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Comprehensive engagement manual, Volume 3: Documentation, part II

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Luis E. Cabrera

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ensive Engagement Manual

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VOLUME 3: Documentation Part II

Comprehensive Engagement Manual

AICPA

INTEGRATED

PRACTICE

PRACTICE SYSTEM

VOLUME 3

SYSTEM

AICPA

VOLUME 3: Documentation Part II

Comprehensive Engagement Manual

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

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This manual has not been approved, disapproved, or otherwise acted upon by any senior technical committees of the American Institute of Certified Public Accountants or the Financial Accounting Standards Board and has no official or authoritative status.

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

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

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AICPA INTEGRATED PRACTICE SYSTEM COMPREHENSIVE ENGAGEMENT MANUAL

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TIME CONTROL DOCUMENTS

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CHAPTER 11

TIME CONTROL DOCUMENTS

11.000 INTRODUCTION

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

11.100 USING THE BUDGETING AND TIME CONTROL DOCUMENTS

- 11.101 For budgets to benefit the firm and engagement personnel, they must be realistically prepared. Budgets must be based on engagement circumstances, *not* on fees.
- 11.102 All time spent on engagements must be charged to the client and entered on the Time Accumulation Sheet. At the completion of the engagement, the Time Accumulation Sheet should be reconciled to the Time Summary Form and the firm's billing records.
- 11.103 For engagements extending beyond one week of field work, the time should be accumulated and recorded on the Time Accumulation Sheet.
- 11.104 If the staff becomes aware of ways to reduce audit time in the future, the suggestions should be noted on the Summary of Time Savings for Next Year in section 11.202.

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(continued)

Time Summary Form
Clienti
Financial Statement Date:

11.200

INSTRUCTIONS:

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

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

^{*} Attach memorandum explaining significant variances.

TIME SUMMARY FORM (Continued)

		Bū	Budgeted Hours	nrs			4	Actual Hours	ırs		Actual
	Asst.	I/C	Mngr.	Ptnr.	Tot.	Assist.	I/C	Mngr.	Ptnr.	Tot.	(Under)*
Commitments, contingencies, & subsequent events											
existence ·											
Trial balance & adjustments											
Management letter											
Report preparation											
<u>Totals</u>											
Prepared by:	(In-charge)	(eg				Date:					
Reviewed by:						Date:	1				

* Attach memorandum explaining significant variances.

(Engagement Partner)

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Time Accumulation Sheet	n She	et							! -								
Client:																	
Financial Statement Date: _															i		1
															·	į	
NSTRUCTIONS:																	
he amount in the Budget column should be obtained from the Time Summary Form. The Actual Hours and Date columns should be completed on daily basis and subtotaled weekly. For engagements in excess of three weeks, additional Time Accumulation Sheets should be completed. At the onclusion of the engagement, the amounts in the Total column should be posted to the Time Summary Form and reconciled to the firm's billing records.	ımı shou ekly. Fe he amou	ld be obta or engage ots in the	ained fra ments in Total co	from the Time Summary Form. The Actual Hours and Date columns should be comp in excess of three weeks, additional Time Accumulation Sheets should be completed.	Time S s of thr	ummai ee wee poste	y Forr ks, add I to the	n. The litional Time S	Actua Time	l Hour Accum ry Forr	The Actual Hours and Date columns should be completed on onal Time Accumulation Sheets should be completed. At the ne Sumnary Form and reconciled to the firm's billing records.	Date co Sheets econcil	lumns shoule ed to th	should d be cc se firm	be cor emplete 's billir	mplete ed. Ai ng reco	At the scords.
						A	TUAI	, TIME	ACTUAL TIME AND DATE	DATE							•
WORK AREAS	Budget				S t	Sub- total					Sub- total						Total
Planning & administration					1	1	1	1	-			1			1	1	
Internal control structure		1			1	1	1	1									
Cash]				1	 	 										
Investments Receivables					! 		11										
Inventories					1	1	 							.			
Prepayments and other assets	1			!		l I	l I										
Property & equipment Notes & Ioans navable						1	1 1										
Payables & accruals				 	 [
Income taxes				1		 - 	1	1									
Other liabilities					1	1	1				-						
Equity	}	1					1										
Revenues					1	1	 										
Expenses]	1	 	1									
																(conti	(continued)

TIME ACCUMULATION SHEET (Continued)

	Total								i	ı
		[
]								
	Sub- total									
ATE		Ī								
ACTUAL TIME AND DATE									Date:	Date:
TIME					1		Ì		A 	<u>Д</u>
<u>l'UAL</u>						1			;	
						l				
	Sub- total					İ				
						1				- C
						1			(<u>8</u>	(Engagement Partner)
									(In-charge)	gement
										(Engag
	Budget									
	WORK AREAS	Commitments, contingencies, & subsequent events	Consideration of continued existence Related Parties	Trial balance & adjustments	Supervision & review	ant letter	paration		.y:	by:
	WORK	Commitme & subseq	Consideration of existence Related Parties	Trial balan	Supervision	Manageme	Report preparation	TOTAL	Prepared by:	Reviewed by:

4	4	^	04
1	1	.z	U2

Time Savings for Next Y	l'ear
t Date:	
charge and the engagement partner. The	nent team that has a time saving suggestion, ne suggestion should indicate the engagement dure can be improved.
SAVINGS SUGGEST	IONS
	•
·	
(Staff Member)	Date:
(In-charge)	Date:
	charge and the engagement partner. The rently performed, and how that processal SAVINGS SUGGEST. (Staff Member)

(Engagement Partner)

_ Date: _

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CHAPTER 12

SUPERVISION AND REVIEW CHECKLISTS

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CHAPTER 12

SUPERVISION AND REVIEW CHECKLISTS

12.000 INTRODUCTION

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

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

12.100 AUTHORITATIVE PRONOUNCEMENTS

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

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

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

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

12.200 TAX ACCRUAL/PROVISION REVIEW

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

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

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

12.103

12.204

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

TAX ACCRUAL/PROVISION REVIEW CHECKLIST (Continued)

		Done By	Date
8.	Review firm's tax return preparation checklist.		
9.	In my opinion, the tax provision and accruals set forth in the working paper schedules, the financial statements and the related disclosures are reasonable and adequate.		
Те	x Partner's Signature:	_ Date:	



Engagement Partner's Signature: ______ Date: _____

12.300 SUBSEQUENT EVENTS

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

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

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

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

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

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

INSTRUCTIONS:

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

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

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

SUBSEQUENT EVENTS REVIEW PROGRAM (Continued)

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

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SUBSEQUENT EVENTS REVIEW PROGRAM (Continued)

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



12.400 ENGAGEMENT PERFORMANCE REVIEW

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

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

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

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

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

Review of Working Papers

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

12.401

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

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

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

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

8/95 **12.406**

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

Using the Engagement Performance Review Checklist

- 12.408 Completion of the Engagement Performance Review Checklist documents that the in-charge and engagement partner are satisfied that engagement personnel have been properly supervised and the work performed has been properly reviewed.
- 12.409 The Engagement Performance Review Checklist should be completed to document the review of engagements. Foregoing the technical review (section 12.500) must be approved by the firm or office accounting and auditing partner. Such approval must be documented in a memo to the engagement file. Any problems discovered in the technical review should be discussed with the engagement partner. Resolution of the problems should be documented in separate memoranda.
- 12.410 The Checklist should be completed by the in-charge and reviewed by the engagement partner upon completion of the auditing procedures. A sample Engagement Performance Review Checklist is presented in section 12.411.

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12.411

Engagement Performance Review Checklist
Client: Financial Statement Date:

INSTRUCTIONS:

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

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

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

ENGAGEMENT PERFORMANCE REVIEW CHECKLIST (Continued)

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



ENGAGEMENT PERFORMANCE REVIEW CHECKLIST (Continued)

		<u>Yes</u>	_No_	See Additional Comments
9.	Has the Subsequent Events Review Program been completed?			
10.	Have all communications been made as required by SAS Nos. 53, 54, and 60 for:			
	a. Internal control structure related matters?			
	b. Irregularities?	c		
	c. Illegal acts?	·		
11.	If the entity has an audit committee or other formally designated group responsible for oversight of the financial reporting process, have the other matters required by SAS No. 61 been communicated?			
12.	Additional comments:			
٠				
Pr	epared by: Da	nte:		·
	(In-charge)			
Re	viewed by: Da	ite:		



ENGAGEMENT PERFORMANCE REVIEW CHECKLIST (Continued)

<u>Par</u>	t II (To be completed by engagement partner)	<u>Initials</u>
1.	I have reviewed the engagement working papers, work programs, checklists, etc. to the extent required by firm policy.	
2.	I have reviewed the financial statements for appropriate form and conformity with professional standards.	
3.	I have reviewed the independent auditor's (accountant's) report for conformity with professional standards, and have determined that the conclusions reached in the working papers support our report.	
4.	I authorize issuance of the financial statements and the report.	
Pre	pared by: Date: Date:	



12.500 THE TECHNICAL REVIEW

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

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

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

8/95 **12.503**

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	Technical Review Checklist	
	Client:	
	Financial Statement Date:	
Тес	hnical Reviewer: Date:	
INS	STRUCTIONS:	
Thi rev	s Checklist should be completed by the technical reviewer on those engagements in whic iew is required by the firm's quality control policies and procedures.	h a technical
		<u>Initials</u>
1.	Review the financial statements for appropriate form and content. Consider the appropriateness of:	
	a. Titles.	
	b. Captions.	
	c. Classifications within captions.	
	d. Descriptions.	
	e. Reference to auditor's (accountant's) report and financial statement notes.	
2.	Compare the Financial Statements and Notes Checklists to the notes to the financial statements. Consider whether the notes are complete and worded appropriately.	
3.	Review the financial statements for any obvious departures from GAAP or OCBOA.	
4.	Read the auditor's (accountant's) report for appropriateness and conformity with professional standards.	
5.	If applicable, review the engagement checklists:	
	a. To determine that they support the conclusions reached in the engagement.	
	b. For potential problems.	
6.	Describe any problems noted and the way they were resolved.	
	·	

12.600 USING THE FINANCIAL STATEMENT CONTROL FORM

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

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

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

Signing the Report

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

12.601 8/95

Financial	Statement	Control Form			
INSTRUCTION	S:				
report. Each step	p should be initia	the in-charge to accompany lled and dated as it is compl nent partner in order to release	eted, or checke	d "N/A." Step	8 must be
SERVICE PERFO	ORMED:				
AUDIT		COMPILATION			
REVIEW		OTHER (describe):			
			<u>Perforn</u> <u>Name</u>	ned By Date	<u>N/A</u>
1. Submit financi	al statements and	report to typing.	****		
2. Proofread the	financial stateme	nts and report.			
3. Resubmit the f corrections.	inancial statemer	ats and report for			
4. Submit to tech	nical or concurri	ng reviewer, if applicable.			
5. Resubmit the f corrections.	inancial statemen	its and report for			
6. Foot and cross	foot all pages.				Π̈
7. Submit to enga	agement partner f	for final review.		·	-
8. Release the fin	ancial statements	and report.			
Number of Copie	s: Bound:	Unbound:			
Other:				W	

12.700 MANAGEMENT MEETING

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

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

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

12,704

Management Meeting Checklist	
Client:	
Financial Statement Date:	

INSTRUCTIONS:

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

			Yes	No	MEETING	REFERENCE
I.	Org	ganization:				
	A.	Does the company's legal form of organization suit the business?				
	В.	Is the company's fiscal year its natural business year?				
	C.	Is management spread among several individuals?				8. 1. VA. 803
	D.	Are lines of authority and supervision clear?				
	E.	Are departments, or line managers, responsible for planning, controlling, and reporting results of operations?				
	F.	Do employees understand their responsibilities?				
		Are all positions necessary?				
		Have company policies been documented?				
	I.	Are company policies appropriate?				

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

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



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

IV.

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



V.

