

University of Mississippi

eGrove

---

Guides, Handbooks and Manuals

American Institute of Certified Public  
Accountants (AICPA) Historical Collection

---

1991

## Construction Contractors' Audit Manual, Volume 1, Nonauthoritative Practice Aids, Small Firm Library

George Marthinuss

Larry L. Perry

Martin S. Safran

Follow this and additional works at: [https://egrove.olemiss.edu/aicpa\\_guides](https://egrove.olemiss.edu/aicpa_guides)



Part of the [Accounting Commons](#), and the [Taxation Commons](#)

---

### Recommended Citation

Marthinuss, George; Perry, Larry L.; and Safran, Martin S., "Construction Contractors' Audit Manual, Volume 1, Nonauthoritative Practice Aids, Small Firm Library" (1991). *Guides, Handbooks and Manuals*. 1278.

[https://egrove.olemiss.edu/aicpa\\_guides/1278](https://egrove.olemiss.edu/aicpa_guides/1278)

This Book is brought to you for free and open access by the American Institute of Certified Public Accountants (AICPA) Historical Collection at eGrove. It has been accepted for inclusion in Guides, Handbooks and Manuals by an authorized administrator of eGrove. For more information, please contact [egrove@olemiss.edu](mailto:egrove@olemiss.edu).

VOLUME

1

SMALL FIRM LIBRARY

Construction Contractors' Audit Manual

Volume 1

# Construction Contractors' Audit Manual

---

Nonauthoritative Practice Aids

SMALL FIRM  
LIBRARY

**AICPA**

**AICPA** American Institute of Certified Public Accountants

008802

**SMALL FIRM LIBRARY**

**Volume 1**

# **Construction Contractors' Audit Manual**

---

**Nonauthoritative Practice Aids**

Authors:

George Marthinuss, CPA

Larry L. Perry, CPA

Martin S. Safran, CPA

**American Institute of Certified Public Accountants**

**SMALL FIRM LIBRARY**

**Volume 1**

**Construction  
Contractors'  
Audit Manual**

---

**Nonauthoritative Practice Aids**

Authors:

George Marthinuss, CPA

Larry L. Perry, CPA

Martin S. Safran, CPA

The authors gratefully acknowledge the production work on these manuals by Robert DiCorcia, Jeanmarie Brusati, and Lisa Schmelzer of the AICPA Production & Editorial Services staff; and Michelle Bourell and Candy Perkins of the CPE Institute, Inc.

Copyright ©1991 by the American Institute of Certified Public Accountants, Inc.  
1211 Avenue of the Americas, New York, N.Y. 10036-8775

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

## **PREFACE**

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.

This manual is published by the American Institute of Certified Public Accountants and is issued as a nonauthoritative kit of practice aids. The materials included in it are designed to serve as working tools and illustrations for timesaving purposes. They are not intended as a substitute for the professional judgments which must be applied by practitioners in any engagement. The manual, where practicable, offers choices and alternatives rather than particular positions. The manual is not a substitute for the authoritative technical literature and users are urged to refer directly to applicable authoritative pronouncements for the text of technical standards. References are made throughout the manual to the original authoritative pronouncements and to their section numbers in AICPA *Professional Standards* and the FASB *Accounting Standards Current Text* to help users locate those authoritative pronouncements.

The authors hope the manual will be helpful to local firms and practitioners in the conduct of their audit and accounting practice. However, no generalized material, such as that included in this manual, can be a substitute for development and implementation by a firm of a system of quality control which is appropriately comprehensive and suitably designed in relation to the firm's organizational structure, its policies, and the nature of its practice.

The manual is in looseleaf format in anticipation of updating and expansion. Changes are expected to arise from three main sources:

- (1) Comments and suggestions from practitioners concerning material that could be improved or added.
- (2) Issuance of new official pronouncements.
- (3) Other additions to or deletions from the manual as a result of continued staff study.

Comments and suggestions should be addressed to:

Technical Information Division  
AICPA  
1211 Avenue of the Americas  
New York, NY 10036

or call John Graves at (212) 575-6391.



## TABLE OF CONTENTS

### VOLUME ONE

	<u>Page No.</u>
INTRODUCTION	1
APPROACH TO PERFORMING CONSTRUCTION CONTRACTOR AUDITS:	3
OVERVIEW OF APPROACH	3
USING THE AICPA AUDIT AND ACCOUNTING GUIDE, <u>CONSTRUCTION CONTRACTORS</u>	8
PLANNING	8
DOCUMENTATION	13
COMPLETING THE ENGAGEMENT	14
CLIENT ACCEPTANCE FORM	17
CONTRACTORS' INTERNAL CONTROL STRUCTURE QUESTIONNAIRE	27
CONTRACTORS' SYSTEM'S WALK-THROUGH DOCUMENTATION FORM	77
INTERNAL CONTROL STRUCTURE REPORTABLE CONDITIONS FORM	91
CONTRACTORS' RISK OF POTENTIAL ERRORS EVALUATION FORM	99
CONTRACTORS' PLANNING MATRIX	107
CONTRACTORS' PLANNING MEMORANDUM	117
CONTRACTORS' TESTS OF TRANSACTIONS PROGRAMS	125
MATERIALITY COMPUTATION SCHEDULE AND SUMMARY OF POSSIBLE JOURNAL ENTRIES FORM	213
SAMPLING DOCUMENTATION:	221
SAMPLING DECISIONS WORKING PAPER	225
MODEL APPROACH TO NONSTATISTICAL TESTS OF BALANCES SAMPLING	227
ERROR PROJECTION SCHEDULE-TESTS OF BALANCES SAMPLING	229
CONTRACTORS' ANALYTICAL PROCEDURES PROGRAM	231
CONTRACTORS' TESTS OF BALANCES PROGRAM	241
CONSULTATION FORM	329
REPRESENTATION LETTERS	333



SUPERVISION AND REVIEW CHECKLISTS:	337
TAX ACCRUAL/PROVISION CHECKLIST	339
CONTRACTORS' ENGAGEMENT PERFORMANCE AND REPORT REVIEW CHECKLIST	341
INDEPENDENT REPORT REVIEW CHECKLIST	345
REPORTING CHECKLIST	347
REPORT PROCESSING CHECKLIST	369
 ILLUSTRATIVE AUDIT REPORT, FINANCIAL STATEMENTS AND NOTES	 371
 FINANCIAL STATEMENTS AND NOTES CHECKLIST	 

## VOLUME TWO

EDP DOCUMENTATION:	397
INITIAL SURVEY OF EDP CONTROLS:	
IN-HOUSE SYSTEMS	399
SERVICE CENTER-PRODUCED RECORDS	407
MICROCOMPUTER INSTALLATION SURVEY FORM	417
 BUDGETING AND TIME CONTROL DOCUMENTS	 421
 WORKING PAPERS AND CORRESPONDENCE	 433



## **INTRODUCTION**

### **PURPOSE OF MANUAL**

The purpose of this manual is to provide engagement-oriented documentation for use on nonpublic construction contractor audit engagements. While the documentation and references in this manual are an integral part of a CPA firm's quality control system, the manual is not intended as a complete or comprehensive quality control system.

The documentation in this manual is designed for audits of nonpublic, historical construction contractor financial statements in accordance with generally accepted auditing standards. First year engagements, audits of publically-held entities, agreed-upon procedures engagements and other special engagements will require additional procedures and documentation.

The documentation is designed to include procedures for verifying all financial statement assertions in high overall engagement risk situations. To prevent overauditing, and to ensure the audit objectives are met on each engagement, the documentation should be modified by the in-charge accountant and approved by the engagement executive before any fieldwork is started.

### **CONTENTS OF THE MANUAL**

This manual contains the documentation necessary to complete an audit for a construction contractor under generally accepted auditing standards. The documentation is arranged in the order it will normally be used on engagements. A section is allocated to each document or group of related documents. Most of the sections contain these standard divisions:

1. Description of purposes of documents.
2. Description of any professional standards related to the document.
3. Guidance on how to use the document.
4. Blank copy of the document for reproduction.

This manual includes standardized practice guidelines. The documents should be applied in practice only after considering the applicable promulgations of the American Institute of Certified Public Accountants, the Financial Accounting Standards Board and federal and state laws.





## **APPROACH TO PERFORMING CONSTRUCTION CONTRACTOR AUDITS**

### **OVERVIEW OF APPROACH**

The approach to construction contractor audits outlined in this manual is designed to enable users to achieve both engagement quality and maximum time savings. It is also designed to comply with all applicable auditing pronouncements. To achieve this end, the approach provides four basic audit planning decisions:

1. Assess overall engagement risk, risks of potential errors (audit risk) and establish the overall materiality limit.
2. Decide on the most cost-beneficial audit approach and the planned reliance on types of tests.
3. Decide on the nature, extent and timing for the analytical procedures and the tests of balances which is consistent with the planned reliance on types of tests.
4. Determine the most cost-beneficial approach to sampling to comply with SAS No. 39.

The following Reliance Matrix illustrates the alternative approaches to construction contractor audits outlined in this manual. The approaches can be applied separately by transaction cycle and assume analytical procedures will be applied, and relied upon, to the maximum extent practical.

**RELIANCE MATRIX**  
 Reliance on Types of Tests Based on Control Risk Evaluation

<u>Audit Approach</u>	<u>Control Risk</u>	<u>Compliance TOTs</u>	<u>Substantive TOTs</u>	<u>System's Walk-Through Procedure</u>	<u>Analytical Procedures</u>	<u>Tests of Balances</u>
ABC Approach:						
SYSTEM A -- Good Internal Control Procedures	Minimum	High Reliance	Low Reliance	No Reliance-Aid Only	High Reliance	Low Reliance
SYSTEM B -- Good Accounting System	Minimum to Medium	None	High Reliance	No Reliance-Aid Only	High Reliance	Low to Medium Reliance
SYSTEM C -- Weak Accounting System or More Efficient Tests of Balances Approach	Slightly less than Maximum to Maximum	None	Low or No Reliance	Low or No Reliance Alternative to TOTs	High Reliance	Slightly less than High to High Reliance

System's Walk-Through Approach:

Weak Accounting System or More Efficient Tests of Balances Approach (No TOTs)	Slightly less than Maximum to Maximum	None	None	Slight or No Reliance	High Reliance	Slightly less than High to High Reliance
---	---------------------------------------	------	------	-----------------------	---------------	--

Guidelines for using the Reliance Matrix:

1. Selecting the Approach:

To select the proper approach and prevent overauditing, the auditor must consider (1) the opportunity to assess control risk at less than maximum and (2) the relative efficiency with which substantive tests of balances procedures can be performed. When a client's internal control structure is strong, transactions testing may be the most cost-efficient method of evidence collection. On the other hand, when we can perform substantive tests of balances to verify applicable financial statement assertions in minimum time, transactions testing may not be necessary.

The Reliance Matrix should be applied by transaction cycle. Based on the evaluation of the internal control structure and the nature of the details of account balances, the most cost-efficient approach may be a combination of the ABC Approach, or the System's Walk-Through Approach. For example, a System A or B approach for the payments and acquisitions cycle and payroll cycles, and a system's walk-through approach for the sales and collection cycle, is often the most cost-efficient approach for a construction contractor.

Unless there is a specific reason for performing low reliance transactions tests (a System C), the system's walk-through procedure will usually be more cost efficient for clients with weak accounting systems or account balances that can be audited more efficiently with tests of balances procedures. When no transactions tests are performed, however, detailed support tests must be performed for material balance sheet and earnings statement accounts.

2. Effects of Inherent Risk:

The higher the inherent risk in a transaction or balance, the higher the reliance normally required for tests of balances.

3. Effects of Control Environment on Control Risk:

The evaluation of the control environment is incorporated in the internal control structure evaluation documentation for each of the audit approaches. The more effective the client's control environment, the lower the control risk. The lower the control risk, the lower the reliance on tests of balances.

The more effective the control environment, the stronger the accounting system. The less effective the control environment, the weaker the internal control procedures.

4. Effects of Low Reliance Transactions Tests or System's Walk-Through Procedure on Tests of Balances:

Deciding to perform low reliance transactions tests (a System C), or a system's walk-through procedure, when a small business has a good accounting system and control environment may permit an assessment of control risk at slightly less than maximum. Remembering that transactions tests of the accounting system or internal control procedures are necessary to assess control risk at its minimum, certain limited reductions in tests of balances procedures are still possible when control risk is assessed at slightly less than maximum.

Reductions in tests of balances in these circumstances will generally occur by:

- a. Raising the lower limit for individually significant items slightly above one-third of the overall materiality limit.
- b. Using less reliable procedures for the lower stratum in a sampling population, such as sending negative confirmations for small accounts receivable balances.



- c. Assurance factors used in the Model Approach to tests of balances sampling can be reduced somewhat. An assurance factor of 6 would normally be required for a tests of balances sampling application when no transactions tests are performed and some error is assumed. Assessing control risk at slightly less than maximum based on low reliance transactions tests or a system's walk-through procedure may permit an assurance factor of, say, 4.5.
  - d. Certain tests of balances procedures may be performed before the engagement date. Accounts receivable, for example, may be confirmed up to 30 days before the engagement date. Appropriate rollforward procedures will still be necessary.
5. Using Compliance and Substantive Transactions Tests for System A Approach:

Compliance transactions tests must be supported by limited substantive transactions tests. The number of sample units for such substantive transactions tests should be approximately 25% of the units selected for compliance testing purposes. The Nonstatistical Transactions Testing Sample Size Selection Table in the Legend to the CONTRACTORS' PLANNING MATRIX provides sample size ranges.

6. Effects of Analytical Procedures:

The more effective the analytical procedures used, the lower the reliance required from tests of balances. High reliance presumes using analytical procedures to the maximum extent practical.

7. Effects of Owner/Manager Controls:

The term owner/manager controls, as used in the internal control structure documentation, may apply to persons other than the entity's real owner/manager. It may apply to a controller, bookkeeper, officer, foreman or other independent person who performs an internal check function.

Normally, internal control procedures performed by the entity's real owner/manager can be tested and relied on to offset weaknesses in the accounting system. Internal control procedures performed principally by the real owner/manager, on the other hand, are not normally sufficient internal controls for testing and reliance in a System A approach.

8. The Extent of Transactions Testing:

The transactions testing programs for the ABC approach should be selected based on the evaluation of the internal control structure by transaction cycle. Transactions testing will normally not be performed under the System's Walk-Through Approach unless for a special purpose such as verifying the completeness assertion for revenues.

9. Verifying the Completeness and Other Assertions Efficiently:

When tests of balances can be performed to efficiently verify the completeness and other assertions, transactions testing may not be

necessary. Verifying the completeness of revenues, for example, through tests of balances is often cost-efficient for construction contractors.

An efficient tests of balances procedure that can be used to verify the completeness assertion for contract revenues is examining construction contracts to determine all revenues that should be recorded are recorded. Transactions tests of the payroll and payments and acquisitions cycles, which include tests of job cost records, also provide evidence to verify the completeness of contract revenues (cost cards are evidence of the existence of contracts).

Confirming contract terms (including the percentage of completion) and the balances of unpaid contract receivables verify other assertions applicable to contract revenues. For large volumes of service revenues, transactions tests for the completeness and other assertions may be the most cost-beneficial approach.

**NATURE, EXTENT AND TIMING OF TESTS OF BALANCES**

When control risk is less than maximum, reductions in tests of balances may occur in the nature, extent and timing of the procedures. The following Evidence Matrix illustrates the impact of a client's internal control structure on the tests of balances evidence:

**EVIDENCE MATRIX**

<u>Audit Approach</u>	<u>Control Risk</u>	<u>Tests of Balances Evidence</u>			
		<u>Amount</u>	<u>Nature</u>	<u>Extent</u>	<u>Timing</u>
ABC Approach:					
SYSTEM A -- Good Internal Control Procedures	Minimum	Small Amounts	Least Reliable	Small Samples	Most Precede Yearend
SYSTEM B -- Good Accounting System	Minimum to Medium	Small to Medium Amounts	More Reliable	Small to Medium Samples	Some Precede Yearend
SYSTEM C -- Weak Accounting System or More Efficient TOBs	Slightly less than Maximum to Maximum	Large Amounts	Most Reliable	Large Samples	Most at Yearend

System's Walk-Through Approach:

Weak Accounting System or More Efficient TOBs	Slightly less than Maximum to Maximum	Large Amounts	Most Reliable	Large Samples	Most at Yearend
---	--	------------------	------------------	------------------	--------------------

High reliance on tests of balances procedures requires using more highly-reliable procedures, selecting more individually significant items and larger sample sizes and performing procedures as of the engagement date. Low reliance on tests of balances permits less reliable procedures, smaller amounts of individually significant items, smaller sample sizes and performing substantive tests of balances procedures at dates other than the engagement date.

Overall engagement risk for most construction contractors will be high due to the high risk use of financial statements and report for bonding purposes and the high potential for going-concern problems. High overall engagement risk will not prevent compliance or substantive transactions tests from being performed, or tests of balances procedures being performed as of a date other than the engagement date, but it will normally require the amounts of evidence to be collected to be greater and the nature of such evidence to be more reliable.

### USING THE AICPA AUDIT AND ACCOUNTING GUIDE

The AICPA's Guide, Construction Contractors, includes information about accounting and auditing that is unique to the construction contractors' industry. It discusses the nature of the industry, accounting methods and financial statement presentation, the internal control structure and auditing procedures peculiar to the industry. All engagement personnel should read and understand the Guide before using the documentation in this manual.

### THE INTERNAL CONTROL STRUCTURE, RISK ASSESSMENT AND PROGRAM MODIFICATION

Engagement personnel should obtain an understanding of the internal control structure, assess control risk and modify the standard audit program before any fieldwork is started. For the ABC Approach, the understanding and assessment should be documented on the CONTRACTORS' INTERNAL CONTROL STRUCTURE QUESTIONNAIRE, the CONTRACTORS' RISK OF POTENTIAL ERRORS EVALUATION FORM, and the CONTRACTORS' PLANNING MATRIX. For the System's Walk-Through Approach, the CONTRACTORS' SYSTEM'S WALK-THROUGH DOCUMENTATION FORM should be used. These forms enable the auditor to relate the contractor's internal control structure, and the risk of potential errors evaluation, to the tests of balances procedures during planning. This process incorporates the four basic audit planning decisions mentioned above and results in an audit designed to collect the optimum evidence in the minimum time.

### PLANNING

The third General Standard of Rule 201 of the AICPA's Code of Professional Conduct states:

A member shall adequately plan and supervise professional services.

The first standard of fieldwork of the AICPA's Ten Generally Accepted Auditing Standards requires that "the work is to be adequately planned and assistants, if any, are to be properly supervised."

