate. (P)	_____	_____	_____
B. Consider whether it is at least reasonably possible that a material change in the estimate will occur in the near term. (P)	_____	_____	_____
C. If such a situation is identified, review support for the calculation of the effect of the change. (P)	_____	_____	_____
D. Obtain or prepare a listing of the following types of concentrations, if any, that existed at the balance-sheet date and that make the entity vulnerable to risk of near-term severe impact (severe impact is a higher threshold than materiality, but less than catastrophic). Using information obtained in other audit areas and through inquiries of management, determine that the listing is complete and accurate:			
• volume of business transacted with a particular customer, supplier, or lender	_____	_____	_____
• revenues from particular products or services	_____	_____	_____
• available sources of supply of materials, labor or services, or of licenses or other rights used in operations	_____	_____	_____
• market or geographic area in which the entity conducts its operations (P)	_____	_____	_____



TESTS OF BALANCES AUDIT PROGRAM

XXIII. RISKS AND UNCERTAINTIES (Continued)

Procedures	Done by	Date	W/P Ref.
E. Determine whether it is at least reasonably possible that an event will occur in the near term that would cause the severe impact. (P)	_____	_____	_____
F. Determine whether disclosures required by SOP 94-6 are completely and accurately included in the financial statements. (Refer to the Small Business Audit Disclosure and Reporting Checklist in Chapter 14.) (P)	_____	_____	_____
G. Additional procedures:			

Prepared by: _____ Date: _____

Reviewed by: _____ Date: _____



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10.800

Consultation Form
Client: _____ Financial Statement Date: _____

INSTRUCTIONS:

To ensure high-quality engagements, staff should seek assistance when needed from appropriate individuals. This form should be completed for all situations that require consultation as specified in the firm's quality control policies and procedures. It should be signed by the individual who prepared it, the consultant or specialist (in the case of an in-house consultant or specialist) and the engagement partner.

Brief Summary of Issue

Important Facts

Relevant Literature

Resolution

Prepared by: _____ Date: _____
[Engagement Staff]

_____ Date: _____
[Consultant]

Reviewed by: _____ Date: _____
[Engagement Partner]

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10.801

Internal Control Structure Reportable Conditions Form
Client: _____
Financial Statement Date: _____

INSTRUCTIONS:

This form should be completed by the in-charge or supervised staff, and reviewed by the engagement partner for all audit engagements. The information should be used to complete the required communication of internal control structure related matters and other matters.

The Internal Controls Questionnaire, any internal control flowcharts or narratives, and the results of tests of controls are the primary sources for indentifying reportable conditions. Reportable conditions are significant deficiencies in the design or operation of the internal control structure, including the accounting system, and primary or secondary controls that could adversely affect the the entity's ability to record, process, and summarize financial data consistent with management's assertions in the financial statements. Reportable conditions deemed to be material weaknesses should be identified on the Form for consideration of identification in the report. Other operations or management suggestions may also be included on this Form.

The form is designed to include the documentation source of the conditions, the audit areas affected by the conditions, and a format for writing comments.

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

Reviewed by: _____ Date: _____
 (Engagement Partner)

REPORTABLE CONDITIONS

Documentation Source _____	Audit Areas Affected by Condition _____	Situation _____	Problem _____	Recommendation _____	Discussed With _____	Disposition _____
-------------------------------	---	--------------------	------------------	-------------------------	-------------------------	----------------------

10.901

Form for Documenting Understanding of Client's Business and Industry — Compilation and Review Engagements

Client: _____

Financial Statement Date: _____

INSTRUCTIONS:

This form should be completed for all compilation and review engagements (other than for personal financial statements). When used in conjunction with the Client Acceptance and Continuance Form, the form provides documentation of the required understanding of the client's business and industry. It should be reviewed and updated annually for any changes in the client's business.

I. INDUSTRY INFORMATION

A. Describe major types of products or services provided by the client:

% of Volume

B. Describe any sources of information about the client's accounting principles (e.g., AICPA guides, industry publications):

II. ACCOUNTING PRINCIPLES

A. What is the basis of accounting to be used for the financial statements both on an annual and interim basis [GAAP or Other Comprehensive Basis of Accounting (OCBOA)]?

1. Annual financial statements:

2. Interim financial statements:

B. Describe the client's significant accounting policies:

III. ACCOUNTING RECORDS

A. What is the form of the client's accounting records?

	Record	Form of the Records Manual/Computer	Personnel Responsible
Journals:			
Cash receipts		M C	_____
Cash disbursements		M C	_____
Sales		M C	_____
Purchases/Voucher		M C	_____
Payroll		M C	_____
General		M C	_____
_____		M C	_____
_____		M C	_____
Ledgers:			
General		M C	_____
Accounts Receivable		M C	_____
Accounts payable		M C	_____
Perpetual Inventory		M C	_____
Physical Inventory Schedule		M C	_____
_____		M C	_____
_____		M C	_____

B. If the client uses accrual basis accounting, describe the client's procedures, if any, for achieving an adequate cutoff of transactions when the financial statements are prepared.

C. If applicable, describe the client's procedures for taking a physical count of its inventory. State how often it is taken.

IV. STATED QUALIFICATIONS OF ACCOUNTING PERSONNEL

Name	Responsibilities	Qualifications

V. OTHER INFORMATION

A. Is there economic dependency on a major customer? _____ If so, describe customer and percent of sales.

B. Describe the nature of any stock plans (e.g., stock options, repurchase, etc.).



C. Describe any transactions with related parties, including the nature of the relationship.

D. Describe any other information that is significant to the engagement.

19__ 19__ 19__ 19__ 19__ 19__ 19__

Prepared or Updated by:
In-Charge

Reviewed by:
Partner

10.902

Form for Documenting Understanding of Client's Business and Industry — Supplement for Review Engagements
Client: _____
Financial Statement Date: _____

INSTRUCTIONS:

This form should be completed for all review engagements (other than reviews of personal financial statements). When used in conjunction with the Client Acceptance and Continuance Form and the Form for Documenting Understanding of Client's Business and Industry — Compilation and Review Engagements, this form provides documentation of the additional required understanding of the client's business and industry required for review engagements. It should be reviewed and updated annually for any changes in the client's business.

I. ORGANIZATION AND PERSONNEL

A. Identify and describe the responsibilities of the chief officers.

Name	Responsibilities

B. Describe the locations at which the client does business and the nature of the activity and number of employees at each location.

C. Describe briefly the compensation methods for each class of employees.

II. OPERATING CHARACTERISTICS

A. Describe the company's sources of revenue, marketing, and distribution methods.

B. Describe the nature of the client's significant assets and liabilities.

C. Describe the nature of the client's significant expenses.

D. Describe the client's production process.



19__ 19__ 19__ 19__ 19__ 19__ 19__

Prepared or Updated by:
In-Charge

Reviewed by:
Partner

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10.903

Compilation Engagement Work Program
Client: _____
Financial Statement Date: _____

INSTRUCTIONS:

The following is a general guide for compiling annual and interim financial statements. Any additional inquiries or procedures performed, and conclusions reached, should also be documented in the working papers. The "N/A" column should be checked for any steps that are not applicable or for steps not required because of immateriality or other reasons. References preceded by "AR" are to *Statements on Standards for Accounting and Review Services*, included in volume 2 of the *AICPA Professional Standards*.

	<u>Performed By</u>		
	<u>Initials</u>	<u>Date</u>	<u>N/A</u>
1. Prepare or update the Client Acceptance and Continuance Form.	_____	_____	<input type="checkbox"/>
2. Consider whether the CPA firm is independent of the client. If the firm is not independent, the compilation report should be modified to indicate that fact. (AR 100.22)	_____	_____	<input type="checkbox"/>
3. Establish or update an understanding with the client, preferably in writing, regarding the nature of the engagement. Include in the working papers a copy of the engagement letter or a memorandum describing the oral arrangements. (AR 100.08)	_____	_____	<input type="checkbox"/>
4. If the firm was originally engaged to perform a higher level of service, i.e., a review or audit, document the appropriateness of the decision to step-down, including a consideration of:			
a. The reason given for the client's request, particularly the implications of a restriction on the scope of the initial engagement, whether imposed by the client or by circumstances.	_____	_____	<input type="checkbox"/>
b. The additional effort required to complete the initial engagement.	_____	_____	<input type="checkbox"/>





	<u>Performed By</u>		N/A
	<u>Initials</u>	<u>Date</u>	
c. The estimated additional cost to complete the initial engagement. (AR 100.44-.49)	_____	_____	<input type="checkbox"/>
5. Consider whether the staffing and scheduling of the engagement is appropriate.	_____	_____	<input type="checkbox"/>
6. Complete or update the Form to Document Understanding of Client's Business and Industry—Compilation and Review Engagements.	_____	_____	<input type="checkbox"/>
7. Obtain assurances about the independence of any other accountants engaged to perform segments of the engagement.	_____	_____	<input type="checkbox"/>
8. Perform any accounting services required to compile the financial statements. (AR 100.11)	_____	_____	<input type="checkbox"/>
9. Consider whether any information supplied by the client appears to be incorrect, incomplete, or otherwise unsatisfactory. If so, request revised information. (AR 100.12)	_____	_____	<input type="checkbox"/>
10. Draft the financial statements and the compilation report.	_____	_____	<input type="checkbox"/>
11. If the financial statements do not omit substantially all disclosures, complete the Financial Statement Disclosure Checklist.	_____	_____	<input type="checkbox"/>
12. If the financial statements are prepared on some other comprehensive basis of accounting, consider whether the financial statement titles and disclosure of the basis of accounting are appropriate. (AR 100.19-.21)	_____	_____	<input type="checkbox"/>
13. Read the financial statements and consider whether they appear to be appropriate in form and free from obvious material misstatements. (AR 100.13)	_____	_____	<input type="checkbox"/>
14. If the financial statements omit substantially all disclosures required by GAAP or some OCBOA, add an additional paragraph to the compilation report disclosing the omission. (AR 100.19-.21)	_____	_____	<input type="checkbox"/>
15. If GAAP basis financial statements of a business entity that omit substantially all disclosures also omit the statement of cash flows, modify the additional paragraph to disclose the omission. (AR 100.21 and footnote 8)	_____	_____	<input type="checkbox"/>



	<u>Performed By</u>		
	<u>Initials</u>	<u>Date</u>	<u>N/A</u>
16. If the financial statements contain a departure from GAAP or OCBOA, including either a measurement or disclosure departure:			
a. Revise the financial statements or modify the compilation report to indicate the departure.	_____	_____	<input type="checkbox"/>
b. If the financial statements are not revised, consider whether modification of the standard report is adequate to indicate the deficiencies in the financial statements.	_____	_____	<input type="checkbox"/>
c. If modification of the report is not considered adequate, consider withdrawing from the engagement. (AR 100.39-.41)	_____	_____	<input type="checkbox"/>
17. If the financial statements are presented with comparative financial statements for one or more prior periods, determine that all financial statements are appropriately reported on by the CPA firm or a predecessor CPA firm. (AR 200.01-.36)	_____	_____	<input type="checkbox"/>
18. If financial statements that are presented in a prescribed form are being reported on in accordance with SSARS 3, determine that the report complies with the requirements of that Statement. (AR 300.01-.05)	_____	_____	<input type="checkbox"/>
19. If supplementary data accompanies the financial statements, modify the compilation report to include the other data. (AR 100.43)	_____	_____	<input type="checkbox"/>
20. Include a reference to the compilation report on each page of the financial statements and supplementary data. (AR 100.16)	_____	_____	<input type="checkbox"/>
21. Date the compilation report as of the date the compilation was completed. (AR 100.15)	_____	_____	<input type="checkbox"/>
22. Document any other procedures performed or unusual problems and their resolution.	_____	_____	<input type="checkbox"/>





	<u>Performed By</u>		
	<u>Initials</u>	<u>Date</u>	<u>N/A</u>
23. Determine that all required forms and checklists have been completed.	_____	_____	<input type="checkbox"/>
24. Determine that all review points by the engagement team and the technical reviewer (if applicable) have been resolved.	_____	_____	<input type="checkbox"/>

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

Reviewed by: _____ Date: _____
(Partner)



10.904

Review Engagement Work Program
Client: _____
Financial Statement Date: _____

PART I – INQUIRY PROCEDURES

INSTRUCTIONS:

The inquiry portion of this Work Program is a general guide for areas about which inquiries should be made in a review of financial statements of a nonpublic entity. The accountant may believe it is necessary to make several specific inquiries to answer one of the questions listed below. When additional inquiries are made, they should also be documented in the working papers.

Each of these inquiries will *not* necessarily apply to every review engagement. The "N/A" column should be checked for any inquiries that are not applicable. Inquiries may be inapplicable because of: (1) the nature or immateriality of financial statement accounts, (2) the low likelihood of misstatement in an account, (3) knowledge obtained during current or previous engagements, (4) the stated qualifications of entity's accounting personnel, or (5) the extent to which a particular item is affected by management judgment, among other reasons.

