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Audit Working Papers

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WORKING PAPERS are the basic product of your audit work; they are a permanent record of your investigation and are the basis for reports to clients and for use of clients in reporting to governmental agencies and others.

WHY ARE THEY PREPARED?

The why of audit working papers is obvious. They form the basis of opinions expressed in reports, and when properly prepared, they are valuable for succeeding engagements for comparative purposes and obtaining information regarding any unusual features of the engagement. They should co-ordinate and organize the verification of various accounts; they should contain opinions as to the various phases of the audit so as to substantiate the over-all opinion expressed in the report.

WHAT IS THEIR CONTENT?

Working papers should be filed in some logical manner so as to facilitate easy reference and use. Generally, working papers should contain a general-ledger trial balance, adjusting journal and reclassification entries, excerpts of corporate minutes, results of the investigation of internal accounting control, memorandum of instructions and requirements on the engagement, memorandum of the results of the investigation of events subsequent to the balance-sheet date, a record of the time spent on the engagement, and analyses of accounts properly indexed to the general-ledger trial balance. Each analysis should contain the source of information, the nature of the transactions in the account, your investigation and tests, dates of important transactions, and your conclusion as to the correctness or reasonableness of the account or group of accounts. In stating your conclusion, it is not necessary to state an opinion on each analysis, but a statement such as "no exceptions or unusual items and fluctuations were noted" is acceptable. Working papers should also include a separate folder regarding information of continuing interest, usually referred to as the permanent working-paper file. It should contain information such as

excerpts from corporate charters, articles of partnerships, by-laws, long-term leases, agreements, etc.

USE OF PAPERS

As previously mentioned, working papers support opinions expressed in reports to clients for internal purposes and use in reporting to shareholders, Securities and Exchange Commission and others, and provide the information for their preparation. They provide data for the preparation of income tax returns; furnish information for suggestions to clients for improvements in internal and administrative control, practices, and procedures. Often, cost-savings suggestions can be made regarding systems or the need for cost studies. Properly prepared working papers furnish invaluable assistance in succeeding engagements. They are important in event of subsequent testimony before courts of law and, incidentally, they are used by superiors in evaluating your progress, ability, and potentiality.

RELATION TO THE PUBLIC ACCOUNTING PROFESSION

The public accounting profession is a practical and logical profession and as such requires the same qualities in the individual. Working papers should contain only the essential information. The transcription of the client's records or preparation of superfluous working papers should be avoided as they result in unnecessary expenditure of time and accumulation of expense. Unnecessary working papers also are undesirable from a legal point of view. The value of working papers is weighed by the essential facts and information they contain with respect to items in accounts and records, and not by the amount of detailed transactions contained therein. Quality rather than quantity is always essential. The value of our services to clients is weighed by the practical results obtained, which consist of obtaining information sufficient to render an opinion and offer informative, constructive suggestions.

Working papers should contain sufficient information regarding items subject to different accounting and tax treatments.

Accountants should at all times keep in mind the confidential nature of the information contained in their working papers and knowledge of the client's procedures and operations obtained during the course of the examination. Audit procedures and the extent or method of testing should not be known to the client's employees.

Accountants should exercise rigid control over confirmation forms, working papers, stationery and the like.

REQUIREMENTS FOR THEIR PREPARATION

A thorough knowledge of accounting and auditing theory is certainly a requisite in preparing satisfactory working papers, but other areas warrant attention. The ability to express yourself, both on paper and orally, is always of utmost significance. You may acquire all the technical knowledge required; you may be able intelligently to perform the required auditing procedures but if you cannot effectively state in your working papers what you have done, then your technical knowledge and ability are wasted. A knowledge of the English language, composition, and basic grammar is one of the areas in which most college graduates are grossly deficient; its importance cannot be over-emphasized. Easily legible writing is an asset; it not only improves the appearance of the papers but also is important if the working papers are ever required in connection with legal matters.

You must have an interest in accounting and have an inquiring imaginative mind in order properly to perform the work required by audit working papers.

Personality or the ability and desire to work with others is necessary. Regardless of the many images of accountants you have heard of or seen, in public accounting you must deal with many different people and the opinion they form of you reflects what they think of your work and the firm you represent. Your personal habits also reflect either a good or bad impression of you and your work.

Equally as important as technical knowledge is an understanding of business fundamental and affairs. It is possible that constructive and practical suggestions for improving business operations, accounting practices, and auditing procedures can be developed from sound business knowledge, where technical knowledge alone would fall short. Further, a knowledge of what is going on in general in the business world is important to public accountants. The reason for mentioning this is to point out that an auditor must often be able to look beyond the accounts and consider the reasonableness from the business standpoint in comparison with what has been observed during your examination.

You should continue your education in current accounting trends and technique. No one in public accounting ever learns enough; you must continue your education daily by reading the current ideas of

other accountants, American Institute Bulletins, changes in income tax regulations and the like.

AIDS IN PREPARATION

Among the aids in the preparation of working papers are a review of prior years' working papers and organized work programs based on a preliminary investigation of the client's methods of recording, source documents, etc.

Learn to speak the client's language. This often saves time and prevents embarrassment on your part. Clients may call the voucher register the invoice register, purchases register, voucher distribution or just cash book. Learn what designation they use, and in conversation refer to the records in their terms. Many clients have terminology peculiar to their business. For example, most railroad accountants speak in account numbers and titles exactly as set forth by the Interstate Commerce Commission's Uniform System of Accounts, and brokerage concerns have numerous terms that you must learn in order to communicate with employees.

The American Institute of Certified Public Accountants not only issues auditing and accounting bulletins, but also has published case studies regarding various specialized business concerns. The Journal of Accountancy and other accounting associations' monthly magazines are most helpful, and Accounting Trends and Techniques published by the Institute indicates the treatment of unusual balance sheet and income statement items. Industry trends as indicated by business magazines, The Wall Street Journal, and daily newspapers are often informative.

Study of financial statements and supporting schedules prepared by clients provides useful information. Further, these statements and schedules may be used in lieu of handwriting the general-ledger trial balance or other information required in the working papers.

An organized plan for performing the audit and a budget of the time required are essential. In planning the analysis work and during its preparation, every possible angle of the matter being investigated should be considered, as well as its relation to other facts and accounts. A realistic approach to the subject should be made, keeping in mind that auditing consists of the determination of facts, not the mechanical preparation of working papers.

When there is more than one accountant on an engagement it is desirable that analyses of related accounts be performed by the same

accountant. The greater familiarity with the accounts thus acquired should permit a more efficient and satisfactory verification and result, keep working papers to a minimum, and avoid duplication of work.

Memoranda should be prepared regarding procedures and methods of an unusual nature employed by the client.

Discussion with clients' personnel can often provide information that might not otherwise be available. Although the accountant should exercise discretion in questions to clients' personnel, time can often be saved by a simple question rather than by extensive examination to locate records or obtain information.

A comparison of balances at beginning and end of the periods often provides relative information. Statistical data and comparable percentages may furnish more significant information than detailed verification.

CONCLUSION

Whether preparing audit working papers, assembling cost data for an industrial concern, or performing work with ledgers or other accounting matters, you should take pride in your work. Your working papers are indicative of your knowledge of auditing and accounting theory and your practical ability to apply this knowledge in a given case. Working papers are the only physical evidence of work performed; they reflect your ability to analyze complex situations, to recognize essentials, and to exercise your imagination and ingenuity; they also reflect your personal habits of neatness and orderliness. Again, your command of the English language reflects creditably or otherwise on you and your working papers. You will be judged by your working papers just as others are judged by their physical work performed.