			Yes	No	MEETING	REFERENCE
	E.	Are forms and records designed for overall efficiency?	-			
	F.	Is the physical control over records adequate?				
	G.	Is the administrative function appropriately staffed considering the size of the company?				
	Н.	Is the office layout and environment designed for maximum efficiency?				
	I.	Is the filing system adequate?				
	J.	Has management been made aware of internal control structure weaknesses discovered during our engagement? (Summarize on Internal Control Reportable Conditions Report.)				
VI.	Cas	sh Management:				
	A.	Does management get a daily cash balance report?				
	В.	Are formal cash projections prepared and coordinated with forecasts and budgets?				
	C.	Is the client receiving maximum cash discounts?		•		
	D.	Is cash managed effectively by taking cash discounts, by reducing bank loans, or by utilizing the cash for investments?				
	E.	Are all bank accounts necessary?				
	F.	Are receipts deposited promptly?				
	G.	Has the client borrowed money at the best possible rate?				
	H.	Are the client's methods of financing the most economical in the circumstances?				

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

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

IX.

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



C. Does management consider expansion through acquisition or merger?				•
D. Does the company consider leasing or a sale and lease-back arrangement as a major source of financing?				
E. Does the company utilize good legal counsel?				· · · · · · · · · · · · · · · · · · ·
F. Is management aware of federal and state safety requirements?				
G. Has the business continuity been planned?				
Prepared by:(In-charge)		Date	9:	,
		Dot		
Reviewed by:		Date	7	



CHAPTER 13

CORRESPONDENCE LIST

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CHAPTER 13

CORRESPONDENCE LIST

13.000 CORRESPONDENCE INSTRUCTIONS

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

8/95

13.002	RE(UEST FOR BANI Client's	K CUTOFF STA Letterhead]	TEMENT	
					[Date]
In connection [balan following infor auditors] as of	with an audit of ce-sheet date] as mation directly the close of bus	f the financial staten nd for the to our auditors [biness on [b	nents of [period] there alance-sheet date	n ended, we re	_ [name of client] as of equest that you send the _ [name and address of
	nation requested financial institu		ndard form(s) to	confirm acco	unt balance information
the period					related paid checks for osequent to the balance-
		Account Number			
Very tr	uly yours,				
			Ву	: [Client's Au	nthorized Signature]
Notes to User:	should be add	ressed to a financial	institution officia	ıl who is resp	onsible for the financial

institution's relationship with the client or is knowledgeable about the transactions or arrangements. Some financial institutions centralize this function by assigning responsibility for responding to confirmation requests to a separate function. Independent auditors should ascertain the appropriate recipient.

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

13.003 STANDARD FORM TO CONFIRM ACCOUNT BALANCE INFORMATION WITH FINANCIAL INSTITUTIONS

			CUSTOMER	NAME	
		We have provid	led to our accountants the	e following information as of	
]	the close of bus regarding our d of the information of the balances furnishing the bid on not request search of your firmation additions we may have winformation bed form directly to	siness on epost and loan balances on, noting any exceptions have been left blank, plea lance in the appropriate nor expect you to conduce cords, if during the process of the land information about of the land land land land land land land land	. 19	
ACC	OUNT NO.	INTEREST RATE	BA	LANCE*	
al institution for	r loans at the close	of business on the	date listed above as	follows:	
DATE DUE	INTEREST RATE	DATE THROUGH WHI INTEREST IS PAID		ON OF COLLATERAL	
ner's Authoriza	ed Signature)		/Date	<u> </u>	
		our records. Althour	•	•	
ecords, no oth	ner deposit or loan	accounts have con	ne to our attention e	xcept as noted below.	
	·				
nstitution Auth	orized Signature)		(Date	e)	
(Title)					
	TVATATIONA ANDIOD	0011151170			
t	EXCEPTIONS AND/OR	COMMENTS			
Please return this form directly to our accountants:					
	·	Į.		1	
	y are not	[1	
	al institution for DATE DUE DATE DUE Coustomer is inecords, no other institution Authorized the country institution and institution Authorized the country institution and a country institution Authorized the country institut	ACCOUNT NO. al institution for loans at the close DATE DUE INTEREST RATE ner's Authorized Signature) c customer is in agreement with ecords, no other deposit or loan institution Authorized Signature) (Title) EXCEPTIONS AND/OR this form directly to our account	the close of bus regarding our of the information of the information of the information and in the balances turnishing the bid on or request search of your a firmation addition of the information beken form directly to be listed above, our records indicated the following decords and institution for loans at the close of business on the close of	We have provided to our accountants the close of business on regarding our deposit and loan balances of the information, noting any exceptions if the balances have been left blank, between the proportial do not request nor expect you to conduct search of your records, if during the process of the information below. Please use the endos form directly to our accountants. It is balance in the appropriate do not request nor expect you to conduct search of your records, if during the process of mailton additional information about of we may have with you comes to your attended he had been accountants. It is a search of your records, if during the process of the date listed above as a linstitution for loans at the close of business on the date listed above as all institution for loans at the close of business on the date listed above as all institution for loans at the close of business on the date listed above as a linstitution for loans at the close of business on the date listed above as a linstitution for loans at the close of business on the date listed above as a linstitution for loans at the close of business on the date listed above as a linstitution for loans at the close of business on the date listed above as a linstitution for loans at the close of business on the date listed above as a linstitution for loans at the close of business on the date listed above as a listed above. DATE THROUGH WHICH INTEREST RATE DESCRIPTION Authorized Signature) (Date of the information about the process of the process of the process of the interest	

Approved 1990 by American Bankers Association, American Institute of Certified Public Accountants, and Bank Administration Institute. Additional forms available from: AICPA - Order Department, P.O. Box 1003, NY, NY 10108-1003

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CONFIRMATION OF MONEY MARKET FUND [Client's Letterhead] [Date] Our auditors, ______ [name and address of auditors] are conducting an audit of our financial statements. Accordingly, please confirm directly to our auditors the balance of our money market fund account(s) as of _____ [date]. Please indicate in the space provided below the account number(s) and balance(s) of our account(s) per your records. Please sign and date your reply and return it directly to the auditors. A stamped, self-addressed envelope is enclosed for your convenience. Very truly yours, [Client's Authorized Signature]

Account No.	Balance

Date:	Cianad.	
Date	Signed:	

ACCOUNTS RECEIVABLE—POSITIVE REQUEST [Client's Letterhead]

		_
		[Date]
		ents, please confirm directly to our auditors auditors] the amount of your indebtedness to us
which according to	o our records as of [date] amo	ounted to \$
If the amount show	vn is in agreement with your records,	please check "A" below.
If the amount is no	t in agreement with your records, plea	ase check and complete "B" below.
	appropriate response, please sign and d velope. Do not send any payments to	ate your reply and mail it directly to our auditors our auditors.
		Very truly yours,
		[Client's Authorized Signature]
Α	The balance above agrees with my	records.
В	My records show a balance of \$	·
	The difference may be due to the fo	ollowing:
	Signed by:	
	Date:	

8/95

ACCOUNTS RECEIVABLE—NEGATIVE REQUEST

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

PLEASE CHECK THIS STATEMENT	
If this statement is <i>not correct</i> please write promptly (using the enclosed envelope), giving details of any differences, directly to our auditors,	
(Name of auditors) (Address of auditors)	
who are now conducting an audit of our financial statements.	
If you do not write to our auditors, they will consider this statement to be correct.	
Remittances should NOT be sent to the auditors.	

Notes to User:

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



13.007 NOTES RECEIVABLE CONFIRM. [Client's Le	——————————————————————————————————————
[chem 5 Le	
	[Date]
Our auditors [nam	e and address of auditors] are performing an audit
of our financial statements. Accordingly, please con	afirm directly to our auditors the amount of your
indebtedness due us as of [date], which our	records show as follows:
Type of indebtedness	
Initial date of indebtedness	
Original amount of indebtedness	
Unpaid principal	A CONTRACTOR OF THE CONTRACTOR
Date due	
Interest rate	
Interest paid to Periodic payments required	
Description of collateral	
If the above information is in agreement with your reprovided below and return the copy of this letter directly likely above is not in agreement with your records, p shown in your records and any information which make the payments should not be sent to the auditors.	etly to our auditors in the enclosed envelope. lease so note in the space provided the particulars
	Very truly yours,
	[Client's Authorized Signature]
The above information is correct as of	date] with the following exceptions (if any):
D	
Date: Signed:	

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

[Client's Letterhead]

	[Chefit's Betterhead]	
		[Date]
of o	auditors [name and addresour financial statements. Accordingly, please confirm directly to but the merchandise held by you for our account as of	our auditors the following information
1.	The correctness of the quantities shown on the enclosed listing our records (a second copy is enclosed for your files). If quantities you held for us as of [date], please include your response to our auditors.	the enclosed listing differs from the
2.	Your statement on how you determined the correctness of the specify whether determined by physical count, weight or measure your records.	
3.	A list of negotiable or nonnegotiable warehouse receipts iss receipts have, to your knowledge, been assigned or pledged.	ued, if any, and whether or not such
4.	Statement of any known liens against these goods.	
5.	Amount of any unpaid charges as of [date].	
	ase mail your reply directly tonped, addressed envelope is enclosed for your convenience.	[name and address of auditors]. A
		Very truly yours,
		[Client's Authorized Signature]

INVENTORIES HELD BY WAREHOUSES OR OTHERS WHEN LISTING IS NOT PROVIDED BY CLIENT

[Client's Letterhead]

	[Date]
Our auditors [name and addr of our financial statements. Accordingly, please send directly to about merchandise held in your custody for our account at	our auditors the following information
1. Quantities on hand; for each lot please indicate the following:	
(a) Lot number (list each lot separately)	
(b) Date received	
(c) Kind of merchandise	
(d) Unit of measure or package	
(1) Number of units	
(2) Kind of units (box, can, crate, quart, pound, dozen, e	tc.)
2. A statement about how you determined the above requested determined by physical count, weight or measure, or if they remained the above requested determined by physical count, weight or measure, or if they remained the above requested determined by physical count, weight or measure, or if they remained the above requested determined by physical count, weight or measure, or if they remained the above requested determined by physical count, weight or measure, or if they remained the above requested determined by physical count, weight or measure, or if they remained the above requested determined by physical count, weight or measure, or if they remained the above requested determined by physical count, weight or measure, or if they remained the above requested determined by physical count, weight or measure, or if they remained the above requested determined the above requested determi	- · ·
3. A list of negotiable or nonnegotiable warehouse receipts issued have, to your knowledge, been assigned or pledged.	, if any, and whether or not such receipts
4. Statement of any known liens against this merchandise.	
5. Amount of unpaid charges, if any, as of (insert date).	
Please mail your reply directly to the auditors. A stamped, acconvenience.	ddressed envelope is enclosed for your
	Very truly yours,
	· · · · · · · · · · · · · · · · · · ·
	[Client's Authorized Signature]

13.010	SECURITIES HELD BY BROKERS [Client's Letterhead]		
		[Date]	
In connection with the audit as of [date], indicating	[name and address of auditors], a	ease send directly to our auditors a statement of our account(s) with you	
	 Securities held by you for our Securities out for transfer to o Any amounts payable to or du 	our name.	
Please mail your reply directly convenience.	to the auditors. A stamped, address	ressed envelope is enclosed for your	
		Very truly yours,	
		[Client's Authorized Signature]	
Notes to User:	-		

(1) The request should be sent so it reaches the broker sufficiently in advance of the listing date for the broker to respond in a practical manner.

(2) It may be helpful to include the account number(s) used by the broker for the client's account(s).

