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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***

AICPA

INTEGRATED

PRACTICE

SYSTEM

**INTEGRATED
PRACTICE
SYSTEM**

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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**AICPA INTEGRATED PRACTICE SYSTEM
COMPREHENSIVE ENGAGEMENT MANUAL**

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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**

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* 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

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** 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

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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:

	<u>Personnel</u>	<u>Yes</u>	<u>No</u>	<u>N/A</u>
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 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.

10.102

POTENTIAL MISSTATEMENTS MATRIX

<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.

<u>System Classification</u>	<u>Control Risk</u>	<u>Risk of Potential Misstatements</u>	<u>Risk That Analytical Procedures Will Not Detect a Material Misstatement</u>	<u>Resulting Required Evidence from Detailed Tests of Balances</u>
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
<p>Client: _____</p> <p>Financial Statement Date: _____</p>	

	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 4 columns: Personnel, Yes, No, N/A. Rows 13-19 contain questions about financial statements, accounting personnel, integrity, document control, financial condition, and financing sources. Row 19 includes sub-questions a and b regarding 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

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

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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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 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 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 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 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 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)

(Page left blank intentionally)

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).

(Page left blank intentionally)

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.

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AUDIT PROGRAM****INDEX**

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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

VIIb. 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: (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)

Procedure	Done By	Date	W/P Ref.
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)

<u>Procedure</u>	<u>Done By</u>	<u>Date</u>	<u>W/P Ref.</u>
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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10.801

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?

	<u>Record</u>	<u>Form of the Records 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	

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>Initials</u>	<u>Date</u>	<u>N/A</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)



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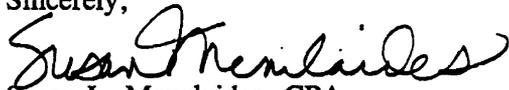
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**Comprehensive Engagement Manual
Letters and Reports for WordPerfect Diskette
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19.609	Explanatory Paragraph -- Change of GAAP	EXPGAAP
19.610	Qualified Opinion -- Change to Unacceptable Principle	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

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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
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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
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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