Area/Procedure	Performed By		N/A
	Initials	Date	
GENERAL			
1. Obtain and agree or reconcile general and subsidiary ledgers.	_____	_____	<input type="checkbox"/>
2. Obtain and foot general ledger trial balance.	_____	_____	<input type="checkbox"/>
3. Obtain client-prepared financial statements or prepare financial statements and agree or reconcile them to the general ledger or the trial balance.	_____	_____	<input type="checkbox"/>

CASH

Inquire About:

1. Accounting principles and policies for cash and the methods of applying them.	_____	_____	<input type="checkbox"/>
--	-------	-------	--------------------------



Area/Procedure	Performed By		N/A
	Initials	Date	
2. Procedures for recording, classifying, and summarizing cash transactions.	_____	_____	<input type="checkbox"/>
3. Whether bank and book balances have been reconciled.	_____	_____	<input type="checkbox"/>
4. Disposition of old or unusual reconciling items.	_____	_____	<input type="checkbox"/>
5. Whether a proper cash cutoff has been made.	_____	_____	<input type="checkbox"/>
6. Restrictions on cash balances, such as compensating balances.	_____	_____	<input type="checkbox"/>
7. Whether cash funds have been counted and reconciled with control accounts.	_____	_____	<input type="checkbox"/>

RECEIVABLES — ACCOUNTS AND NOTES

Inquire About:

1. Accounting principles and policies for receivables and the methods of applying them.	_____	_____	<input type="checkbox"/>
2. Procedures for recording, classifying, and summarizing receivable transactions.	_____	_____	<input type="checkbox"/>
3. Collectibility of receivables.	_____	_____	<input type="checkbox"/>
4. Adequacy of allowance for doubtful accounts and whether uncollectible receivables were written off.	_____	_____	<input type="checkbox"/>
5. Whether interest has been recorded, if applicable.	_____	_____	<input type="checkbox"/>
6. Whether a proper sales cutoff has been made.	_____	_____	<input type="checkbox"/>
7. Whether there are any receivables from employees and related parties.	_____	_____	<input type="checkbox"/>
8. Whether any receivables are pledged, discounted, or factored.	_____	_____	<input type="checkbox"/>
9. Whether receivables are properly classified between current and noncurrent.	_____	_____	<input type="checkbox"/>



Area/Procedure	Performed By		N/A
	Initials	Date	

INVENTORIES

Inquire About:

- | | | | |
|--|-------|-------|--------------------------|
| 1. Accounting principles and policies for inventories and the methods of applying them, including the inventory valuation method and proper treatment of material, labor, and overhead, if applicable. | _____ | _____ | <input type="checkbox"/> |
| 2. Procedures for recording, classifying, and summarizing inventory transactions. | _____ | _____ | <input type="checkbox"/> |
| 3. Date and methods of performing most recent physical inventory. | _____ | _____ | <input type="checkbox"/> |
| 4. Whether general ledger control accounts have been adjusted to agree with physical inventories. | _____ | _____ | <input type="checkbox"/> |
| 5. Procedures for recording changes in inventory between physical inventory date and balance-sheet date, if applicable. | _____ | _____ | <input type="checkbox"/> |
| 6. Consideration of consignments-in and consignments-out. | _____ | _____ | <input type="checkbox"/> |
| 7. How obsolete or excess inventory has been valued. | _____ | _____ | <input type="checkbox"/> |
| 8. Whether a proper purchase cutoff has been made. | _____ | _____ | <input type="checkbox"/> |
| 9. Whether any inventory is encumbered. | _____ | _____ | <input type="checkbox"/> |

PREPAID EXPENSES AND OTHER ASSETS

Inquire About:

- | | | | |
|--|-------|-------|--------------------------|
| 1. Accounting principles and policies for prepaid expenses and other assets and the methods of applying them. | _____ | _____ | <input type="checkbox"/> |
| 2. Procedures for recording, classifying, and summarizing prepaid expense and other asset transactions. | _____ | _____ | <input type="checkbox"/> |
| 3. Nature of the items and amounts included in prepaid expenses and other assets, including whether items will benefit future periods. | _____ | _____ | <input type="checkbox"/> |
| 4. Methods for amortizing prepaid expense and other asset amounts. | _____ | _____ | <input type="checkbox"/> |



Area/Procedure	Performed By		N/A
	Initials	Date	
5. Whether prepaid expenses and other assets are properly classified between current and noncurrent.	_____	_____	<input type="checkbox"/>
6. Whether other assets are mortgaged or otherwise encumbered.	_____	_____	<input type="checkbox"/>

INVESTMENTS

Inquire About:

1. Accounting principles and policies for investments and the methods of applying them.	_____	_____	<input type="checkbox"/>
2. Procedures for recording, classifying, and summarizing investment transactions.	_____	_____	<input type="checkbox"/>
3. Basis used to value investments, including marketable securities, joint ventures, intercompany investments, etc.	_____	_____	<input type="checkbox"/>
4. Whether investment income has been recorded.	_____	_____	<input type="checkbox"/>
5. Whether and how gains and losses on investment sales are recorded.	_____	_____	<input type="checkbox"/>
6. Whether investments are properly classified between current and noncurrent.	_____	_____	<input type="checkbox"/>
7. Whether consolidation or equity requirements have been considered.	_____	_____	<input type="checkbox"/>
8. Whether investments are encumbered.	_____	_____	<input type="checkbox"/>

PROPERTY AND EQUIPMENT

Inquire About:

1. Accounting principles and policies for property and equipment and the methods of applying them.	_____	_____	<input type="checkbox"/>
2. Procedures for recording, classifying, and summarizing property and equipment transactions.	_____	_____	<input type="checkbox"/>



Area/Procedure	Performed By		N/A
	Initials	Date	
3. Basis of valuation, depreciation methods, and criteria for capitalizing property and equipment.	_____	_____	<input type="checkbox"/>
4. Whether and how gains and losses on property and equipment disposals are recorded.	_____	_____	<input type="checkbox"/>
5. Whether depreciation and capitalization methods are used consistently.	_____	_____	<input type="checkbox"/>
6. Unrecorded additions or disposals.	_____	_____	<input type="checkbox"/>
7. Whether lease agreements exist and the nature of such leases (capital or operating).	_____	_____	<input type="checkbox"/>
8. Whether property or equipment is mortgaged or otherwise encumbered.	_____	_____	<input type="checkbox"/>

CURRENT LIABILITIES — ACCOUNTS, NOTES, AND ACCRUALS

Inquire About:

1. Accounting principles and policies for current liabilities and the methods of applying them.	_____	_____	<input type="checkbox"/>
2. Procedures for recording, classifying, and summarizing current liability transactions.	_____	_____	<input type="checkbox"/>
3. Whether all significant current liabilities have been recorded.	_____	_____	<input type="checkbox"/>
4. Whether all current liabilities are properly classified.	_____	_____	<input type="checkbox"/>
5. Whether there are any collateralized liabilities.	_____	_____	<input type="checkbox"/>
6. Whether there are any current liabilities to employees or related parties.	_____	_____	<input type="checkbox"/>





Area/Procedure	Performed By		N/A
	Initials	Date	

LONG-TERM LIABILITIES — NOTES, BONDS, AND MORTGAGES

Inquire About:

- | | | | |
|---|-------|-------|--------------------------|
| 1. Accounting principles and policies for long-term liabilities and the methods of applying them. | _____ | _____ | <input type="checkbox"/> |
| 2. Procedures for recording, classifying, and summarizing long-term liability transactions. | _____ | _____ | <input type="checkbox"/> |
| 3. Maturity dates, interest rates, restrictive covenants, and collateral for long-term liabilities. | _____ | _____ | <input type="checkbox"/> |
| 4. Whether long-term debt is properly classified as noncurrent. | _____ | _____ | <input type="checkbox"/> |
| 5. Whether and how interest expense and capitalized interest have been recorded. | _____ | _____ | <input type="checkbox"/> |

LIABILITIES FOR INCOME AND OTHER TAXES

Inquire About:

- | | | | |
|--|-------|-------|--------------------------|
| 1. Accounting principles and policies for income and other taxes and the methods of applying them. | _____ | _____ | <input type="checkbox"/> |
| 2. Procedures for recording, classifying, and summarizing income and other tax liability transactions. | _____ | _____ | <input type="checkbox"/> |
| 3. Whether provision has been made for state and federal income taxes and other taxes payable, such as sales, payroll, franchise, etc. | _____ | _____ | <input type="checkbox"/> |
| 4. Recent or pending federal or state tax authority examinations. | _____ | _____ | <input type="checkbox"/> |
| 5. Whether deferred taxes have been recorded for significant temporary differences. | _____ | _____ | <input type="checkbox"/> |



Area/Procedure	Performed By		N/A
	Initials	Date	

OTHER LIABILITIES, COMMITMENTS, AND CONTINGENCIES

Inquire About:

- | | | | |
|---|-------|-------|--------------------------|
| 1. Accounting principles and policies for other liabilities and the methods of applying them. | _____ | _____ | <input type="checkbox"/> |
| 2. Procedures for recording, classifying, summarizing other liability transactions. | _____ | _____ | <input type="checkbox"/> |
| 3. Nature and amounts of other liabilities. | _____ | _____ | <input type="checkbox"/> |
| 4. Whether other liabilities have been properly classified between current and noncurrent. | _____ | _____ | <input type="checkbox"/> |
| 5. Whether obligations under any profit-sharing or bonus plans have been accrued. | _____ | _____ | <input type="checkbox"/> |
| 6. Whether there are any contingent liabilities, such as discounted notes, drafts, endorsements, warranties, litigation, and unsettled asserted claims. | _____ | _____ | <input type="checkbox"/> |
| 7. Whether there are any unasserted claims. | _____ | _____ | <input type="checkbox"/> |
| 8. Whether there are any commitments to purchase or sell company equity or debt securities. | _____ | _____ | <input type="checkbox"/> |
| 9. Whether there are any commitments to purchase, sell, or construct real property. | _____ | _____ | <input type="checkbox"/> |

EQUITY

Inquire About:

- | | | | |
|--|-------|-------|--------------------------|
| 1. Accounting principles and policies for equity and the methods of applying them. | _____ | _____ | <input type="checkbox"/> |
| 2. Procedures for recording, classifying, and summarizing equity transactions. | _____ | _____ | <input type="checkbox"/> |
| 3. The nature of any changes in equity accounts. | _____ | _____ | <input type="checkbox"/> |





Area/Procedure	Performed By		N/A
	Initials	Date	
4. What classes of capital stock are authorized, number of shares issued and outstanding for each class, and their par or stated value.	_____	_____	<input type="checkbox"/>
5. Whether amounts of outstanding shares of capital stock agree with subsidiary records.	_____	_____	<input type="checkbox"/>
6. Whether capital stock preferences, if any, have been disclosed.	_____	_____	<input type="checkbox"/>
7. Whether stock options have been granted and the nature and terms of such options.	_____	_____	<input type="checkbox"/>
8. Whether there are any treasury stock transactions.	_____	_____	<input type="checkbox"/>
9. Whether there are any restrictions or appropriations of retained earnings.	_____	_____	<input type="checkbox"/>

REVENUES AND EXPENSES

Inquire About:

1. Accounting principles and policies for revenues and expenses and the methods of applying them.	_____	_____	<input type="checkbox"/>
2. Procedures for recording, classifying, and summarizing revenue and expense transactions.	_____	_____	<input type="checkbox"/>
3. Whether sales, purchase, and expense cutoffs are proper.	_____	_____	<input type="checkbox"/>
4. Whether there are discontinued operations or other items that might be considered extraordinary.	_____	_____	<input type="checkbox"/>

OTHER

Inquire About:

1. Whether any events have occurred after the balance sheet date that have a significant effect on the financial statements.	_____	_____	<input type="checkbox"/>
2. Whether any actions taken at stockholder, board of directors, or comparable meetings that affect the financial statements have been properly recorded or disclosed.	_____	_____	<input type="checkbox"/>
3. Whether material transactions with related parties have occurred and whether they are properly disclosed.	_____	_____	<input type="checkbox"/>



PART II — ANALYTICAL PROCEDURES

INSTRUCTIONS:

The analytical procedures portion of this Work Program is a general guide for analytical procedures that may be performed in a review of financial statements of a nonpublic entity. The accountant may feel that additional analytical procedures are necessary in some areas. When additional analytical procedures are performed, they should also be documented in the working papers.

Each of these analytical procedures will not necessarily apply to every review engagement. The "N/A" column should be checked for any inquiries that are not applicable. Inquiries may be inapplicable because of the (1) nature or immateriality of financial statement accounts, (2) low likelihood of misstatement in an account, (3) knowledge obtained during current or previous engagements, (4) stated qualifications of entity's accounting personnel, or (5) extent to which a particular item is affected by management judgment, among other reasons.

Area/Procedure	Performed By		N/A
	Initials	Date	

GENERAL

- | | | | |
|---|-------|-------|--------------------------|
| 1. Compare amounts in each significant account in the current financial statements with amounts for comparable prior period(s). | _____ | _____ | <input type="checkbox"/> |
| 2. Compare amounts in each significant account in the current financial statements with budgeted or forecasted amounts for the current period. | _____ | _____ | <input type="checkbox"/> |
| 3. Scan selected journals and ledgers. | _____ | _____ | <input type="checkbox"/> |
| 4. Based on the results of steps 1, 2 and 3 above, identify unusual fluctuations or relationships and document management's explanation for them. | _____ | _____ | <input type="checkbox"/> |

Specific Accounts:

For each significant account below, select and compute the analytical procedure(s) appropriate for this review engagement and compare the results with prior periods. The analytical procedures not considered necessary should be marked "N/A" and any additional analytical procedures performed should be documented.