STANDARD CONFIRMATION INQUIRY FOR LIFE INSURANCE POLICIES

កា	fe insurance	STANDARD CONFIRMATION INQUIRY		Certified Pub Life Office M	y American Institute of lic Accountants. anagement Association and
RFI	urn [J Date:	Million Dollar	Round Table
	io.		appreciated. PLEASE SO	etion of the following rep IF THE ANSWER TO AN STATE. Use the enclose directly to our accountan	Y ITEM IS "NONE," d envelope to return
	1		Yours truly,		
REPORT	' t		1	Name of owner as shown	on policy contract)
NSURA COMPA			Ву		
				Authorized Signa	ture
			Information	requested as of:(Date)
	1		Policy #1	Policy #2	Policy#3
	Additional forms available from	Policy Number			
-	AICPA-ORDER PO BOX 0946	(S) Insured-Name(s)			
	NYC. NY 10108-0946	© Beneficiaries as Shown on Policies (If Verification Requested in Item 11)			
-	1 Face Amount of Bas				
•	2 Values Shown as of	(Insert Date If Other Than Date Requested)			
	3 Premiums, including	g Prepaid Premiums, Are Paid to (Insert Date)			
	Policy Surrender Vol	lue (Excluding Dividends, Additions &			
•	5 Surrender Value of Accumulations & Accumulations	All Dividend Credits, Including additions			
	6 Termination Dividen	d Currently Available on Surrender			
	7 Other Surrender	a. Prepaid Premium Value			
	Values Available to Policy	b. Premium Deposit Funds			
-	Owner	c. Other			
	8 Outstanding Policy	Loans, Excluding Accrued Interest			
	9 If Any Policy	a Interest Accrued on Loans			
	Loans Exist, Complete	b1. Loan Interest is Paid to (Enter Date)			
	Either "a" or "b"	b2. Interest Rate is (Enter Rate)			
		NOTE: PLEASE ANSWER ANY ITEM(s) 10-	12 INDICATED BY A (√).	
•	☐ 10 Is There an Assig	gnee of Record? (Enler Yes or No)			
•	(Enter Yes or No		Ì	* *	*
	☐ 12 Is the Name of If No, Enter Nar	Policy Owner (Subject to Any Assignment) as Sh ne of Policy Owner of Record	own on Top of Form	t □ Yes □ No	
•	If Answer to Item 11 is Date of Last Benefici	s "No." Please Give Name of Beneficiary or ary Change:	Yours truly, (Insura	nce Company)	
	ORIGINAL To be mailed to accountant	Date	Autho	orized Signature - Title	

+		
13.012	SAFE DEPOSIT BOX ACC [Client's Let	
		[Date]
of our financial s	[nam tatements. Accordingly, please confir ween and o'clock.	ne and address of auditors], are conducting an audit m there has been no access to our safe deposit box
		agreement with your records. If it is not, please ur safe deposit box during the period indicated.
After signing and	d dating your reply, please mail it dir	ectly to our auditors in the enclosed envelope.
		Very truly yours,
		[Client's Authorized Signature]
•	-	o the above described safe deposit box during the
Signed:	Diama and Title?	Date:
	[Name and Title]	

	R LONG-TERM DEBT CONFIRMATION [Client's Letterhead]
<i>:</i>	[Date]
Our auditors of our financial statements.	[name and address of auditors] are conducting an audit
Accordingly, please confirm directly to the you, as of [date]:	em the following information relating to our note(s) payable to
Description of terms, e.g., demand p Any other direct or contingent liability	provisions, prepayment penalties, etcties to you
_	with your records, please so indicate by signing in the place is letter directly to our auditors in the enclosed envelope.
	records, please note in the space provided the particulars shown the may help reconcile the difference from our records.
	Very truly yours,
	[Client's Authorized Signature]
The above information is correct as of	[date] with the following exceptions (if any):

[Date] _____

[Signature] _____[Title]

COMPREHENSIVE ENGAGEMENT MANUAL		
13.	014 MORTGAGE DEBT CONFIRMATION [Client's Letterhead]	
	[Date]	
Ou	r auditors [name and address of auditors] are concluding an audit	
of	our financial statements. Accordingly, please confirm directly to our auditors the following information out our mortgage indebtedness to you as of [date]:	
	Original amount	
	Date of note	
	Unpaid principal balance	
	Interest rate	
	Terms for payment of principal	
	Date to which interest has been paid Nature of mortgage and description or address of property mortgaged	
	Amounts on deposit with you in escrow for:	
0.	a. Insurance	
	b. Real estate taxes	
9.	Amounts paid during the period [dates from and to] for:	
	a. Insurance	
	b. Taxes	
10.	Amounts on deposit with you for the "reserve for repairs"	
	The nature of defaults, if any	
2.	Description of terms, e.g., prepayment penalties, demand provisions, etc.	
A :	return envelope is enclosed for your reply.	
	Nome Amelia accusa	

Very truly yours,

[Client's Authorized Signature]

The above information agrees with our records a	[date] with the following exceptions:
Signed:[Name and Title]	ate:

Note to User:

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



A		
13.015	ACCOUNTS PAYABLE CONF [Client's Letterhead]	
		[Date]
	_	
of [date]. Pleas	[name and address of audi e attach a statement of our account	please confirm directly to our auditors tors], the amount of our liability to you as due. If no balance is due, please attach a
statement of our account sl	howing payments made.	
Please mail your reply dire is enclosed for your conve	•	auditors]. A stamped, addressed envelope
		Very truly yours,
		[Client's Authorized Signature]
Our records indicate that a of client] at [date	balance of \$ was due from _	[name

[Name and Title]

Date: _____

13.016	CONFIRMATION OF LINES OF CREDIT
	[Date]
independent auditor description of our l [balance-sheet date] search of your recor-	In audit of the financial statements of [period] then ended, we have advised our soft the information listed below, which we believe is a complete and accurate ine of credit from your financial institution as of the close of business on Although we do not request nor expect you to conduct a comprehensive, detailed ds, if during the process of completing this confirmation additional information about from your financial institution comes to your attention, please include such information
current terms of the	vailable at the financial institution a line of credit totaling [amount]. The e line of credit are contained in letter dated [date]. The related debt ose of business [date] was \$:
The amount of unuse [amount].	ed line of credit, subject to terms of the related letter, at [date] was \$
Interest rate at the c	lose of business on [date] was%.
Compensating balan	ace arrangements are
This line of credit st	upports commercial paper (or other borrowing arrangements) as described below:

8/95

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

nd returning this letter directly to our independent auditorsnd address of auditors].	[name
	Very truly yours,
	[Name of Client]
J	Зу:
•	[Authorized Signature]
ear CPA Firm:	
he above information regarding the line of credit arrangements a astitution.† Although we have not conducted a comprehensive aformation about other lines of credit came to our attention. [Note	e, detailed search of our records, no
he above information regarding the line of credit arrangements a astitution.† Although we have not conducted a comprehensive	e, detailed search of our records, no
he above information regarding the line of credit arrangements a astitution.† Although we have not conducted a comprehensive	e, detailed search of our records, no
he above information regarding the line of credit arrangements a astitution.† Although we have not conducted a comprehensive	e, detailed search of our records, no
he above information regarding the line of credit arrangements a astitution.† Although we have not conducted a comprehensive	e, detailed search of our records, no
he above information regarding the line of credit arrangements a astitution.† Although we have not conducted a comprehensive	e, detailed search of our records, no
he above information regarding the line of credit arrangements a astitution.† Although we have not conducted a comprehensive	e, detailed sea exceptions bel

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

13.017	CONFIRMATION OF CO [Client's L		TIES
	[Chent's I	etterneauj	[Date
	*		
			
In connection with an au	dit of the financial statemen	nts of	[name o
			ended, we have advised our
			is a complete and accurate rantees, with your financia
institution. Although we	e do not request nor expect	you to conduct a comp	orehensive, detailed search o
			information about other line lude such information below
Name of Maker	Date of Note	Due Date	Current Balance
INAME OF WIRKER	Date of Note	Due Date	Current Barance
	Date Through	Description	Description
Interest Rate	Which InterestIs Paid	of <u>Collateral</u>	of Purposeof Note
Information	related to oral and written g	marantees is as follows	
mormation		darantees is as follows	·
		· · · · · · · · · · · · · · · · · · ·	
		•	

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

Please confirm whether the information about contingent liabilities presented above is correct by signing below and returning this directly to our independent auditors [name and address of auditors].		
	Very truly yours,	
	[Client's Authorized Signature]	
Dear CPA Firm:		
The above information listing contingent liabilities, including oral an records of this financial institution.† Although we have not conduct of our records, no information about other contingent liabilities, in came to our attention. [Note exceptions below or in attached letter.]	ted a comprehensive, detailed search icluding oral and written guarantees,	
	[Name of Financial Institution]	
By:	[Officer and Title] [Date]	

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

13.018	REGISTRAR—CAPI [Client's Letter		
			[Date]
Our auditors of our financial statements. A as of the close of business stock:	ccordingly, please confirm	directly to our auditors t	he following information
 Authorized number of sh Issued number of shares Outstanding number of sl 	· · · · · · · · · · · · · · · · · · ·		
Please also indicate the amou	nt of any unpaid registrar f	ees due you as of	[balance-sheet date].
A return envelope is enclosed	for your convenience.		
		Very truly	yours,
		[Client's A	uthorized Signature]
The above information agrees exceptions:	with our records at	[balance-shee	t date] with the following
	Particular and the second seco		
Signed:[Name	Date: _ and Title]		

Notes to User:

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

13.019	TRANSFER AGENT—CA [Client's Letter]	
	<u>-</u>	[Date]
of our financial statements.	Accordingly, please confirm of	and address of auditors] are conducting an audit directly to our auditors the following information or preferred and common stock:
2. Number of shares issue	sharesd and outstandingshares registered in the name	
Please also indicate the amedate].	ount of any unpaid transfer ag	gent fees due you as of [balance-sheet
A return envelope is enclos	ed for your convenience.	
		Very truly yours,
		[Client's Authorized Signature]
The above information agree exceptions:		[balance-sheet date] with the following

Notes to User:

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

13.0	020	RELATED-PARTY CONFIRMATION [Client's Letterhead]
		[Date]
que aud to p in t	stionnaire, sign your nar itors rovide the auditors with ir ransactions with our Com	
	ase answer all questions. I stions are defined at the e	f the answer to any question is "yes," please explain. Certain terms used in and of the questionnaire.
		Very truly yours,
		[Client's Authorized Signature]
		Related-Party Questionnaire
1.	purchases, transfers, le [beginning of client's ye	I party of yours had any material interest, direct or indirect, in any sales, using arrangements or guarantees, or other transactions sincear] to which the Company (or specify any pension, retirement, savings, or the client) was, or is to be, a party?
2.	incomplete sales, purch	rty of yours have any material interest, direct or indirect, in any pending or uses, transfers, leasing arrangements, guarantees, or other transactions to specify any pension, retirement, savings, or similar plan provided by the party?
3.	retirement, savings, or s	d party of yours been indebted to the Company (or specify any pension, milar plan provided by the client) at any time since [beginning of clude amounts due for purchases on usual trade terms and for ordinary travel
The	e answers to the foregoing	questions are correctly stated to the best of my knowledge and belief.
Sig	ned:	Date:
	definitions at end of que	



DEFINITIONS

COMPANY: Parent company and any subsidiary or affiliate.