SAS No. 22, Planning and Supervision, provides guidance, to the independent auditor performing an audit in accordance with generally accepted auditing standards, on the considerations and procedures applicable to planning and supervision, including preparing an audit program and obtaining knowledge of the entity's business. Many other Statements on Auditing Standards also require consideration of matters such as potential errors and irregularities, illegal acts, continued existence of the entity, accounting estimates, the internal control structure and materiality during engagement planning.

Achieving both engagement quality and profitability requires extensive planning. Engagement planning should begin well before the engagement date and continue until completion of the engagement. The engagement executive should be involved at strategic times during the planning, performance and completion of an engagement. Early and frequent executive involvement in program design, and in related judgment decisions, will help develop the in-charge accountant and other staff personnel, identify problems before the job starts and result in the highest quality, most profitable engagement in the circumstances.

The following illustration provides a summary of on-going planning throughout a construction contractor's audit engagement.

**APPROACH TO PLANNING**

---

<u>Function</u>	<u>Responsibility</u>	
	<u>In-Charge</u>	<u>Executive</u>
<b>Preplanning:</b>		
1. Pre-engagement planning conference of executive and in-charge. (Key-Point Review No. 1.)*	1. Discuss briefly the nature of the engagement and anticipated problems. Determine basic audit approach. (ABC approach or system's walk-through approach.)	1. Advise in-charge of any current client developments.
2. Understanding the client's business and industry.	2a. Review prior year's working paper files, report and management letter to obtain understanding.  2b. Prepare or update CLIENT ACCEPTANCE FORM.  2c. Assess overall engagement risk.	2a. Review CLIENT ACCEPTANCE FORM and assessment of overall engagement risk.

\* Key-point reviews are generally the most cost-efficient times for executives to input their knowledge and expertise on engagements.

- |                       |  |   |
|-----------------------|--|---|
| 3. Engagement letter. | 3a. Identify the nature of the engagement and additional services to be performed. | 3. Meet with client, discuss letter and obtain signature. |
|                       | 3b. Prepare letter.  |   |

**Planning:**

- |  |  |   |
|--|--|---|
| 4. Internal control structure documentation.         | 4a. Complete internal control flowcharts, if applicable, and CONTRACTORS' INTERNAL CONTROL STRUCTURE QUESTIONNAIRE or CONTRACTORS' SYSTEM'S WALK-THROUGH DOCUMENTATION FORM.   | 4. Review documentation.                                |
|  | 4b. Complete an INITIAL SURVEY OF EDP CONTROLS or SMALL BUSINESS MICROCOMPUTER INSTALLATION SURVEY FORM, if applicable.  |   |
| 5. Internal control structure evaluation.            | 5. Determine type of internal control or accounting system and document on CONTRACTORS' PLANNING MATRIX for ABC Approach to select TOTs program. When control risk is at maximum, or when tests of balances procedures are more efficient, complete the CONTRACTORS' SYSTEM'S WALK-THROUGH DOCUMENTATION FORM. | 5. Review documentation.                                |
| 6. Risk of potential errors (audit risk) evaluation. | 6. Complete the CONTRACTORS' RISK OF POTENTIAL ERRORS EVALUATION FORM for the ABC Approach.  | 6. Review the RISK OF POTENTIAL ERRORS EVALUATION FORM. |
| 7. Setting overall materiality limit.                | 7. Compute overall materiality limit and record on SUMMARY OF POSSIBLE JOURNAL ENTRIES FORM.   | 7. Review limits.                                       |

Determine lower limit for individually significant items.  
Document computations on MATERIALITY COMPUTATION SCHEDULE.

- |   |   |   |
|---|---|---|
| 8. Sample size selection.   | 8a. Complete CONTRACTORS' PLANNING MATRIX for ABC Approach or the CONTRACTORS' SYSTEM'S WALK-THROUGH DOCUMENTATION FORM.                                    | 8a. Review documentation, sampling decisions and sample size selection documentation. |
|   | 8b. Make and document decisions to sample or not to sample.   |   |
|   | 8c. Document correlation of factors influencing sample sizes in sampling applications.  |   |
| 9. Document audit planning decisions.   | 9. Prepare CONTRACTORS' PLANNING MEMORANDUM.  | 9. Review CONTRACTORS' PLANNING MEMORANDUM.   |
| 10. Time budget preparation.  | 10. Prepare engagement time budget.   | 10. Review time budget.   |
| 11. Pre-tests of transactions engagement planning conference with executive and in-charge (Key-Point Review No. 2). | 11. Discuss Nos. 2-10 with executive, particularly four basic audit planning decisions.   | 11. Discuss Nos. 2-10 with in-charge.   |
| 12. Pre-interim work or pre-year-end meeting with staff.  | 12. Discuss engagement, client and staff work responsibilities.   | 12. Observe.  |
| <b>Engagement Performance:</b>  |   |   |
| 13. Tests of transactions or system's walk-through procedure.   | 13a. Select, modify and complete CONTRACTORS' TESTS OF TRANSACTIONS PROGRAMS procedures for the ABC Approach or complete a system's walk-through procedure. | 13. Review results of procedures.   |

- |  |   |   |
|--|---|---|
|  | 13b. Review work of assistants.   |   |
| 14. Internal control structure related matters.  | 14. Prepare INTERNAL CONTROL STRUCTURE REPORTABLE CONDITIONS FORM and prepare required communication of control structure related matters for discussion with client. | 14. Review documentation of reportable conditions and discuss at meeting with client. |
| 15. Pre-year-end engagement planning conference with executive and in-charge (Key-Point Review No. 3). | 15. Discuss results of TOTs or system's walk-through procedures and impact on planned design of TOBs and time budget.   | 15. Same.   |
| 16. Analytical procedures.   | 16. Modify and complete the CONTRACTORS' ANALYTICAL PROCEDURES PROGRAM.   | 16. Review results of CONTRACTORS' ANALYTICAL PROCEDURES PROGRAM.                     |
| 17. Year-end tests of balances.  | 17a. Finalize tests of balances sections of the CONTRACTORS' PLANNING MEMORANDUM and perform CONTRACTORS' TESTS OF BALANCES AUDIT PROGRAM.                            | 17a. Review finalized CONTRACTORS' PLANNING MEMORANDUM.                               |
|  | 17b. Review work of assistants.   | 17b. Review results of TOBs procedures.   |
| 18. End-of-fieldwork conference with executive and in-charge (Key-Point Review No. 4).                 | 18. Discuss the evidence collected and resulting conclusions on the engagement.   | 18. Same.   |
| 19. Post-engagement meeting with staff.  | 19. Discuss engagement results and plans for next year.   | 19. Observe.  |

**Planning Conferences with Executive**

Also referred to as "key-point reviews", these planning conferences are the core of an audit quality control system. The primary purpose of the "key-point reviews" is to involve the executive in the engagement at times when his/her judgment and experience can have the greatest impact on quality and efficiency.

### Meetings with Staff

Good on-the-job training philosophies will normally include three components:

1. Pre-engagement date meeting with staff.
2. Frequent supervision and review of assistants' work.
3. Post-engagement meetings with staff.

The purposes of such meetings are to give staff the benefit of work performed by the in-charge accountant prior to the meeting, to achieve an understanding of staff's work responsibilities and anticipated engagement problems and to explain the engagement administration.

### DOCUMENTATION

Engagement documentation should be completed as follows:

<u>Documentation</u>	<u>ABC Approach</u>	<u>System's Walk-Through Approach</u>
1. Client Acceptance Form	X	X
2. Engagement Letter	X	X
3. Contractors' Internal Control Structure Questionnaire	X	
4. Contractors' System's Walk-Through Documentation Form		X
5. EDP Documentation	X	X
6. Contractors' Planning Matrix	X	
7. Contractors' Risk of Potential Errors Evaluation Form.	X	
8. Materiality Computation Schedule and Summary of Possible Journal Entries Form	X	X
9. Sampling Documentation	X	X
10. Contractors' Planning Memorandum	X	X
11. Time Budget and Control Documentation	X	X
12. Contractors' Tests of Transactions Program	X	
13. Internal Control Structure Reportable Conditions Form	X	X
14. Contractors' Analytical Procedures Program	X	X
15. Contractors' Tests of Balances Audit Program	X	X
16. Engagement Performance and Report Review Checklist	X	X
17. Tax Accrual/Provision Checklist	X	X
18. Independent Report Review Checklist	X	X
19. Report Processing Checklist	X	X
20. Contractors' Disclosure Checklist	X	X
21. Consultation Form	X	X
22. Representation Letter	X	X



## COMPLETING THE ENGAGEMENT

### Functions and Responsibilities

Completing the engagement efficiently requires control and organization. The following illustration outlines the major functions and responsibilities for engagement completion.

<u>Function</u>	<u>Responsibility</u>	
	<u>In-Charge</u>	<u>Executive</u>
1. Complete engagement performance review.	1. Complete CON-TRACTORS' ENGAGEMENT PERFORMANCE AND REPORT REVIEW CHECKLIST.	1. Review checklist.
2. Financial statements, footnotes and report preparation.	2a. Draft financial statements, footnotes and report. Complete CONTRACTORS' DISCLOSURE CHECKLIST.	2. Review financial statements, footnotes, report and checklist.
	2b. Complete INDEPENDENT REPORT REVIEW CHECKLIST.	
3. Report review conference with executive and in-charge.	3. Discuss engagement executive's review.	3. Same.
4. Internal control structure reportable conditions communication.	4. Prepare meeting agenda and/or written communication.	4. Review agenda and/or communication.
5. Administrative wrap-up.	5. Complete the engagement.	5. Same.

### Completing the Engagement Review

The in-charge accountant is responsible for reviewing all work of assistants, completing the engagement performance and report review checklists and obtaining the executive's and partner's reviews.

### Financial Statements, Notes and Report Preparation

The AICPA's Checklist Supplement and Illustrative Financial Statements for Construction Contractors contains guidance for the in-charge accountant when drafting financial statements, notes and reports.

### Report Review Conference with Executive

This conference between the executive and in-charge, with the exception of the partner's review, is the final quality control function on the engagement. Accomplishment of the engagement objectives, conformance with firm policy, problem resolution, and the financial statements and report form and content should be primary subjects discussed.

### Internal Control Structure Reportable Conditions Communication

SAS No. 60, Communication of Internal Control Structure Related Matters Noted in an Audit, requires communication of reportable conditions. Such matters may include material and immaterial weaknesses, administrative or operational suggestions and other matters important to management. The communication should be to the bank's audit committee or another body or person of equivalent authority. The communication may be written or verbal.

### Administrative Wrap-Up of Engagements

The administrative wrap-up of construction contractor audit engagements should include the following functions:

1. Schedule and complete all levels of review.
2. Obtain all signed correspondence.
3. Furnish client with copies and obtain approval of final adjustments, if any.
4. Clear and dispose of all review and "to do" points.
5. Prepare working paper for things to do and time savings next year.
6. Monitor processing and delivery of report, internal control structure communication and tax returns.
7. Complete and discuss staff and in-charge performance appraisals.
8. Complete time summaries, budget comparisons and tentative budget for next year.





## CLIENT ACCEPTANCE FORM

### PURPOSE

One of the nine elements of a system of quality control for a CPA firm included in the AICPA's Statement on Quality Control Standards No. 1, the client acceptance and retention evaluation should be performed to minimize the likelihood of association with a client whose management lacks integrity. In other words, the purpose of the client acceptance and retention evaluation is to minimize overall engagement risk by avoiding association with financial statements of companies whose management is less than reputable.

Normally, acceptance or continuance of a client is de facto evidence that the integrity of management, and the resulting affect on overall engagement risk, is acceptable. Should the integrity of management be determined other than acceptable during the course of an engagement, the acceptance and continuance decision should be reevaluated. At a minimum, additional evidence may be necessary to support the desired level of assurance. Significant problems with management's integrity should cause the firm to reevaluate its association with the client.

In addition to considering the integrity of management, an evaluation of overall engagement risk includes considering the planned use of the financial statements and the potential for going-concern problems. The risk associated with the use of construction contractors financial statements by bonding underwriters is usually high. The potential for going-concern problems for many contractors in today's economic climate is also high. It will be rare for overall engagement risk for a construction contractor to be evaluated other than high.

High overall engagement risk on construction contractor audits should be controlled primarily by using more reliable procedures and by examining more individually significant items and larger samples. Such high risk, however, does not preclude performing procedures as of a date other than the engagement date when the client's internal control structure evaluates as a System A or B for the applicable financial statement classification.

### PROFESSIONAL STANDARDS

The AICPA Statement on Quality Control Standards No. 1, System of Quality Control for a CPA Firm, outlines a quality control system for firms which includes documentation of the client acceptance/retention decision. Firms undergoing peer reviews or quality reviews are required to comply with this statement and to document the client acceptance and retention decisions on all compilation, review and audit engagements.

As discussed above, the CLIENT ACCEPTANCE FORM will provide the basis for an evaluation of overall engagement risk. The evaluation should be summarized and documented in the CONTRACTORS' PLANNING MEMORANDUM.

### USING THE CLIENT ACCEPTANCE FORM

The CLIENT ACCEPTANCE FORM should be used to evaluate client quality prior to acceptance of all construction contractor audits. It should be completed by the in-charge accountant, or by the engagement executive, and approved by the engagement partner and

the accounting and auditing partner. Space has been provided on the form for multi-year signoff to document the retention decision.

The information on the form will be used, first, to annually evaluate the desirability of a continuing client relationship. Secondly, information on the form concerning the use of the financial statements and the potential for going-concern problems will form the basis for evaluating the overall engagement risk. The evaluation of the overall engagement risk, in addition to documentation in the CONTRACTORS' PLANNING MEMORANDUM, should be entered on the CONTRACTORS' RISK OF POTENTIAL ERRORS EVALUATION FORM for consideration with the evaluation of risks of potential errors (audit risk).

# CLIENT ACCEPTANCE FORM

F

*Client:* \_\_\_\_\_

*Engagement Date:* \_\_\_\_\_

## Part 1--Basic Client Information

### INSTRUCTIONS:

This form should be prepared by the in-charge accountant or engagement executive for all new clients. The engagement partner should review the data as a basis for initially accepting or rejecting the client. The in-charge accountant and engagement executive should update and review the form annually during the pre-engagement planning as a basis for maintaining a basic understanding of the client and for retaining or terminating the client. The form should be reviewed annually by the engagement partner before the engagement begins.

CLIENT'S LEGAL NAME \_\_\_\_\_  
ADDRESS \_\_\_\_\_

PHONE \_\_\_\_\_

FEDERAL I.D. NUMBER \_\_\_\_\_  
STATE I.D. NUMBER \_\_\_\_\_

1. Description of business (age, size, subsidiaries, etc.):

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

2. Form of client organization (public or nonpublic):

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

3. Number of owners (approximately): \_\_\_\_\_  
List controlling groups below:

Name	% Owned	Position	Relationship	Active	
				Yes	No
_____	_____	_____	_____	___	___
_____	_____	_____	_____	___	___
_____	_____	_____	_____	___	___

4. Affiliated or related organizations or individuals:

<u>Name</u>	<u>Nature of Relationship</u>
_____	_____
_____	_____
_____	_____

5. Principal officers and directors:

<u>Name</u>	<u>Position</u>	<u>Family Relationship</u>
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

6. Client management and personnel we deal with regarding:

Engagement arrangements \_\_\_\_\_  
Day-to-day matters \_\_\_\_\_  
\_\_\_\_\_  
Major audit or accounting problems \_\_\_\_\_  
Tax matters \_\_\_\_\_

7. Client's attorneys:

Name \_\_\_\_\_  
Address \_\_\_\_\_  
\_\_\_\_\_  
Contact person \_\_\_\_\_

8. Client's insurance agents (if appropriate):

Name \_\_\_\_\_  
Address \_\_\_\_\_  
\_\_\_\_\_  
Contact person \_\_\_\_\_

9. Client's banking relationships:

<u>Name and Location</u>	<u>Type of A/Cs</u>	<u>Account Exec.</u>
_____	_____	_____
_____	_____	_____
_____	_____	_____

10. Other significant relationships (brokerage firms, finance companies, insurance companies, etc.):

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_



11. Services to be provided:

<u>Description</u>	19__	19__	19__	19__	19__
Audited financial statements	_____	_____	_____	_____	_____
SEC Reporting:					
Annual	_____	_____	_____	_____	_____
Quarterly reviews	_____	_____	_____	_____	_____
Registration	_____	_____	_____	_____	_____
Other	_____	_____	_____	_____	_____
Accounting:					
Compilation	_____	_____	_____	_____	_____
Review	_____	_____	_____	_____	_____
Bookkeeping	_____	_____	_____	_____	_____
Taxes:					
Return preparation	_____	_____	_____	_____	_____
Return review	_____	_____	_____	_____	_____
Consultation:					
Tax planning	_____	_____	_____	_____	_____
Consulting services	_____	_____	_____	_____	_____
Other reports and services:					
_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____

Will the financial statements and report be used for high risk purposes such as SEC filings, performance bonds or litigation (yes, no)?

\_\_\_\_\_

Describe use of statements:

\_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

12. Delivery deadlines:

<u>Type of report, return or letter</u>	<u>Deadline</u>				
_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____

13. Billing arrangements:


14. Are there potential going-concern problems with which we should be concerned?  
(Answer yes or no; attach memo or describe below.)