Area/Procedure	Performed By		N/A
	Initials	Date	
CASH			
1. Current ratio (current assets / current liabilities)	_____	_____	<input type="checkbox"/>
2. Quick ratio (current assets — inventory / current liabilities)	_____	_____	<input type="checkbox"/>
RECEIVABLES — ACCOUNTS AND NOTES			
1. Number of days' sales in ending accounts receivable (average net receivables × 360 / net credit sales)	_____	_____	<input type="checkbox"/>
2. Bad debts expense as a percent of net sales (bad debts expense / net credit sales)	_____	_____	<input type="checkbox"/>
3. Allowance for doubtful accounts as a percent of accounts receivable (allowance / ending receivables)	_____	_____	<input type="checkbox"/>
4. Aged accounts receivable (percent of ending receivables in following categories):			
0 – 30 days	_____	_____	<input type="checkbox"/>
31 – 60 days	_____	_____	<input type="checkbox"/>
61 – 90 days	_____	_____	<input type="checkbox"/>
91 – 120 days	_____	_____	<input type="checkbox"/>
Over 120 days	_____	_____	<input type="checkbox"/>
INVENTORIES			
1. Gross margin as a percent of net sales (gross margin / net sales)	_____	_____	<input type="checkbox"/>
2. Inventory turnover (cost of sales / average inventory)	_____	_____	<input type="checkbox"/>



Area/Procedure	Performed By		N/A
	Initials	Date	

INVESTMENTS

1. Rate of return on major investment classes (investment income / average investment)	_____	_____	<input type="checkbox"/>
---	-------	-------	--------------------------

PROPERTY AND EQUIPMENT

1. Depreciation expense as a percent of major property and equipment classes (depreciation expense / property and equipment)	_____	_____	<input type="checkbox"/>
---	-------	-------	--------------------------

2. Accumulated depreciation as a percent of major property and equipment classes (accumulated depreciation / property and equipment)	_____	_____	<input type="checkbox"/>
---	-------	-------	--------------------------

3. Repair and maintenance expense as a percent of property and equipment (repair and maintenance expense/property and equipment)	_____	_____	<input type="checkbox"/>
---	-------	-------	--------------------------

LONG-TERM LIABILITIES — NOTES, BONDS, AND MORTGAGES

1. Interest expense as a percent of major classes of average long-term liabilities (interest expense / average long-term liabilities)	_____	_____	<input type="checkbox"/>
--	-------	-------	--------------------------

2. Long-term debt to equity (long-term liabilities / total equity)	_____	_____	<input type="checkbox"/>
---	-------	-------	--------------------------

OTHER

_____	_____	_____	<input type="checkbox"/>
_____	_____	_____	

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

Reviewed by: _____ Date: _____
(Partner)



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10.905

Review Engagement Analytical Procedures Checklist
Client: _____
Financial Statement Date: _____

INSTRUCTIONS:

The following ratios should be calculated and the results reviewed for appropriateness. If a ratio is not applicable to the client the "N/A" column should be marked with a "✓". This checklist should be carried forward and updated yearly.

Analytical Procedures	Year or Period Ended			
	N/A	19	19	19

Notes and Accounts Receivable:

- | | | | | |
|---|-------|-------|-------|-------|
| 1. Number of days net sales in accounts receivable. | _____ | _____ | _____ | _____ |
| 2. Aged trial balance categories as a percent of total accounts receivable. | _____ | _____ | _____ | _____ |

Number of days outstanding:

0 - 30	_____	_____	_____	_____
31 - 60	_____	_____	_____	_____
61 - 90	_____	_____	_____	_____
91 - 120	_____	_____	_____	_____
121 +	_____	_____	_____	_____

- | | | | | |
|---|-------|-------|-------|-------|
| 3. Allowance for doubtful accounts as a percent of accounts receivable. | _____ | _____ | _____ | _____ |
| 4. Bad debts expense as a percent of net sales. | _____ | _____ | _____ | _____ |

Inventories:

- | | | | | |
|--|-------|-------|-------|-------|
| 1. Gross profit as a percent of net sales: | | | | |
| In total | _____ | _____ | _____ | _____ |
| By major product (if applicable) | _____ | _____ | _____ | _____ |
| 2. Inventory turnover: | | | | |
| In total | _____ | _____ | _____ | _____ |
| By major product (if applicable) | _____ | _____ | _____ | _____ |





Analytical Procedures	Year or Period Ended			
	N/A	19	19	19
3. Inventory composition as a percent of total inventory:				
Raw materials	_____	_____	_____	_____
Work in process	_____	_____	_____	_____
Finished goods	_____	_____	_____	_____
4. Composition of costs of sales as a percent of total costs of sales:				
Labor	_____	_____	_____	_____
Materials	_____	_____	_____	_____
Overhead	_____	_____	_____	_____
Working Capital:				
1. Current ratio.	_____	_____	_____	_____
2. Quick-current ratio.	_____	_____	_____	_____
Property and Equipment:				
1. Depreciation as a percent of:				
a. Net sales.	_____	_____	_____	_____
b. Total depreciable property and equipment.	_____	_____	_____	_____
Notes Payable and Long-Term Debt:				
1. Long-term debt to equity.	_____	_____	_____	_____
2. Interest expense as a percent of:				
a. Net sales.	_____	_____	_____	_____
b. Total debt other than open accounts.	_____	_____	_____	_____
Profitability:				
1. After tax rate of return on:				
a. Total assets invested.	_____	_____	_____	_____
b. Noncurrent assets.	_____	_____	_____	_____
c. Stockholders' equity at beginning of period.	_____	_____	_____	_____



Analytical Procedures	Year or Period Ended			
	N/A	19	19	19
d. Long-term debt and equity at beginning of period.	_____	_____	_____	_____
e. Total liabilities and equity at beginning of period.	_____	_____	_____	_____
Sales:				
1. As a percentage of net sales:				
a. Sales returns, allowances and discounts.	_____	_____	_____	_____
b. Earnings before income taxes.	_____	_____	_____	_____
c. Income taxes.	_____	_____	_____	_____
d. Net earnings.	_____	_____	_____	_____
e. Total selling expenses.	_____	_____	_____	_____
Comparisons of Balance Sheet and Income Statement Accounts in Excess of the Following Variances:				
1. Plus or minus \$_____ from preceding year.	_____	_____	_____	_____
2. Plus or minus _____% from preceding year.	_____	_____	_____	_____
3. Plus or minus _____% from past three years' trend.	_____	_____	_____	_____

Accounts and Description of Variance:



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10.906

Review Engagement Checklist
Client: _____
Financial Statement Date: _____

INSTRUCTIONS:

This checklist is a general guide for reviewing annual and interim financial statements of nonpublic companies. Any additional inquiries, analytical procedures, or other procedures performed, and conclusions reached, should also be documented in the working papers. The "N/A" column should be checked for any steps that are not applicable or for steps not required because of immateriality or other reasons. References preceded by "AR" refer to Statements on Standards for Accounting and Review Services included in volume 2 of AICPA *Professional Standards*.

	<u>Performed By</u>		
	<u>Initials</u>	<u>Date</u>	<u>N/A</u>
1. Prepare or update the Client Acceptance and Continuance Form.	_____	_____	<input type="checkbox"/>
2. Consider whether the CPA firm is independent of the client. If the firm is not independent, a review report cannot be issued. (AR 100.38)	_____	_____	<input type="checkbox"/>
3. Establish or update an understanding with the client, preferably in writing, regarding the nature of the engagement. Include in the working papers a copy of the engagement letter or a memorandum describing the oral arrangements. (AR 100.08)	_____	_____	<input type="checkbox"/>
4. Consider whether the staffing and scheduling of the engagement is appropriate.	_____	_____	<input type="checkbox"/>
5. Complete or update the Form for Documenting Understanding of Client's Business and Industry — Compilation and Review Engagements.	_____	_____	<input type="checkbox"/>
6. Complete or update the Form for Documenting Understanding of Client's Business and Industry — Supplement for Review Engagement.	_____	_____	<input type="checkbox"/>



	<u>Performed By</u>		<u>N/A</u>
	<u>Initials</u>	<u>Date</u>	
7. If the firm was originally engaged to perform a higher level of service, i.e., an audit, document the appropriateness of the decision to change to a review, including a consideration of:	_____	_____	<input type="checkbox"/>
a. The reason given for the client's request, particularly the implications of a restriction on the scope of the audit, whether imposed by the client or by circumstances.	_____	_____	<input type="checkbox"/>
b. The additional effort required to complete the audit.	_____	_____	<input type="checkbox"/>
c. The estimated additional cost to complete the audit. (AR 100.44-.49)	_____	_____	<input type="checkbox"/>
8. Obtain assurances about the independence of any other accountants engaged to perform segments of the engagement.	_____	_____	<input type="checkbox"/>
9. Consider whether it is necessary to perform any accounting services or to compile financial statements to be able to perform the review. (AR 100.04)	_____	_____	<input type="checkbox"/>
10. Complete the Review Engagement Work Program.	_____	_____	<input type="checkbox"/>
11. Draft the financial statements and review report.	_____	_____	<input type="checkbox"/>
12. Complete the Financial Statement Disclosure Checklist.	_____	_____	<input type="checkbox"/>
13. If the financial statements are prepared using another comprehensive basis of accounting (OCBOA), consider whether the financial statement titles and disclosure of the basis of accounting are appropriate.	_____	_____	<input type="checkbox"/>
14. Read the financial statements and consider, on the basis of information coming to the accountant's attention, whether the statements appear to conform with GAAP or OCBOA. (AR 100.27)	_____	_____	<input type="checkbox"/>
15. If the financial statements contain a departure from GAAP or OCBOA, including either a measurement or disclosure departure:			
a. Revise the financial statements or modify the review report to indicate the departure.	_____	_____	<input type="checkbox"/>



	<u>Performed By</u>		
	<u>Initials</u>	<u>Date</u>	<u>N/A</u>
b. If the financial statements are not revised, consider whether modification of the standard report is adequate to indicate the deficiencies in the financial statements.	_____	_____	<input type="checkbox"/>
c. If modification of the report is not considered adequate, consider withdrawing from the engagement. (AR 100.39-.40)	_____	_____	<input type="checkbox"/>
16. If the financial statements are presented with comparative financial statements for one or more prior periods, determine that all financial statements are appropriately reported on by the CPA firm or a predecessor CPA firm. (AR 200.01-.36).	_____	_____	<input type="checkbox"/>
17. If supplementary data accompanies the financial statements, modify the review report to include the other data. (AR 100.43)	_____	_____	<input type="checkbox"/>
18. Include a reference to the review report on each page of the financial statements and supplementary data. (AR 100.34)	_____	_____	<input type="checkbox"/>
19. Date the review report as of the date the inquiry and analytical procedures were completed. (AR 100.33)	_____	_____	<input type="checkbox"/>
20. Obtain a representation letter.	_____	_____	<input type="checkbox"/>
21. Document any other procedures performed or unusual problems and their resolution.	_____	_____	<input type="checkbox"/>
22. Determine that all required forms and checklists have been completed.	_____	_____	<input type="checkbox"/>
23. Determine that all review points by the engagement team and the technical reviewer, if applicable, have been resolved.	_____	_____	<input type="checkbox"/>
24. Other procedures:			

_____			<input type="checkbox"/>

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

Reviewed by: _____ Date: _____
 (Partner)



INDEX

References are to section numbers.

ABC SYSTEM	3.101-3.107, 3.300-3.352	AFFILIATED ENTITIES (see also BUSINESS COMBINATIONS; CONSOLIDATED AND COMBINED PRESENTATIONS)	17.100
Accounting System	3.103	AICPA (see PROFESSIONAL PRONOUNCEMENTS AND STANDARDS)	
Documentation	3.405	AICPA ACCOUNTING TRENDS AND TECHNIQUES	18.101-18.102
Evidence Matrix	3.208	AICPA AUDIT GUIDES (see PROFESSIONAL PRONOUNCEMENTS AND STANDARDS)	
Internal Control Questionnaire	3.103-3.104, 10.100	AICPA NATIONAL AUTOMATED ACCOUNTING RESEARCH SYSTEM (NAARS)	18.101
Internal Control Structure	3.303	ADVERSE OPINION	19.102-19.103, 19.119
Overview	3.100	ALLOWANCE FOR DOUBTFUL ACCOUNTS	17.521
Planning Matrix	3.348-3.352, 10.103	ALL-SUBSTANTIVE APPROACH	3.105, 3.108, 3.400
Potential Misstatements Evaluation	2.308	Analytical Procedures	3.108, 3.205, 3.410
Primary Controls	3.103	Characteristics of	3.108
Relationship of Control Risk to Degree of Reliance on Controls	3.105	Evidence Matrix	3.208
Reliance Matrix	3.105	Elective Use of Approach	3.110
Risk Evaluation	2.105	Forced Use of Approach	3.113
Secondary Controls	3.106	Impact on Tests of Balances	3.207
Substantive Tests	3.105	Internal Control Structure	3.406-3.408
System Classifications	3.103-3.104	Overview	3.108
System A	3.103-3.104, 3.307	Questionnaire	10.203
System B	3.103-3.104, 3.307	Use of Questionnaire	3.112, 3.406-3.408
System C	3.103-3.104, 3.112, 3.307	Reliance Matrix	3.105
Tests of Balances	3.106, 10.700	Substantive Tests	3.108, 3.204-3.213
Tests of Controls	3.106, 10.400	Tests of Balances	3.108, 3.207, 3.411
		Tests of Controls	3.202, 3.409
ACCOUNTANTS' REPORTS ON COMPILED OR REVIEWED FINANCIAL STATEMENTS (see COMPILATION AND REVIEW REPORTS)		ALTMAN Z SCORE FORM	2.122-2.126, 10.304
ACCOUNTING CHANGES	17.300, 19.113	ANALYTICAL PROCEDURES	
Business Combinations	17.114	Audit Engagements	2.341
Changes in Accounting Estimates	17.311	Review Engagement	4.600
Changes in Accounting Principles	19.113	Substantive Test	3.210
Changes in Reporting Entities	17.310	ANALYTICAL PROCEDURES PROGRAM	
Consistency Matters	19.113	Review Engagements	4.600
Disclosures	17.305	APB OPINIONS	
Restatement of Prior Period	17.306	Opinion No. 16	17.112
ACCOUNTING ESTIMATES		Opinion No. 17	17.108
Auditing Estimates	5.300	Opinion No. 18	17.103
Evaluating Reasonableness	5.304	APPROACH TO DRAFTING FINANCIAL STATEMENTS	16.000
ACCOUNTING PRINCIPLES BOARD OPINIONS (see APB OPINIONS)		APPROACH TO REPORT PROCESSING AND REVIEW	16.400
ACCOUNTING SYSTEM		APPROACH TO REPORT WRITING	16.300
Consideration of	3.303	Reporting Limitations and Problems	16.301
Elements	3.303	APPROACH TO WRITING NOTES	16.200
ACCOUNTS PAYABLE	17.574	ASSETS	
ACCOUNTS PAYABLE CONFIRMATION	13.015	Confirmation	13.002-13.012
ACCOUNTS RECEIVABLE	17.516, 17.518	ASSOCIATION WITH FINANCIAL STATEMENTS	19.002-19.003, 20.100
Allowance for Doubtful Accounts	17.521		
Installment Accounting Method	17.519		
Receivables Financing	17.520		
ACCOUNTS RECEIVABLE-NEGATIVE CONFIRMATION REQUEST	13.006		
ACCOUNTS RECEIVABLE-POSITIVE CONFIRMATION REQUEST	13.005		
ACCRUED EXPENSES	17.575		