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

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

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

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

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

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

DEBTORIS) (LAST NAME FIRST)	AND ADDRESS(ES)	PARTY REQUESTING	INFORMATION OR COPIES	FILING OFFICER USE
	1	•		
	:			
	<u> </u>			
PERIOD TO BE SEARCHED: FFFEES: INFORMATION REQUE	ST: \$2.00 per name.		19, TO ed, plus fifty cents for each addi	, 19, INCLUSIVE. tional year searched.
FILING OFFICER:	r 123. \$1.2. per pager	plas they cents for certifi	cation.	
CLUNEORMATION REQUEST: B	iline officer please furi	nish certificate showing s	whether there is on file any pres	ently effective financing statement, any
o 11	ther statement, or any	federal tax lien notice (e.g., give the date and hou	except real estate mortgages ef	fective as financing statements) naming nt, and the names and addresses of each
[] COPY REQUEST: Filing office	r please furnish conies	of each statement or tax	lien notice listed below which is	on file with your office
•	•			on the with your office.
CERTIFIED COPIES: (Check of	only if desired). Please	certify the requested stat	ements or tax lien notices.	
			(Signatur	e of requesting party)
THENUMBER	DATEAND	HOUR OF LILING	NAME AND ADDR	ESS(ES) OF SECURED PARTY(IES)
				•
		PORT TO SHOW REAL TO §4-9-402(6), C.R.S. I		DEEDS OF TRUST) EFFECTIVE AS
CERTIFICATE: 1, the undersigned	filing officer, hereby		a diligent search of the record	s for the period requested above for the
debtor(s) (except any real estate	mortgages effective as	financing statements) wi	hich were on file in my office fro	tax lien notices, which name the above
	, 19, to .		, 19, inclusive	, as per your request:
the attached pages are	true and exact copies o	of all statements or tax lie	n notices on file in my office lis	sted in the above request.
Additional fee requested \$		ie		
				Signature of Filing Officer
FILING COPY 1—To be returned with copi	rs of information			

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

Form UCC-11 Request for information or copies— Bradford Publishing Company, 1846 Stout St. Denver, CO 80202 (573)-50111—12-78

LETTER TO OTHER ACCOUNTANTS UPON WHOSE WORK WE PLAN TO RELY

WHOSE WORK WE PLAN TO [Firm's Letterhead]	O RELY
	[Date]
· · · · · · · · · · · · · · · · · · ·	
We are auditing the financial statements of [parent company]. The financial s	[client's name],
accountants' client's name] that you are auditing are to be in [client's name]. We will rely on y	included in the financial statements of
expressing an opinion on the (consolidated) financial statements name] (and subsidiaries). In that connection, we will refer to yo	of [client's
Please confirm to us that your firm is independent with respect [client's name] and [otherweating of Rule 101 of the Code of Professional Conduct of the Accountants.	er accountants' client's name] within the
Please provide us promptly, in writing, with the following information and the financial statements of	•
Related-party transactions or other matters that have come following related parties:	
2. Any limitation on the scope of your audit that is re	
inquiry.	
Please update your letter to indicate any additional matters of the your attention through the date of your report on the financial staccountants' client's name.	
	Very truly yours,
	[Engagement Partner's Signature]
	[~11949omone rathrer a premitate]

13.023	REPRESENTATION LETTER TO O' [Firm's Letterhea	
		[Date]
are to be incl	on with the report you have been requested [client's name] for the youded comparatively with similar statements for presentations.	ear ended [date], which statements
[client's nam and cash flow any events or would have	dited (or reviewed or compiled) the balance shall as of [balance-sheet date] and the relays for the year then ended. Our procedures in cor transactions subsequent to [predecess a material effect upon the financial statements, that statements of [client's name] for the	ated statements of earnings, retained earnings, innection with the engagement did not disclose for's balance-sheet date] that, in our opinion, or which would require mention in the notes
	ning come to our attention prior to the date our rial effect upon the financial statements covered by	
		Very truly yours,
		[Engagement Partner's Signature]
Note to Use	r:	
If any matter	rs come to the firm's attention that may require be included in a separate paragraph after appro	



13.024 ENGAGEMENT LETTER — AUDIT ENGAGEMENT [Firm's Letterhead]
[Date]
This letter is to confirm my (our) understanding of the terms and objectives of my (our) engagement.
(I) [engagement partner name] will be the partner in charge of all work I (we) perform for you. Auditing and reporting on your financial statements is to be my (our) recurring basic assignment. I (We) would also like to help you with current problems as they arise throughout the year.
(I) We will audit the Company's financial statements for the year ending [financial statement date] for the purpose of expressing an opinion on them. The proper recording of transactions, safeguarding of assets, and the financial statements are the responsibility of the Company's management. (My) Our responsibility is to express an opinion on the financial statements.
(I) We will conduct our audit in accordance with generally accepted auditing standards. Those standards require that (I) we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence which supports the amounts and disclosures included in the financial statements. It also includes assessing the accounting principles used and estimates made by management, as well as evaluating the overall financial statement presentation. If, for any reason, I am (we are) unable to express an unqualified opinion on the financial statements, I (we) will discuss the alternatives with you in order to arrive at an acceptable solution.
Although the audit is designed to provide reasonable assurance of detecting errors and irregularities that are material to the financial statements, it is not designed and cannot be relied upon to disclose all fraud, defalcations, or other irregularities. However, we will inform you of any material errors, and all irregularities or illegal acts, unless they are clearly inconsequential, that come to our attention.
Assistance to be supplied by your personnel, including the preparation of schedules and analyses of accounts, is described on a separate attachment. Timely completion of this work will facilitate the completion of my (our) audit.
As part of my (our) engagement for the year ending [financial statement date], I (we) also will prepare the federal and state income tax returns for [client name].
My (Our) fees will be billed as work progresses and are based on the amount of time required plus actual out-of-pocket expenses. Invoices are payable upon presentation. I (We) will notify you immediately of any circumstances I (we) encounter that could significantly affect my (our) initial estimate of total fees of \$

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

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

Yours very truly,
[Engagement Partner's Name]
[Client's Name]
Accepted:
[Representative's Name]
[Title]
[Date]

13.025	ENGAGEMENT LETTER—COMPILATION ENGAGEMENT [Firm's Letterhead]
	[Date]
	
	er is to confirm my (our) understanding of the terms and objectives of my (our) engagement and re and limitations of the services I (we) will provide.
I (We) w	vill perform the following services:
state:	re) will compile, from information you provide, the annual and interim balance sheets and related ments of income, retained earnings, and cash flows of [client name] for year 19 I (We) will not audit or review such financial statements. My (Our) report on the last financial statements of [client name] is presently expected to read as lows:
	I (We) have compiled the accompanying balance sheet of [client name] as of [financial statement date] and the related statements of income, retained earnings, and cash flows for the year then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.
	A compilation is limited to presenting in the form of financial statements information that is the representation of management (owners). I (We) have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them.
•	(Our) report on your interim financial statements, which will omit substantially all disclosures, will ade an additional paragraph that will read as follows:
	Management has elected to omit substantially all of the disclosures required by generally accepted accounting principles. If the omitted disclosures were included in the financial statements, they might influence the user's conclusions about the company's financial position, results of operations, and cash flows. Accordingly, these financial statements are not designed for those who are not informed about such matters.
	If, for any reason, I am (we are) unable to complete the compilation of your financial statements, I (we) will not issue a report on such statements as a result of this engagement.

• I (We) will assist your bookkeeper in adjusting the books of account so that he or she will be able to prepare a working trial balance from which financial statements can be compiled. Your bookkeeper will provide me (us) with a detailed trial balance and any supporting schedules I (we) require.
• I (We) will also prepare the federal and [state] income tax returns for [client name] for the fiscal year ended
My (Our) engagement cannot be relied upon to disclose errors, irregularities, or illegal acts, including fraud or defalcations, that may exist. However, I (we) will inform the appropriate level of management of material errors that come to my (our) attention and any irregularities or illegal acts that come to my (our) attention, unless they are clearly inconsequential.
My (Our) fees for these services
I (We) shall be pleased to discuss this letter with you at any time.
If the foregoing is in accordance with your understanding, please sign the copy of this letter in the space provided and return it to me (us).
Sincerely yours,
Acknowledged:
Title
Date

•		
13.026	ENGAGEMENT LETTER—REVIEW ENGAGE [Firm's Letterhead]	EMENT
		[Date]
•		•
	irm my (our) understanding of the terms and objective ations of the services I (we) will provide.	es of my (our) engagement and
I (We) will review t	the balance sheet of	[client name] as of
i (we) will leview t	[balance-sheet date], and the related statements of	
cash flows for the year	ar then ended, in accordance with Statements on Standar	•
Services issued by the	he American Institute of Certified Public Accountants.	
I (we) will require a understanding of the responses to inquiries performed during an all significant matter. My (Our) engageme	Il consist primarily of inquiries of company personnel as a client representation letter from you. A review does the internal control structure or assessing control risk, to be obtaining corroborating evidential matter, and cert a audit. Thus, a review does not provide assurance that state would be disclosed in an audit.	s not contemplate obtaining an ests of accounting records and tain other procedures ordinarily at I (we) will become aware of titles, or illegal acts, including
of material errors tha	s, that may exist. However, I (we) will inform the appart come to my (our) attention and any irregularities or ill y are clearly inconsequential.	
	orm an audit of such financial statements, the objective g the financial statements taken as a whole, and according them.	
My (Our) report is p	presently expected to read as follows:	
name] as of income, retained statements of	reviewed the accompanying balance-sheet of	related statements of ed, in accordance with sued by the American ded in these financial

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

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

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

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

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

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

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

Sincerely yours,	
Acknowledged:	
Title	
Date	

•		
13.027	PROPOSAL LETTER	
		[Date]

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

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

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

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

Our services include the following:

Accounting, Auditing, and Attestation Services

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

Tax Services

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

Consulting Services

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

, an audit partner, will be primarily	responsible for your engagement.	
As you requested, our proposal is for	[state nature of services].	
We estimate that our fees for the proposed services wil expenses, billable as the work progresses. Our fees are we encounter any unforeseen circumstances requiring ad situation.	based on time spent on the engageme	ent. Should
Our fee estimate is based on the assumption that your per for us. We also anticipate their assistance in locating in		_
Our firm is organized and staffed to help you satisfy questions about this proposal.	our business needs. Please call	with
	Very truly yours,	
•		
·	[Firm Signature]	*

T		
13.028	INQUIRY LETTER TO LEGAL COUNSEL [Client's Letterhead]	
		[Date]
	· 	
In connection with an	audit of our financial statements at [balance-sheet	date] and for the
	, management of the Company has prepared, and fu [name and address of auditors], a description	rnished to our auditors
•	ling those set forth below involving matters with respect you have devoted substantive attention on behalf of the Con	to which you have been
consultation or repres	esentation. These contingencies are regarded by manager	ment of the Company as
	ose (management may indicate a materiality limit if an undersour response should include matters that existed at	_

Pending or Threatened Litigation

during the period from that date to the date of your response.

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

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

Unasserted Claims and Assessments

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

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

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

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

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

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

٥	Very truly yours,
	[Client's Authorized Signature]
	[Chefit's Authorized Signature]

Notes to User:

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

13.029	INQUIRY LETTER TO LEGAL COUNSEL IF MANAGEMENT HAS NOT PROVIDED DETAILS ABOUT PENDING OR THREATENED LITIGATION
	[Client's Letterhead]
	[Date]
	· · · · · · · · · · · · · · · · · · ·
	·
our auc	ection with an audit of our financial statements as of [balance-sheet date], please furnish litors [name and address of auditors] with information ed below for which you have been engaged to provide legal consultation or representation.
1.	Pending or threatened litigation, claims and assessments (excluding unasserted claims and assessments):
	Please furnish a list of all pending or threatened litigation, claims or assessments your firm is handling on our behalf, including the following: (1) the nature of the litigation (including the amount of monetary or other damages sought); (2) progress of the case to date; (3) how management is responding or intends to respond to the litigation (for example, to contest the case vigorously or to seek an out-of-court settlement); and (4) an evaluation of the likelihood of an unfavorable outcome and an estimate, if one can be made, of the amount or range of potential loss.
2.	Unasserted claims and assessments:
	We understand that whenever, in the course of performing legal services for us with respect to a matter recognized to involve an unasserted possible claim or assessment that may call for financial statement disclosure, if you have formed a professional conclusion that we should disclose or consider disclosing such possible claim or assessment, as a matter of professional responsibility to us, you will so advise us and will consult with us concerning the question of such disclosure and the applicable requirements of Statement of Financial Accounting Standards No. 5. Please specifically confirm to our auditors that our understanding is correct.
	We have represented to [name of auditors] that there are no unasserted claims, which are not specifically identified in this letter, that you have advised us are probable of assertion and must be disclosed in accordance with SFAS No. 5.
•	(If unasserted claims exist, management's listed information should include the following: (1) the nature of the matter; (2) how management intends to respond if the claim is asserted; and (3) an

evaluation of the likelihood of an unfavorable outcome and an estimate, if one can be made, of the

amount or range of potential loss.)