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


16. Describe the company's sources of revenue and marketing methods:


17. Describe briefly compensation and employee benefit plans for all classes of employees:


18. Briefly describe any other significant engagement performance, accounting and tax problems with which we will be concerned. (Attach memo or describe below.):


19. Expected client assistance (list specific items on accompanying schedule):


20. Are there any familial, management or financial relationships among firm staff or partners and client personnel which would appear to impair our independence? (Describe):

---

---

---

21. Describe any statutes, laws or regulations that have a direct affect on the entity's financial statements:

---

---

---

---

22. Other information:

---

---

---

Prepared or updated by: \_\_\_\_\_  
(In-Charge)

Date reviewed by: \_\_\_\_\_  
(Executive)

Date reviewed by: \_\_\_\_\_  
(Engagement Partner)

Date reviewed by: \_\_\_\_\_  
(Accounting and Auditing Partner)

**Part II--Initial Client Acceptance Information**

1. Communications with predecessor accountants:

- a. Predecessor accountants? \_\_\_\_\_
- b. Have you met requirements of AU 315.01-.07 or AR 400.01-.10 re communications with predecessors? \_\_\_\_\_  
\_\_\_\_\_
- c. Reason for changing accountants? \_\_\_\_\_  
\_\_\_\_\_
- d. Any fees owed prior accountants? \_\_\_\_\_
- e. Have they been consulted? If not, why not? \_\_\_\_\_  
\_\_\_\_\_
- f. Will they cooperate? \_\_\_\_\_
- g. Can we review their working papers? \_\_\_\_\_

2. New client data:

- a. Firm personnel developing client: \_\_\_\_\_

b. Source of referral:

<u>Type</u>	<u>Name and Affiliation</u>
i. Personal acquaintance of firm personnel	_____
ii. By another client	_____
iii. By attorney	_____
iv. By banker	_____
v. By insurance agent	_____
vi. By _____	_____

c. New client investigation procedures:

	<u>Done</u>	
	<u>By</u>	<u>Date</u>
i. Contact predecessor CPAs.	_____	_____
ii. Contact client references, e.g., banks, attorneys or others.	_____	_____
iii. Obtain credit report for principal office locations e.g., D&B, credit bureau.	_____	_____
iv. Review recent financial statements and accountants' reports, tax returns, etc.	_____	_____
v. Evaluate firm's independence or conflict of interest problems.	_____	_____
vi. Prepare and attach memo describing procedures and results of investigation.	_____	_____







## CONTRACTORS' INTERNAL CONTROL STRUCTURE QUESTIONNAIRE

### PURPOSE

The purpose of the questionnaire is to guide the auditor in obtaining an understanding of the construction contractor's internal control structure, under the ABC Approach. Supplemented by narratives and internal control flowcharts, as considered necessary by the engagement executive, the questionnaire will enable the auditor to consider the contractor's accounting system, its control environment and its internal control procedures to assess control risk.

When control risk is at its maximum, as for a System C, auditing procedures will be performed at or near the engagement date, will be highly reliable and will include large amounts of individually significant items and large sample sizes. Control risk is less than maximum for Systems A and B which permit transactions testing and yearend procedures that are less reliable and which include smaller amounts of individually significant items and smaller sample sizes.

### PROFESSIONAL STANDARDS

SAS No. 55, Consideration of the Internal Control Structure in a Financial Statement Audit, requires the auditor to obtain and document an understanding of a client's internal control structure. It also requires an assessment of control risk be made and documented on every audit. This questionnaire is designed to satisfy both of these requirements.

The assessment of control risk is made for each transaction cycle. When the questionnaire contains "yes" answers to most questions under System A, B and C, control risk can be considered less than maximum and it may be most cost beneficial to perform compliance transactions tests. "Yes" answers to most questions in System B and C may indicate substantive transactions testing procedures can be performed. When few or no "yes" answers are found in System A and B, or when it is most cost beneficial to perform work as of the engagement date, substantive tests of balances procedures should be performed at yearend. Completing this questionnaire, and evaluating the internal control structure as a System A, B or C for each financial statement classification, is evidence of the required assessment of control risk.

### USING THE CONTRACTORS' INTERNAL CONTROL STRUCTURE QUESTIONNAIRE

The questionnaire should be prepared during planning for each year's engagement. Client personnel should complete the questionnaire whenever they are capable of doing so. The in-charge accountant should review the questionnaire, evaluate control risk by assigning System classifications and post the System A, B or C classification to the CONTRACTORS' PLANNING MATRIX. The engagement executive should review the questionnaire before any interim or yearend work is started.

Detailed instructions for use are included with the following questionnaire.



## **CONTRACTORS' INTERNAL CONTROL STRUCTURE QUESTIONNAIRE**

### **USE OF QUESTIONNAIRE:**

This questionnaire is divided into the following sections:

- I. Cash.
- II. Accounts receivable confirmations, alternative procedures and sales cutoff.
- IIA. Construction contract receivable confirmation selection, alternative procedures and contract revenues.
- III. Vouching and inspecting fixed assets, search for unrecorded liabilities, tests of purchases cutoff, expense account analysis and vouching and contract costs.
- IV. Payroll tests.
- V. Pt. I Physical inventory observation, and pricing and clerical tests--no perpetual records.
- V. Pt II Physical inventory observation, and pricing and clerical tests--perpetual records.
- VI. All cycles.
- VII. All cycles--construction contracts.

The section numbers correspond to similar sections for the CONTRACTORS' TESTS OF TRANSACTIONS PROGRAMS. The sections represent groupings of major audit areas that are affected by the same transaction cycles. Section I, cash, combines the collections and payments portions of Sections II and III, respectively. Sections II and III should be completed first and results transferred to Section I. If the executive believes that reductions in year-end auditing procedures for cash balances are not likely (because of client size, limited number of bank accounts or a limited number of transactions), Section I may be omitted. High reliance should then be placed on year-end tests of cash balances.

All program modifications for weaknesses (missing controls) should be recorded on this questionnaire and cross-referenced to the applicable step or modification on the CONTRACTORS' TESTS OF TRANSACTIONS PROGRAMS or CONTRACTORS' TESTS OF BALANCES AUDIT PROGRAM. If the effect of a "no" answer is not material, no modification may be necessary. In such cases, the in-charge should refer to the "no" answers and state they are not material.

Whenever possible, the CONTRACTORS' INTERNAL CONTROL STRUCTURE QUESTIONNAIRE should be completed by the client. If internal control flowcharts are being prepared, their preparation should precede the completion of this questionnaire. This questionnaire should be used to select the standard system classification and the related CONTRACTORS' TESTS OF TRANSACTIONS PROGRAMS for each major audit area.

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

## DESIGN OF QUESTIONNAIRE:

In designing this Questionnaire, levels of controls have been designated Systems A, B and C. Systems will be classified based on the existing controls and accounting system's procedures evidenced on this Questionnaire. Unless otherwise restricted by the executive, the entire Questionnaire should be completed. System A contains general, primary and secondary controls; System B contains general and primary controls and System C normally contains only general controls.

General controls consist primarily of books and records comprising a basic accounting system. The absence of a significant number of general controls may mean the client's system is not auditable, or that significant reconstruction of records must take place before the audit begins. In any event, a System C will result in low-reliance transactions testing or a system's walk-through procedure with a majority of evidence obtained from analytical procedures and tests of balances.

The remaining procedures are organized with more sophisticated accounting system's procedures next. These procedures, primary controls, allow increased substantive transactions testing as part of the evidence mix.

Internal control procedures, secondary controls, follow and will create opportunities for compliance transactions testing (tests of controls) and reliance on internal control procedures. System A is the most advanced system and, consequently, contains maximum opportunities for compliance transactions testing. Since compliance tests are primarily observations and inquiries, results must be corroborated with limited substantive transactions tests (reperformances). The CONTRACTORS' TESTS OF TRANSACTIONS PROGRAMS are designed to test the procedures in the applicable system classifications. The System A CONTRACTORS' TESTS OF TRANSACTIONS PROGRAM includes both compliance and corroborating substantive procedures for the secondary controls.

Both a System A and B designation represent an assessment of control risk at less than maximum. A System C designation represents an assessment of control risk at maximum.

## INSTRUCTIONS:

If a client's records and procedures consist only of most general controls, the system should be classified as a System C. Any missing general controls must either be compensated for by other primary or secondary controls or result in modification of the CONTRACTORS' TESTS OF BALANCES AUDIT PROGRAM. Either transactions tests or a system's walk-through procedure may be performed for System C classifications in all sections except for IIA and VII. No transactions tests should be performed for System C classifications in these sections.

Maximum substantive transactions testing may be achieved when most general and primary controls are present. Missing general or primary controls in a System B must be compensated for by offsetting secondary controls, result in modification of the CONTRACTORS' TESTS OF BALANCES AUDIT PROGRAM, or be evaluated based on the results of completing the System B CONTRACTORS' TESTS OF TRANSACTIONS PROGRAM. Any compensating higher level controls must be tested by modifications to the standard System B CONTRACTORS' TESTS OF TRANSACTIONS PROGRAM.

The existence of substantially all general, primary and secondary controls may allow maximum compliance transactions testing and reliance on internal control procedures, a System A. Any missing general or primary controls must be compensated for by other controls, result in modifications of the CONTRACTORS' TESTS OF BALANCES AUDIT PROGRAM or be evaluated based on the results of completing the System A CONTRACTORS' TESTS OF TRANSACTIONS PROGRAM. A System A CONTRACTORS' TESTS OF TRANSACTIONS PROGRAM is designed to test all internal control procedures included in this questionnaire and will, therefore, include tests to verify compensating secondary controls. Any missing secondary controls may require modifications of the System A CONTRACTORS' TESTS OF TRANSACTIONS PROGRAM and/or the CONTRACTORS' TESTS OF BALANCES AUDIT PROGRAM.

To achieve reductions in tests of balances procedures for contract receivables, contract revenues and contract costs, sections IIA and VII must evaluate as Systems A or B.

# CONTRACTORS' INTERNAL CONTROL STRUCTURE QUESTIONNAIRE--SECTION I



**Client:** \_\_\_\_\_

**Engagement Date:** \_\_\_\_\_

MAJOR AUDIT AREA:      Cash

TRANSACTION CYCLES:    1. Collections  
                                  2. Payments

INTERNAL CONTROL PROCEDURES:

PERSONNEL            YES    NO    N/A

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

General Controls (System C):

Collections:

- |  |       |       |       |       |
|--|-------|-------|-------|-------|
| 1. A cash receipts journal is prepared and balanced.   | _____ | _____ | _____ | _____ |
| 2. Records of payments on accounts receivable by customer are maintained (sales tickets, remittance advices or duplicate deposit slips). | _____ | _____ | _____ | _____ |
| 3. Over-the-counter receipts are controlled by sales or receipts tickets.  | _____ | _____ | _____ | _____ |
| 4. Cash receipts are deposited intact.   | _____ | _____ | _____ | _____ |

Payments:

- |   |       |       |       |       |
|---|-------|-------|-------|-------|
| 1. A cash disbursements journal is prepared and balanced.                             | _____ | _____ | _____ | _____ |
| 2. Cash disbursements are made by check (except for petty cash).                      | _____ | _____ | _____ | _____ |
| 3. Cash disbursements are supported by vendors' invoices or other external documents. | _____ | _____ | _____ | _____ |

**CONTRACTORS' INTERNAL CONTROL STRUCTURE  
QUESTIONNAIRE SECTION I (Continued)**

	<u>PERSONNEL</u>	<u>YES</u>	<u>NO</u>	<u>N/A</u>
4. Bank reconciliations are prepared for all accounts.	_____	_____	_____	_____
Primary Controls (System B):				
Collections:				
1. Collections are deposited intact, daily.	_____	_____	_____	_____
2. Over-the-counter receipts are controlled by a cash register or prenumbered sales or receipts tickets.	_____	_____	_____	_____
3. Cash receipts are recorded in the receipts journal as received.	_____	_____	_____	_____
4. The bank reconciliation is prepared by the owner or manager or someone independent of the cash receipts function.	_____	_____	_____	_____
5. The cash receipts are posted to an accounts receivable subsidiary ledger.	_____	_____	_____	_____
6. The subledger is posted, balanced and reconciled to the general ledger monthly.	_____	_____	_____	_____
7. Cash discounts are approved by the owner or manager.	_____	_____	_____	_____
Payments:				
1. All checks are signed by the owner or manager.	_____	_____	_____	_____
2. The check signer compares data on supporting documents to checks.	_____	_____	_____	_____
3. Checks are recorded in the disbursements journal or other record as prepared.	_____	_____	_____	_____
4. Checks are prenumbered and accounted for.	_____	_____	_____	_____
5. An imprest petty cash fund is in use.	_____	_____	_____	_____

**CONTRACTORS' INTERNAL CONTROL STRUCTURE  
QUESTIONNAIRE SECTION I (Continued)**

	<u>PERSONNEL</u>	<u>YES</u>	<u>NO</u>	<u>N/A</u>
6. All invoices are approved for payment by the owner or manager.	_____	_____	_____	_____
7. Checks are prepared by the owner or manager or persons independent of vendor invoice approval.	_____	_____	_____	_____
8. Checks are signed based on approved invoices (not signed in advance).	_____	_____	_____	_____

Secondary Controls (System A):

Collections:

1. Incoming mail is received, opened and listed by the owner, manager or a person independent of the over-the-counter cash collections, cash receipts journal and general journal entry and accounts receivable functions.	_____	_____	_____	_____
2. Persons receiving cash over the counter are independent of the mail opening, deposits, and general ledger, cash receipts journal and accounts receivable subledger posting functions.	_____	_____	_____	_____
3. A person independent of cash receipts or posting functions reconciles over-the-counter receipts to accompanying detail such as cash register tapes, receipts tickets, etc.	_____	_____	_____	_____
4. Collections made by salesmen are adequately controlled.	_____	_____	_____	_____
5. Account codings are reviewed by someone other than the preparer.	_____	_____	_____	_____
6. The bank reconciliation is reviewed by the owner or manager.	_____	_____	_____	_____
7. A restrictive endorsement is placed on all checks when received.	_____	_____	_____	_____

**CONTRACTORS' INTERNAL CONTROL STRUCTURE  
QUESTIONNAIRE SECTION I (Continued)**

	<u>PERSONNEL</u>	<u>YES</u>	<u>NO</u>	<u>N/A</u>
8. Deposits are prepared by a person independent of the mail opening and listing function.	_____	_____	_____	_____
9. Items returned by the bank are received and opened by the owner or manager.	_____	_____	_____	_____
10. Prenumbered cash receipts tickets are accounted for.	_____	_____	_____	_____
<b>Payments:</b>				
1. All supporting documents are canceled after check signing by the check signer or independent person to prevent duplicate payment.	_____	_____	_____	_____
2. The numerical sequence of checks issued is accounted for by someone independent of the preparation function.	_____	_____	_____	_____
3. Checks are mailed by the owner or manager or a person under his supervision after signing.	_____	_____	_____	_____
4. Cash disbursements are posted to an accounts payable subledger.	_____	_____	_____	_____
5. The accounts payable subledger is posted, balanced and reconciled to the general ledger monthly.	_____	_____	_____	_____
6. The bank reconciliation is prepared by the owner or manager or a person independent of the check-signing function.	_____	_____	_____	_____
7. Bank reconciliations are reviewed by the owner or manager.	_____	_____	_____	_____
8. The check preparation function is independent of purchases journal, general ledger and accounts payable subledger posting functions.	_____	_____	_____	_____
9. Account codings are reviewed by someone other than the preparer.	_____	_____	_____	_____





**CONTRACTORS' INTERNAL CONTROL STRUCTURE  
QUESTIONNAIRE SECTION I (Continued)**

Modification of standard tests:

---

---

---

---

---

---

---

---

---

---

19\_\_\_\_ 19\_\_\_\_ 19\_\_\_\_ 19\_\_\_\_ 19\_\_\_\_

Prepared by:  
Client  
In-Charge

\_\_\_\_\_  
\_\_\_\_\_

Reviewed by:  
Engagement  
Executive

\_\_\_\_\_

- (1) Represents a decision to rely on compliance tests of internal control (tests of controls).
- (2) Represents a decision to rely on substantive transactions tests of the accounting system.
- (3) Represents a decision not to rely on transactions tests of internal control or the accounting system.

# CONTRACTORS' INTERNAL CONTROL STRUCTURE QUESTIONNAIRE--SECTION II



*Client:* \_\_\_\_\_

*Engagement Date:* \_\_\_\_\_

- MAJOR AUDIT AREAS:
1. Accounts receivable confirmation selection and alternative procedures (other than contract receivables and revenues).
  2. Sales cutoff.
  3. Sales revenues tests.

TRANSACTION CYCLE: Sales and collections.

INTERNAL CONTROL PROCEDURES:

PERSONNEL                      YES    NO    N/A

General Controls (System C):

Collections:

- |  |       |       |       |       |
|--|-------|-------|-------|-------|
| 1. A cash receipts journal is prepared and balanced.   | _____ | _____ | _____ | _____ |
| 2. Records of payments on accounts receivable by customer are maintained (sales tickets, remittance advices or duplicate deposit slips). | _____ | _____ | _____ | _____ |
| 3. Over-the-counter receipts are controlled by sales or receipts tickets.  | _____ | _____ | _____ | _____ |
| 4. Cash receipts are deposited intact.   | _____ | _____ | _____ | _____ |

Sales:

- |  |       |       |       |       |
|--|-------|-------|-------|-------|
| 1. Sales invoices evidencing shipping date and/or shipping reports are prepared. | _____ | _____ | _____ | _____ |
| 2. Copies of sales invoices or customers' statements are mailed periodically.    | _____ | _____ | _____ | _____ |

**CONTRACTORS' INTERNAL CONTROL STRUCTURE  
QUESTIONNAIRE SECTION II (Continued)**

Primary Controls (System B):	<u>PERSONNEL</u>	<u>YES</u>	<u>NO</u>	<u>N/A</u>
<b>Collections:</b>				
1. Collections are deposited intact, daily.	_____	_____	_____	_____
2. Over-the-counter receipts are controlled by a cash register or prenumbered sales or receipts tickets.	_____	_____	_____	_____
3. Cash receipts are recorded in the receipts journal as received.	_____	_____	_____	_____
4. The bank reconciliation is prepared by the owner or manager or someone independent of the cash receipts function.	_____	_____	_____	_____
5. The cash receipts are posted to an accounts receivable subsidiary ledger.	_____	_____	_____	_____
6. The subledger is posted, balanced, and reconciled to the general ledger monthly.	_____	_____	_____	_____
7. Cash discounts are approved by the owner or manager.	_____	_____	_____	_____
<b>Sales:</b>				
1. Recording of sales is supported by prenumbered sales invoices.	_____	_____	_____	_____
2. Monthly statements or sales invoice copies are sent to customers.	_____	_____	_____	_____
3. Sales are recorded in a sales journal in the period shipped, or in accordance with shipping terms, if different.	_____	_____	_____	_____
4. The owner or manager approves all credit sales.	_____	_____	_____	_____
5. The sales journal is posted to an accounts receivable subledger.	_____	_____	_____	_____

**CONTRACTORS' INTERNAL CONTROL STRUCTURE  
QUESTIONNAIRE SECTION II (Continued)**

	<u>PERSONNEL</u>	<u>YES</u>	<u>NO</u>	<u>N/A</u>
6. The accounts receivable subledger is posted, balanced, and reconciled to the general ledger monthly.	_____	_____	_____	_____
7. The owner or manager approves all discounts, allowances and bad-debt write-offs.	_____	_____	_____	_____
Secondary Controls (System A):				
Collections:				
1. Incoming mail is received, opened and listed by the owner, manager or a person independent of the over-the-counter cash collections, cash receipts journal and general journal entry and accounts receivable functions.	_____	_____	_____	_____
2. Persons receiving cash over the counter are independent of the mail opening, deposits, and general ledger, cash receipts journal and accounts receivable subledger posting functions.	_____	_____	_____	_____
3. A person independent of cash receipts or posting functions reconciles over-the-counter receipts to accompanying detail such as cash register tapes, receipts tickets, etc.	_____	_____	_____	_____
4. Collections made by salesmen are adequately controlled.	_____	_____	_____	_____
5. Account codings are reviewed by someone other than the preparer.	_____	_____	_____	_____
6. The bank reconciliation is reviewed by the owner or manager.	_____	_____	_____	_____
7. A restrictive endorsement is placed on all checks when received.	_____	_____	_____	_____
8. Deposits are prepared by a person independent of the mail opening and listing function.	_____	_____	_____	_____