AUDIT AREAS

Relationship to Transaction Cycles (Chart) 3.306

AUDIT COMMITTEES

Communication of Reportable Conditions 7.601, 7.606-7.613

Communication of Certain Matters 7.601-7.602, 7.618-7.619

AUDIT ENGAGEMENTS (see ABC SYSTEM;**AUDIT PLANNING; AUDIT PROCESS;****AUDITORS' REPORTS; FIRST-YEAR****ENGAGEMENTS; SMALL, NONCOMPLEX****ENGAGEMENT APPROACH)****AUDIT GUIDES (see PROFESSIONAL****PRONOUNCEMENTS AND STANDARDS)****AUDIT PLANNING** 2.300

Analytical Procedures 2.341

Audit Approach 3.100

ABC System 3.101, 3.300

All-Substantive Engagement 3.108-3.115, 3.400

Audit Planning Decisions 6.206

Audit Planning Memorandum 2.402, 10.300

Deciding on Most Cost-Beneficial Audit

Approach 2.337, 6.206

Designing the Audit 2.315

Documenting Planning Decisions 2.400

EDP Systems 3.313

Engagement Risk 6.206

Errors and Irregularities 6.206

Evaluating Audit Test Results 2.316

Evaluating Risk of Misstatements 2.308, 6.206

Illegal Acts 6.206, 2.321

Internal Control Structure, Obtaining

Understanding of 2.306, 6.206, 6.208

Irregularities, Effect on Audit Report 2.319, 6.206

Materiality Judgment 2.326

Materiality Table 2.329

Memorandum (Documentation) 10.300

Misstatements (see **ERRORS, IRREGULARITIES,****AND ILLEGAL ACTS)**

Overall Engagement Risk 6.206

Plan for Supervision 2.333, 6.206

Planning Matrix 3.348

Sampling (see **SAMPLING)** 3.500

Staffing and Supervision 6.206, 6.207

Time Control 11.100

AUDIT PLANNING MEMORANDUM 10.300**AUDIT PROCESS**

Summary — Flowchart 1.301

AUDIT PROGRAM GENERATOR (APG) 1.804**AUDIT REPORTING SUMMARY** 19.102**AUDIT RISK** 6.206

Confirmations, Impact on 5.202

AUDIT SAMPLING (see SAMPLING)**AUDIT SAMPLING EVALUATION FORM** 10.504**AUDITING STANDARDS (see STATEMENTS ON****AUDITING STANDARDS)****AUDITORS' REPORTS**

Adverse Opinion 19.102, 19.607

Audit Reporting Summary 19.103

Association With Financial Statements 19.002-19.003

Checklist 18.300

Comparative Financial Statements 19.103, 19.300

Audited and Unaudited Comparative 19.303

Predecessor Performed Prior-Period 19.301

Sample Reports 19.602, 19.615-19.619

Concepts of Reporting 19.000

Consistency Exceptions 19.113

Departures From GAAP 19.103, 19.106, 19.606-19.607

Disclaimer of Opinion 19.102-19.103, 19.118, 19.604

Disclosure Checklist 18.300

Errors, Irregularities, and Illegal Acts 19.103, 19.110

Emphasis of a Matter 19.103, 19.505

Sample Report 19.628

Explanatory Language 19.103, 19.609

First-Year Audits 19.103, 19.105, 19.605

Going-Concern Problems 19.103, 19.124, 19.613

Inadequate Disclosure 19.103, 19.109, 19.608

Independence 19.103, 19.504, 19.627

Modifications to Standard Report 19.102-19.103

Adverse Opinion 19.102-19.103, 19.120, 19.607

Departures From GAAP 19.103, 19.106, 19.606-19.607

Disclaimer of Opinion 19.102-19.103, 19.118, 19.604

Explanatory Language 19.103, 19.609

Inadequate Disclosure 19.103, 19.109, 19.608

Unacceptable Principles 19.103, 19.106, 19.606-19.607, 19.610

Errors, Irregularities, and

Illegal Acts 19.103, 19.110

Failure to Apply Pronouncement 19.103, 19.112, 19.611

Modification Summary 19.103

Qualified Opinion 19.102-19.103, 19.603, 19.608

Scope Limitations 19.102-19.104, 19.118

Misstatements (see **ERRORS, IRREGULARITIES,****AND ILLEGAL ACTS)**

Qualified Opinion 19.102-19.104, 19.106-19.112, 19.603,

19.606, 19.608

Relying on Work of a Specialist 19.502, 19.902-19.903

Report Preparation

Addressee 19.004

Letterhead 19.004

Level of Service 19.004

Report Dating 19.004

Report Signing 19.004

Salutation 19.004

Reissuance of Report as Predecessor 19.510, 19.615-19.616

Reissuance of Report Subsequent to

Original Issue Date 19.513

Reports on Audited Financial Statements 19.005

Scope Limitations 19.103-19.104, 19.118

First-Year Audits 19.105

Sample Report 19.603-19.604

Single Financial Statement 19.103, 19.501

Sample Reports 19.625-19.626

Specialists, Relying on 19.502

Standard Report 19.005

Subsequent Discovery of Facts Existing at

Report Date 19.515

Supplementary Information 19.103, 19.400

Common Interest Realty Associations (CIRA) 19.403, 19.624

Sample Reports 19.620-19.624

Updated Opinion Differs From Previous 19.507

Sample Report 19.629

Uncertainties 19.103, 19.116, 19.612

Departures From GAAP 19.119

Going-Concern Uncertainties 19.124

Resolution of the Uncertainty 19.122

When No Modification Is Required 19.117

AUDITORS' REPORTS (cont.)			CLIENT REPRESENTATION LETTER (see REPRESENTATION LETTER)	
Scope Limitations	19.118			
Work of Other Auditors	19.200		COMBINED FINANCIAL STATEMENTS	17.100, 17.110
No Reference to Other Auditor	19.204			
Procedures	19.205		COMMITMENTS	17.592
Reference to Other Auditor	19.203			
Sample Report	19.614		COMMUNICATION REQUIREMENTS	
AUDITORS' REPORTS CHECKLIST	18.300		Audit Committee or Equivalent	13.034
AUDITORS' RESPONSIBILITIES			Errors, Irregularities, and Illegal Acts	7.614-7.617
Communications at Engagement Wrap-Up	7.600, 7.701		Internal Control Structure Related Matters	7.606-7.613
Errors	7.616		Material Weaknesses	7.608
Irregularities and Illegal Acts	7.615		Reportable Conditions	7.606
Internal Control Related Matters	7.606-7.613		Reportable Conditions Form	10.801
Subsequent Discovery of Facts	19.915-19.916		Reporting Requirements	7.6103
			Sample Report on Reportable Conditions	13.036, 13.037
BALANCE SHEET	17.500, 18.102		Written or Oral	7.604
BANK BALANCE CONFIRMATION FORM	13.003		COMMUNICATION WITH AUDIT COMMITTEE	13.034
BANK CUTOFF STATEMENT	13.002			
Confirmation Form	13.002		COMPARATIVE FINANCIAL STATEMENTS	19.700, 20.300, 20.310
BANK RECONCILIATION WORKING PAPER	14.108		Audited and Unaudited Comparative	19.300
BANK TRANSFERS WORKING PAPER	14.109		Discontinued Operations	17.722
			Predecessor Performed Prior-Period	19.301
BUDGETS	11.001, 11.100		Sample Reports	19.615-19.619, 20.931-20.932
Time Control Documents	11.101-11.104		COMPARATIVE NOTES TO THE FINANCIAL STATEMENTS	17.003-17.004
BUSINESS COMBINATIONS			COMPENSATED ABSENCES	17.576
Changes in Method of Accounting	17.114			
Contingent Consideration	17.117-17.118		COMPENSATING BALANCES	17.506
Disclosure Illustrations	17.119			
Disclosures	17.113		COMPILATION AND REVIEW ENGAGEMENTS	
Expenses	17.113		Accountants' Reports—Compilations	20.300
Pooling of Interests Accounting	17.111, 17.113-17.119		Accountants' Reports—Reviews	20.400
Purchase Accounting	17.112		Analytical Procedures	4.600
Subsequent Events	17.115-17.116		Analytical Procedures Checklist for Review Engagements	10.905
Supplemental Information	17.113		Association With Financial Statements	20.100
CAPITALIZED INTEREST	17.563-15.566		Balance-Sheet Only	20.600
			Cash Basis Financial Statements	4.703-4.704
CASH AND CASH EQUIVALENTS	17.503		Checklist	18.400
Compensating Balances	17.506		Client Representation Letters	4.400, 13.033
Disclosure Illustration	17.507		Compilation Engagement Work Program	10.903
Overdrafts	17.505		Contractual Agreements	4.716-4.721
Restricted Cash	17.504		Defined	4.001, 4.101
CASH BASIS FINANCIAL STATEMENTS	4.703, 20.803		Documentation	4.308, 4.900, 10.900
			Different Levels of Service in Prior-Period	20.500
CHECKLISTS			Disclosures	4.707
Auditors' Reports	18.300		Elements, Accounts, or Items of Financial Statements	4.714-4.715
Financial Statements and Notes	18.200		Establishing Understanding With Client	4.200
Reports on Compilations and Reviews	18.400		Flowchart Outlining the Requirements	
Supervision and Review	12.200-12.704		Compilation Engagement	4.003
CLIENT ACCEPTANCE AND CONTINUANCE			Review Engagement	4.104
Auditability of Entity	2.111		Form for Documenting Understanding of	
Discussion	2.100		Client's Business and Industry	10.901
Documentation Form	10.000		Supplement for Review Engagements	10.902
Documentation Form, Use of	2.131-2.133		Knowledge of Business and Industry	4.300
Independence	2.115		Income Tax Basis Financial Statements	4.702
Integrity of Management	2.106		Inquiries of Client Personnel	4.500
Procedures for Evaluating	2.103		Levels of Service	20.211-20.212, 20.500
Use of Financial Statements	2.109		Limited to One Financial Statement	20.600
CLIENT ACCEPTANCE AND CONTINUANCE FORM	10.000		Obtaining Additional or Revised Information	4.005
			Other Comprehensive Bases of Accounting	4.700, 4.708, 20.803
			Performing Compilations, Requirements	4.002-4.006
			Performing Reviews, Requirements	4.103-4.104
			Prescribed Forms	4.708-4.713, 20.806
			Prior-Period Statements Compiled or Reviewed	
			by Other Accountants	20.507
			Reading the Financial Statements	4.006

COMPILATION AND REVIEW ENGAGEMENTS (cont.)