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

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

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

Very truly yours,
[Client's Authorized Signature]

Notes to User:

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



13.0	030	PENSION PLAN ACTUARIAL INFORMATION [Client's Letterhead]
		[Date]
Gen	ntlen	nen:
by of furnis a sect	our inish defi	ection with the audit of our financial statements for the period ending [balance-sheet date] independent auditors, [name and address of auditors], please them the information described below as it pertains to the XYZ Company, Inc. pension plan, which ined benefit plan. For your convenience in response to those requests, you may supply pertinent s, properly signed and dated, of your actuarial report, or pension expense report, if they are le and if they contain the requested information.
A.	1.	ease provide a brief description of the following: The employee group covered. The benefit provisions of the plan used in the calculation of the net periodic pension cost for the period and of the accumulated benefit obligation and the projected benefit obligation at the end of the period.
		Please identify any such benefit provisions that had not taken effect in the year. Please also provide the date of the most recent plan amendment included in your calculation. Please identify any participants or benefits excluded from the calculations, such as benefits guaranteed under an insurance or annuity contract.
	4.	The plan sponsor's funding policy for the plan. Any significant liabilities other than for benefits, such as for legal or accounting fees. The method and the amortization period, if any, used for the following: a. Calculation of a market-related value of plan assets, if different from the fair value. b. Amortization of any transition asset or obligation. c. Amortization of unrecognized prior service cost.
	6.	d. Amortization of unrecognized net gain or loss. Any substantive commitments for benefits that exceed the benefits defined by the written plan that are included in the calculations.
		Determination of the value of any insurance or annuity contracts included in the assets. Nature and effect of significant plan amendments and other significant matters affecting comparability of net periodic pension cost, funded status and other information for the current period with that for the prior period.
	9.	The following information relating to the employee census data used in calculating the benefit obligations and pension cost: a. The source and nature of the data is and the date as of which the census data was collected is b. The following information concerning participants:

-	Participants Participants			umber persons	Compensation (if applicable)
Active Y Termina Active	ly receiving payments with vested benefits ated with deferred vested without vested benefits describe)	d benefits			
	If information is not avail ouped and describe any				
	c. Information for the	following individua	ls contained in	the census:	
	Participants'	Age or			Date hired or years
	ame or number	birth date	<u>Sex</u>	Salary	of service
The auditor should select information from employer records to compare with the census data used by the actuary. In addition, the auditor may wish to have the actuary select certain census data from his files to compare with the employer's records.					
B. Please provide the following information on the net periodic pension cost for the period ending on:					
	Service cost				
	Interest cost Actual return on assets				
4. Other components					
 a. Net asset gain or (loss) during the period deferred for later recognition b. Amortization of net loss or (gain) from earlier periods c. Amortization of unrecognized prior service cost d. Amortization of the remaining unrecognized net obligation or (asset) 					
		e of the initial appl			
_	e. Net total of compor	nents $(a+b+c+d)$			\$
	Net periodic pension con The above measurement following assumptions:	nt of the net period	lic pension co	ost is based on the	*
	Weighted-average disc				

Weighted-average rate of compensation increase

the basis is consistent with the prior period.

Weighted-average expected long-term rate of return on plan assets

Please describe the basis on which the above rates were selected and whether

.%

Please l	oriefly describe the other assumptions used in the above measurement.				
7.	The calculations of the items shown in B1 to B5 are based on the following: Asset information at Census data at Measurement date (must be not more than three months before the end of the last fiscal year)				
	Please describe any adjustments made to project the census data forward to the moor to project the results calculated at an earlier date to those shown in B1 to B5.	easurement date			
	ease provide the following information on the benefit obligations for disclosure in the financial tements for the period ending:				
		Estimated			
2. 3. 4. 5. 6. 7. 8.	—Nonvested —Total b. Additional benefits based on estimated future salary levels c. Projected benefit obligation (a+b) Fair value of plan assets Unfunded projected benefit obligation: (1c -2) Unrecognized prior service cost Unrecognized net loss or (gain) Unrecognized net transition liability or (asset) Additional liability Accrued or (prepaid) pension cost in the company financial statements	\$			
10.	Weighted-average discount rate Weighted-average rate of compensation increase Please provide a brief description of the other assumptions used in the measurement. The calculation of the items shown in C1 to C8 is based on the following:	% %			
20.	Asset information at Census data at Measurement date (must be not more than three months before the current fiscal year end)				

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

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

Very truly yours,
•
[Client's Authorized Signature]

•	COMPREHENSIVE ENGAGEMENT MANUAL
13.	.031 PENSION PLAN ASSETS HELD BY TRUSTEE [Client's Letterhead]
	[Date]
of	Ir auditors [name and address of auditors] are conducting an audit our financial statements. Accordingly, please provide our auditors directly with a listing of the assets cluding market values as of [date] for our employees' pension trust [title and trustee's account number].
	ease also provide the auditors with the following information about our employees' pension trust for the riod from [beginning of period] to [end of period] [see note below]:
1.	Contributions by the Company during the above period.
2.	Contributions by employees during the above period.
3.	Payments to beneficiaries during the above period.
4.	Any unpaid fees due for services rendered to [balance-sheet date].
	ease send your reply directly to our auditors. A stamped, addressed envelope is enclosed for your nvenience.
	Very truly yours,
	[Client's Authorized Signature]

Note to User:

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

REPRESENTATION LETTER—AUDIT ENGAGEMENT

[Client's Letterhead]

[Date of Auditor's Report]

[To the Auditor]

In c	connection with your audit of the financial statements of	[client's
nan	me] for the year ended [balance-sheet date], for the purpose of expressing an operation and the content of the purpose of expressing and operation are the financial statements present fairly the financial position, results of operations, and	pinion as to cash flows
prir	[client's name] in conformity with generally accepted nciples, we confirm, to the best of our knowledge and belief, the following representations ring your audit:	
1.	We are responsible for the fair presentation in the financial statements of financial position of operations, and cash flows in conformity with generally accepted accounting principal	

- 2. We have made available to you:
 - a. All financial records and related data.
 - b. All minutes of the meeting of stockholders, directors, and committees of directors, or summaries of actions of recent meetings for which minutes have not yet been prepared.
 - c. Information relating to all statutes, laws or regulations that have a direct effect on our financial statements.

3. There have been no:

- a. Irregularities involving management or employees who have significant roles in the internal control structure.
- b. Irregularities involving other employees that could have a material effect on the financial statements.
- c. Communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices that could have a material effect on the financial statements.
- 4. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
- 5. The following have been properly recorded or disclosed in the financial statements:
 - a. Related-party transactions and related amounts receivable or payable, including sales, purchases, loans, transfers, leasing arrangements, and guarantees.

- b. Capital stock repurchase options or agreements or capital stock reserved for options, warrants, conversions, or other requirements.
- c. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances and line of credit or similar arrangements.
- d. Agreements to repurchase assets previously sold.
- e. Security agreements under the Uniform Commercial Code.
- f. Contractual obligations for purchases of assets.
- g. Liens, encumbrances, or subordination of assets pledged as collateral in any way.
- h. Subordination of any liabilities.
- i. All lease or rental obligations under long-term leases.

6. There are no:

- a. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.
- b. Other material liabilities or gain or loss contingencies that are required to be accrued or disclosed by Statement of Financial Accounting Standards No. 5.
- c. Estimates subject to material change in the near term or concentrations that make the entity vulnerable to risk of severe impact in the near term that are to be disclosed in accordance with SOP 94-6.
- 7. There are no unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with SFAS No. 5.
- 8. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements.
- 9. Provision, when material, has been made to:
 - a. Reduce excess or obsolete inventories to their estimated net realizable value.
 - b. Reduce all investments for permanent declines in value.
- 10. The company has satisfactory title to all owned assets.
- 11. Provision has been made for any material loss to be sustained in the fulfillment of, or from inability to fulfill, any sales commitments.
- 12. Provision has been made for any material loss to be sustained as a result of purchase commitments for inventory quantities in excess of normal requirements or at prices in excess of the prevailing market prices.



13.	We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
14.	No events have occurred subsequent to the balance sheet date that would require adjustment to, o disclosure in, the financial statements.
[Ch	ief Executive Officer]
[Ch	ief Financial Officer]

13.033 REPRESENTATION LETTER—REVIEW ENGAGEMENT

13.03.	[Client's Letterhead]	
	[Date of Accountant's Report]	•
[To the	e Accountant]	
for the are no with g		at there formity onfirm,
C	he financial statements referred to above present the financial position, results of operationsh flows of [name of client] in conformity with generally accounting principles. In that connection, we specifically confirm that—	ns, and ecepted
a	The Company's accounting principles, and the practices and methods followed in applying are as disclosed in the financial statements.	g them,
b	There have been no changes during the year in the Company's accounting principle practices.	les and
C	We have no plans or intentions that may materially affect the carrying value or classifica assets and liabilities.	ation of
d	There are no material transactions that have not been properly reflected in the fi statements.	nancial
е	There are no material losses (such as from obsolete inventory or purchase or sales commit that have not been properly accrued or disclosed in the financial statements.	tments)
f.	There are no violations or possible violations of laws or regulations whose effects she considered for disclosure in the financial statements or as a basis for recording a loss continuand there are no other material liabilities or gain or loss contingencies that are require accrued or disclosed.	ngency,
g	The Company has satisfactory title to all owned assets, and there are no liens or encumber on such assets nor has any asset been pledged.	rances
h	There are no related party transactions or related amounts receivable or payable that have been properly disclosed int he financial statements.	ave not

i. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.

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

[Owne	r or Chi	ef Exec	cutive Of	fice
[Chinf	Financi	ol Offi	carl	



<u> </u>	
13.034	COMMUNICATION WITH AUDIT COMMITTEES [Firm's Letterhead]
	[Date]
	**_
auditor to comprocess. The foof client] for the	ent on Auditing Standards No. 61, Communication With Audit Committees, requires the municate certain matters to those responsible for the oversight of the financial reporting ollowing comments regarding the scope and results of our audit of [name e year ended [date] will assist you in overseeing the financial reporting and ess for which management is responsible.
Scope of Audit	
Our responsibil	ity is to express an opinion on the financial statements based on our audit. The audit is to

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

Results of Audit

[This part of the letter would address the following:

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

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

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

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

Very truly yours,
[Engagement Partner]
1

Note to User:

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



13.035	RELIANCE LETTER [Firm's Letterhead]	[Date]
	· ·	[Date]
The following is in response	to your letter to our firm dated [d	late].
statements of income, retained were audited as of	[client's name] balance-sheet dated dearnings, and cash flows for the year then [date] and the audit procedures performe audit procedures were performed subseque	ended. The financial statements ed were completed on
require that we plan and per statements are free of material detect a material irregularity, auditor authenticate document for detecting a misstatement t	accordance with generally accepted audit form the audit to obtain reasonable assural misstatement. However, a properly design For example, generally accepted auditing is, nor is an auditor trained to do so. Also a that is unintentional may not be effective for lusion between client personnel and third p	ance about whether the financial gned and executed audit may not standards do not require that an audit procedures that are effective a misstatement that is intentional
as precisely as possible the tra and statements). It should be the financial statements of Because of the limitations misstatements. Accordingly supplant the inquiries and proname] creditworthiness. We should include but not be limit	d to rely on the report and associated statem insaction in connection with which the third proted that the audit procedures performed [client's name] may not be adequated inherent in the audit process we may any our audit was not intended for your best procedures that you should take to satisfy you be recommend that you perform your own duted to the following steps (itemize). We emphat we cannot provide any assurance that the reposes.	party intends to rely on the report in order to render an opinion on the or appropriate for this purpose. In the have detected all material mefit and should not be taken to purself as to [client's like diligence investigation which phasize that this list of procedures
	Ve	ry truly yours,
		ngagement Partner]
Note to User:		

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

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

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



REPORT ON REPORTABLE CONDITIONS

[Firm's Letterhead]

[Date of Auditor's Report on the Financial Statements]
In planning and performing our audit of the financial statements of the [client's name] for the year ended [financial statement date], we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure. However, we noted the following matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.
Bank Reconciliations
Bank reconciliations have been prepared for the operating cash account, but they have not been in agreement with the general ledger, often by as much as At, the general ledger balance varied from the bank reconciliation by \$
In prior years, the bank reconciliations did not reconcile exactly to the general ledger; however, the variances were not as significant as in 199X. To maintain effective internal controls over cash, it is critical that bank accounts be reconciled to the general ledger monthly with differences identified and resolved immediately. At the present time, an adjusting journal entry should be made to bring the general ledger balance into agreement with the reconciled balance.
Accounts Payable
A listing of accounts payable as of could not be produced to support the general ledger amount. We were able to reconcile accounts payable to the general ledger amount by reviewing computer-generated accounts payable listings dated, along with examining unpaid invoices at the time of our field work.
As indicated in previous letters to the Board, accounts payable has been an ongoing problem due to the fact that the accounts payable listing is not reconciled to the general ledger monthly. Proper recording of accounts payable is a key to maintaining adequate financial statements. Whether computer-generated or manually prepared, a detailed accounts payable listing should be reconciled monthly to the general ledger balance. All reconciliations should be reviewed and approved by someone other than the preparer, with the reviewer being responsible for ensuring that all differences are resolved.
Property and Equipment
Documentation provided to support the changes in property and equipment was not in agreement with the changes in the general ledger balances, for some categories, by as much as Also, the computer-generated list of property and equipment was not in agreement with the total property and equipment recorded in the general ledger; therefore, this listing was not a useful resource.