**CONTRACTORS' INTERNAL CONTROL STRUCTURE  
QUESTIONNAIRE SECTION II (Continued)**

	<u>PERSONNEL</u>	<u>YES</u>	<u>NO</u>	<u>N/A</u>
9. Items returned by the bank are received and opened by the owner or manager.	_____	_____	_____	_____
10. Prenumbered cash receipts tickets are accounted for.	_____	_____	_____	_____
Sales:				
1. Prenumbered shipping documents are prepared to support recording of sales.	_____	_____	_____	_____
2. The owner or manager reviews customer statements or invoices.	_____	_____	_____	_____
3. Sales invoices are matched with shipping reports and are posted to the sales journal by a person independent of the shipping or sales functions.	_____	_____	_____	_____
4. The person posting the sales journal and general ledger is independent of the accounts receivable subsidiary ledger posting function and/or the owner, manager or other independent person periodically reconciles the subsidiary ledger to the general ledger.	_____	_____	_____	_____
5. Prenumbered credit memos are used.	_____	_____	_____	_____
6. A monthly aged analysis of accounts receivable is reviewed by the owner or manager.	_____	_____	_____	_____
7. Bad debts written off are controlled by a person who does not have access to cash or by the owner or manager.	_____	_____	_____	_____
8. Account codings are reviewed by a person independent of the preparer.	_____	_____	_____	_____
9. The owner or manager follows up on customer complaints.	_____	_____	_____	_____
10. A sales price list is approved by the owner or manager and is in use.	_____	_____	_____	_____

**CONTRACTORS' INTERNAL CONTROL STRUCTURE  
QUESTIONNAIRE SECTION II (Continued)**

	<u>PERSONNEL</u>	<u>YES</u>	<u>NO</u>	<u>N/A</u>
11. Sales invoices and credit memo prices and calculations are double-checked by a person independent of the preparer.	_____	_____	_____	_____
12. Prenumbered credit memos are accounted for.	_____	_____	_____	_____
13. Prenumbered shipping documents are accounted for.	_____	_____	_____	_____
14. Prenumbered sales invoices are accounted for.	_____	_____	_____	_____

Other comments:

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

System selection (circle one):

System A<sup>(1)</sup>   System B<sup>(2)</sup>   System C<sup>(3)</sup>

Reasons for system selection:

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

**CONTRACTORS' INTERNAL CONTROL STRUCTURE  
QUESTIONNAIRE SECTION II (Continued)**

Modification of standard tests:

---

---

---

---

---

---

---

---

---

---

19\_\_ 19\_\_ 19\_\_ 19\_\_ 19\_\_

Prepared by:  
Client  
In-Charge

\_\_\_\_\_  
\_\_\_\_\_

Reviewed by:  
Engagement  
Executive

\_\_\_\_\_

- (1) Represents a decision to rely on compliance tests of internal control (tests of controls).
- (2) Represents a decision to rely on substantive transactions tests of the accounting system.
- (3) Represents a decision not to rely on transactions tests of internal control or the accounting system.

# CONTRACTORS' INTERNAL CONTROL STRUCTURE QUESTIONNAIRE--SECTION IIA

Q

*Client:* \_\_\_\_\_

*Engagement Date:* \_\_\_\_\_

- MAJOR AUDIT AREAS:
1. Contracts receivable confirmation selection and alternative procedures.
  2. Contract revenue tests.

TRANSACTION CYCLE: Contract receivables and revenues

INTERNAL CONTROL PROCEDURES:

	<u>PERSONNEL</u>	<u>YES</u>	<u>NO</u>	<u>N/A</u>
Primary Controls (System B--There is no System C):				
Contract Billings:				
1. Progress billings are prepared for work performed on contracts.	_____	_____	_____	_____
2. Progress billing forms are pre-numbered and filed in numerical sequence.	_____	_____	_____	_____
3. A contract revenue journal is maintained.	_____	_____	_____	_____
4. Copies of progress billings or customers' statements are mailed periodically.	_____	_____	_____	_____
5. Credit memos and/or change orders are prepared for adjustments to contracts.	_____	_____	_____	_____
6. The data necessary to prepare and support billings, including costs incurred to date, engineers' estimates of completion, architects' certifications and other pertinent information are accumulated and retained.	_____	_____	_____	_____



**CONTRACTORS' INTERNAL CONTROL STRUCTURE  
QUESTIONNAIRE SECTION IIA (Continued)**

	<u>PERSONNEL</u>	<u>YES</u>	<u>NO</u>	<u>N/A</u>
7. Billings, including retentions, are recorded in a contract revenue journal in the period the right to bill occurs.	_____	_____	_____	_____
8. The contract revenue journal is posted to an accounts and contracts receivable subledger maintained by contract.	_____	_____	_____	_____
9. The accounts and contracts receivable subledger is posted, balanced, and reconciled to the general ledger monthly.	_____	_____	_____	_____
10. Prenumbered credit memos are used.	_____	_____	_____	_____
Secondary Controls (System A):				
Contract Billings:				
1. Progress billings are approved by the owner or manager.	_____	_____	_____	_____
2. Progress billings are prepared in accordance with the contract and contract cost breakdown and are based on appropriate supporting data such as architect certification, engineer estimates, etc.	_____	_____	_____	_____
3. Progress billing forms are accounted for periodically.	_____	_____	_____	_____
4. Progress billings are posted to the contract revenue journal by a person independent of the billing and cash receipt functions.	_____	_____	_____	_____
5. The person posting the contract revenue journal and general ledger is independent of the accounts receivable subledger posting function and/or some other independent person periodically reconciles the subledger to the general ledger.	_____	_____	_____	_____
6. Credit memos are accounted for periodically.	_____	_____	_____	_____

**CONTRACTORS' INTERNAL CONTROL STRUCTURE  
QUESTIONNAIRE SECTION IIA (Continued)**

	<u>PERSONNEL</u>	<u>YES</u>	<u>NO</u>	<u>N/A</u>
7. A monthly aged analysis of contract receivables, including retentions, is reviewed by the owner or manager.	_____	_____	_____	_____
8. Management personnel reviews a monthly report of over/under billings.	_____	_____	_____	_____
9. The owner or manager approves all bad-debt write offs.	_____	_____	_____	_____
10. Bad debts written off are controlled by a person who does not have access to cash or by the owner or manager.	_____	_____	_____	_____
11. All contracts are approved in writing by the owner or manager.	_____	_____	_____	_____
12. Billings and percentage calculations are double-checked by a person independent of the preparer.	_____	_____	_____	_____
13. Any change orders are approved in writing by an authorized customer representative before the extra work is performed.	_____	_____	_____	_____

Other comments:

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

**CONTRACTORS' INTERNAL CONTROL STRUCTURE  
QUESTIONNAIRE SECTION IIA (Continued)**

System selection (circle one):

System A(1)    System B(2)

Reasons for system selection:

---

---

---

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

---

---

---

---

---

---

---

---

---

---

19\_\_\_\_    19\_\_\_\_    19\_\_\_\_    19\_\_\_\_    19\_\_\_\_

Prepared by:  
Client  
In-Charge

\_\_\_\_\_  
\_\_\_\_\_

Reviewed by:  
Engagement  
Executive

\_\_\_\_\_

- (1) Represents a decision to rely on compliance tests of internal control (tests of controls).
- (2) Represents a decision to rely on substantive transactions tests of the accounting system.

# CONTRACTORS' INTERNAL CONTROL STRUCTURE QUESTIONNAIRE--SECTION III

• • • • •  
**Q**

*Client:* \_\_\_\_\_

*Engagement Date:* \_\_\_\_\_

- MAJOR AUDIT AREAS:
1. Vouching and inspecting fixed assets.
  2. Search for unrecorded liabilities.
  3. Purchases cutoff.
  4. Expense account analysis and vouching.
  5. Construction contract costs.

TRANSACTION CYCLE: Acquisitions and payments

INTERNAL CONTROL PROCEDURES:

	<u>PERSONNEL</u>	<u>YES</u>	<u>NO</u>	<u>N/A</u>
<b>General Controls (System C):</b>				
<b>Payments:</b>				
1. A cash disbursements journal is prepared and balanced.	_____	_____	_____	_____
2. Cash disbursements are made by check (except for petty cash).	_____	_____	_____	_____
3. Cash disbursements are supported by vendors' invoices or other external documents.	_____	_____	_____	_____
4. Bank reconciliations are prepared for all bank accounts.	_____	_____	_____	_____
<b>Acquisitions:</b>				
1. Vendor invoices, or receiving reports, contain the date goods were received.	_____	_____	_____	_____
2. Unpaid vendor invoices are filed separately from paid invoices.	_____	_____	_____	_____

**CONTRACTORS' INTERNAL CONTROL STRUCTURE  
QUESTIONNAIRE SECTION III (Continued)**

	<u>PERSONNEL</u>	<u>YES</u>	<u>NO</u>	<u>N/A</u>
<b>Primary Controls (System B):</b>				
<b>Payments:</b>				
1. All checks are signed by the owner or manager.	_____	_____	_____	_____
2. The check signer compares data on supporting documents to checks.	_____	_____	_____	_____
3. Checks are recorded in the disbursements journal or other record as prepared.	_____	_____	_____	_____
4. Checks are prenumbered and accounted for.	_____	_____	_____	_____
5. An imprest petty cash fund is in use.	_____	_____	_____	_____
6. All invoices are approved for payment by the owner or manager.	_____	_____	_____	_____
7. Checks are prepared by the owner or manager or persons independent of vendor invoice approval.	_____	_____	_____	_____
8. Checks are signed based on approved invoices (not signed in advance).	_____	_____	_____	_____
<b>Acquisitions:</b>				
1. Vendors' invoices or other documents are included as support for all purchases and, if applicable, identify the construction contract to which they apply.	_____	_____	_____	_____
2. Vendors' invoices are recalculated prior to payment.	_____	_____	_____	_____
3. All purchases are approved by the owner or manager.	_____	_____	_____	_____
4. A purchases journal is in use and transactions are recorded on the accrual basis.	_____	_____	_____	_____

**CONTRACTORS' INTERNAL CONTROL STRUCTURE  
QUESTIONNAIRE SECTION III (Continued)**

	<u>PERSONNEL</u>	<u>YES</u>	<u>NO</u>	<u>N/A</u>
5. Costs incurred on construction contracts are posted to a separate job cost subledger.	_____	_____	_____	_____
6. The construction contract cost subledger is posted, balanced and reconciled to the general ledger monthly.	_____	_____	_____	_____
7. Vendors are approved by the owner or manager.	_____	_____	_____	_____
Secondary Controls (System A):				
Payments:				
1. All supporting documents are canceled after check signing by the check signer or independent person to prevent duplicate payment.	_____	_____	_____	_____
2. The numerical sequence of checks issued is accounted for by someone independent of the preparation function.	_____	_____	_____	_____
3. Checks are mailed by the owner or manager or a person under his supervision after signing. (Consider other responsibilities of person mailing checks.)	_____	_____	_____	_____
4. Cash disbursements are posted to an accounts payable subledger.	_____	_____	_____	_____
5. The accounts payable subledger is posted, balanced and reconciled to the general ledger monthly.	_____	_____	_____	_____
6. The bank reconciliation is prepared by the owner or manager or a person independent of the check-signing function.	_____	_____	_____	_____
7. Bank reconciliations are reviewed by the owner or manager.	_____	_____	_____	_____

**CONTRACTORS' INTERNAL CONTROL STRUCTURE  
QUESTIONNAIRE SECTION III (Continued)**

	<u>PERSONNEL</u>	<u>YES</u>	<u>NO</u>	<u>N/A</u>
8. The check preparation function is independent of purchases journal, general ledger and accounts payable subledger posting functions.	_____	_____	_____	_____
9. Account codings are reviewed by someone other than the preparer.	_____	_____	_____	_____
10. Bank statements and enclosures are received and reviewed by the owner or manager before reconciliation.	_____	_____	_____	_____
11. A check protector is used.	_____	_____	_____	_____
12. Access to blank checks is limited to persons authorized to prepare checks.	_____	_____	_____	_____
<b>Acquisitions:</b>				
1. Prenumbered receiving reports are prepared as support for purchases and indicate the date goods were received or work was performed.	_____	_____	_____	_____
2. All supporting documents are marked in a way to prevent re-entry in purchases journal.	_____	_____	_____	_____
3. Purchases are posted to an accounts payable subledger.	_____	_____	_____	_____
4. The accounts payable subledger is posted and reconciled to the general ledger monthly.	_____	_____	_____	_____
5. The person posting the purchases journal and general ledger is independent of the accounts payable subledger posting function and/or the owner, manager or other independent person reconciles the subledger to the general ledger.	_____	_____	_____	_____
6. All supporting documents are matched by a person independent of the ordering function, or the owner or manager, before entry in the purchases journal.	_____	_____	_____	_____

**CONTRACTORS' INTERNAL CONTROL STRUCTURE  
QUESTIONNAIRE SECTION III (Continued)**

	<u>PERSONNEL</u>	<u>YES</u>	<u>NO</u>	<u>N/A</u>
7. Account codings are reviewed by someone other than the preparer.	_____	_____	_____	_____
8. Prenumbered purchase requisitions and/or purchase orders are prepared as authorization for purchases.	_____	_____	_____	_____
9. Approved price lists are in use.	_____	_____	_____	_____
10. The numerical sequence of receiving reports is accounted for by a person independent of the preparation function.	_____	_____	_____	_____
11. The numerical sequence of purchase requisitions and purchase orders is accounted for by a person independent of the preparation function.	_____	_____	_____	_____
12. Accounts payable subledger balances are periodically reconciled to vendors' statements by a person independent of the ordering and payments functions.	_____	_____	_____	_____
13. A voucher system with prenumbered vouchers approved by the owner or manger is in use.	_____	_____	_____	_____

Other comments:

---



---



---



---



---



---



---



---



---



---



**CONTRACTORS' INTERNAL CONTROL STRUCTURE  
QUESTIONNAIRE SECTION III (Continued)**

System selection (circle one):

System A<sup>(1)</sup>   System B<sup>(2)</sup>   System C<sup>(3)</sup>

Reasons for system selection:

---



---



---

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

---



---



---



---



---



---



---



---



---

	19__	19__	19__	19__	19__
Prepared by:					
Client	_____	_____	_____	_____	_____
In-Charge	_____	_____	_____	_____	_____
Reviewed by:					
Engagement	_____	_____	_____	_____	_____
Executive	_____	_____	_____	_____	_____

- (1) Represents a decision to rely on compliance tests of internal control (tests of controls).
- (2) Represents a decision to rely on substantive transactions tests of the accounting system.
- (3) Represents a decision not to rely on transactions tests of internal control or the accounting system.

# CONTRACTORS' INTERNAL CONTROL STRUCTURE QUESTIONNAIRE--SECTION IV

Q

*Client:* \_\_\_\_\_

*Engagement Date:* \_\_\_\_\_

MAJOR AUDIT AREA:      Payroll tests

TRANSACTION CYCLE:    Payroll and personnel

INTERNAL CONTROL PROCEDURES:

	<u>PERSONNEL</u>	<u>YES</u>	<u>NO</u>	<u>N/A</u>
<b>General Controls (System C):</b>				
1. A payroll journal is prepared and balanced.	_____	_____	_____	_____
2. Payroll disbursements are made by check.	_____	_____	_____	_____
3. Labor is classified by category, e.g., manufacturing or administrative.	_____	_____	_____	_____
4. Employees' time records are maintained.	_____	_____	_____	_____
5. W-4 forms are maintained.	_____	_____	_____	_____
6. Employees' earnings records are maintained.	_____	_____	_____	_____
7. A payroll bank account reconciliation is prepared.	_____	_____	_____	_____
8. Wage rates are authorized by the owner or manager (at least verbally).	_____	_____	_____	_____
<b>Primary Controls (System B):</b>				
1. Time cards are prepared by employees.	_____	_____	_____	_____
2. The owner or manager approves:				
a. Rates of pay.	_____	_____	_____	_____

**CONTRACTORS' INTERNAL CONTROL STRUCTURE  
QUESTIONNAIRE SECTION IV (Continued)**

	<u>PERSONNEL</u>	<u>YES</u>	<u>NO</u>	<u>N/A</u>
b. Withholdings.	_____	_____	_____	_____
c. Changes in above.	_____	_____	_____	_____
3. The payroll bank account reconciliation is prepared by someone independent of payroll preparation and check signing or by the owner or manager.	_____	_____	_____	_____
4. Payroll checks are prenumbered and accounted for.	_____	_____	_____	_____
5. Checks are recorded in the payroll journal as prepared.	_____	_____	_____	_____
6. Payroll journals are posted at least monthly to employees' earnings records.	_____	_____	_____	_____
7. Payroll checks are signed by the owner or manager.	_____	_____	_____	_____
8. Time cards are approved by a foreman, manager or owner.	_____	_____	_____	_____
9. The payroll bank account reconciliation is approved by the owner or manger.	_____	_____	_____	_____
10. Payrolls relating to construction contracts are posted to a separate construction contract cost subledger.	_____	_____	_____	_____
11. Payroll expense recorded in the construction contract cost subledger is reconciled monthly to payroll expense in the general ledger.	_____	_____	_____	_____
<b>Secondary Controls (System A):</b>				
1. A time clock is used to record time or time is logged by someone independent of payroll preparation, check signing or distribution functions.	_____	_____	_____	_____
2. An imprest payroll bank account is used.	_____	_____	_____	_____

**CONTRACTORS' INTERNAL CONTROL STRUCTURE  
QUESTIONNAIRE SECTION IV (Continued)**

	<u>PERSONNEL</u>	<u>YES</u>	<u>NO</u>	<u>N/A</u>
3. All payroll calculations are checked by an independent person.	_____	_____	_____	_____
4. Employees' earnings records are periodically reconciled to the general ledger by persons independent of payroll preparation and distribution.	_____	_____	_____	_____
5. Account codings are reviewed by someone other than preparer.	_____	_____	_____	_____
6. Adequate personnel files are maintained.	_____	_____	_____	_____
7. Payroll checks are accounted for by a person independent of the preparation function.	_____	_____	_____	_____
8. Payroll is prepared by persons independent of time card approval, check signing and check distribution.	_____	_____	_____	_____
9. Payroll bank account reconciliation is reviewed by the owner or manager.	_____	_____	_____	_____
10. Unclaimed payroll checks are followed up on by the owner or manager.	_____	_____	_____	_____
11. The determination of payroll overhead that is allocated to contracts is reviewed by the owner or manager.	_____	_____	_____	_____

Other comments:

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

**CONTRACTORS' INTERNAL CONTROL STRUCTURE  
QUESTIONNAIRE SECTION IV (Continued)**

System selection (circle one):

System A(1)   System B(2)   System C(3)

Reasons for system selection:

---

---

---

Modification of standard tests:

---

---

---

---

---

---

---

---

---

---

19\_\_\_\_ 19\_\_\_\_ 19\_\_\_\_ 19\_\_\_\_ 19\_\_\_\_

Prepared by:

Client

In-Charge

\_\_\_\_\_  
\_\_\_\_\_

Reviewed by:

Engagement

Executive

\_\_\_\_\_  
\_\_\_\_\_

- (1) Represents a decision to rely on compliance tests of internal control (tests of controls).
- (2) Represents a decision to rely on substantive transactions tests of the accounting system.
- (3) Represents a decision not to rely on transactions tests of internal control or the accounting system.