Reports	20.900
Representation Letter	4.400
Sample Letter	13.033
Requirements for a Compilation	4.002-4.006
Requirements for a Review	4.103-4.104
Review Engagement Analytical Procedures Checklist	10.905
Review Engagement Work Program	4.504, 10.904
Sample Reports	20.900
Single-Financial Statement	20.600
Special Engagements	4.700, 20.800
SSARS Interpretations	4.717
SSARS No. 1	4.001-4.006, 4.101-4.104, 4.306, 4.701
SSARS No. 3	4.708-4.713
Statements on Standards for Accounting and Review Services (SSARS), Listing of	4.800
Statement of Cash Flows	4.706, 20.929
Uncertainties Affecting the Financial Statements Work Program	20.700-20.702
Compilation Engagements	10.903
Review Engagements	4.504, 10.904

COMPILATION AND REVIEW REPORTS

Adverse Opinions	20.216
Association With Financial Statements	20.100
Comparative Compilation Reports	20.908-20.911
Compilation Report, Standard	20.902
Departures From GAAP	20.904-20.905
Different Levels of Service	20.211, 20.500
Higher Level in Current Period	20.506
Lower Level in Current Period	20.501-20.505
Sample Reports	20.909-20.910, 20.931-20.932
Elements, Accounts, or Items of Financial Statements	20.804
Sample Compilation Report	20.916
GAAP Departures	20.306-20.309, 20.927-20.928
Independence	20.215
Modifications to Standard Compilation Report	
Comparative — Disclosures Omitted	20.310
Departures From GAAP	20.306-20.309
Omission of Disclosures	20.304
Omission of Statement of Cash Flows	20.906
Modifications to Standard Review Report	
Departures From GAAP	20.404-20.406
Omission of Statement of Cash Flows	20.929
Other Comprehensive Bases of Accounting	20.803
Cash Basis	20.803
Income Tax Basis	20.803
Sample Reports	20.914-20.915
Omission of Disclosures	20.304, 20.310
Prescribed Forms	20.805
Sample Compilation Report	20.918
Prior Period Compiled by Other Accountants	20.507-20.509
Sample Report	20.911
Prior Period Reviewed by Other Accountants	20.507-20.509
Sample Report	20.933
Qualified Opinions	20.216
Reference to Report and Notes	20.214
Report Preparation	
Addressee	20.203
Dual-Dating	20.209-20.210
Letterhead	20.202
Level of Service	20.211-20.213
Report Dating	20.207
Report Signing	20.206
Salutation	20.205
Review Report, Standard	20.926
Single Financial Statement	20.600, 20.912, 20.034
Standard Compilation Report	20.902

Standard Review Report	20.926
Supplementary Information	
Sample Reports	20.913, 20.935-20.936
Uncertainties	20.700
Going-Concern Uncertainty	20.702-20.703

COMPILATION ENGAGEMENT REVIEW PROGRAM 10.903**COMPILATION REPORT, MODIFIED (see MODIFICATIONS TO STANDARD COMPILATION REPORT)****COMPILATION REPORT, STANDARD (see COMPILATION AND REVIEW REPORTS)****COMPLETING AN AUDIT ENGAGEMENT**

Administrative Wrap-Up	7.700
Adjustments, Furnishing Clients With	7.704
Completing Reviews	7.702
Obtaining Signed Correspondence	7.703
Procedures	7.701
Review and "To Do" Lists	7.705
Scheduling Reviews	7.702
Tax Returns	7.706
Analytical Procedures	7.100
Overall Review Procedures	7.102-7.106
Communication Requirements	7.600
Audit Committee or Equivalent	7.601, 7.618
Internal Control Structure Related Matters	7.601
Errors, Irregularities, and Illegal Acts	7.601, 7.614-7.617
Material Weaknesses	7.601, 7.606-7.608
Reportable Conditions	7.601, 7.606-7.607, 10.841
Reporting Requirements	7.610
Sample Reports on Reportable Conditions	7.611, 13.036-13.037
Written or Oral	7.604
Consultations	7.002, 8.300
Objectives	8.304
Quality Control Standard	8.302
Requirements of	8.304
Sample Consultation Form	10.800
Situations Requiring Consultation	8.306
Control Form (or Financial Statement Control Form)	12.600, 12.604
Engagement Performance Review Checklist	12.411
Final Time Summarization	8.500
Legal Letters	7.002, 7.200
Immaterial Matters	7.206
Timing of Letter	7.207
Illustrative Letter	13.028, 13.029
Responses	7.207
Management Meeting Checklist	12.704
Performance Appraisals	8.400
Procedures	7.002
Representation Letter, From Client	7.002, 7.500
Dating	7.504
Content	7.502
Requirements	7.502
Sample Letter	13.032
Signature	7.503
Subsequent Events	7.002, 7.300, 12.300
Authoritative Literature	7.301
Documentation	7.303
Procedures	7.302
Subsequent Events Review Program	12.304
Summary of Possible Journal Entries	7.400
Supervision and Review	8.000
Executive Review	8.105
In-charge Review	8.104
Partner Review	8.106
Procedures	8.004
SAS No. 22	8.003
Working Paper Review	8.100

COMPUTER PROCESSING (see EDP SYSTEMS)		Listing Is Provided by Client	13.008
CONCEPTS OF REPORTING		Listing Is Not Provided by Client	13.009
CONFIRMATIONS (see also CORRESPONDENCE LISTS AND FORMS)	5.200	Letter To Other Accountants Upon Whose Work We Plan To Rely	13.022
CONFIRMATION OF ACCOUNT BALANCE INFORMATION WITH FINANCIAL INSTITUTIONS	13.003	Mortgage Debt Confirmation	13.014
CONFIRMATION OF CONTINGENT LIABILITIES	13.017	Notes Payable or Long-Term Debt Confirmation	13.013
CONFIRMATION OF LIFE INSURANCE POLICIES	13.011	Notes Receivable Confirmation — Positive Request	13.007
CONFIRMATION OF LINES OF CREDIT	13.016	Pension Plan Actuarial Information	13.030
CONFIRMATION OF MONEY MARKET FUNDS	13.004	Pension Plan Assets Held By Trustee	13.031
CONFIRMATION PROCEDURES	5.200	Proposal Letter	13.027
Sample Forms and Letters	13.003–13.012	Registrar — Capital Stock	13.018
CONSISTENCY EXCEPTIONS	19.400	Related Party Confirmation	13.020
CONSOLIDATED AND COMBINED PRESENTATIONS	17.100	Reliance Letter	13.035
CONSULTATIONS	5.800, 8.300	Report on Reportable Conditions	13.036
Objectives	8.304	Report on Reportable Conditions That Also Identifies a Material Weakness	13.037
Quality Control Standard	8.302–8.304	Representation Letter — Audit Engagement	13.032
Sample Consultation Form	10.800	Representation Letter — Review Engagement	13.033
Situations Requiring Consultation	8.306	Representation Letter to Other Accountants	13.023
With Specialists	8.307	Request for Bank Cutoff Statement	13.002
CONSULTATION FORM	10.800	Safe Deposit Box Access Confirmation	13.012
CONSULTING SERVICES	21.000	Securities Held By Brokers	13.010
CONTINGENCIES	12.302	Standard Confirmation Inquiry for Life Insurance Policies	13.011
CONTINGENT LIABILITIES CONFIRMATION	13.017	Standard Form To Confirm Account Balance Information With Financial Institutions	13.003
CONTROL ENVIRONMENT (see INTERNAL CONTROL STRUCTURE)		Transfer Agent — Capital Stock	13.019
CONTROL FORM (see FINANCIAL STATEMENT CONTROL FORM)		Uniform Commercial Code Confirmation	13.021
CONTROL PROCEDURES (see INTERNAL CONTROLS STRUCTURE)		COST METHOD	
CONTROL RISK (see INTERNAL CONTROL STRUCTURE)		Financial Statements of Foreign Subsidiaries	17.105
CORRECTION OF AN ERROR IN PREVIOUSLY-ISSUED FINANCIAL STATEMENTS	17.312	CPE COURSE	Chapter 22
CORRESPONDENCE LIST AND FORMS (see also ENGAGEMENT LETTERS; LEGAL LETTERS; REPRESENTATION LETTERS)		CURRENT ASSETS (see ASSETS)	
Accounts Payable Confirmation	13.015	CURRENT LIABILITIES (see LIABILITIES)	
Accounts Receivable — Negative Request	13.006	DEBT (see LIABILITIES; LONG-TERM DEBT)	
Accounts Receivable — Positive Request	13.005	DEBT AND EQUITY SECURITIES (see INVESTMENTS IN DEBT AND EQUITY SECURITIES; LOSSES ON INVESTMENTS IN DEBT AND EQUITY SECURITIES)	
Communication With Audit Committee	13.034	DEFERRED COMPENSATION PLANS	5.401
Confirmation of Contingent Liabilities	13.017	DEFERRED TAXES	17.708
Confirmation of Lines of Credit	13.016	DEPARTURES FROM GAAP	
Confirmation of Money Market Funds	13.004	Effect on Auditor's Report	19.106
Correspondence Control	14.102	DIFFERENT LEVELS OF SERVICE	20.500
Engagement Letter — Audit	13.024	Higher Level in Current Period	20.506
Engagement Letter — Compilation	13.025	Lower Level in Current Period	20.501–20.505
Engagement Letter — Review	13.026	Sample Reports	20.909–20.910, 20.931–20.932
Inquiry Letter to Legal Counsel	13.028	DISCLOSURE CHECKLIST (see FINANCIAL STATEMENTS AND NOTES DISCLOSURE CHECKLIST)	
Inquiry Letter to Legal Counsel If Management Has Not Provided Details About Pending or Threatened Litigation	13.029	DISCLOSURES (see FINANCIAL STATEMENT FORMAT, DISCLOSURES, AND TERMINOLOGY)	
Insurance In Force Confirmation Report	13.038	DISCONTINUED OPERATIONS	
Inventories Held by Warehouses or Others When		Earnings-per-Share Data	17.737
		Segment of a Business	17.719–17.724
		DIVIDENDS PAYABLE	17.579
		DISCLOSURE CHECKLIST	18.200
		DOCUMENTATION	
		Audit Memoranda, Use of	6.301
		Audit Planning Decisions	2.400
		Audit Sampling	10.500

DOCUMENTATION (cont.)	
Basic Requirements	6.000
Billing File	6.109
Client-Prepared Working Papers	6.004
Compilation and Review Engagements	10.900
Compliance With Professional Standards	6.201
Correspondence File	6.107
Current Engagement File, Contents of	6.103-6.104
Documentation Packages	6.401, 9.100
EDP Documentation	10.600
Internal Control Structure	3.304, 6.208
Planning and Supervision File, Contents of	6.002
Permanent File, Contents of	6.105
Small, Noncomplex Engagement Approach	3.405
Sufficient and Competent Evidential Matter	5.001, 6.209
Supervision and Review	12.001
Tax File, Contents of	6.106
Time Budget and Control File	6.108
Time Control Documents	11.100
Understanding Internal Control Structure	3.301
Working Papers	
Client-Prepared	6.004
Files, Contents of	6.100-6.109
Statement of Cash Flows	14.129
Working Paper Conclusions	6.303
Working Paper Schedules	6.005
EARNINGS PER SHARE (EPS) DATA	17.725-17.737
Complex Capital Structure	17.728
Discontinued Operations	17.737
Fully-Diluted EPS	17.732, 17.736-17.737
Primary EPS	17.732, 17.733, 17.737
Simple Capital Structure	17.727
ELEMENTS, ACCOUNTS, AND ITEMS OF A FINANCIAL STATEMENT	4.714
Sample Compilation Report	20.916
EDP SYSTEMS	
EDP Controls	3.313-3.332
EDP Documentation	10.600
General Computer Controls Questionnaire	10.602
Microcomputer Questionnaire	10.601
Service Auditor Report Evaluation Form	10.652
Service Organization Application Controls Questionnaire	10.6XX
Service-Center-Produced Records	3.333-3.343
ELECTRONIC DATA PROCESSING (see EDP SYSTEMS)	
EMERGING ISSUES TASK FORCE (EITF)	
Consensuses (with Listing)	1.504-1.506
EMPHASIS OF A MATTER	19.505-19.506
EMPLOYEE BENEFIT PLANS (see PENSION PLANS; POSTRETIREMENT BENEFITS; POSTEMPLOYMENT BENEFITS)	
ENGAGEMENT LETTERS	2.200
For Audits	13.024
For Compilations	13.025
For Reviews	13.026
To Minimize Liability	2.206
ENGAGEMENT PERFORMANCE REVIEW	
Checklist	12.409-12.411
Engagement Executive Review	12.407
Engagement Partner Review	12.408
In-charge Review	12.406
Review of Working Papers	12.403-12.405
ENGAGEMENT PERFORMANCE REVIEW CHECKLIST	12.411, 16.402
ENGAGEMENT PLANNING (see AUDIT PLANNING; SUPERVISION AND REVIEW)	
EQUITY METHOD	
Financial Statements of Unconsolidated Subsidiaries	17.104
ERRORS, IRREGULARITIES, AND ILLEGAL ACTS	2.309-2.314, 6.206, 7.404, 7.614-7.617, 19.110
ESTIMATES (see ACCOUNTING ESTIMATES)	
EVIDENCE ACCUMULATION	
Affected by Engagement Risk	5.202
Audit Planning	6.209
Confirmations	5.200
Accounts Receivable	5.207
Audit Risk	5.202
Designing the Request	5.203
Process	5.201
Procedures	5.200, 5.204
Sample Letters and Forms	13.002-13.021
SAS No. 67	5.201, 5.203-5.207
Uniform Commercial Code	5.208-5.209
Consultation, Requirements of Sample Form	10.800
Documentation	6.209, 6.300
Estimates	5.300
Evidence Matrix	3.208
Methods of Evidence Accumulation	5.000
Sufficient Evidence	6.209
Tests of Balances	3.207
Types of Evidence	5.100
Uniform Commercial Code	5.208-5.209
EVIDENCE MATRIX	3.208
EXTRAORDINARY ITEMS	17.706, 17.713-17.716
FAIR VALUES OF FINANCIAL INSTRUMENTS	17.514
FASB	
EITF	1.504-1.506
Interpretation No. 39	17.513
Statements on Standards (see STATEMENTS OF FINANCIAL ACCOUNTING STANDARDS)	
FINANCIAL ACCOUNTING STANDARDS BOARD (see FASB)	
FINANCIAL INSTRUMENTS	17.514
FINANCIAL STATEMENT CONTROL	
FORM	12.600, 12.604, 16.405
Signing the Report	12.603, 16.407
FINANCIAL STATEMENT FORMAT, DISCLOSURES, AND TERMINOLOGY	16.104, 16.106
Accounting Changes (with Sample Disclosures)	17.400
Changes in Accounting Estimates	17.311
Changes in Accounting Principles	17.114, 17.302-17.305
Changes in Reporting Entities	17.310
Sample Disclosures	17.305
Restatement of Prior Period	17.306-17.309
Accounts Payable	17.574
Accounts Receivable	17.516, 17.518
Allowance for Uncollectible Accounts	17.521
Installment Accounting Method	17.519
Receivables Financing	17.520
Accrued Expenses	17.575