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

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

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

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

Very truly yours,		
•		
	•	

REPORT ON REPORTABLE CONDITIONS THAT ALSO IDENTIFIES A MATERIAL WEAKNESS

[Firm's Letterhead]

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

In planning and performing our	audit of the financial statements of the	[client's name]
for the year ended	[financial statement date], we conside	ered its internal control
structure in order to determine of	our auditing procedures for the purpose of express	sing our opinion on the
financial statements and not to pr	ovide assurance on the internal control structure.	However, we noted the
following matters involving the in	nternal control structure and its operation that we c	onsider to be reportable
conditions under standards est	ablished by the American Institute of Certifie	d Public Accountants.
Reportable conditions involve n	natters coming to our attention relating to signifi-	cant deficiencies in the
design or operation of the inter	rnal control structure that, in our judgment, cou	ld adversely affect the
entity's ability to record, proces	ss, summarize, and report financial data consisten	t with the assertions of
management in the financial stat	tements.	

Accrued Vacation

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

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

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

Bad Debts

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

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

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

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

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

Blank Checks

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

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

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

very truly yours,	
[Engagement Partner]	

8/95

13.038	INSURANCE IN FORCE CONFIRMATION REQUEST [Client's Letterhead]		
		[Date]	
			
		ddress of auditors], are conducting an audit of our financial nfirm the details of our insurance coverage in force at ibed below:	
	Policy number		
	Insurance company		
	Type of coverage		
	Amount of coverage	<u> </u>	
	Co-insurance, if any		
	Term of policy		
	Gross premium		
	Amount of unpaid premiums		
	Loss payees, if other than us	<u></u>	
	Claims pending at [dat	te]	
is not, i		cords and inform our auditors, in the space below, if it is, or r signing and dating your reply, please mail it directly to our	
		Very truly yours,	
		[Client's Authorized Signature]	
The abo		rds at [balance-sheet date] with the following	
<u> </u>			
Signed:	[Name and Title	Date:	

ILLUSTRATIVE LETTER TO ACTUARY REQUESTING EMPLOYER'S BENEFIT COST INFORMATION

[Client's Letterhead]

[Date]
n connection with the audit of our financial statements for the period ending [fiscal year and] by our independent auditors [name, address] blease furnish them a copy of the most recent actuarial valuation report for [name of plan]. If a complete actuarial valuation was not prepared as of [date], please provide any reports or letters that summarize end-of-period amounts f the information requested below is included in the valuation report, you may refer to the location in your eport rather than repeating such information.
A. Please provide a brief description of the following:
 The participant group(s) (for example, employee, retiree and dependent group[s]) covered, and the types of benefits provided.
2. The provisions of the substantive plan at the beginning of the period used in the calculation of the net periodic postretirement benefit cost for the period.
3. Any changes between the provisions of the substantive plan at the beginning of the period used in the calculation of net periodic postretirement benefit costs and the substantive plan used in the calculation of the accumulated postretirement benefit obligation (APBO) at the disclosure date Additionally, please specify the following:
a. The disclosure date (which cannot be more than three months prior to the end of the period)
b. How these changes were included in the net periodic postretirement benefit costs for the period.
4. The date and description of plan amendments adopted during the period and whether the amendment(s) were included in items 2. and 3. above.
5. Any participants, benefits or plan terms excluded from the calculations and the reasons for their exclusion.
6. The funding policy for the plan if other than pay-as-you-go.
7. Any significant liabilities other than for benefits.
8. The method and the amortization period, if any, used for amortizing:
a. Any transition asset or obligation.



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

Participants		Number of persons	Compensation (if applicable)			
Retirees and benefi	_					
Dependents of retir	•					
Active employees f	•					
Terminated employ						
Active employees r	not fully eligible for	r benefits				
Other (identify)						
c. Information for the following participants:						
Participants'	Age or			Date hired		
name or	birth			or year of		
number	date	Sex	Salary	initial eligibility		

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

В.		ase provide the following components of the net periodic pe A.2. above):	ostretirement benefit	cost for the period
	1.	Service cost		\$
	2.	Interest cost		
	3.	Actual return on plan assets	,	
	4.	Other components, net:		
		a. Net asset gain (loss) during the period deferred for later recognition	\$	
		b. Amortization of net loss (gain) from earlier periods		
		c. Amortization of unrecognized prior service cost		
		d. Amortization of the transition obligation		
		e. Net total of other components $(a+b+c+d)$	teneral transfer and the	
	5.	Net periodic postretirement benefit cost (1+2-3+4e)		\$
C.		ase provide the following information related to the AP ve):	PBO as of the disclos	ure date (see A.3.
			Beginning of period (transition date)*	End of period
	1.	Accumulated postretirement benefit obligation (APBO)		
		a. Retirees and beneficiaries eligible for benefits	\$	\$
		b. Dependents of retirees eligible for benefits		
		c. Active employees fully eligible for benefits		
		d. Terminated employees fully eligible for benefits		
		e. Active employees, not fully eligible for benefits		
		f. Other (identify)		
		g. Total (sum of 1.a1.f.)		

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



			Beginning of period (transition date)*	End of period
	2.	Fair value of plan assets		• • • • • • • • • • • • • • • • • • • •
	3.	Funded status (1.g2.)		
	4.	Unrecognized prior service cost		**************************************
	5.	Unrecognized net loss (gain)		
	6.	Unrecognized transition obligation (asset)		annessa contra estado de c
	7.	Accrued (prepaid) postretirement benefit cost (3 less items 4-6)	\$	\$
D .		ase provide the following information regarding the ass tretirement benefit cost and APBO. If a published sta		
EC	ONO	OMIC ASSUMPTIONS	Net periodic cost	APBO
	1.	General inflation (e.g., CPI)	%	%
	2.	Weighted-average discount rate	%	%
	3.	Weighted-average rate of compensation increase	%	%
	4.	Weighted-average expected long-term rate of return on plan assets	 %	% ·
	5.	Estimated income tax rate included in rate of return	%	%
	6.	Method used to determine market-related value of assets	 %	%
EM	IPLO	OYEE DEMOGRAPHIC DATA		
	7.	Employee turnover rates by age	Describe or	attach table

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

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

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

SPECIFIC ASSUMPTIONS FOR RETIREE **HEALTH CARE BENEFITS** Net periodic cost **APBO** 13. Weighted-average administrative (e.g., claims settlement, legal, accounting, plan administration, etc.) as a percentage of claims or other basis for assumption _% .% 14. Percentage expecting to elect coverage under the plan: a. Future retirees -% .% _% b. Their dependents 15. Health care cost trend rates (please provide rates for each year to the ultimate rate) Describe or attach table

- a. Please state whether these rates are applicable to gross eligible charges or to net incurred claims cost. If applied to net incurred claims, please state what adjustments were made and what rates are to be shown for disclosure.
- b. The effect of a one-percentage-point increase in assumed health care cost trend rate on:
 - i. The aggregate of service and interest cost components of net periodic postretirement benefit costs.
 - ii. APBO.
- 16. Please state whether the above assumptions are consistent with the prior period, and, if not, explain the reason for the changes.

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

Yours very truly,	
	_
[Client Official]	



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CHAPTER 14

STANDARD WORKING PAPERS PACKAGE

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CHAPTER 14

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CHAPTER 14

STANDARD WORKING PAPERS PACKAGE

14.000 STANDARD WORKING PAPERS

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

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

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

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

8/95 14.003

Working Paper Indexing

ASS	ETS:	LIABILITIES:
A	Cash	AA Notes payable and long-term debt
В	Accounts and notes receivable	BB Accounts payable
С	Inventories	CC Accrued expenses and other current liabilities
D	Prepaid expense	DD Income Taxes
E	Securities and investments	GG Commitments and contingencies
F	Other assets	RR Other noncurrent liabilities
K	Fixed assets and accumulated depreciation	SS Equity
О	Intercompany accounts	
OPE	ERATIONS:	ILLUSTRATIVE INDEXING: Lead sheet—fixed assets K
TOC	C Tests of controls	Summary of additions and deletions , K-1
AP	Analytical procedures	Individual schedules of additions and deletions $\frac{K-1}{1} = \frac{K-2}{2}$
10	Sales	
20	Costs of sales	Supporting documents for individual schedules $\frac{K-1}{1} \cdot \frac{K-2}{2}$
30	Selling expenses	
40	General and administrative expenses	•
50	Other income	
60	Other expenses	
70	Other	

EXPLANATION OF STANDARD TICKMARKS

		i	PREPARED BY
			PREPARED BY DATE
			D7 (1 to
	MARK	EXPLANATION	
	IVIAIN	LAFLANATION	
	F	Footed	
21	<u> </u>	Footed	
		O	
	CF	Crossfooted	
	0.0		
	G/L	Traced to general ledger	
<u></u>			
	С	Confirmed	
		- 	
		Examined supporting invoice	
		Calculation verified	
	7.5	<u> </u>	
	T/B	Traced to trial balance	
	<u>.</u>		
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CORRESPONDENCE CONTROL

				PREPARED E	Y
				DATE	
		Date	Date	Date	Date
	A didregage	First	Second	Subsequent	Confirmation
	Addressee	Request	Request	Requests	Completed
					,
Description					-
Bank confirmations					
Cutoff statement					
Account balances					
Contingent liabilities					
Credit lines					
Compensating balances					
Securities custodian confirmations					
Notes receivable confirmations					
Accounts Receivable confirmations					
Consigned inventory confirmations					
Warehoused inventory					
Deposit receivable confirmations					
Safe deposit box access confirmations					
Insurance in force confirmations					
Notes payable confirmations					
Accounts payable confirmations					
Customer deposit payable confirmations					
Employee benefit plan confirmations					
Related party confirmations					
Lawyer letters					
Lawyor leners					
Client representation letter					
Other					
<u> </u>	L			L	L

WORKING TRIAL BALANCE - ASSETS

.10.	<i>-</i>													 _			_			,	 		 							_		,		, , ,
		Final	This	Year																														
PREPARED BY	DATE	Reclassifications	Dr.	(CR.)																														
		Adjusted	Ínis	Year																														
		Adiustments		(CR.)																														
		Per	Ledger	This Year																														
		Final	Prior	Year																														
					Cash	Marketable securities	Notes receivable	Less allowance for doubtful accounts	Trade accounts receivable	Less allowance for doubtful accounts	Net	Accounts receivable - related narios	- Other	miconne lax rejundable	Inventories.	Merchandise	Finished goods	Work in process	Raw materials	Total	Prepaid expenses	Investments	Fixed assets	Land	Buildings	Leasehold improvements	Machinery and equipment	Furniture and fixtures	Total	Less accumulated depreciation	and amortization	Net	Capitalized leased assets	Other assets:
		Working	Paper	Reference																														