# CONTRACTORS' INTERNAL CONTROL STRUCTURE QUESTIONNAIRE--SECTION V PART I



*Client:* \_\_\_\_\_

*Engagement Date:* \_\_\_\_\_

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

TRANSACTION CYCLE: NO PERPETUAL INVENTORY RECORDS MAINTAINED--  
Inventory and warehousing.

INTERNAL CONTROL PROCEDURES:

	<u>PERSONNEL</u>	<u>YES</u>	<u>NO</u>	<u>N/A</u>
<i>(Controls apply to annual inventory taking.)</i>				
<b>General Controls (System C):</b>				
1. An annual physical inventory is taken and adequate count records (tags or sheets) are maintained.	_____	_____	_____	_____
2. Adequate records of inventory pricing and summary are maintained.	_____	_____	_____	_____
3. The inventory count is taken, checked or supervised by the owner or manager.	_____	_____	_____	_____
<b>Primary Controls (System B):</b>				
1. Obsolete and consigned goods are excluded from the count.	_____	_____	_____	_____
2. Good physical cutoff procedures are utilized to insure an accurate count and recording of inventory.	_____	_____	_____	_____
3. Physical inventory counters are given adequate instructions for an accurate count.	_____	_____	_____	_____
<b>Secondary Controls (System A):</b>				
1. Written inventory instructions are prepared and used.	_____	_____	_____	_____

**CONTRACTORS' INTERNAL CONTROL STRUCTURE  
QUESTIONNAIRE SECTION V (Continued)**

	<u>PERSONNEL</u>	<u>YES</u>	<u>NO</u>	<u>N/A</u>
2. The receiving department inspects the quantity and quality of materials when receiving reports are prepared.	_____	_____	_____	_____
3. Raw materials, work-in-process and finished goods are stored under good physical controls.	_____	_____	_____	_____
4. The following functions are double-checked on a test basis by an independent person:				
a. Original inventory counts and recording of quantities.	_____	_____	_____	_____
b. Pricing of inventory items.	_____	_____	_____	_____
c. Extending and footing of inventory sheets and/or summaries.	_____	_____	_____	_____
d. Footing of sheets' or summaries' page totals to grand totals.	_____	_____	_____	_____

Other comments:

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

**CONTRACTORS' INTERNAL CONTROL STRUCTURE  
QUESTIONNAIRE SECTION V (Continued)**

System selection (circle one):

System A<sup>(1)</sup>   System B<sup>(2)</sup>   System C<sup>(3)</sup>

Reasons for system selection:

---

---

---

---

Modification of standard tests:

---

---

---

---

---

---

---

---

---

---

19\_\_   19\_\_   19\_\_   19\_\_   19\_\_

Prepared by:

Client

In-Charge

\_\_\_\_   \_\_\_\_   \_\_\_\_   \_\_\_\_   \_\_\_\_

\_\_\_\_   \_\_\_\_   \_\_\_\_   \_\_\_\_   \_\_\_\_

Reviewed by:

Engagement

Executive

\_\_\_\_   \_\_\_\_   \_\_\_\_   \_\_\_\_   \_\_\_\_

- (1) Represents a decision to rely on compliance tests of internal control (tests of controls).
- (2) Represents a decision to rely on substantive transactions tests of the accounting system.
- (3) Represents a decision not to rely on transactions tests of internal control or the accounting system.





**CONTRACTORS' INTERNAL CONTROL  
STRUCTURE QUESTIONNAIRE--SECTION V  
PART II**



*Client:* \_\_\_\_\_  
*Engagement Date:* \_\_\_\_\_

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

TRANSACTION CYCLE: PERPETUAL INVENTORY RECORDS MAINTAINED--  
Inventory and warehousing.

INTERNAL CONTROL PROCEDURES:

	<u>PERSONNEL</u>	<u>YES</u>	<u>NO</u>	<u>N/A</u>
Primary Controls (System B--There is no System C):				
1. All inventory movements and inventory withdrawals are recorded in the perpetual records and the general ledger.	_____	_____	_____	_____
2. Production activity is controlled by a report of the production process.	_____	_____	_____	_____
3. Excess, obsolete and slow-moving inventory is periodically identified and removed from the perpetual records and the general ledger.	_____	_____	_____	_____
4. Prenumbered raw material requisitions are prepared for all raw materials used in production.	_____	_____	_____	_____
5. Withdrawals from inventory are based on prenumbered finished inventory requisitions and/or prenumbered shipping reports.	_____	_____	_____	_____
6. All inventory writeoffs are approved by the owner or manager.	_____	_____	_____	_____
7. All perpetual records are subjected to physical inventories at least annually.	_____	_____	_____	_____

**CONTRACTORS' INTERNAL CONTROL STRUCTURE  
QUESTIONNAIRE SECTION V (Continued)**

	<u>PERSONNEL</u>	<u>YES</u>	<u>NO</u>	<u>N/A</u>
8. Physical inventory counters are given adequate instructions.	_____	_____	_____	_____
9. Physical inventory records are posted to date of counts to obtain a good cutoff.	_____	_____	_____	_____
Secondary Controls (System A):				
1. All classes of inventory are stored under good physical safeguards.	_____	_____	_____	_____
2. Materials costs, labor charges and overhead costs are recorded in the perpetual records and the general ledger.	_____	_____	_____	_____
3. For a standard cost system:				
a. Significant variances are reported timely.	_____	_____	_____	_____
b. Standards are reviewed at least annually.	_____	_____	_____	_____
c. The system interfaces with the general ledger.	_____	_____	_____	_____
4. Periodic physical counts are made and agreed to perpetual records by persons independent of the inventory and warehousing functions or by the owner or manager.	_____	_____	_____	_____
5. Written instructions are prepared and used for periodic physical counts.	_____	_____	_____	_____
6. The receiving department inspects the quantity and quality of materials when receiving reports are prepared.	_____	_____	_____	_____
7. The following documents are periodically accounted for:				
a. Raw material requisitions.	_____	_____	_____	_____
b. Labor charge documents.	_____	_____	_____	_____
c. Finished inventory requisitions.	_____	_____	_____	_____

**CONTRACTORS' INTERNAL CONTROL STRUCTURE  
QUESTIONNAIRE SECTION V (Continued)**

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

**CONTRACTORS' INTERNAL CONTROL STRUCTURE  
QUESTIONNAIRE SECTION V (Continued)**

Other comments:

---

---

---

---

---

---

---

---

System selection (circle one):

System A<sup>(1)</sup>    System B<sup>(2)</sup>

Reasons for system selection:

---

---

---

---

Modification of standard tests:

---

---

---

---

---

---

---

---

19\_\_\_\_ 19\_\_\_\_ 19\_\_\_\_ 19\_\_\_\_ 19\_\_\_\_

Prepared by:

Client

In-Charge

\_\_\_\_\_  
\_\_\_\_\_

Reviewed by:

Engagement

Executive

\_\_\_\_\_

- (1) Represents a decision to rely on compliance tests of internal control (tests of controls).
- (2) Represents a decision to rely on substantive transactions tests of the accounting system.

# CONTRACTORS' INTERNAL CONTROL STRUCTURE QUESTIONNAIRE--SECTION VI



*Client:* \_\_\_\_\_

*Engagement Date:* \_\_\_\_\_

AUDIT AREAS: All

TRANSACTION CYCLES: All

INTERNAL CONTROL PROCEDURES:

PERSONNEL      YES    NO    N/A

GENERAL CONTROL ENVIRONMENT:

- |  |       |       |       |       |
|--|-------|-------|-------|-------|
| 1. The financial condition of the company is sound.  | _____ | _____ | _____ | _____ |
| 2. Financing sources other than the owner/manager are available.   | _____ | _____ | _____ | _____ |
| 3. The owner/manager's attitudes about income taxes and business risks are conservative.   | _____ | _____ | _____ | _____ |
| 4. The owner/manager understands the importance of control procedures.   | _____ | _____ | _____ | _____ |
| 5. The owner/manager understands and uses financial statements and reports prepared by accounting personnel.   | _____ | _____ | _____ | _____ |
| 6. Accounting personnel have experience and training appropriate for their jobs and understand their responsibilities.   | _____ | _____ | _____ | _____ |
| 7. Our understanding of the client indicates the owner/manager and accounting personnel are competent, possess high integrity and are concerned about the quality of their work. | _____ | _____ | _____ | _____ |
| 8. Documents, records and assets are physically controlled to prevent their destruction or unauthorized use.   | _____ | _____ | _____ | _____ |

**CONTRACTORS' INTERNAL CONTROL STRUCTURE  
QUESTIONNAIRE SECTION VI (Continued)**

	<u>PERSONNEL</u>	<u>YES</u>	<u>NO</u>	<u>N/A</u>
<b>General Controls (System C):</b>				
1. A general ledger is posted and balanced.	_____	_____	_____	_____
2. A general journal is prepared and balanced.	_____	_____	_____	_____
3. General journal entries are adequately supported.	_____	_____	_____	_____
4. An adequate chart of accounts is in use.	_____	_____	_____	_____
5. All employees in a position of trust are adequately bonded.	_____	_____	_____	_____
6. All employees in a position of trust are required to take vacations.	_____	_____	_____	_____
7. The owners' personal income and expenses are segregated from the business.	_____	_____	_____	_____
<b>Primary Controls (System B):</b>				
1. The owner or manager participates in the day-to-day operations of the business.	_____	_____	_____	_____
2. Adequate reports and financial information are available to and reviewed by the owner or manager.	_____	_____	_____	_____
3. All journal entries are approved by the owner or manager.	_____	_____	_____	_____
<b>Secondary Controls (System A):</b>				
1. Budgets are prepared and used to control operations.	_____	_____	_____	_____
2. Property and equipment records are maintained, periodically reviewed and checked to assets and reconciled to the general ledger.	_____	_____	_____	_____





**CONTRACTORS' INTERNAL CONTROL STRUCTURE  
QUESTIONNAIRE SECTION VI (Continued)**

	19__	19__	19__	19__	19__
Prepared by:					
Client	_____	_____	_____	_____	_____
In-Charge	_____	_____	_____	_____	_____
Reviewed by:					
Engagement	_____	_____	_____	_____	_____
Executive	_____	_____	_____	_____	_____

# CONTRACTORS' INTERNAL CONTROL STRUCTURE QUESTIONNAIRE--SECTION VII



*Client:* \_\_\_\_\_

*Engagement Date:* \_\_\_\_\_

- MAJOR AUDIT AREAS:
1. Project Administration and Evaluation.
  2. Estimating and Bidding.
  3. Job-Site Accounting and Controls.

TRANSACTION CYCLE: Construction contract revenue and cost

INTERNAL CONTROL STRUCTURE:

	<u>PERSONNEL</u>	<u>YES</u>	<u>NO</u>	<u>N/A</u>
Primary Controls (System B--There is no System C):				

Project Administration and Evaluation:

- |  |       |       |       |       |
|--|-------|-------|-------|-------|
| 1. Field superintendents, engineers, projects managers, etc. as applicable, are required to periodically file various progress and field reports on the status of the project. | _____ | _____ | _____ | _____ |
| 2. Correspondence files are maintained for each project.   | _____ | _____ | _____ | _____ |
| 3. Variances in amounts of subcontracts issued from amounts used in cost estimates are reviewed and accumulated to measure deviation of actual costs from estimated costs.     | _____ | _____ | _____ | _____ |
| 4. Prenumbered purchase orders are prepared.   | _____ | _____ | _____ | _____ |
| 5. Purchase orders are accounted for periodically.   | _____ | _____ | _____ | _____ |
| 6. Purchase orders specify delivery dates and items.   | _____ | _____ | _____ | _____ |
| 7. Suppliers acceptance of purchase terms is documented on purchase orders.  | _____ | _____ | _____ | _____ |

**CONTRACTORS' INTERNAL CONTROL STRUCTURE  
QUESTIONNAIRE SECTION VII (Continued)**

	<u>PERSONNEL</u>	<u>YES</u>	<u>NO</u>	<u>N/A</u>
8. Progress reports, field reports and other status reports are reviewed regularly by field and management personnel.	_____	_____	_____	_____
9. Payments to subcontractors is based on work performed and determined by comparison to various field reports.	_____	_____	_____	_____
10. All charges to jobs are coded by job operation to facilitate comparisons of actual with estimated cost.	_____	_____	_____	_____
11. Actual costs incurred plus estimated costs to complete are compared with estimated costs and total contract prices on a regular basis by accounting personnel.	_____	_____	_____	_____
<b>Estimating and Bidding:</b>				
1. Detailed estimates are prepared.	_____	_____	_____	_____
2. Estimates are detailed by job operation and account number so they can be compared to actual costs incurred.	_____	_____	_____	_____
3. Detailed estimates are prepared for contract change orders.	_____	_____	_____	_____
4. A preprinted estimate summary including job operation and account numbers is used.	_____	_____	_____	_____
5. Detailed estimate sheets are produced in support of summaries and are retained.	_____	_____	_____	_____
6. Quantities of material and hours of labor in bid estimates are reviewed by someone other than preparer and compared to contract specifications.	_____	_____	_____	_____

**CONTRACTORS' INTERNAL CONTROL STRUCTURE  
QUESTIONNAIRE SECTION VII (Continued)**

	<u>PERSONNEL</u>	<u>YES</u>	<u>NO</u>	<u>N/A</u>
7. Estimated material costs are checked against vendor price lists, price quotations, subcontractors' bids or other supporting documentation.	_____	_____	_____	_____
8. When equipment is assigned to a job, a written receipt is issued and the individual is held accountable for the equipment's return or disposition.	_____	_____	_____	_____
9. Estimated labor rates, payroll taxes and fringe benefits are compared against union contracts and other supporting documentation.	_____	_____	_____	_____
10. Estimated equipment costs are determined from standard rates charged to jobs for equipment rentals and owned equipment.	_____	_____	_____	_____
11. Estimates are reviewed for possible contingency provisions e.g., material cost increases, increases in labor rates, unusual circumstances, etc.	_____	_____	_____	_____
12. Change orders are incorporated into job estimates, progress schedules and cost comparison reports.	_____	_____	_____	_____
<b>Job Site Accounting and Controls:</b>				
1. Time records of job site employees are prepared and include appropriate account coding.	_____	_____	_____	_____
2. Any unclaimed wages are properly controlled by office or management personnel.	_____	_____	_____	_____
3. All chargeable time for equipment is accounted for and reported to accounting personnel.	_____	_____	_____	_____
4. Hours reported are coded by job operation and account number to facilitate job cost accounting.	_____	_____	_____	_____

**CONTRACTORS' INTERNAL CONTROL STRUCTURE  
QUESTIONNAIRE SECTION VII (Continued)**

	<u>PERSONNEL</u>	<u>YES</u>	<u>NO</u>	<u>N/A</u>
5. Prenumbered purchase orders are used at job site for purchase of material.	_____	_____	_____	_____
6. Prenumbered receiving reports are used at job site as evidence of receipt of materials.	_____	_____	_____	_____
7. Prenumbered job site receiving reports are accounted for periodically.	_____	_____	_____	_____

Secondary Controls (System A):

Project Administration and Evaluation:

1. A job plan is developed and approved by the owner or manager which indicates that the contractor has access to the necessary equipment, personnel, and materials and that these items will be available at required dates.	_____	_____	_____	_____
2. The job foreman is familiar with the engineering and work-method decisions and assumptions made in job estimating and bidding.	_____	_____	_____	_____
3. Subcontracts are awarded to the lowest acceptable bidder.	_____	_____	_____	_____
4. Based on competitive bids obtained during estimate and bid activity, purchase orders are issued to low bidder.	_____	_____	_____	_____
5. The owner or manager reviews and evaluates regularly the status of each contract in progress to estimate the profit or loss.	_____	_____	_____	_____
6. Plans and specifications are double-checked by management, any ambiguous items are clarified and recommendations are made for changes in the plans when appropriate.	_____	_____	_____	_____

**CONTRACTORS' INTERNAL CONTROL STRUCTURE  
QUESTIONNAIRE SECTION VII (Continued)**

	<u>PERSONNEL</u>	<u>YES</u>	<u>NO</u>	<u>N/A</u>
7. The job progress schedule (timing, responsibility and coordination among subcontractors and prime contractors) is prepared and agreed to by subcontractors.	_____	_____	_____	_____
8. Progress reports, field reports and other status reports are reviewed and approved in writing by the owner or manager.	_____	_____	_____	_____
9. Conferences with project engineers and architects are documented in writing.	_____	_____	_____	_____
10. Payments to subcontractors are approved by job superintendents.	_____	_____	_____	_____
11. The owner/manager reviews and approves monthly schedules comparing costs to date plus estimated costs with total contract prices.	_____	_____	_____	_____
<b>Estimating and Bidding:</b>				
1. Estimates are approved by owner or manager.	_____	_____	_____	_____
2. Estimates are double-checked for clerical accuracy.	_____	_____	_____	_____
3. Estimates are double-checked against contract specifications, plans and drawings to provide assurance that the estimates of contract costs reflect all relevant cost elements.	_____	_____	_____	_____
4. Estimates are reviewed by management personnel for completeness and reasonableness.	_____	_____	_____	_____
5. For each phase of its work to be subcontracted, cost estimates are obtained from more than one subcontractor.	_____	_____	_____	_____
6. The owner or manager approves all contracts and change orders.	_____	_____	_____	_____