**FINANCIAL STATEMENT FORMAT, DISCLOSURES,
AND TERMINOLOGY (cont.)**

Assets and Liabilities

 Current Assets 17.501

 Current Liabilities 17.571

Balance Sheet 17.500, 18.102-18.103

Business Combinations

 Changes in Methods of Accounting 17.114

 Contingent Consideration 17.117-17.118

 Disclosure Illustrations 17.119

 Disclosures, Requirements for 17.113

 Expenses 17.113

 Pooling of Interests 17.111

 Purchases 17.112

 Subsequent Events 17.115-17.116

 Supplemental Information 17.113

Capitalized Interest 17.563-17.566

Cash and Cash Equivalents 17.503

 Compensating Balances 17.506

 Disclosure Illustration 17.507

 Overdrafts 17.505

 Restricted Cash 17.504

Cash Overdrafts 17.505

Combined Financial Statements 17.110

Commitments 17.592

Comparative Financial Statements 17.722, 19.700

Comparative Notes 17.003-17.004

Compensated Absences 17.576

Compensating Balances 17.506

Consolidated and Combined Presentations 17.100

Contingencies 17.588-17.590

Contra Accounts 17.502

Correction of an Error in Previously-Issued
 Financial Statements 17.312

Cost Method 17.105

Current Assets 17.501

Current Liabilities 17.571

Debt and Equity Securities, Investments

 Disclosures 17.508-17.512

Deferred Taxes 17.708

Disclosure Principles 17.007-17.009

Disclosures, Consolidations 17.102

Discontinued Operations 17.719-17.724

Dividends Payable 17.579

Earnings-per-Share Data 17.725-17.737

Earnings Statement 17.700, 18.104-18.105

Equity Method 17.104

Error Correction 17.312

Errors and Irregularities 2.309-2.314, 2.319-2.325

Estimated Liabilities 17.580

Expenses, Accrued 17.575

Extraordinary Items 17.706, 17.713-17.716

Financial Instruments 17.514

Goodwill 17.108

Historical Summaries of Financial Information 17.314

Imputed Interest 17.587

Income Statement (see also STATEMENT OF EARNINGS;
 EARNINGS STATEMENT) 17.578

Income Taxes 17.109, 17.708

Installment Accounting Method 17.519

Intangible Assets 17.567

Interest

 Capitalized 17.563-17.566

 Imputed 17.587

Inventories 17.523

 LIFO Inventories 17.302, 17.527-17.529

Investments In and Advances To Affiliated Entities 17.531-17.541

Investments in Debt and Equity Securities 17.508-17.512

Leases — Lessees 17.545-17.552

 Capital Leases 17.550-17.552

 Operating Leases 17.547-17.549

 Disclosure Illustration 17.562

 Disclosures 17.555

 Leases — Lessors 17.553-17.562

 Sales-Type and Direct Financing Leases 17.554

Leveraged Leases 17.558-17.561

Liabilities, Long-Term 17.582

Life Insurance Policy Loans 17.581

Litigation 17.591

Long-Term Debt 17.582

Long-Term Liabilities 17.582

Management Representations 17.010

Materiality 17.005

Minority Interests 17.107

Misstatements (see ERRORS AND IRREGULARITIES; AND
 ILLEGAL ACTS)

 Name of Entity in Title 17.001

 Notes Receivable 17.516, 17.518

 Notes Payable 17.572

 Notes to the Financial Statements 18.112

 Offsetting Assets and Liabilities 17.513

 Other Assets 17.568-17.570

 Pooling of Interests Accounting 17.113, 17.119

 Prepaid Expenses 17.530

 Prior-Period Adjustments 17.717-17.718

 Property and Equipment 17.542-17.544

 Prospective Financial Statements 20.103

 Purchase Accounting 17.113, 17.119

 Receivables Financing 17.520

Receivables From Officers, Directors, Shareholders,
 Affiliated Entities, and Employees 17.517

References to Applicable Pronouncements 17.006

Referencing Notes 17.002

Related Party Transactions 17.200

 Disclosures 17.203-17.205

 Disclosure of Major Customer 17.206-17.207

Restricted Cash 17.504

Retained Earnings, Statement of 18.106

Retirement and Pension Plans 17.593-17.596

 Deferred Compensation Contracts 17.596

 Profit-Sharing Plans 17.595

Segments of a Business Enterprise 17.800

Shareholders' Equity 17.600, 18.106-18.108

 Additional Paid-In Capital 17.604

 Capital Stock 17.603

 Dividends 17.607

 Retained Earnings 17.606, 18.106

 Statement of 18.106-18.108

 Treasury Stock 17.605

Statement of Cash Flows 17.900, 18.109-18.111

Statement of Earnings 17.700, 18.104-18.105

 Costs of Sales 17.704-17.705

 Discontinued Operations 17.719-17.724

 Sales 17.702-17.703

 Earnings-per-Share (EPS) 17.725-17.737

 Complex Capital Structure 17.728

 Fully Diluted EPS 17.732, 17.736-17.737

 Primary EPS 17.732-17.733, 17.737

 Simple Capital Structure 17.727

Extraordinary Items 17.713-17.716

Income Taxes 17.708

Losses on Debt and Equity Securities 17.706

Operating Expenses 17.707

Other Expenses 17.711

Other Income 17.710

FINANCIAL STATEMENT FORMAT, DISCLOSURES, AND TERMINOLOGY (cont.)		INCOME STATEMENT (see also STATEMENT OF EARNINGS)	17.700, 18.104
Prior-Period Adjustments	17.717-17.718	INCOME TAX BASIS OF ACCOUNTING	4.702, 4.705-4.707, 20.803
Research and Development Costs	17.712	INCOME TAXES	
Tax-Exempt Entities	17.709	Undistributed Earnings of Subsidiaries	17.109
Statement of Retained Earnings	18.106	INDEPENDENCE	2.127-2.131, 19.504
Statement of Shareholders' Equity	18.106	INQUIRIES	
Stock Option and Stock Purchase Plans	17.597	Review Engagements	4.103, 4.500
Illustrative Disclosure	17.597	Subsequent Events	12.302
Subsequent Events	17.400	Work Program	10.904
Title of Financial Statements	17.001	INQUIRY LETTER TO LEGAL COUNSEL	13.028
Unconditional Purchase Obligations	17.584	INQUIRY LETTER TO LEGAL COUNSEL IF MANAGEMENT HAS NOT PROVIDED DETAILS ABOUT PENDING OR THREATENED LITIGATION	13.029
Unconsolidated Subsidiaries	17.104-17.106	INSTALLMENT METHOD OF ACCOUNTING	17.519
Undistributed Earnings of Subsidiaries	17.109	INSURANCE IN FORCE CONFIRMATION	13.038
FINANCIAL STATEMENTS (see also FINANCIAL STATEMENT FORMAT, DISCLOSURE, AND TERMINOLOGY)		INTANGIBLE ASSETS	17.567
Completing the Financial Statements	16.109	INTEREST	
Financial Statements and Notes Checklist	16.106	Capitalized	17.563-17.566
Modifying the Financial Statements	16.107	Imputed	17.587
FINANCIAL STATEMENTS AND NOTES CHECKLIST	16.106, 18.200	INTERIM FINANCIAL INFORMATION, REVIEW OF	
FIRST-YEAR ENGAGEMENTS	2.500	Applicability	5.650
Audit Reports	19.105	Performance Requirements	5.653
Communicating With Predecessor	2.501	Reporting Requirements	5.654
Documentation	2.508, 10.303	SAS No. 71	5.650-5.656
First Engagement Procedures	2.515	Subsequent Events	12.302
Other Accountants' Work, Relying on	2.515	INTERNAL CONTROLS QUESTIONNAIRE	3.304-3.309, 10.100
Procedures	2.515	INTERNAL CONTROL STRUCTURE	
Proposal, Preparation of	2.509	Accounting System	3.303
FIRST ENGAGEMENT PROCEDURES FORM	10.303	Control Environment	3.303
FLOWCHARTS		Control Procedures	3.303
Audit Process	1.301	Control Risk	3.204
Compilation Engagement	1.602	EDP System	2.602
Review Engagement	1.602	Elements (Components)	3.303
FORECASTS AND PROJECTIONS	20.103	Material Weaknesses	7.608
FORM FOR DOCUMENTING UNDERSTANDING OF CLIENT'S BUSINESS AND INDUSTRY	10.901	No Reportable Conditions	7.610
— SUPPLEMENT FOR REVIEWS	10.902	Obtaining an Understanding of	2.306, 6.206
GAAP DEPARTURES		Professional Literature	3.204
Auditors' Reports	19.106	Questionnaire	3.304, 10.100
Compilation Reports	20.306-20.309	Reportable Conditions	7.606
Review Reports	20.404-20.407	Reportable Conditions Form	10.801
GAAP HIERARCHY (see also PROFESSIONAL PRONOUNCEMENTS)	1.500	Reportable Conditions Sample Report	13.036, 13.037
GAAS (see STATEMENTS ON AUDITING STANDARDS)		Reporting Requirements	5.910-5.912
GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (see GAAP)		Sampling (see SAMPLING)	
GENERALLY ACCEPTED AUDITING STANDARDS (see GAAS)		Tests of Controls Program	10.400
GOING-CONCERN CONSIDERATIONS (see UNCERTAINTIES)		Understanding of	2.306
GOODWILL	17.108	INTERNAL CONTROL STRUCTURE REPORTABLE CONDITIONS FORM	10.801
ILLUSTRATIVE FINANCIAL STATEMENTS, NOTES, AND AUDITOR'S REPORT	18.500	INVENTORY	17.523-17.529
IMPUTED INTEREST	17.587	LIFO Inventory	17.302, 17.527-17.529
		INVENTORIES HELD BY WAREHOUSES OR OTHERS	
		When Listing is Provided by Client	13.008

INVENTORIES HELD BY WAREHOUSES OR OTHERS (cont.)		
When Listing is Not Provided by Client	13.009	
INVESTMENTS IN DEBT AND EQUITY		
SECURITIES	17.508-17.512, 17.706	
JUDGMENTAL SAMPLE SIZE SELECTION		
Tests of Balances	3.525	
LAWYER'S LETTERS (see LEGAL LETTERS)		
LEASES	17.545-17.562	
LEVERAGED LEASES	17.558-17.561	
LETTER TO OTHER ACCOUNTANTS UPON WHOSE WORK WE PLAN TO RELY	13.022	
LEGAL LETTERS (also referred to as LAWYER'S LETTERS)	7.002, 7.200	
Illustrative Letters	13.028, 13.029	
Immaterial Matters	7.206	
Inquiries	13.028, 13.029	
Legal Fees, Request for Unpaid and Unbilled	7.208	
Responses	7.207	
SAS No.12	7.205	
Subsequent Events	12.302	
Timing of Letter	7.207	
LIABILITIES	17.582	
LIFE INSURANCE POLICIES CONFIRMATION	13.011	
LIFO INVENTORIES	17.302, 17.527-17.529	
LINES OF CREDIT CONFIRMATION	13.016	
LITIGATION (see LEGAL LETTERS)		
LONG-TERM DEBT (see LIABILITIES)		
LOSSES ON INVESTMENTS IN DEBT AND EQUITY SECURITIES	17.512, 17.706	
LOTUS 1-2-3	1.802	
MANAGEMENT MEETING CHECKLIST	12.700, 12.704	
MANAGEMENT REPRESENTATIONS (see REPRESENTATION LETTER)		
MANAGEMENT'S REVIEW AND APPROVAL OF FINANCIAL STATEMENTS	16.102	
MATERIALITY		
Audit Planning	2.326	
Computation Form	10.301	
Overall Limit	2.326-2.332	
Table	2.329	
MATERIALITY COMPUTATION FORM	10.301	
MATERIAL WEAKNESSES (see REPORTABLE CONDITIONS)		
MINORITY INTERESTS	17.107	
MISSTATEMENTS (see ERRORS, IRREGULARITIES, AND ILLEGAL ACTS)		
MODEL APPROACH		
Sample Size Selection	3.528-3.535	
Working Paper	10.505	
MODEL APPROACH WORKING PAPER	10.505	
MODIFICATIONS TO STANDARD AUDIT REPORT	19.100	
MODIFICATIONS TO STANDARD COMPILATION REPORT		
Departures From GAAP	20.306-20.309	
Disclosures Omitted	20.304	
Comparative Financial Statements	20.310	
Statement of Cash Flows Omitted	20.906	
MODIFICATIONS TO STANDARD REVIEW REPORT		
Departures From GAAP	20.404-20.407	
Statement of Cash Flows Omitted	20.929	
MONEY MARKET FUND CONFIRMATION	13.004	
MORTGAGE DEBT		
Confirmation Form	13.014	
MODIFICATIONS TO STANDARD AUDITOR'S REPORT	19.102	
Departures From GAAP	19.103, 19.106	
Inadequate Disclosure	19.109	
Unacceptable Principles	19.106	
Errors, Irregularities, and Illegal Acts	19.110	
Failure to Apply Pronouncement	19.112	
Modification Summary	19.103	
Scope Limitations	19.104	
MORTGAGE DEBT CONFIRMATION	13.014	
NONSTATISTICAL SAMPLING	3.506, 3.524	
NONSTATISTICAL SAMPLE SIZE SELECTION MATRIX— TESTS OF CONTROLS	10.500	
NOTES PAYABLE		
Confirmation	13.013	
Financial Statement Presentation	17.572	
Working Papers	14.122	
NOTES PAYABLE OR LONG-TERM DEBT CONFIRMATION	13.013	
NOTES RECEIVABLE		
Confirmation	13.007	
Financial Statement Presentation	17.516, 17.518	
Working Papers	14.113	
NOTES RECEIVABLE CONFIRMATION— POSITIVE REQUEST	13.007	
NOTES TO FINANCIAL STATEMENTS	18.112	
Approach to Writing Notes	16.200	
Disclosure Requirements	16.207	
Effective Writing Techniques	16.201	
Major Notes Categories	16.204	
Outlining the Contents	16.209	
Reading the Completed Notes	16.211	
Referencing	16.214	
Review by Engagement Executive and In-charge	16.212	
Using Prior-Year or Illustrative Notes	16.210	
OFFSETTING ASSETS AND LIABILITIES	17.513	