WORKING TRIAL BALANCE - LIABILITIES AND STOCKHOLDERS EQUITY

						PREPARED BY		
					A	DATE		_
Working		Final	Per	Adjustments	Adjusted	Reclassifications	Final	
Paper		Prior	Ledger		This	Dr.	This	, .
Reference	Description	Year	This Year	(CR.)	Year	(CR.)	Year	-
	Liabilities:							_
	Notes payable							
	Accounts payable							
	Accided expenses							
	Federal and state income							
	taxes payable							
	Current							
	Dererred							
	Other current liabilities							
	Current portion of long-term debt							
	Long-term portion of long-term debt							
	Deferred Federal and state income taxes							
	ממימו מומים ומימים ומימים ומימים ומימים							
	Capitalized leased obligations							
	Stockholders' equity:							
	Capital stock							,,
	Additional paid-in capital							
	Retained earnings							
				1				_

WORKING TRIAL BALANCE - REVENUES, COSTS AND EXPENSES

LEAD SCHEDULE

14.106		
	Year	
PREPARED BY DATE	(CR.)	
	Year	
	(CR.)	
	This Year	
	Year	
	Description	
	Reference	

CASH ON HAND

				PREPARED BY	
				DATE	
	 			D7 (1 L	
WORKING					
PAPER			BALANCE	OVER	BALANCE
PAPER	OAGUED	LOCATION OF FUND	DED ACCOUNT	CHORT	PER BOOKS
REFERENCE	CASHIER	LOCATION OF FUND	PER ACCOUNT	(SHURT)	PER BOOKS
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				1	

BANK RECONCILIATION

						PREPARED	BY
						DATE	
							-
Balance per	bank						
					•		
Deposits	in transit						
		-4:					
							
Dadicate							
Deduct:							
Outstand	ng shecks		<u> </u>	<u> </u>			
Outstand	ng snecks	,					
Ohter recon	csiling itams	(describe)					
Critici recor	coming items	(acounc)					
							,
	-						
							
							
					<u> </u>		
	,						
				•			
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			<i>*</i>				
		<u></u>	- - · · · · · · · · · · · · · · · ·				
Ralanco no	hooks hofe	o adjustme					
Balance per	חחרים חפום	e aujustinei	11.				
Adjustments	(identify an	d desribe):					
, ajastifici its	(identify are	a acombej.					
Bank serv	rice charges						
	3950						
Bank char	ges for retu	rned checks					
	322.37.1319						
						·	

TRANSFERS

14.109

·					 	 			 	 		 	 					 		_
				Remarks																
PREPARED BY	DATE	Date	Posted	By Bank																
			Bank in	eposited																
			Date	Per books																
		Date		Y																
		Date	Endorsed Posted	By Bank											•					
			Bank on	Payeee Amount Which drawn																
			Check	Amount			,													
														,					_	
				Number																
			Date	Per books Number																

ACCOUNTS RECEIVABLE AGED TRIAL BALANCE

14.110																•
	Amount															
PREPARED BY DATE		Explanation					Application in the state of the									
	Alternative Procedures	Performed														
		Over 90 Days						٠					•			
	Past	31-60 Days 61-90 Days														
	Current	1-30 Days														
	Balance	Ledger														
	Number	Negative														
	1 181	Positive														

ALLOWANCE FOR DOUBTFUL ACCOUNTS

	PREPARED BY		
	DATE		
Balance at beginning of period			ļ <u>.</u>
Add:			
***************************************	Provision for the period		
	D		
	Recovery of written off accounts		ļ
			-
	Subtotal		
	Gubiotai		
Deduct:			
	Accounts written off		
			-

		<u>va</u>	
Balance at end of period - unadjusted			
Adjustments		· · · · · · · · · · · · · · · · · · ·	
			<u></u>
Balance at end of period - adjusted			

14.112 ACCOUNTS RECEIVABLE CONFIRMATION STATISTICS

			PREPARED B	M
			DATE	
	1	lumber		Dollars
	Amount	%	Amount	%
Circularization:				
Positive requests				
Negative requests				
Total circularized				
No requests sent				
Total accounts receivable at				
Date of confirmation		100%		100%
Date of committation				130,70
Results (Replies received through				
No differences reported:				
Positive replies:				
Negative requests				
Differences reported				
and resolved:				
Positive replies				
Negative replies				
No positive replies				
				
Total confirmed				
Total confirmed				-
				-
				

á 14.113

NOTES RECEIVABLE

		Accrued end	Dellog Dellog																											-
À	\bot	Acc	5 	L	Ц				-	_	-	-	_	-	ļ	_				4	4	1	4	-	\dashv		_	_	_	-
PREPARED BY DATE	INTEREST	Dogical	Kecelved																											
		1 (Еаглед																								•••	.		
		Accrued Begin.	or period																											
			9																											
		Boto	кате																											
			_																											
	NOTES	Additions Balance at end of period	Tiell																											
		Additions	rayments)																							,				
	Balance	Beginning	oi period																											
		ateral	Valuation																											
		Collateral December (Appl. 124)	Describilor																											
		Face Amount	ol Note																											
		9																												
		Date Made	Made																											
		Maker	MIGNE																											

14.114 RECONCILIATION OF BOOK AND PHYSICAL INVENTORIES

1		PREPARED B	Y
		DATE	
			Other/
Materials	Process	Goods	supplies
		-	
			
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	Raw Materials		Raw Work in Finished

PHYSICAL INVENTORY CUTOFF DATA

		1	PREPARED BY	
-			DATE	
-				
	Last sales invoice number used			
	Last sales invoice number used Last "return from customer" number used			
	Last shipping report number used Last bill of lading number used Last receiving report number used Last "return to vendor" number used Other cutoff information:			
	Last hill of lading number used			<u> </u>
	Last receiving report number used			
	Last "return to vender" number used			
	Other outoff information:			
	Other cutoff information.		1	
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RAW MATERIAL'S PRICING TEST

14.116

Explanation	
PREPARED BY DATE Difference	
ors Invoice Organity I Int Cost Extension	
tidII	
Per Vendors Invoice Invoice No Originality II	
Per Vend Invoice No	
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lory	
Per Clients Inventory	
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Description	
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Tag	

PREPAID INSURANCE

14.117

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			Ending	Daiaice																														
PREPARED BY		Prepaid																								,		,						
44		Prej	Additions												, [
			Original Beginning	Dalalice					:											1.								,	•	!				
			Original	LIGINALL						-																		·	•				•	,
			Terms of Goverage											ļ																•				-
			Terms of	101 101 101																			,											
		Book Value	of Assets	Daling								•																٠						
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		Coverage	Coincurance	Collisoriation		-		•			1						-													-				
			- ACV	- Abe																														
	 		Policy Number Company	Company	-		+										+																+	
			Policy																															

PROPERTY, PLANT AND EQUIPMENT

14.110		
	Bal. End of Period	
PREPARED BY DATE		
PREPAF DATE Accumulated depreciation	Provisions	1
Aco	Bal. Begin of Period	
	Account Rate and Number Method	
	Account	
	Bal. End of Period	
Cost	Disposals	
	Additions	
	Bal. Begin of Period	
	Account Number Description	
	Account	

ADDITIONS

		T	[PREPARED RY	1
		 		PREPARED BY DATE	
		 			
			Estimated	New or	
Date	Vendor	Description	Estimated Life	New or Used	Cost
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5			(Loss)										1				_			1		_	
PREPARED BY	DATE		Proceeds																				
		1000 V	Depreciation																				
			Cost																				
		Depreciation	and method																				
			Description					4404												The state of the s			
						+																	
			Vendee																				
		170	Acquired																				
			Sold																				

DISPOSALS

Total Market Value PREPARED BY DATE Per share Ş End of period Face Amount No. Shares Amort.
Gain (Premium)
(Loss) Discount Disposal Face Amount Cost Proceeds No. Shares Additions Face Amount Cost 8 No. Shares Beginning of Period
No. Face
Description Shares Amount Cost

INVESTMENTS IN SECURITIES

NOTES PAYABLE AND LONG-TERM DEBT

14.122

		Accrued end	of period																			,
PREPARED BY			Paid	de aller e																		T
	INTEREST		Expense																			
		Accrued Begin.	of period																			
		Paid	t																			
		Balance	End of period																			
	NOTES		Payments [T
			Additions																			
		Beginning	of period																			
		Collateral	Description																			
		[달	of Note																			
		Date	Due																,			
		Ω	Made																			
			Payee																			

SUMMARY OF CARRYOVERS

Expiration Year of PREPARED BY DATE Amounts Remaining TAX RETURN Applied to Amounts Years Applied Amount FINANCIAL STATEMENT Amounts Years Amounts Applied Applied to Remaining Amount Net operating Losses 00000000 0000000 Contributions FYE FYE FYE FYE

STOCKHOLDERS EQUITY ANALYSIS

	ined	No.				
D BY		Acct. No.				
PREPARED BY DATE	Add'l Paid	Capital Acct. No.				
		뒫				
	1	TreasuryStock No shares Amou				
	onnt No.	12				
	Common Account No.	Number of shares				
	Account No.	Amount				
	╂┯╂	Number of shares				
		Description	Balance, beginning of year			Balance, at end of year
		Reference				<u> </u>
		Date				

Footings checked? PREPARED BY DATE Prices correct? Type of goods SHIPPING REPORTS SAME AS INVOICES FOR:

Number Quantities Te Account SALES JOURNAL ENTRIES SAME AS INVOICES FOR:
Name Date Amount A Customer Name Invoice Goods Sales Ir Date Number

TESTS OF CONTROLS - SALES TRANSACTIONS

TESTS OF CONTROLS - CASH DISBURSEMENTS AND PURCHASES

14.126																		•						
	Correct Cash Discount Taken																							
PREPARED BY DATE	Inv. P.O. Receiver All Present																							
	Agreement Agreement of of Ouantities Prices																							
	Agreement of Quantities																							
	Voucher Package Canceled																							
	Correct Accounting Distribution									į						}								
	Receiving Clerical Authorized Correct Report Account accuracy of Approval of Accounting No. charged Inv. & P.O. Inv. & P.O. Distribution																							
	Clerical accuracy of Inv. & P.O.																							
	ving rt Account charged								_													_		
	Receiving Report A No. c				-			_	-		-	-		1	+	_			4		-	-	1	
	P.O.	+	\parallel	-	\downarrow	-		+	-					-	-	-			-	\downarrow	+	-	+	
	Invoice Amount																							
	Invaice Date No.			-	$\frac{1}{1}$			$\frac{1}{1}$																
	Vendor Da	.										+												+
	Check Date No.	+			+	-			-		1	-			+					-	1	+	+	+
	Dat co				\perp		Ш				\perp	L		\perp	\perp				\perp					

End. Agrees with W-4 PREPARED BY DATE Net Pay Calculations Correct Vol. W/H Correct Inc. Tax FICA
Calculations Calculations Auth. for
Correct Correct Vol. WIH Exemptions agree C with W-4 Gross Pay Correct Time Cards Rate Agrees
Agree O/T Hours with
with P/R Approved Pers, files Employee No. Date No. Check

TESTS OF CONTROLS - PAYROLL

PENSION ACCOUNTING WORKPAPER

				l				PREPARED BY	
				L				DATE	
			·						
		JOL	RNAL E	NTRY	мемо со	DES			
				Prepaid (accrued)	Projected benefit		Deferred	Prior	Deferred
		Pension		(accrued)	henefit	Plan	transition	service	unexpected
		expense	Cash	expense	obligation	assets	loss	cost	cost
	12/31	expense	Casii	expense	Obligation	a55015	1033	COSE	COSL
	12/31								
Service Cost									
nterest					1				1
Actual Return						7.			
Jnexpected loss							<u></u>		
Thexpedica loss		-							
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PSC allocation									
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Contribution									
Benefits									
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14.129

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

								UAIE	
	Balahces	Net	Rec	Investing	Investing Activities	Financir	Financing Activities	Noncash	Description
		Change	Adj.	Cash out	Cash in	Cash out	Cash in	Activities	
Assets:									
Cash and Cash equivalents									
Accounts receivable									
Allowance for doubtful accounts									
Notes received a									
increase and									
Inventory		-							
riebala expenses									
Investments									
Property, plant and equipment									
Accumulated depreciation and amort.									
Intangible assets									
Legend:									
(A), (B) - Disclosure information on page 3.									