**CONTRACTORS' INTERNAL CONTROL STRUCTURE  
QUESTIONNAIRE SECTION VII (Continued)**

	<u>PERSONNEL</u>	<u>YES</u>	<u>NO</u>	<u>N/A</u>
7. Subcontractors' acceptance of change orders is approved in writing.	_____	_____	_____	_____
8. All items on the estimate summaries are completed or lined out.	_____	_____	_____	_____
9. Subcontractors included in estimates are reviewed for credit worthiness and high quality.	_____	_____	_____	_____
10. Performance bonds are obtained from subcontractors.	_____	_____	_____	_____
11. During the bid process, consideration is given to developing high margins where change orders are expected and low margins where change orders are not expected.	_____	_____	_____	_____
12. All awarded contracts are approved in writing after careful evaluation and comparison with other bids to determine whether the bid amount was too low.	_____	_____	_____	_____
13. Analysis on all bidding activity, whether awarded or not, is prepared and summarized monthly and on year-to-date forms and reviewed by management. (Information should include project, client's bid amount, low bid amount, dollar and percent difference and to whom contract was awarded.)	_____	_____	_____	_____
14. Estimates for change orders are rechecked and approved in writing by management.	_____	_____	_____	_____
<b>Job Site Accounting and Controls:</b>				
1. Construction tools and equipment on job sites are adequately safeguarded and accounted for periodically.	_____	_____	_____	_____
2. Payroll is paid by check at the job site and distributed by the job foreman or superintendent.	_____	_____	_____	_____

**CONTRACTORS' INTERNAL CONTROL STRUCTURE  
QUESTIONNAIRE SECTION VII (Continued)**

	<u>PERSONNEL</u>	<u>YES</u>	<u>NO</u>	<u>N/A</u>
3. If payroll is paid by cash, office and management personnel periodically make controlled, job site payoffs.	_____	_____	_____	_____
4. Materials purchased at the job site are approved by the owner or manager before ordering.	_____	_____	_____	_____
5. An inventory of equipment is maintained at the job site and periodically compared to the accounting records.	_____	_____	_____	_____
6. Non-chargeable equipment time is approved by the job foreman or superintendent.	_____	_____	_____	_____
7. Hours reported on time records are approved in writing by the job foreman or superintendent.	_____	_____	_____	_____
8. The hiring and firing of job site employees is reviewed by office and management personnel and properly documented.	_____	_____	_____	_____
9. Prenumbered job site purchase orders are accounted for periodically.	_____	_____	_____	_____
10. The owner or manager visits the job site periodically to verify reported progress.	_____	_____	_____	_____

Other comments:

---



---



---



---



---



---



---



---



---



---



**CONTRACTORS' INTERNAL CONTROL STRUCTURE  
QUESTIONNAIRE SECTION VII (Continued)**

System selection (circle one):

System A<sup>(1)</sup>    System B<sup>(2)</sup>

Reasons for system selection:

---

---

---

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

---

---

---

---

---

---

---

---

---

---

19\_\_    19\_\_    19\_\_    19\_\_    19\_\_

Prepared by:

Client

In-Charge

\_\_\_\_\_

Reviewed by:

Engagement

Executive

\_\_\_\_\_

- (1) Represents a decision to rely on compliance tests of internal control (tests of controls).
- (2) Represents a decision to rely on substantive transactions tests of the accounting system.



## CONTRACTORS' SYSTEM'S WALK-THROUGH DOCUMENTATION FORM

### USE OF FORM

This form is designed for use on small contractor audit engagements. Its purpose is to guide the auditor in obtaining an understanding of the client's accounting system, in evaluating the risk of potential errors, in gathering evidence that will corroborate other tests or information supporting the completeness assertion, in designing the tests of balances and in making suggestions that will assist the client in improving its accounting system.

The form should be completed during engagement planning, prior to performing the analytical procedures and substantive tests of balances. Significant weaknesses in the accounting system, i.e., high risks of potential errors, should be compensated for by expanded analytical procedures or tests of balances procedures.

Performing transactions tests in addition to the system's walk-through procedure, will usually be duplicative. For this reason, most transactions tests will normally not be performed on small contractor audits using this form.

### GENERAL INSTRUCTIONS

The in-charge accountant should complete the form for review by the engagement executive prior to performing the analytical procedures and tests of balances. The form, except for the risk evaluation section and the walk-through checklist section may also be completed by capable client personnel and reviewed by the in-charge. Space is provided at the end of the form for descriptions of risks of potential errors, for evaluation of risks in the transaction cycles as high or low, and for descriptions of tests of balances procedures that will compensate for high risks of errors.

All compensating analytical procedures or tests of balances procedures should be cross-referenced to the applicable CONTRACTORS' ANALYTICAL PROCEDURES PROGRAM or CONTRACTORS' TESTS OF BALANCES PROGRAM. Inapplicable or immaterial procedures may be marked "N/A" or "N/R".



# CONTRACTORS' SYSTEM'S WALK-THROUGH DOCUMENTATION FORM



*Client:* \_\_\_\_\_

*Engagement Date:* \_\_\_\_\_

## GENERAL:

### I. INDUSTRY INFORMATION:

A. Describe major divisions, lines of products or services:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

B. List sources of information containing client's accounting principles.

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

### II. COMPANY ORGANIZATION AND PERSONNEL:

A. Identify and describe the responsibilities and experience of officers and accounting personnel:

<u>Name</u>	<u>Responsibilities</u>	<u>Experience</u>
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

### III. RELATED PARTIES:

A. Describe any affiliated company relationships:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

B. Describe any relationships with major customers or vendors:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

IV. FINANCING (Obtain copies of agreements for Permanent File):

A. Describe major sources of short and long-term financing:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

B. Describe stock option, compensation or repurchase plans:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

C. Describe any convertible debt features, compensating balance requirements or restrictive debt covenants:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

V. ACCOUNTING SYSTEM RECORDS AND PROCEDURES:

A. ACCOUNTING SYSTEM RECORDS:

Describe method of processing records (hand-written, write-it-once, microcomputer, service bureau, etc.):

Cash receipts journal \_\_\_\_\_

Cash disbursements journal \_\_\_\_\_

Contract revenue journal \_\_\_\_\_

Purchases journal \_\_\_\_\_

Payroll journal and records \_\_\_\_\_

Subsidiary ledgers:

Accounts receivable \_\_\_\_\_

Accounts payable \_\_\_\_\_

Inventory \_\_\_\_\_

Fixed assets \_\_\_\_\_

Insurance \_\_\_\_\_

Construction contract costs \_\_\_\_\_

Other (describe):

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

B. Describe the documents included in the major transaction cycles (number of parts, prenumbering, method of filing, etc.)

Sales and Collections Cycle:

Customer order form \_\_\_\_\_

Shipping report \_\_\_\_\_

Sales invoice \_\_\_\_\_

Credit memo \_\_\_\_\_

Cash receipts prelist \_\_\_\_\_

Remittance advices \_\_\_\_\_

Deposit slips \_\_\_\_\_

Contract progress billing documents \_\_\_\_\_  
Other (describe) \_\_\_\_\_  
\_\_\_\_\_

**Purchases and Disbursements Cycle:**

Purchase order form \_\_\_\_\_  
Receiving report \_\_\_\_\_  
Vendor invoice \_\_\_\_\_  
Bank checks \_\_\_\_\_  
Contract estimating and bidding documents \_\_\_\_\_  
Other (describe) \_\_\_\_\_  
\_\_\_\_\_

**Payroll and Personnel Cycle:**

Employee personnel records and files (describe) \_\_\_\_\_  
\_\_\_\_\_

Time cards \_\_\_\_\_  
Other (describe) \_\_\_\_\_  
\_\_\_\_\_

Construction contract management reports (describe reports, documents and forms used for project administration and evaluation and for job site accounting and control): \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**C. ACCOUNTING SYSTEM'S PROCEDURES:**

Describe accounting system procedures by major transaction cycle:

**Sales and Collections Cycle:**

**Authorization:**

1. How is the sales transaction authorized? \_\_\_\_\_  
\_\_\_\_\_
2. What document or record is used to evidence authorization? \_\_\_\_\_  
\_\_\_\_\_
3. Which personnel are involved with authorizing the sale and what are their responsibilities? \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**Initiation:**

1. How is the sales transaction initiated? \_\_\_\_\_  
\_\_\_\_\_
2. What document or record is used to evidence initiation? (What is the point of sale?) \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

3. Which personnel are involved with initiating a sale and what are their responsibilities? \_\_\_\_\_  
\_\_\_\_\_
4. How are cash collections received? \_\_\_\_\_  
\_\_\_\_\_
5. What documents are used to evidence cash collections? \_\_\_\_\_  
\_\_\_\_\_
6. Which personnel are involved with cash collections and what are their responsibilities? \_\_\_\_\_  
\_\_\_\_\_
7. Who makes bank deposits and how often are they made? \_\_\_\_\_  
\_\_\_\_\_
8. How are credits to customers' accounts initiated? \_\_\_\_\_  
\_\_\_\_\_
9. What documents are used to evidence credits to customers' accounts? \_\_\_\_\_  
\_\_\_\_\_
10. Which personnel are involved with initiating credits to customers' accounts and what are their responsibilities? \_\_\_\_\_  
\_\_\_\_\_

**Recording:**

1. How are sales transactions recorded? \_\_\_\_\_  
\_\_\_\_\_
2. Describe the source journal used to record sales transactions. \_\_\_\_\_  
\_\_\_\_\_
3. Which personnel record transactions in the sales source journal and how often are entries prepared? \_\_\_\_\_  
\_\_\_\_\_
4. How are cash receipts transactions recorded? \_\_\_\_\_  
\_\_\_\_\_
5. Describe the source journals used to record cash collections. \_\_\_\_\_  
\_\_\_\_\_
6. Which personnel record transactions in the cash collections source journal and how often are entries prepared? \_\_\_\_\_  
\_\_\_\_\_



Safeguarding and Accountability:

1. How are sales and collections and accounts receivable balances summarized for individual customers? \_\_\_\_\_  
\_\_\_\_\_
2. Which personnel are involved with the summarization of sales and collections and what are their responsibilities? \_\_\_\_\_  
\_\_\_\_\_
3. How often are customers' statements mailed? \_\_\_\_\_  
\_\_\_\_\_
4. How are sales and collections transactions posted to the general ledger and how often is it done? \_\_\_\_\_  
\_\_\_\_\_
5. Which personnel reconcile general ledger accounts receivable balances with summaries of balances for individual customers and how often is it done? \_\_\_\_\_  
\_\_\_\_\_
6. How often are receivables aged and reviewed by the owner or manager? \_\_\_\_\_  
\_\_\_\_\_

Purchases and Disbursements Cycle:

Authorization:

1. How is the purchases transaction authorized? \_\_\_\_\_  
\_\_\_\_\_
2. What document or record is used to evidence purchases authorization? \_\_\_\_\_  
\_\_\_\_\_
3. What personnel can authorize purchases? \_\_\_\_\_  
\_\_\_\_\_

Initiation:

1. How is the purchases transaction initiated? \_\_\_\_\_  
\_\_\_\_\_
2. What document or record is used to evidence purchases initiation? (Which first evidences liability?) \_\_\_\_\_  
\_\_\_\_\_
3. Which personnel are involved with initiating purchases and what are their responsibilities? \_\_\_\_\_  
\_\_\_\_\_
4. Who prepares checks, how many are prepared monthly and how often are they prepared? \_\_\_\_\_  
\_\_\_\_\_

5. Who signs checks and what documents are reviewed at the time of signing?

\_\_\_\_\_

6. What procedures prevent duplicate payments? \_\_\_\_\_

\_\_\_\_\_

**Recording:**

1. How are purchases transactions recorded? \_\_\_\_\_

\_\_\_\_\_

2. Describe the source journal used to record purchases transactions. \_\_\_\_\_

\_\_\_\_\_

3. Which personnel record transactions in the purchases source journal and how often are entries prepared? \_\_\_\_\_

\_\_\_\_\_

4. Describe the source journal used to record disbursements. \_\_\_\_\_

\_\_\_\_\_

5. Which personnel record transactions in the disbursements source journal and how often are entries prepared? \_\_\_\_\_

\_\_\_\_\_

**Safeguarding and Accountability:**

1. How are purchases and disbursements summarized by vendor? \_\_\_\_\_

\_\_\_\_\_

2. Which personnel are involved in the summarization and what are their responsibilities? \_\_\_\_\_

\_\_\_\_\_

3. How are purchases and payments posted to the general ledger and how often is it done? \_\_\_\_\_

\_\_\_\_\_

4. Which personnel reconcile general ledger accounts payable balances with the summarization of purchases and disbursements by vendor? \_\_\_\_\_

\_\_\_\_\_

5. What kinds of documents or records are maintained to control inventory items? \_\_\_\_\_

\_\_\_\_\_

6. Which personnel are involved with the inventory recordkeeping? \_\_\_\_\_

\_\_\_\_\_

7. Which personnel have physical access to inventories? \_\_\_\_\_

\_\_\_\_\_

8. How often are physical counts of inventories made? \_\_\_\_\_

9. What kinds of fixed asset records are maintained and who has responsibility for maintaining them? \_\_\_\_\_

Payroll and Personnel Cycle:

Authorization:

1. How are employees hired and fired? \_\_\_\_\_

2. What documents or records are used to evidence hiring or firing? \_\_\_\_\_

3. What personnel are involved with hiring and firing and what are their responsibilities? \_\_\_\_\_

Initiation:

1. How are hours worked by employees accounted for? \_\_\_\_\_

2. What document or record is used to evidence hours worked? \_\_\_\_\_

3. Which personnel approve hours worked and how is the approval evidenced? \_\_\_\_\_

4. How are rates of pay, withholdings and deductions established or changed? \_\_\_\_\_

5. Which personnel are involved in payroll computations and what are their responsibilities? \_\_\_\_\_

Recording:

1. How are payroll transactions recorded? \_\_\_\_\_

2. Describe the source journal used to record payroll transactions. \_\_\_\_\_

3. Which personnel record transactions in the source journal and how often are entries prepared? \_\_\_\_\_

Safeguarding and Accountability:

1. What kinds of employee payroll records are maintained? \_\_\_\_\_  
\_\_\_\_\_
2. Which personnel are involved in preparing these records? \_\_\_\_\_  
\_\_\_\_\_
3. How often are paychecks distributed by the owner or manager? \_\_\_\_\_  
\_\_\_\_\_

Construction contract receivables and revenues:

1. Describe the procedures and documents used to generate progress billings on contracts-in-process: \_\_\_\_\_  
\_\_\_\_\_
2. Describe the contract cost estimating and bidding process and documents used by the client: \_\_\_\_\_  
\_\_\_\_\_

Construction contract payables and costs:

1. Describe the procedures and documents used to account for costs of materials, labor, equipment and overhead for individual contracts: \_\_\_\_\_  
\_\_\_\_\_
2. Describe the procedures used to select subcontractors and to control payments on uncompleted contracts: \_\_\_\_\_  
\_\_\_\_\_
3. Describe the accounting and internal control procedures that are performed at job sites: \_\_\_\_\_  
\_\_\_\_\_

General:

1. How is the general ledger posted and balanced and how often is it done? \_\_\_\_\_  
\_\_\_\_\_
2. Which personnel post and balance the general ledger? \_\_\_\_\_  
\_\_\_\_\_
3. Which personnel prepare and post adjusting journal entries? \_\_\_\_\_  
\_\_\_\_\_
4. Which personnel are involved with the bank statement reconciliation and how often is it reconciled? \_\_\_\_\_  
\_\_\_\_\_

5. How often are monthly financial statements prepared and what information do they contain? \_\_\_\_\_  
\_\_\_\_\_
6. What functions of internal check are performed by the owner or manager which have not been mentioned above? \_\_\_\_\_  
\_\_\_\_\_
7. What hazard and fidelity insurance is carried by the company? \_\_\_\_\_  
\_\_\_\_\_
8. Does the owner or manager adequately segregate personal transactions from the business? (Describe any such personal transactions recorded in the business records.) \_\_\_\_\_  
\_\_\_\_\_

VI. WALK-THROUGH CHECKLIST:

	<u>PROCEDURE</u>	<u>TRANSACTIONS</u>					<u>Other Cont. Costs</u>
		<u>Const. Cont. Revs.</u>	<u>Coll.</u> (Initial and Date)	<u>Pur.</u>	<u>Disb.</u>	<u>Payroll</u>	
1.	For each transaction, select five documents from the population that evidences all transactions that have been initiated.	_____	_____	_____	_____	_____	_____
2.	Obtain photocopies of the documents and affix to working papers. Evidence walk-through procedures on these copies.	_____	_____	_____	_____	_____	_____
3.	Based on the client's system description above, walk each transaction from its "cradle" to its "grave" by performing these procedures for each of the documents selected:						
	a. Examine the documents to determine the authorization and initiation procedures are performed and evidenced.	_____	_____	_____	_____	_____	_____
	b. Verify the clerical and mathematical accuracy of data on the document.	_____	_____	_____	_____	_____	_____
	c. Trace the documents to a source journal entry and compare them to the recorded information.	_____	_____	_____	_____	_____	_____

PROCEDURE

TRANSACTIONS

	Const.				Other	
	Cont.	<u>Coll.</u>	<u>Pur.</u>	<u>Disb.</u>	<u>Payroll</u>	Cont.
	<u>Revs.</u>	(Initial and Date)				<u>Costs</u>
d. Test foot the primary column in the source journal for an appropriate period and trace the total to the general ledger.	_____	_____	_____	_____	_____	_____
e. Select a representative bank statement and inspect evidence of reconciliation and review procedures.	_____	_____	_____	_____	_____	_____
f. Scan the general journal for the year and obtain explanations for unusual entries.	_____	_____	_____	_____	_____	_____
g. Inspect evidence of the periodic balancing of the general ledger and contract cost records.	_____	_____	_____	_____	_____	_____
h. Read the most recent internally-prepared financial statement or trial balance and investigate any unusual matters noted.	_____	_____	_____	_____	_____	_____

**VII. EVALUATION OF RISK OF POTENTIAL ERRORS:**

Describe weaknesses in accounting systems' procedures, material and unusual account balances resulting from the transactions, prior years adjustments or exposure areas related to the transactions, complex applications of accounting principles, related party transactions or other special considerations such as client-imposed scope limitations or an initial engagement that may indicate high risks of potential errors that could materially affect the entity's financial statements:

Sales and Collections Cycle:

---

---

---

---

---

---

---

---

---

---

Evaluation of risk of potential errors (circle) High Low  
 Description of analytical or tests of balances procedures to compensate for high risk (cross-reference to TOB program):

---

---

---

---

**Purchases and Disbursements Cycle:**

---

---

---

---

---

---

---

Evaluation of risk of potential errors (circle)    High    Low  
Description of analytical or tests of balances procedures to compensate for high risks  
(cross-reference to TOB program):

---

---

---

---

**Payroll and Personnel Cycle:**

---

---

---

---

---

---

---

Evaluation of risk of potential errors (circle)    High    Low  
Description of analytical or tests of balances procedures to compensate for high risks  
(cross-reference to TOB program):

---

---

---

---

**Construction Contract Receivables and Revenues:**

---

---

---

---

---

---

---

Evaluation of risk of potential errors (circle)    High    Low  
Description of analytical or tests of balances procedures to compensate for high risks  
(cross-reference to TOB program):

---

---

---

---







## **INTERNAL CONTROL STRUCTURE REPORTABLE CONDITIONS FORM**

### **PURPOSE**

The purpose of this form is to provide a means to collect information about material and immaterial weaknesses in the internal control structure, and other matters, for communication to management.