OTHER AUDITORS (see WORK OF OTHER AUDITORS)

OTHER COMPREHENSIVE BASES OF ACCOUNTING

Cash Basis 4.703-4.707
 Income Tax Basis 4.702, 4.705-4.707
 Sample Reports 20.914-20.915, 20.937-20.938

OPERATING LEASES

Disclosure 17.562
 Financial Statement Presentation 17.547-17.549

OTHER ACCOUNTANTS, LETTERS TO 13.022, 13.023

PEER AND QUALITY REVIEWS 6.209

PENSION ACCOUNTING (see PENSION PLANS)

PENSION PLAN ACTUARIAL INFORMATION 13.030

PENSION PLAN ASSETS HELD BY TRUSTEE 13.031

PENSION PLANS 17.593

Audit Procedures 5.400
 Pension Accounting Working Paper 14.128
 Pension Costs 5.400, 17.594
 Reliance on Actuary 5.403, 5.504
 SFAS No. 87 5.401, 17.594
 SFAS No. 88 5.401
 Tests of Balances 5.402

PERFORMANCE APPRAISALS 8.400

PLANNING (see AUDIT PLANNING; SUPERVISION AND REVIEW)

PLANNING MATRIX 3.348-3.352

PLANNING MEMORANDUM 10.300

POOLING OF INTERESTS ACCOUNTING 17.111, 17.113-17.119

POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

Actuary's Confirmation Letter, Sample of 13.030
 Audit Procedures 5.504
 Reliance on Actuary 5.504
 SFAS No. 106 5.501-5.503

POSTEMPLOYMENT BENEFITS

Accounting for 5.600
 SFAS No. 112 5.601

POTENTIAL MISSTATEMENTS MATRIX 10.102

PREPAID INSURANCE 17.530

PRESCRIBED FORMS 20.805
 Sample Compilation Report 20.918

PRIOR-PERIOD ADJUSTMENTS

Accounting 17.717-17.718

PROFESSIONAL CONDUCT (see PROFESSIONAL STANDARDS)

PROFESSIONAL PRONOUNCEMENTS AND STANDARDS

AICPA Audit Guides 3.204, 3.501, 15.204, 17.303, 20.103
 Code of Professional Conduct (and Rules) 1.403-1.406
 EITF Consensuses 1.504-1.506
 GAAP Hierarchy 1.500, 1.504
 Generally Accepted Auditing Standards 1.600

Quality Control Standards 1.702, 8.001, 8.302, 8.304, 12.101
 References to Authoritative Literature 1.708
 Statements on Auditing Standards (see p. I-13)
 Statements on Financial Accounting Standards (see p. I-13)
 Statements on Standards for Accounting and
 Review Services (SSARS) Listing 4.800
 Statements on Standards for Attestation Engagements 20.103

PROPERTY, PLANT, AND EQUIPMENT 17.542, 17.544
 Working Paper for Additions 14.119
 Working Paper for Disposals 14.120

PROPOSAL LETTER 13.027

PURCHASE ACCOUNTING 17.112

QUALITY CONTROL STANDARDS 1.702, 8.001, 8.302, 8.304, 12.101, 12.401

RANDOM SELECTION WITH RANDOM TABLE FORM 10.501

RANDOM SELECTION WITH SYSTEMATIC SAMPLE FORM 10.507

RAW MATERIALS PRICING TEST WORK PAPER 14.116

RECEIVABLES (see ACCOUNTS RECEIVABLE)

RECENT AUTHORITATIVE PRONOUNCEMENTS (see NEW AUTHORITATIVE PRONOUNCEMENTS)

REISSUANCE OF REPORT AS PREDECESSOR 19.510

REISSUANCE OF REPORT SUBSEQUENT TO ORIGINAL ISSUE DATE 19.513

RELIANCE LETTER 13.035

RELIANCE MATRIX (TABLE) 3.105

RELYING ON WORK OF A SPECIALIST 19.502

REPORTS ON AUDITED FINANCIAL STATEMENTS (see AUDITORS' REPORTS)

REPORTS ON COMPILED OR REVIEWED FINANCIAL STATEMENTS (see COMPILATION AND REVIEW REPORTS)

RELATED PARTY CONFIRMATION 13.020

RELATED PARTY TRANSACTIONS

Confirmation 13.020
 Disclosures 17.203-17.205
 Disclosure of Major Customer 17.206-17.207

REPORT ON REPORTABLE CONDITIONS 13.036

REPORT ON REPORTABLE CONDITIONS THAT ALSO IDENTIFIES A MATERIAL WEAKNESS 13.037

REPORT PREPARATION

Addressee 19.004
 Letterhead 19.004
 Level of Service 19.004
 Report Dating 19.004
 Report Signing 19.004
 Salutation 19.004

REPORTABLE CONDITIONS			
Communication to Audit Committee	13.034		
Sample Report	13.036, 13.037		
Form	10.801		
Material Weaknesses	7.608		
Sample Report	13.037		
REPORTING CHECKLIST (see FINANCIAL STATEMENTS AND NOTES CHECKLIST)			
REPORTING ON AUDITED FINANCIAL STATEMENTS (see AUDITORS' REPORTS)			
REPORTING ON COMPILATION AND REVIEW ENGAGEMENTS (see COMPILATION AND REVIEW REPORTS)			
REPRESENTATION LETTER—AUDIT ENGAGEMENT	13.032		
REPRESENTATION LETTER—REVIEW ENGAGEMENT	13.033		
REPRESENTATION LETTER TO OTHER ACCOUNTANTS	13.023		
REQUEST FOR BANK CUTOFF STATEMENT	13.002		
REPRESENTATION LETTERS	5.700, 12.302		
Date	7.503		
Content	7.502		
Requirements	7.502		
Requirement for Audit Engagements	5.700		
Requirement for Review Engagements	4.400		
Sample Letter	13.032, 13.033		
SAS No. 19	7.502		
RESEARCH AND DEVELOPMENT COSTS	17.712		
RESTATEMENT			
Change in Accounting Principle	19.113		
Change in Reporting Entity	17.310		
Correction of an Error	17.717–17.718		
Prior-Period	17.306		
RETAINED EARNINGS, STATEMENT OF	18.106		
RETIREMENT PLANS (see PENSION PLANS; POSTEMPLOYMENT BENEFITS; POSTRETIREMENT BENEFITS)			
REVIEW ENGAGEMENT WORK PROGRAM	10.904		
REVIEW ENGAGEMENT ANALYTICAL PROCEDURES CHECKLIST	10.905		
REVIEW REPORT, MODIFIED (see MODIFICATIONS TO STANDARD REVIEW REPORT)			
REVIEW REPORT, STANDARD	20.926		
RISK ASSESSMENT	3.204		
RISK OF POTENTIAL MISSTATEMENTS (see ERRORS, IRREGULARITIES, AND ILLEGAL ACTS)			
RISK OF POTENTIAL MISSTATEMENTS EVALUATION FORM	10.101		
SAFE DEPOSIT ACCESS CONFIRMATION	13.012		
SAMPLING			
Acceptable Risk of Assessing Control			
Risk Too Low	3.518		
AICPA Guide on Audit Sampling	3.501, 3.506, 3.515, 3.548		
Approaches	3.544		
SAMPLE SIZE SELECTION AND EVALUATION FORM	10.506		
SAMPLING DECISION WORKING PAPER	10.504		
SCOPE LIMITATIONS			
First-Year Audits	19.104		
Uncertainties	19.118		
SECURITIES HELD BY BROKERS CONFIRMATION	13.010		
SEGMENTS OF A BUSINESS	17.800		
SFAS (see STATEMENTS OF FINANCIAL ACCOUNTING STANDARDS)			
SHAREHOLDERS' EQUITY	17.600		
Additional Paid-In Capital	17.604		
Capital Stock	17.603		
Dividends	17.607		
Retained Earnings	17.606		
Statement of	18.106–18.108		
Treasury Stock	17.605		
SICK LEAVE, ACCRUED EXPENSE (see COMPENSATED ABSENCES)			
SINGLE FINANCIAL STATEMENT	19.501		
Sample Reports	19.901, 19.625–19.626, 20.912, 20.934		
SSARS (see STATEMENTS ON STANDARDS FOR ACCOUNTING AND REVIEW SERVICES)			
STANDARD AUDIT REPORT	19.101		
STANDARD COMPILATION REPORT	20.902		
STANDARD REVIEW REPORT	20.926		
STANDARDS (see PROFESSIONAL STANDARDS)			
STATEMENT OF CASH FLOWS	17.900, 18.109–18.111		
Compilation and Review Engagements	4.706		
Statement Preparation	17.901		
Working Paper	16.108		
STATEMENT OF EARNINGS	17.700, 18.104		
STATEMENT OF RETAINED EARNINGS	18.106–18.108		
STATEMENT OF SHAREHOLDERS' EQUITY	17.600, 18.106–18.108		
STATEMENTS ON AUDITING STANDARDS (SAS)	1.600		
SAS No. 1 (Various AU Sections)	7.207, 7.301, 12.301, 19.005		
SAS No. 12 (AU Sec. 337)	7.201		
SAS No. 19 (AU Sec. 333)	7.502		
SAS No. 22 (AU Sec. 311)	2.303, 3.310, 8.003, 12.102		
SAS No. 31 (AU Sec. 326)	2.303, 3.517		
SAS No. 39 (AU Sec. 350)	2.303, 2.605, 3.411, 3.501, 5.004		
SAS No. 41 (AU Sec. 339)	2.303, 6.201, 6.209		
SAS No. 47 (AU Sec. 312)	2.303, 2.308, 7.401		
SAS No. 48 (AU Sec. 311)	2.303, 3.310		
SAS No. 53 (AU Sec. 316)	2.303, 2.308, 2.309–2.313, 2.607, 7.601, 7.614–7.617		
SAS No. 54 (AU Sec. 317)	2.303, 2.321–2.325, 2.607, 7.614–7.617		
SAS No. 55 (AU Sec. 319)	2.303, 2.306, 3.202, 3.303, 3.406		
SAS No. 56 (AU Sec. 329)	2.303, 7.102		

STATEMENTS ON AUDITING STANDARDS (SAS) (cont.)

SAS No. 57 (AU Sec. 342)	2.303, 5.300
SAS No. 58 (AU Sec. 508)	19.101, 19.117
SAS No. 59 (AU Sec. 341)	2.303, 19.124
SAS No. 60 (AU Sec. 325)	7.601, 7.607-7.611
SAS No. 61 (AU Sec. 380)	7.601, 7.618, 13.034
SAS No. 62 (AU Sec. 623)	4.707
SAS No. 64 (AU Secs. 341, 508, 543)	19.124
SAS No. 67 (AU Sec. 330)	2.303, 5.004, 5.200
SAS No. 69 (AU Sec. 411)	1.500
SAS No. 70 (AU Sec. 324)	2.303, 2.610
SAS No. 71 (AU Sec. 722)	5.650-5.656
SAS No. 73	19.502

STATEMENTS ON FINANCIAL ACCOUNTING STANDARDS (SFAS)

SFAS No. 5	7.202, 19.116
SFAS No. 13	17.545
SFAS No. 16	17.717-17.718
SFAS No. 21	17.703
SFAS No. 86	17.712
SFAS No. 87	5.401, 17.594
SFAS No. 88	5.401
SFAS No. 94	17.103
SFAS No. 95	4.706, 17.901
SFAS No. 106	5.501-5.503
SFAS No. 107	17.514-17.515
SFAS No. 109	17.578, 17.708
SFAS No. 112	5.601-5.602
SFAS No. 115	17.508-17.512

STATEMENTS ON STANDARDS FOR ACCOUNTING AND REVIEW SERVICES (SSARS)

Listing	4.800
Interpretations	4.717
SSARS No. 1	1.602, 4.001-4.006, 4.101-4.104, 4.306, 4.701, 4.714-4.715, 4.717, 6.202, 20.216
SSARS No. 3	4.708-4.713
SSARS No. 7	4.401, 20.001

STATEMENTS ON STANDARDS FOR ATTESTATION ENGAGEMENTS (SSAE)

SSAE No. 1	20.103
------------	--------

STATISTICAL SAMPLING 3.529-3.536

STOCK OPTION AND STOCK PURCHASE PLANS	17.597
Illustrative Disclosures	17.597

SUBSEQUENT DISCOVERY OF FACTS EXISTING AT REPORT DATE

Reissuance of Report	19.513
----------------------	--------

SUBSEQUENT EVENTS

Authoritative Literature	12.301
Documentation	12.304
Pooling of Interest Accounting	17.115
Procedures	12.302
Subsequent Events Review Program	12.304

SUBSEQUENT EVENTS REVIEW PROGRAM 12.304**SUBSTANTIVE TESTS (see also ANALYTICAL PROCEDURES; TESTS OF BALANCES)**

	3.204-3.212
--	-------------

SUCCESSOR AUDITORS AND ACCOUNTANTS

Evidence Accumulation	6.209
First-Year Engagements	2.501
Reporting Based on Other Auditor's Work	2.515

SUMMARY OF POSSIBLE JOURNAL ENTRIES 7.400

Adjustments	7.403-7.406
Documentation Form	10.302
Materiality Limits	7.401
Misstatements (see also ERRORS, IRREGULARITIES, AND ILLEGAL ACTS)	
From Prior-Year	7.404
Threshold for Posting	7.405-7.406
Using the Summary	7.407-7.410