(CONTINUED)

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

								DATE	
			-			i			:
	Balances	Net	ž	Investin	Investing Activities	Financ	Financing Activities	Noncash	Description
The second secon		Criange	į	Cash out	Casu	Cash out	Castrin	Acuvines	i
Liabilities:									
A									
Accounts payable and accrued expenses									
Interest payable (A)									
Income taxes payable									
Short-term debt									
Lease obligation									
one-term debt									
מבים מבים מבים מבים מבים מבים מבים מבים									
Deferred taxes					3				
Other liabilities									
Total Liabilities									
		+							
Stockholders' Equity:		-							
Capital stock									
Retained earnings									
26									
Current earnings									
									i
Total Stockholders' Equity									
Total Liabilities and Stockholders' Equity									
Net cash provided									
	_	_		_		_			

(CONTINUED)

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

_	Balances	ta/N	Reclass	Investing	Investing Activities	Financir	Financing Activities	Noncash	Description
		ande	Adi.	Cash out	Cash in	Cash out	Cashin	Activities	
Reconciliation of Net Earnings to Net Cash Flow:									
Accrual basis net earning (Page 2)									
Adjustments:									
Depreciation and amortization									
Sale of facility:									
Cost									
Accumulated depreciation									
1000									
Davis de l'Ican									
Provision for doubtful accounts									
Indictributed comings of affiliate									
Distriction California de la constanta de la c									
Distribution of earnings by armilate									
rayment rect on inventory installment note									
Increase in deferred taxes			1						
Increase in other liabilities									
Change in assets and liabilities									
Increase in accounts receivable									
Decrease in inventory									
Increase in prepaid expenses									
Decrease in accts. pay. and acc. exp.							- Constitution		
Increase in interest and income taxes payable									
Net cash (provided) applied									
Disclosure information;									
(A) Interest on accrual basis									
Add beginning accrual									
Subtract ending accrual									
Interest paid									
(B) Income taxes on accrual basis, net of deferred									
of \$ (Inc. Stmt)									
Add beginning accrual (from above)									
Subtract ending accrual (from above)									
Income taxes paid									
	+								

FAS 109 YEAR END RECONCILIATION

		1	14.	13	0																									
			BALANCE SHEET			NonCurrent	DR (CR)	¥																						11 11 11 11 11 11
PREPARED BY	DATE		BALA			Current	DR (CR)	ſ																						11 11 11 11
			VOTE		Valuation	Allowance	(CR)				1		Ô									Û								11 11 11 11 11
			FOOTNOTE			Tax Effect	DR (CR)	I																						# H
						Tax Rate	%	g															1							
				Cumulative	Current Year	Balance	DR (CR)	ш																						H H H H
			/EAR			Other	DR (CR)	ш			İ																			11 (5)
			CURRENT YEAR			Sch M-1	DR (CR)	D																						(6)
					Prior Year	Tax Return	DR (CR)	၁																		,				11 11 11 11 11
			CUMULATIVE			Difference	DR (CR)	В																						1 1 1 1 1 1 1
					Prior Year	Workpaper	DR (CR)	4																						# # # # # # # # # # # # # # # # # # #
							REF Temporary Difference			FUTURE BENEFITS (DR)					NOL Carryforwards By	Origination Year:			Tax Credit Carryforwards:				THOSE ASSET	GROSS ASSET	FUTURE LIABILITIES (CR)				GROSS LIABILITY	TOTAL-NET DR (CR)
			\perp			dΜ	REF		Ш			1	1	1			1			١	1		1				1	1		

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

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

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

Deferred Tax Asset Valuation Allowance

				Prepared By	
				Date	
				1	
INSTRUCTIONS: Prepare this workpaper whenever there is a gros	e deferre	ad to	v		
asset. If SCHEDULING of the reversal of the future deductions is re			^	-	
evaluate recoverability, substitute the year—by—year schedule for			er.		
Total data Todovora bility, od bolitate and year by year bolicacio to	uno work	, P ~ P	1		
Gross Deferred Tax Asset From FAS 109 year end					
reconciliation workpaper	\$				
Less: Income Taxes (Federal and State) Paid or Payable for Curre	ent and				
Immediately Preceding Two Years. (Exclude State Taxes				<u> </u>	
if no carryback is permitted):					
Tax Paid for 19 \$				<u> </u>	
Tax Paid for 19 \$	·			-	
Tax Paid/Payable for 19 \$					
Total Paid \$(A)					
Taxes Refundable accrued					
at .19 \$				 	
(Year End)					
	\$()			
THOU TON	<u> </u>				
Deferred Tax Asset not recoverable through carryback				 	
	\$()			
Less: Gross Deferred Tax Liability from FAS 109					
year end reconciliation workpaper	\$()			
Caution: Deferred Tax Liabilities and Assets of separate					
jurisdiction (e.g., federal vs. state) should not be offset,					
if material.					
Deferred Tax Asset to be recovered from future taxable income oth	er			 	
than reversal of temporary differences if negative, show ZERO and provide no allowance	\$((B)		
Il flegative, show ZENO and provide no allowance	<u> </u>	'	(D)		
Test of Profitability:					
If a going concern modification would be applicable to this entity	tv. provic	de			
a valuation allowance equal to (B) above.					
ii. Amount from (A) above					
divided by 3 \$(C)					
(B) divided by (C) \$(D)					
				 	
Is (D) greater than 3?	YES	•	NO		
Do the immediately preceding two years show cumulative		_		<u> </u>	
Do the immediately preceding two years show cumulative or zero GAAP earnings?	YES		NO	-	
of zero GAAF earnings:	I LC	'			
Is next year expected to have a GAAP loss or be break-even?	YES	3	NO	-	
Are there unsettled circumstances that make it more than					
likely that GAAP profits will be significantly below the average					
profits of the last three years?	YES	3	NO		
		\Box			
If all answers are NO, then no allowance is needed.		_			
III 16 141 I II	N== -1-6-		 		
iii. If neither i. nor ii. are applicable, prepare a workpaper analyzing documenting the judgements leading to a partial or full allowance				ai IU	
documenting the judgements reading to a partial or full allowand	e equal l	<u> (E</u>	٠)٠		
		- 1			

		·	,	~				
ļ	<u> </u>			ļ	Tax Ex	pense Com	putation	Brossed Bu
 	<u> </u>			 	 		ļ	Prepared By Date
	┢			 	1			Date
	\vdash						Reconciliation	
					Tax		of Expected to	
					Provisio	n	Actual	
	_	TAX RETURN		ŝ	<u> L</u>	@ 34%	s	European Fordard Tou Beautains
		Income (Loss) Before Income Taxes Change in temporary differences -		-	T	W 34%	*	Expected Federal Tax Provision
	٤.	Net Schedule M-1 Items		 	 	 		
		from FAS 109 Reconciliation			†	<u> </u>		
				I				
WP Ref	3.	Permanent Differences: (list)		<u> </u>	<u> </u>	Permane	nt Differences:	
			ļ <u>. </u>		1	@ 34%		
			\$	-	 	@ 34%		
			\$	 	├	@ 34%		
	\vdash		\$	 	 	@ 34%	·	
			\$	 		@ 34%		
			\$			@ 34%		
		Total Permanent Differences						
	4.	Taxable Income BEFORE STATE TAX	XES		ļ			
	_	State Income Tax I 0/1 (Illes asset	1000	 	-	@66%	ļ	State tay not
	٥.	State Income Tax (%) [Use separ worksheet, if necessary, for	ale	 		<u> </u>		State tax, net
		computation of state income tax		 	 			
		computation of state medine tax)			 			
	6.	Taxable Income - FEDERAL	i	·			<u> </u>	
	7.	Federal Tax - Use Separate Workshe	et,					
		if necessary	[Graduated rates
					L			
	8.	Additional accrual/Rounding	ļ					Additional accrual/Rounding
		Total Current Provision	ļ				<u> </u>	
	9.	Total Current Provision	-		1			
		DEFERRED TAX			-			
	10	Beginning of Year (FAS 109 Year En	d Reconcilia	ation				
		times prior year rate PLUS Tax Cre-	dit					
		Carryover)						
				L	<u> </u>			
	11	End of Year (FAS 109 Year End	1				·	
		Reconciliation Column H)	ļ	r				
	12	Gross Change	ļ					
	12	dioss change						
-	13	Less changes related to Equity Items	<u> </u>					
		(FAS 109, par 36):						
								·
		Prior Period Adjustments						
		Noncurrent Marketable Securities		ļ	<u> </u>			
		New Change			L	(2)		Rate changes
	14	Net Change	ļ			(2)		nate changes
	15	Valuation Allowance	ļ <u></u>	 				
	.,	Valuation Anovance		1				Change in Valuation Allowance - Exclude (1)
		End of Year						changes due to expiration or
								carryforwards and credits, and (2) purchase
		Beginning of Year						accounting.
		Change in Valuation Allowance						Actual Tax Provision - prepare a separate
		Takel Batania S Breedition		İ				• •
	16	Total Deferred Provision	ļ	 				column or workpaper for continuing operations if different than net income.
	17	Total Provisions	ļ	\$				oporations if different thair net mounts.
	''	TOTAL FIDVISIONS	 	=====				
	-		<u> </u>	<u> </u>	Γ			
	18	\$		<u> </u>				
			Ĺ <u> </u>	L	ldot			
(1) Note	e: I	f DR on FAS 109 year end reconcilia	tion workpa	per show as	income	·		
IT CR on	+A	S 109 year end reconciliation workpa nge in tax rate is included, compute l	per snow a	og the chara	in ret	a hy tha ha	ginning of year	IFAS 109 year end
121 11 8	orial	nge in tax rate is included, compute in workpaper Column C) temporary d	ifference or	nd include in	he eyn	ected to ac	tual reconciliation	n.
- GOUITHI	2110	or kpaper column of temporary a			<u>UNP</u>			

		ANALYSI	S OF INCOME TA	XES PAYABLE					
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					<u> </u>	 	PREPARED BY	:	1
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									1
								 	
								 	
		 			†		 		
	- E-	deral		tate	Add	litonal			
	Current	Payable	Current	Payable		ual (A)	Deferred	Taxes	
	Curan	rayabia	Current	rayeule	Aug	Las (A)	Desented	Taxes	 -
	-		 					 	
					 			 	
	DR	CR	DR	CR	DR	CR	DR	CR	
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	ļ	<u> </u>		<u> </u>				ļ	ļ <u> </u>
				ļ			ļ		Ļ <u> </u>
Beginning balance (per Prior Year adjusted TB)					ļ	ļ	ļ		<u> </u>
		L						·	<u> </u>
2. Payment (Refunds) on 19_ Tax Returns:						<u></u>	L		
Federal									
State									
Subtotal	L				1	L			L
									Total
3. 19 Tax Provisions - per books before audit				L					
adjustment								J	
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4. 19_ Estimates Pd: 1st qtr. Fed	1		i		1	Ī		1	
1st qtr State			i		i –	T		1	
2nd qtr Fed	 			 	1		†	t	
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3rd qtr Fed	 		t	 		 	 		
				 	 	 	 	 	
3rd qtr State	 	 	 	 -	 				
4th qtr Fed		 	 	 	 		 		
4th qtr State	 		ł	 	 	 	 		
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5. Other Items:			ļ		↓	<u> </u>		ļ	ļ
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BALANCE per unadjusted trial balance									L
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7. AJE (to reclass current/deferred per									
FAS 109 Year end reconciliation, instruction 1									
8. AJE (to adjust to Tax Comp @									
tax expense computation workpaper)									
					`				
9. Adjusted Balance					******				
O. Pojestco Selanco		1		2					(B)
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	D	10:							
	Reconciliation o	f Current Payable							
	<u> </u>				ļ				
	Federal	State							
	Current	Current		L					
	Payable	Payable		L	L				
					ļ				L
Tax (Credit) per Current Year									L
Return or Accrual:									L
Estimates Paid:									
Federal									
State									
Balance									
	(1)	(2)							
(A) Entities will not normally have a separate additional accrual	account. Howev	er, for our workpa	iper purpsoes, se	parately schedule	any additional ac	crual and track it	from year to year	r.	
(B) Should be equal to the Total Provision on tax expense comp	utation work pap	er.							

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Director, Technical Information Division

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

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