### **PROFESSIONAL STANDARDS**

SAS No. 60, Communication of Internal Control Structure Related Matters Noted in an Audit, requires that reportable conditions noted by the auditor be communicated to the client, either in writing or orally. The client communication may include reportable conditions that are considered material weaknesses, immaterial weakness and other matters.

### **USING THE INTERNAL CONTROL STRUCTURE REPORTABLE CONDITIONS FORM**

Internal control structure-related and other matters should be recorded on the form as they come to the attention of engagement personnel. The situation, problem and recommendation for each matter should be written as it would be presented in a letter to management. Doing so not only provides training opportunities for engagement personnel, but facilitates preparation of the written or oral communication.

If this form is used as the basis for an oral communication of internal control structure-related matters, the communication should be documented in an accompanying memorandum that records managements' reactions to recommendations and its plans for corrective actions, if any.



# INTERNAL CONTROL STRUCTURE REPORTABLE CONDITIONS FORM

.....  
**F**

*Client:* \_\_\_\_\_

*Engagement Date:* \_\_\_\_\_

## INSTRUCTIONS:

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

The CONTRACTORS' INTERNAL CONTROL STRUCTURE QUESTIONNAIRE, the CONTRACTORS' SYSTEM'S WALK-THROUGH DOCUMENTATION FORM, any internal control flowcharts or narratives or the tests of transactions procedures are the primary sources for identifying reportable conditions. Reportable conditions occur in the absence of a control, either general, primary or secondary, that will prevent and detect errors, and in the design of the internal control structure. Other operations or management suggestions may also be included on this form.

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

Prepared by: \_\_\_\_\_ Date \_\_\_\_\_  
(In-Charge)

Reviewed by: \_\_\_\_\_ Date \_\_\_\_\_  
(Engagement Executive)



**REPORTABLE CONDITIONS**

Documentation Source	Audit Areas Affected by Condition	Situation	Problem	Recommendations
-------------------------	---	-----------	---------	-----------------

**REPORTABLE CONDITIONS**

Documentation Source	Audit Areas Affected by Condition	Situation	Problem	Recommendations
-------------------------	---	-----------	---------	-----------------

**REPORTABLE CONDITIONS**

Documentation Source	Audit Areas Affected by Condition	Situation	Problem	Recommendations
-------------------------	---	-----------	---------	-----------------



**Contractors' Risk of Potential  
Errors Evaluation Form**

## **CONTRACTORS' RISK OF POTENTIAL ERRORS EVALUATION FORM**

### **PURPOSE**

This form is designed to facilitate risk assessment during engagement planning when using the ABC Approach to construction contractor audits. It provides documentation of risks of potential errors and irregularities and of the additional auditing procedures considered necessary to determine the effects of such errors and irregularities on the client's financial statements.

The form assumes risks of potential errors and irregularities are low absent any circumstances indicating high potential risk. High risk circumstances are summarized on the Potential Errors Matrix for guidance when modifying audit programs. When circumstances of high risk are identified, the form should guide the selection of specific auditing procedures in the areas of high risk.

The nature and pervasiveness of the risk of the potential error or irregularity determines the extent of the modifications necessary for the audit programs. High risk caused by the lack of internal controls or accounting systems procedures, or other circumstances, may affect one or many planned auditing procedures. For example, a company policy that requires progress billings as of the 20th of each month may require detailed tests of billings cutoff at yearend to determine any potential misstatement; other procedures in such audit areas, however, may be unaffected by this potential error. On the other hand, a trend of increasing bad debts could affect all auditing procedures in the receivable classifications.

### **PROFESSIONAL STANDARDS**

SAS No. 53, The Auditor's Responsibility to Detect and Report Errors and Irregularities, requires an assessment and documentation of the risks of potential errors and irregularities during engagement planning and performance. SAS No. 54, Illegal Acts by Clients, requires the auditor to be aware of, and to investigate and document, circumstances that may be indicative of violations of law in a client's circumstances. The CONTRACTORS' RISK OF POTENTIAL ERRORS EVALUATION FORM and the CLIENT ACCEPTANCE FORM is the primary documentation for compliance with these pronouncements. The auditor should consider the requirements of these pronouncements when preparing this form.

### **USING THE CONTRACTORS' RISK OF POTENTIAL ERRORS EVALUATION FORM**

This form should be prepared by the in-charge accountant during planning for all audits. Because circumstances change, a new form should be prepared each year. The completed form should be reviewed by the engagement executive before any fieldwork is begun.

The subjective summary of risk on the Potential Errors Matrix should be transferred to the CONTRACTORS' PLANNING MATRIX upon completion of the form. This form, along with the CONTRACTORS' INTERNAL CONTROL STRUCTURE QUESTIONNAIRE and any CONTRACTORS' TESTS OF TRANSACTIONS PROGRAMS, is a primary source for modifications to the CONTRACTORS' ANALYTICAL PROCEDURES PROGRAM and the CONTRACTORS' TESTS OF BALANCES PROGRAM.



# CONTRACTORS' RISK OF POTENTIAL ERRORS EVALUATION FORM

.....  
**F**

*Client:* \_\_\_\_\_

*Engagement Date:* \_\_\_\_\_

**INSTRUCTIONS:**

This form should be used on audit engagements under the ABC Approach to evaluate and document the risk of potential errors and irregularities. Answers should be based on inquiries of client personnel, the auditor's understanding of the client's business and industry, experience from prior years' engagements, the current year's internal control structure evaluation and other special considerations. The impact of the risk of potential errors should be documented in the CONTRACTORS' PLANNING MATRIX.

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

Describe the circumstances surrounding "yes" answers and record effects on POTENTIAL ERRORS MATRIX:

---



---



---

---

---

---

---

---

---

---

---

---

---

**II. POTENTIAL ERRORS MATRIX:**

Complete the accompanying POTENTIAL ERRORS MATRIX and transfer the summary of risk by audit area to the CONTRACTORS' PLANNING MATRIX. In addition to classifying the risk of potential errors from special considerations above by engagement area, the POTENTIAL ERRORS MATRIX includes similar classifications for:

1. High Risk or Material and Unusual Account Balances:

The nature of the client's industry or business may typically cause certain account balances, and the relative risk of errors, to be high. Percentage of completion calculations on contracts in process, for example, normally cause the risk of potential errors for contract receivables to be high. Material account balances must also be unusual in the client's circumstances to be considered high risk. Revenues or fixed assets, for example, would not be considered high risk unless increases or decreases were unusual in nature or amount.

2. Material Weaknesses in Internal Control Structure:

Material weaknesses are derived from the CONTRACTORS' INTERNAL CONTROL STRUCTURE QUESTIONNAIRE. The effects of weaknesses on major engagement areas should be evidenced on the POTENTIAL ERRORS MATRIX.

3. Significant Prior-Year Adjustments and Exposure Areas:

Significant prior-year adjustments, made or passed, and exposure areas that may recur and affect the current period should also be evidenced on the POTENTIAL ERRORS MATRIX.

The risk categories on the POTENTIAL ERRORS MATRIX for each engagement area should contain a check mark (√) where the risk of potential errors is high. Low risk is otherwise assumed. After considering the number and significance of errors in each engagement area, the in-charge should use professional judgment to summarize the risk of potential errors as low or high. The summary should be transferred to the PLANNING MATRIX. Describe below the modifications to the CONTRACTORS' TESTS OF BALANCES AUDIT PROGRAM that will be made to compensate for the high risks of potential errors (low risks require no modification).



**POTENTIAL ERRORS MATRIX**

<u>Engagement Area</u>	<u>Special Considerations</u>	<u>High Risk/Unusual and Material Account Balances</u>	<u>Material Internal Control Structure Weaknesses</u>	<u>Prior-Year Adjustments or Exposure Areas</u>	<u>Risk Summary (Low or High)</u>
* 1. Cash	_____	_____	_____	_____	_____
2a. Trade accounts receivable	_____	_____	_____	_____	_____
2b. Contract billings	_____	_____	_____	_____	_____
6. Inventories	_____	_____	_____	_____	_____
9. Fixed assets	_____	_____	_____	_____	_____
12a. Accounts payable	_____	_____	_____	_____	_____
12b. Subcontractors payables	_____	_____	_____	_____	_____
16. Stockholders' equity	_____	_____	_____	_____	_____
20. Payroll tests	_____	_____	_____	_____	_____
21. Expense account analysis and vouching	_____	_____	_____	_____	_____
22. Construction contract revenues	_____	_____	_____	_____	_____
23. Construction contract costs	_____	_____	_____	_____	_____

\* Numbers coincide with line items on CONTRACTORS' PLANNING MATRIX.









## CONTRACTORS' PLANNING MATRIX

### PURPOSE

This matrix is designed to correlate and document the evaluation of the internal control structure with the evaluation of risks of potential errors and irregularities and to guide the modification of the CONTRACTORS' TESTS OF BALANCES PROGRAM. It documents the "bridging" process from material weaknesses in the internal control structure and other risks of potential errors and irregularities to compensating tests of balances procedures and related audit program modifications.

### PROFESSIONAL STANDARDS

The documentation in the CONTRACTORS' PLANNING MATRIX provides the auditor a means for coordinating the requirements of these primary pronouncements:

1. SAS No. 53, The Auditor's Responsibility to Detect and Report Errors and Irregularities.
2. SAS No. 54, Illegal Acts by Clients.
3. SAS No. 55, Consideration of the Internal Control Structure in a Financial Statement Audit.

Generally, the matrix and its related forms are the foundation for making the four basic audit planning decisions:

1. Assessing overall engagement risk, risks of potential errors and establishing the overall materiality limit.
2. Deciding on the most cost-beneficial audit approach and the planned reliance on types of tests.
3. Deciding on the nature, extent and timing for the analytical procedures and tests of balances which is consistent with the planned reliance on types of tests.
4. Determining the most cost-beneficial approach to sampling to comply with SAS No. 39.

### USING THE CONTRACTORS' PLANNING MATRIX

The matrix is designed to enable the auditor to select the audit approach and types of tests that are the most cost-beneficial for major audit areas. The matrix correlates the evaluation of the internal control structure and the risks of potential errors in major audit areas where time savings can be achieved by performing compliance or substantive tests of transactions. The matrix should be completed each year to ensure both audit quality and maximum engagement profits.

Detailed instructions for using the matrix are included in the Planning Matrix Legend.



# CONTRACTORS' PLANNING MATRIX

M

*Client:* \_\_\_\_\_

*Engagement Date:* \_\_\_\_\_

## INSTRUCTIONS:

The CONTRACTORS' PLANNING MATRIX should be prepared by the in-charge accountant for audit engagements under the ABC approach. The matrix coordinates the evaluation of the risk of potential errors and the internal control structure to guide the selection of tests of transactions and balances procedures and sample sizes, i.e., the optimum amount of evidence necessary in the engagement circumstances. The matrix should be completed after the following documents have been finalized:

1. Any internal control flowcharts or narratives.
2. CONTRACTORS' INTERNAL CONTROL STRUCTURE QUESTIONNAIRE.
3. CONTRACTORS' RISK OF POTENTIAL ERRORS EVALUATION FORM.

The matrix and related documentation should be reviewed by the engagement executive before the tests of transactions are started.

Prepared by: \_\_\_\_\_ Date \_\_\_\_\_  
(In-Charge)

Reviewed by: \_\_\_\_\_ Date \_\_\_\_\_  
(Executive)

CONTRACTORS' PLANNING MATRIX

Audit Area	Systems Classification (1)	Desired Evidence TOTs (2)(5) Comp. Subs.	Initial Desired Evidence (2) TOBs	Risk of Potential Errors (3)	Final Desired TOBs Evidence (4)	Executive Approval (Initial & Date)
* 1. Cash, including collections and payments.						
* 2a. Trade accounts receivable, including confirmations, alternative procedures, sales cutoff and other procedures.						
* 2b. Contract billings.						
3. Other accounts receivable.	N/A	N/A	N/A	High Reliance		
4. Notes receivable.	N/A	N/A	N/A	High Reliance		
5. Allowance for doubtful accounts.	N/A	N/A	N/A	High Reliance		
6. Inventories, including physical observations, pricing and clerical tests and other procedures.						
7. Marketable securities.	N/A	N/A	N/A	High Reliance		
8. Prepaid expenses.	N/A	N/A	N/A	High Reliance		
* 9. Fixed assets, including vouching and inspecting fixed assets and other procedures.						

\*\*\*  
\*

\*

CONTRACTORS' PLANNING MATRIX (Continued)

<u>Audit Area</u>	<u>Systems Classification (1)</u>	<u>Desired Evidence TOTs (2)(5) Comp. Subs.</u>	<u>Initial Desired Evidence (2) TOBs</u>	<u>Risk of Potential Errors (3)</u>	<u>Final Desired TOBs Evidence (4)</u>	<u>Executive Approval (Initial &amp; Date)</u>
10. Investments and other assets.	N/A	N/A	N/A	High Reliance		
11. Deferred charges and intangibles.	N/A	N/A	N/A	High Reliance		
* 12a. Accounts payable, including search for unrecorded liabilities, purchases cutoff and other procedures.						
* 12b. Subcontractors payables.						
13. Accrued expenses and other liabilities.	N/A	N/A	N/A	High Reliance		
14. Notes payable and long-term debt.	N/A	N/A	N/A	High Reliance		
15. Other noncurrent liabilities.	N/A	N/A	N/A	High Reliance		
16. Stockholders' equity.	N/A	N/A	N/A	High Reliance		
17. Sales (Same as audit area No. 2--accounts receivable)						
18. Other revenues.	N/A	N/A	N/A	High Reliance		

CONTRACTORS' PLANNING MATRIX (Continued)

Audit Area	Systems Classification (1)	Desired Evidence TOTs (2)(5) Comp. Subs.	Initial Desired Evidence (2) TOBs	Risk of Potential Errors (3)	Final Desired TOBs Evidence (4)	Executive Approval (Initial & Date)
** 19. Costs of sales.						
* 20. Payroll tests.						
* 21. Expense account analysis and vouching.						
* 22. Construction contract revenues.						
* 23. Construction contract costs.						
24. Other areas:						

\* These classifications represent the major areas for reliance on compliance and substantive transaction testing.

\*\* Sample sizes for TOTs of perpetual systems are selected in connection with the related inventory accounts. With a nonperpetual system there will be no TOTs. The amount of TOBs evidence will correspond with audit area six (inventories) above.

\*\*\* For nonperpetual systems, good controls (System A) will allow reduced TOBs. Evidence from compliance tests will be obtained primarily by observations during TOBs. If the client's control procedures are not found in effect, more TOBs should be performed, i.e., more observation, pricing and clerical tests.

Prepared by: \_\_\_\_\_ Date \_\_\_\_\_  
 (In-Charge)



## CONTRACTORS' PLANNING MATRIX LEGEND

- (1) The systems classification is obtained from the CONTRACTORS' INTERNAL CONTROL STRUCTURE QUESTIONNAIRE. It may vary by audit areas as the areas relate to transaction cycles in the Questionnaire. The contract billings classification should be obtained from Section IIA. Contractors' payables, contract revenues and contract costs should be obtained from Section VII.
- (2) Reliance on the existing internal controls, compliance tests, and on substantive transactions testing will decrease the amount of evidence required from the tests of balances. Evidence requirements by system classification for compliance and substantive tests of transactions and tests of balances are as follows:

<u>System Classification</u>	<u>Amount of Evidence (Procedures and Sample Sizes)</u>		
	<u>Compliance TOTs</u>	<u>Substantive TOTs</u>	<u>Substantive TOBs</u>
A	High Reliance	Low Reliance	Low Reliance
B	No Reliance	High Reliance	Low Reliance
C	No Reliance	Low or No Reliance	High Reliance

Our audit philosophy includes the extensive application of analytical procedures as practical for all systems classifications. Where low or no reliance is planned for the tests of transactions, a majority of the evidence must come from analytical procedures and tests of balances.

- (3) From the CONTRACTORS' RISK OF POTENTIAL ERRORS EVALUATION FORM. The risk of potential errors may vary for different audit areas.
- (4) The final desired TOBs evidence is a product of the initial desired evidence for TOBs, based on the internal control structure evaluation, and the risk of potential errors. The final desired TOBs evidence will be the same as the highest desired level of evidence from either source. For example, high evidence requirements based on the CONTRACTORS' INTERNAL CONTROL STRUCTURE QUESTIONNAIRE, and low risk of potential errors, will result in high final desired TOBs evidence.

When modifying the CONTRACTORS' TESTS OF BALANCES AUDIT PROGRAM, the nature of any potential errors should specifically be considered. The potential errors may, or may not, affect the overall nature, extent and timing of tests, i.e., the total amount of evidence collected. The potential errors' effects may be isolated and require modification of only a specific test of balances procedure. High evidence requirements in the final desired TOBs evidence column resulting from the risk of a specific error may, therefore, require high evidence only in the areas affected by the error. If, however, a high risk of potential errors for a financial statement classification requires high reliance on all tests of balances, limited or no tests of transactions procedures should be performed. If no System C transactions testing procedures are performed, a system's walk-through procedure should be performed and documented. In either case, the CONTRACTORS' INTERNAL CONTROL

STRUCTURE QUESTIONNAIRE and the CONTRACTORS' PLANNING MATRIX should be revised to reflect the selection of a System C CONTRACTORS' TESTS OF TRANSACTIONS PROGRAM or a system's walk-through procedure. These revisions are necessary to prevent overauditing.

These guidelines presume account balances are material. If balances are immaterial, so state in the Final Desired TOBs Evidence Columns. No evidence may be required for immaterial account balances.

High reliance on final desired TOBs evidence will require procedures with high reliability, e.g., positive vs. negative accounts receivable confirmations, and large sample sizes with tests performed primarily at the engagement date. Low reliance on final desired TOBs evidence will allow less reliable tests, e.g., negative accounts receivable confirmations, small sample sizes and performing tests at dates other than the engagement date.