SUMMARY OF POSSIBLE JOURNAL ENTRIES FORM 10.302**SUMMARY OF TIME SAVINGS FOR NEXT YEAR** 11.202**SUPERVISION AND REVIEW**

Checklists, Supervision and Review	12.200-12.704
Control Form	12.604
Engagement Performance Review Checklist	12.411
Executive Review	8.105
Financial Statement Control Form	12.604
In-charge Review	8.104
Partner Review	8.106-8.107
Procedures	8.004
Quality Control Standards	8.001, 12.101
SAS No. 22	8.003, 12.102
Subsequent Events	12.300
Supervision and Review Checklists	12.200-12.704
Tax Accrual/Provision Review Checklist	12.200, 12.204
Technical Review	12.500
Technical Review Checklist	12.504
Working Papers Review	8.100

SUPPLEMENTAL REPORTING REQUIREMENTS 19.400**SUPPLEMENTARY INFORMATION**

Audits	19.400
Compilations and Reviews	20.801
Common Interest Realty Associations (CIRA)	19.403-19.404
Sample Reports	19.624

SYSTEM A CLASSIFICATION 3.103-3.104, 3.307**SYSTEM B CLASSIFICATION** 3.103-3.104, 3.307**SYSTEM C CLASSIFICATION** 3.103-3.104, 3.112, 3.307**TAX ACCRUAL/PROVISION REVIEW**

CHECKLIST	12.200, 12.204
-----------	----------------

TAX-EXEMPT ENTITIES 17.709**TECHNICAL REVIEW CHECKLIST** 12.504, 16.404**TESTS OF BALANCES**

All-Substantive Approach	3.207, 3.403, 3.411
Audit Program	10.700
Reduction of Tests	3.403
Sampling Decisions	3.538-3.543
Substantive Test	3.205, 3.207

TESTS OF BALANCES AUDIT PROGRAM 3.538, 10.700**TESTS OF CONTROLS (see INTERNAL CONTROLS STRUCTURE)****TESTS OF CONTROLS — CASH DISBURSEMENTS AND PURCHASES**

	10.400
--	--------

TESTS OF CONTROLS — PAYROLL 14.400**TESTS OF CONTROLS PROGRAM** 10.400

TESTS OF CONTROLS—SALES TRANSACTIONS 14.125

TICKMARKS, EXPLANATION OF 14.101

TIME ACCUMULATION SHEET 11.201

TIME CONTROL DOCUMENTS

Budgets 11.001, 11.100

Summary of Time Savings for Next Year 11.202

Time Accumulation Sheet 11.201

Time Summary Form 11.200

Using the Time Control Documents 11.100

TIME SUMMARY FORM 11.200

TRANSACTION CYCLES

Relationship to Major Audit Areas 3.306

TRIAL BALANCE PREPARATION

Lead Sheet Method 16.101

Working Trial Balance Method 16.101

UNCERTAINTIES 2.115–2.121

Accountant's Reports 20.700

Altman Z Score Form 2.122–2.126, 10.304

Auditor's Reports 19.600

Compilations and Reviews 20.700

Departures From GAAP 19.612

Going-Concern Uncertainties 19.612, 20.700

Resolution of the Uncertainty 19.612

Scope Limitations 19.613

UNCONSOLIDATED SUBSIDIARIES 17.104–17.106

UNIFORM COMMERCIAL CODE

Confirmation Request 13.021

UPDATED REPORT DIFFERS FROM PREVIOUS REPORT 19.507

VACATION TIME (see COMPENSATED ABSENCES)

WORDPERFECT DISKETTE 1.801

WORK OF OTHER AUDITORS 19.200

No Reference to Other Auditor 19.204

Procedures 19.205

Reference to Other Auditor 19.203

Sample Report 19.614

WORKING PAPERS (see also DOCUMENTATION; EVIDENCE ACCUMULATION)

Accounts Receivable Aged Trial Balance 14.110

Accounts Receivable Confirmation Statistics 14.112

Allowance for Doubtful Accounts 14.111

Bank Reconciliation 14.108

Bank Transfers 14.109

Cash on Hand 14.107

Client-Prepared Working Papers 6.004

Correspondence Control 14.102

Deficiencies 6.209

WORKING PAPERS (see also DOCUMENTATION; EVIDENCE ACCUMULATION) (cont.)

Investments in Securities

14.121Lead Schedule 14.106

Notes Payable and Long-Term Debt 14.122

Notes Receivable 14.113

Pension Accounting 14.128

Physical Inventory Cutoff Data 14.115

Prepaid Insurance 14.117

Preparation of 6.300

Property, Plant, and Equipment 14.118

 Additions 14.119

 Disposals 14.120

Raw Materials Pricing Test 14.116

Reconciliation of Book and Physical Inventories 14.114

Review of 8.100

Rules and Techniques for Working Paper Preparation 6.300

Shareholders' Equity Analysis 14.124

Summary of Carryovers 14.123

Statement of Cash Flows 14.129

Tests of Controls—Cash Disbursements and Purchases 14.126

Tests of Controls—Payroll 14.127

Tests of Controls—Sales Transactions 14.125

Working Paper Schedules 6.005

Working Trial Balance—Assets 14.103

Working Trial Balance—Liabilities and Shareholders' Equity 14.104

Working Trial Balance—Revenues, Costs, and Expenses 14.105

WORKING TRIAL BALANCE—ASSETS 14.103

WORKING TRIAL BALANCE—LIABILITIES AND SHAREHOLDERS' EQUITY 14.104

WORKING TRIAL BALANCE—REVENUES, COSTS, AND EXPENSES 14.105

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Enclosed is your 1995 edition of the Integrated Practice System *Comprehensive Engagement Manual*. This Manual is designed as a complete tool for performing and reporting on audits, reviews, and compilations.

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Also included with this Manual is a diskette that includes all the letters and sample auditor's and accountant's reports from the Manual in WordPerfect format. Attached is a detailed listing of the items included on the diskette. These items are identified in the Manual by the following icon:



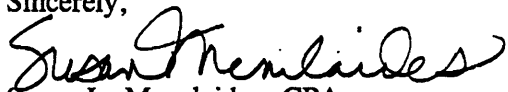
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Sincerely,



Susan L. Menelaides, CPA
Director, Technical Information Division

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

<u>Section</u>	<u>Description</u>	<u>File Name</u>
Correspondence		
13.002	Request for Bank Cutoff Statement	BANCUTOF
13.004	Money Market Fund Confirmation	MMFDCNF
13.005	Accounts Receivable Confirmation – Positive	ARPCNF
13.006	Accounts Receivable Confirmation – Negative	ARNGCNF
13.007	Notes Receivable Confirmation-Positive	NRPCNF
13.008	Inventories in Warehouse Confirmation Client Provided Listing	INVWCCNF
13.009	Inventories in Warehouse Confirmation – Client Did Not Provide Listing	INVWCNF
13.010	Securities Held By Brokers Confirmation	SECCNF
13.012	Safe Deposit Access Confirmation	SDACNF
13.013	Notes Payable/Long-Term Debt Confirmation	NPLTDCNF
13.014	Mortgage Debt Confirmation	MTGCNF
13.015	Accounts Payable Confirmation	APCNF
13.016	Lines of Credit Confirmation	LOCCNF
13.017	Contingent Liabilities Confirmation	CNTLBCNF
13.018	Registrar – Capital Stock Confirmation	CPSTKCNF
13.019	Transfer Agent – Capital Stock Confirmation	CPSTACNF
13.020	Related-Party Confirmation	RPCNF
13.022	Letter of Other Accountants Upon Whose Work We Plan to Rely	OACLTR
13.023	Representation Letter to Other Accountants	REPOACT
13.024	Engagement Letter – Audits	ENGLETA
13.025	Engagement Letter – Compilations	ENGLETC
13.026	Engagement Letter – Reviews	ENGLETR
13.027	Proposal Letter	PROPLTR
13.028	Inquiry Letter to Legal Counsel – General	LAWINQ
13.029	Inquiry Letter to Legal Counsel – Management Did Not Provide Pending Litigation Details	LAWINQLT
13.030	Pension Plan Actuarial Information	PENSPLAC
13.031	Pension Plan Assets Held by Trustee	PENSPLAS
13.032	Representation Letter – Audits	REPLETA
13.033	Representation Letter – Reviews	REPLETR
13.034	Communication With Audit Committees	AUDCOMCM
13.035	Reliance Letter	RELLTR
13.036	Reportable Conditions Report	REPCOND
13.037	Reportable Conditions Report – Identifies Material Weaknesses	REPCNDMW

<u>Section</u>	<u>Description</u>	<u>File Name</u>
13.038	Insurance In-Force Confirmation	INSCONF
13.039	Letter to Actuary Requesting Employer's Benefit Cost Information	ACTLETT
Auditor's Reports		
19.601	Standard Auditor's Report -- Single Period	AUDRPSP
19.602	Standard Auditor's Report -- Comparative Periods	AUDRPCP
19.603	Qualified Opinion -- Scope Limitation	QRPSSLT
19.604	Disclaimer of Opinion -- Scope Limitation	DSCRPSLT
19.605	First-Year Audit -- Beginning Balances Not Audited	SLTBB
19.606	Qualified Opinion -- GAAP Departure	GAAPDQRP
19.607	Adverse Opinion -- GAAP Departure	GAAPDARP
19.608	Qualified Opinion -- Inadequate Disclosure	DISCLQRP
19.609	Explanatory Paragraph -- Change of GAAP	EXPGAAP
19.610	Qualified Opinion -- Change to Unacceptable Principle	DGAAPQRP
19.611	Qualified Opinion -- Client Does Not Provide Justification for Change in Principle	JPQRP
19.612	Uncertainty	
19.613	Going-Concern Uncertainty Paragraph	GNGCNCR
19.614	Report Indicating Divided Responsibility Among Auditors	DRARP
19.615	Predecessor Declines Reissue -- Prior Period Unqualified	PREPPUNQ
19.616	Predecessor Declines Reissue -- Prior Period Qualified	PREPPQ
19.617	Predecessor Declines Reissue -- Prior Period Unqualified; Restatement Subsequently Made	PREPPQR
19.618	Current Period Audited -- Prior Period Reviewed	AUDREV
19.619	Current Year Audited -- Prior Period Compiled	AUDCOMP
19.620	Supplementary Information -- Unqualified Report	SUPPUNQ
19.621	Supplementary Information -- Disclaimer on Part	SUPPDISC
19.622	Supplementary Information -- Disclaimer on All	SUPPDISQ
19.623	Report on Basic Financial Statements Qualified; Supplementary Information Qualified	QUALSUPP
19.624	CIRA Financial Statements -- Required Supplementary Information Omitted	CIRAOM
19.625	Balance Sheet Only Presented	BSRPT

<u>Section</u>	<u>Description</u>	<u>File Name</u>
19.626	Balance Sheet Only Report – Disclaimer on Other Statements	BSRPTDIS
19.627	Lack of Independence (Public Companies)	NOIND
19.628	Emphasis of a Matter	EMPMATT
19.629	Restatement of Prior Period to Conform to GAAP	PPREST
Compilation and Review Reports		
20.902	Standard Compilation Report	COMPRPT
20.903	Compilation Report – Disclosures Omitted	COMPNODS
20.904	Compilation Report – GAAP Departure Effect Determined	COMPGAAP
20.905	Compilation Report – GAAP Departure Effect Not Determined	COMPGAPN
20.906	Compilation Report – Statement of Cash Flows Omitted	COMPNOCF
20.907	Compilation Report – Changed Reference to Prior Period GAAP Departure	COMPPPGP
20.908	Comparative Compilation Report – Disclosures Omitted	COMPCOM
20.909	Compilation Current Period – Review Prior Period	COMPREV
20.910	Compilation Current Period – Audit Prior Period	COMPAUD
20.911	Compilation Report – Prior Period Compiled by Other Accountants	COMPPPOA
20.912	Compilation Report – Balance Sheet Only	COMPBS
20.913	Compilation Report – Supplementary Information Included	COMPSUPP
20.914	Compilation Report – Income Tax Basis	COMPIT
20.915	Compilation Report – Cash Basis	COMPCASH
20.916	Compilation Report on Elements, Accounts, or Items of a Financial Statement	COMPELEM
20.917	Compilation Report – Special Purpose – Acquisition Agreement	COMPACQ
20.918	Compilation Report – Prescribed Form	COMPPRSC
20.926	Standard Review Report	REVRPT
20.927	Review Report – GAAP Departure Effect Determined	REVGAAAP
20.928	Review Report – GAAP Departure Effect Not Determined	REVNGAAP
20.929	Review Report – Statement of Cash Flows Omitted	REVNOCF
20.930	Review Report – Changed Reference to Prior Period GAAP Departure	REVPPGAP
20.931	Review Current Period – Audit Prior Period	REVAUD
20.932	Review Current Period – Prior Period Compiled	REVCOMP

<u>Section</u>	<u>Description</u>	<u>File Name</u>
20.933	Review Report – Prior Period Reviewed by Other Accountants	REVREV
20.934	Review Report – Balance Sheet Only	REVBS
20.935	Review Report – Supplementary Information Reviewed	REVSUPP
20.936	Review Report – Supplementary Information Not Reviewed	REVNSUPP
20.937	Review Report – Income Tax Basis	REVIT
20.938	Review Report – Cash Basis	REVCASH
20.939	Review Report – Special Purpose – Acquisition Agreement	REVACQ
Lotus Files		
10.302	Summary of Possible Journal Entries Form	CEMSJE1.WK3
10.302	Summary of Possible Journal Entries Form (WYSIWYG Print File)	CEMSJE1.FM3