The ABC approach presumes high reliance on analytical procedures for all engagements to the maximum extent practical. When high reliance on TOBs evidence is indicated on the CONTRACTORS' PLANNING MATRIX, using predictive, i.e., more effective, analytical procedures may reduce the amount of more costly evidence required from the tests of balances.

Final modification of the CONTRACTORS' TESTS OF BALANCES AUDIT PROGRAM will be made based on the results of performing the tests of transactions procedures.

- (5) Nonstatistical sample size ranges for compliance and substantive transactions tests may be determined using the following table unless otherwise directed by the engagement executive. Sample sizes so selected should be entered directly on the appropriate CONTRACTORS' TESTS OF TRANSACTIONS PROGRAM. The in-charge should document in the CONTRACTORS' PLANNING MEMORANDUM consideration of the factors that affect the sample sizes selected. The executive should approve the CONTRACTORS' PLANNING MEMORANDUM before the tests of transactions are begun. The rationale for selecting transactions tests sample sizes of 30 from the following table under a System B for procedures X, Y and Z may be, for example:
1. We are willing to accept a high risk of overreliance on the results of the transactions tests because of heavier-than-normal planned reliance on a tests of balances procedure (or because overall engagement risk is low).
  2. The tolerable error rate will be higher than normal on these procedures because of lower-than-normal reliance on TOTs procedures X, Y and Z (or because of low overall engagement risk).
  3. The expected population error rate is at or near zero.
  4. Planned reliance on TOT procedures X, Y and Z is low.

**NONSTATISTICAL  
TRANSACTIONS TESTING  
SAMPLE SIZE SELECTION TABLE**

<u>SYSTEM</u>	<u>AMOUNT OF RELIANCE</u>	<u>SAMPLE SIZE RANGE (UNITS)*</u>	
		<u>HIGH ACCEPTABLE RISK OF OVERRELIANCE</u> (6% to 10%)	<u>LOW ACCEPTABLE RISK OF OVERRELIANCE</u> (5% or less)
A - COMPLIANCE	High	40-80	50-100
A - SUBSTANTIVE	Low	15-25	20-30
B - SUBSTANTIVE	High	30-50	40-80
C - SUBSTANTIVE	Low	15-25	20-30

\* Expected population deviation or error rates should be at or near zero at the lower ends of the sample size ranges. Tolerable error rates should be higher than normal at the lower ends of the sample size ranges.

Compliance tests consisting of observation of performance and inquiries are not normally subject to these ranges. Likewise, substantive transactions tests such as tracing cash receipts journal column footings to a general ledger would also not be subject to these guidelines.

Reliance on existing internal control by performing compliance transactions tests can be achieved only if deviation rates are acceptable. Tolerable deviation rate ranges for compliance tests are:

<u>System</u>	<u>Range</u>
A	1 to 5%
B and C	Not applicable

Substantive tolerable error rates ranges should be judgmentally determined in each circumstance. For most monetary tests, however, tolerable error rates may be at or near zero.





## CONTRACTORS' PLANNING MEMORANDUM

### PURPOSE

The memorandum is designed to summarize and document both administrative and technical audit planning activities and decision-making.

### PROFESSIONAL STANDARDS

SAS No. 41, Working Papers, contains general requirements for audit documentation to demonstrate that sufficient, competent evidential matter was obtained to support the level of audit assurance necessary in the client's circumstances. Such evidential matter includes documentation of the auditing procedures performed, the results of those procedures and all judgments that were made in planning, performing and evaluating the results of such procedures. This memorandum includes space for summarizing the key judgments which were made to support the planning, performance and evaluation of the auditing procedures documented in the working papers.

This memorandum summarizes and documents compliance with the requirements of the following key auditing pronouncements:

1. SAS No. 22, Planning and Supervision.
2. SAS No. 39, Audit Sampling.
3. SAS No. 47, Audit Risk and Materiality in Conducting an Audit.
4. SAS No. 53, The Auditor's Responsibility to Detect and Report Errors and Irregularities.
5. SAS No. 54, Illegal Acts by Clients.
6. SAS No. 55, Consideration of the Internal Control Structure in a Financial Statement Audit.
7. SAS No. 56, Analytical Procedures.
8. SAS No. 59, The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern.

The in-charge accountant should be familiar with the requirements of these pronouncements before completing this memorandum.

### USING THE CONTRACTORS' PLANNING MEMORANDUM

The memorandum should be completed by the in-charge accountant and reviewed by the engagement executive and partner before any fieldwork is begun. Subsequent revision to the planning activities should be documented in the working papers or special memoranda.

These detailed instructions will facilitate completing the memorandum:

#### I.A. Presentation of Engagement Letter:

The engagement letter is a primary tool for obtaining the client's understanding of the CPA firm's responsibilities as well as its own. Obtaining a good understanding before the engagement begins will prevent misunderstandings from arising later. To accomplish a good understanding, the engagement executive or partner should deliver the letter and discuss its contents with the client's audit committee or

persons of equivalent authority. This discussion should also be a primary source for discovering potential errors, irregularities or illegal acts. The persons at the presentation and matters discussed should be described here or in a separate memorandum.

**I.B. Use of Client Assistance or Paraprofessionals:**

We should use client assistance to the maximum extent possible on every engagement. When client personnel are unavailable, we should use firm paraprofessionals to perform any necessary accounting services and clerical work in connection with the engagement.

**I.C. Planning for Proper Workspace and Equipment:**

The engagement in-charge has responsibility to arrange adequate workspace before the fieldwork begins. Poor lighting, lack of adequate heat or air conditioning, desks or tables that are too small or work locations that are not near client accounting personnel are examples of situations that hinder the efficient completion of an engagement and that should be avoided.

We should request the client provide engagement personnel with calculators and, if available, microcomputers and printers. Using client equipment reduces firm operating costs and eliminates transporting firm equipment to the client's office.

**I.D. Assignment of Staff Personnel:**

A basic element of a good quality control system is assigning personnel to engagements and tasks that are commensurate with their capabilities. Assigning the right people to engagements also helps complete the engagements in the minimum amount of time.

Whenever possible, the prior year's engagement personnel should be reassigned and rotated to new positions each year. When reassignment is not possible, we should attempt to assign new persons with experience in the client's business or industry. When inexperienced personnel, or personnel unfamiliar with the client's business or industry, are assigned to an engagement, the in-charge or executive is responsible for providing appropriate training and supervision.

**I.E. Target Dates:**

Setting target dates during planning is the first step to achieving timely engagement completion. These target dates should also become the input to the firm's staff scheduling system.

**I.F. Use of Specialists:**

The auditor should consider using outside specialists whenever he/she performs any auditing procedures in circumstances outside the firm's expertise. Such circumstances may include, among others, actuarial computations for pension funds, questions of law, observations of inventories of products or materials, audits designed using clients' EDP systems, and complex accounting and auditing problem situations.

**I.G. Use of Audit Software:**

Audit software should be used to the maximum extent practical on all engagements. This section should list the specific, planned applications for executive approval.

**I.H. Audit Budget:**

The audit budget should be prepared, at least tentatively, during engagement planning. The budget should be based on circumstances, not on fees. The budget documents should be summarized here for discussion with the executive.

**I.I. Other Special Considerations:**

This section is provided to document any significant engagement administration circumstances or problems not covered above.

**II.A-E Basic Technical Audit Planning Decisions:**

Each section should present the results of the decisions, as well as the rationale, or judgments behind them. Detailed computations or explanations should either be included or incorporated by reference to other working papers or forms. Section II.D must include documentation of the basis for conclusions about the assessed level of control risk, i.e., maximum or less than maximum.

**II.F. Significant Time-Savings Opportunities:**

Significant opportunities for saving time on each specific engagement should be described in this section for consideration and approval by the executive.

**II.G. Other Special Considerations:**

Special risks of errors, irregularities or illegal acts, or any other accounting or auditing problems discovered during planning should be discussed in this section. The situation, its possible impact on financial statements, and the planned modification of auditing procedures should be detailed for consideration and approval by the executive.



# CONTRACTORS' PLANNING MEMORANDUM

• • • • •  
**M**

*Client:* \_\_\_\_\_

*Engagement Date:* \_\_\_\_\_

## INSTRUCTIONS:

This memorandum should be completed by the engagement in-charge accountant and reviewed by the engagement executive and engagement partner, before engagement personnel begin fieldwork for tests of transactions or tests of balances.

### I. ENGAGEMENT ADMINISTRATION:

#### A. Presentation of Engagement Letter:

---

---

---

---

#### B. Use of Client Assistance or Paraprofessionals:

---

---

---

---

#### C. Planning for Proper Workspace and Equipment:

---

---

---

---

D. Assignment of Staff Personnel:

---

---

---

---

E. Target Dates:

Audit Report:	_____
Management Letter:	_____
Tax Returns:	_____
Receivables Confirmations:	_____
Inventory Observation:	_____
Start of Interim Fieldwork:	_____
Start of Year-end Fieldwork:	_____
Other:	_____

F. Use of Specialists:

---

---

---

---

G. Use of Audit Software:

---

---

---

---

H. Audit Budget:

---

---

---

---

---

---

---

---

---

---

**I. Other Special Considerations:**

---

---

---

---

**II. TECHNICAL AUDIT PLANNING DECISIONS:**

**A. Overall Engagement Risk:**

---

---

---

---

**B. Overall Materiality Limit:**

---

---

---

---

**C. Sampling Decisions:**

---

---

---

---

---

---



F. Significant Time-Savings Opportunities:

---

---

---

---

G. Other Special Considerations:

---

---

---

---

Prepared by: \_\_\_\_\_ Date \_\_\_\_\_  
(In-Charge)

Reviewed by: \_\_\_\_\_ Date \_\_\_\_\_  
(Executive)

\_\_\_\_\_ Date \_\_\_\_\_  
(Partner)



## CONTRACTORS' TESTS OF TRANSACTIONS PROGRAMS

### PURPOSE

These programs are designed to interface with the sections of the CONTRACTORS' INTERNAL CONTROL STRUCTURE QUESTIONNAIRE and should be used for the ABC Approach to construction contractor audits. Separate programs are included for internal control structures that evaluate as System A, B or C based on the evaluation of transaction cycles.

When sufficient internal control procedures are present in a contractor's internal control structure, that is, when it is evaluated as a System A and control risk is less than maximum, tests of controls (compliance transactions tests) may be performed to satisfy audit objectives and verify financial statement assertions for account balances resulting from these transaction cycles. When the internal control structure evaluates as a System B and control risk is also considered less than maximum, tests of controls (substantive transactions tests) may be performed for the same purpose.

A decision to perform transactions testing to assess control risk at less than maximum depends on (1) the existence of sufficient controls for testing and on (2) whether tests of balances procedures could be a more efficient means for collecting evidence. When audit objectives can be accomplished and financial statement assertions verified more efficiently through tests of balances, no transactions testing need be performed. These evidence design decisions should be documented on the CONTRACTORS' PLANNING MATRIX. When no transactions tests are performed, a system's walk-through procedure and/or flowcharts or narratives may be necessary to document an adequate understanding of the internal control structure for these cycles.

When the internal control structure evaluates as a System C for any cycle, System C transactions tests or a system's walk-through procedure may be performed. The purpose of both the tests of transactions and system's walk-through procedure for a System C is to obtain a better understanding of the internal control structure than that provided by the CONTRACTORS' INTERNAL CONTROL STRUCTURE QUESTIONNAIRE. Increased understanding provided by System's C transactions tests may enable the auditor to assess control risk at slightly less than maximum and to achieve slight reductions in tests of balances. Control risk will normally be assessed at maximum when the system's walk-through procedure is performed.

### PROFESSIONAL STANDARDS

SAS No. 55, Consideration of the Internal Control Structure in a Financial Statement Audit, requires the auditor to make and document an assessment of control risk. When control risk is considered less than maximum, the SAS requires satisfactory results from tests of controls to achieve reductions in tests of balances. In this audit manual, such tests of controls are described as compliance transactions tests for a System A and substantive transactions tests for a System B. Substantive transactions tests may also be used for a System C; however, sample sizes and procedures are limited.

## USING THE TESTS OF TRANSACTIONS PROGRAMS

After completing the CONTRACTORS' INTERNAL CONTROL STRUCTURE QUESTIONNAIRE, the system's classifications should be posted to the CONTRACTORS' PLANNING MATRIX. The CONTRACTORS' PLANNING MATRIX should be used as a guide to select, assemble and modify the various sections of these programs. Sample sizes may be selected judgmentally, statistically or from the following nonstatistical sample size selection table:

Tests of Transactions Nonstatistical Sample Size Selection Table

<u>Internal Control Structure</u>	<u>Amount of Reliance</u>	<u>Sample Size Range (Units)</u>	
		<u>High Acceptable Risk of Overreliance</u>	<u>Low Acceptable Risk of Overreliance</u>
Good Internal Controls:			
Compliance	High	40-80	50-100
Substantive	Low	15-25	20-30
Good Accounting System:			
Substantive	High	30-50	40-80
Weak Accounting System:			
Substantive	Low	15-25	20-30

Attributes statistical sampling should be considered when populations are large and it is cost beneficial to use such a method. Such cost-beneficial circumstances may exist when both overall engagement risk and risk of potential errors are high or when high reliance is being placed on compliance transactions testing. An expert should be consulted when using any form of statistical sampling.

For nonstatistical sampling, tolerable error rates for compliance tests, if applicable, should be from one to five percent. The higher the overall engagement risk and/or the risk of potential errors, the lower the tolerable error rates. Tolerable error rates for substantive transactions tests ordinarily will be at or near zero.

At the conclusion of the tests of transactions, the actual rates of error should be computed and entered on the programs. The causes of any unacceptable error rates, and related modifications to the tests of balances, should be documented on the program. The engagement executive should review the results of the tests of transactions before the tests of balances are started.

All program steps should be initialed in either the "Done" or "N/A" columns and dated by engagement personnel when completing the work. The "N/A" column can also be marked "N/R" for steps not required.



## **CONTRACTORS' TESTS OF TRANSACTIONS PROGRAMS**

### **USE OF PROGRAMS:**

The programs are divided into the following sections:

- I. There is no TEST OF TRANSACTIONS PROGRAM for cash (tests of transactions included with Sections II and III).
- II. Accounts receivable confirmations, alternative procedures and sales cutoff.
- IIA. Construction contract receivable confirmation selection, alternative procedures and contract revenues.
- III. Vouching and inspecting fixed assets, search for unrecorded liabilities, purchases cutoff, expense account analysis and vouching.
- IV. Payroll tests.
- V. Part I There is no TESTS OF TRANSACTIONS PROGRAM for inventories--no perpetual records.
- V. Part II Physical inventory observation and pricing and clerical tests--perpetual records.
- VI. All cycles.
- VII. All cycles--construction contracts.

These sections correspond to similar sections in the CONTRACTORS' INTERNAL CONTROL STRUCTURE QUESTIONNAIRE. The sections represent groupings of major audit areas that are affected by the same transaction cycles. Section I (Cash) tests of transaction procedures are included in Section II (Collections) and Section III (Payments). Reasons for modifying the cash section of the CONTRACTORS' TESTS OF BALANCES AUDIT PROGRAM for unacceptable error rates will be recorded on Sections II and III, CONTRACTORS' TESTS OF TRANSACTIONS PROGRAMS.

These programs are designed to test the existing controls in the various systems classifications, i.e., System A, B and C. Weaknesses, i.e., missing controls from the standard system selected, must be compensated for, if material, by offsetting controls and/or modifications to the CONTRACTORS' TESTS OF TRANSACTIONS, TESTS OF BALANCES or ANALYTICAL PROCEDURES PROGRAMS.

### **INSTRUCTIONS:**

After completion of the CONTRACTORS' INTERNAL CONTROL STRUCTURE QUESTIONNAIRE, the in-charge's selection of a standard system classification should be documented on the CONTRACTORS' PLANNING MATRIX. The CONTRACTORS' PLANNING MATRIX should be used as a general guide to select, assemble and modify the various sections of this program. Modifications indicated on the CONTRACTORS' INTERNAL CONTROL STRUCTURE QUESTIONNAIRE should be added. The in-charge should also enter the sample sizes determined during planning on the standard CONTRACTORS' TESTS OF TRANSACTIONS PROGRAMS.

For nonstatistical sampling, tolerable error rates for compliance tests should be obtained from the CONTRACTORS' PLANNING MATRIX legend, if applicable. Tolerable error rates for substantive transactions tests should be set judgmentally; most monetary and substantive procedures' tolerable error rates will be set at or near zero. The CONTRACTORS' PLANNING MATRIX and internal control documentation should be reviewed by the engagement executive before staff begins the tests of transactions, early in the engagement.

At the conclusion of the tests of transactions, the error results, (actual rates as a percent of units sampled) should be entered on the programs. If practical, the executive should review the results of the tests of transactions before the analytical procedures and tests of balances procedures are begun. Any unacceptable results should be considered to determine the need to expand the tests of transactions sample size or to modify the tests of balances.

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

# CONTRACTORS' TESTS OF TRANSACTIONS PROGRAM SECTION II--SYSTEM A

P

*Client:* \_\_\_\_\_

*Engagement Date:* \_\_\_\_\_

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

TRANSACTION CYCLE: Sales and collections.

Procedure	Error Rate		Done	Date	N/A	W/P Ref.
	Tolerable	Actual				
<b>SYSTEM A COMPLIANCE TESTS</b>						
Collections:						
1. Determine by inquiry, observation or inspection that the incoming mail is received, opened and listed by the owner, manager or a person independent of the deposit, over-the-counter cash collections, cash receipts and general journal entry and accounts receivable functions.	_____	_____	_____	_____	_____	_____
2. Determine by observation or inquiry that persons receiving cash over the counter are independent of the mail opening, deposit and cash receipts journal, general ledger and accounts receivable posting functions.	_____	_____	_____	_____	_____	_____
3. Determine by inquiry, observation or inspection that collections made by salesmen are adequately controlled.	_____	_____	_____	_____	_____	_____
4. Examine evidence or observe that persons reconciling bank accounts are independent of the cash collections function or that the reconciliation is reviewed by the owner or manager.	_____	_____	_____	_____	_____	_____
5. Examine evidence of monthly balancing of the accounts receivable subledger to the general ledger.	_____	_____	_____	_____	_____	_____

**CONTRACTORS' TESTS OF TRANSACTIONS PROGRAMS**  
SECTION II (Continued)

<u>Procedure</u>	<u>Error Rate</u>				<u>N/A</u>	<u>W/P Ref.</u>
	<u>Tolerable</u>	<u>Actual</u>	<u>Done</u>	<u>Date</u>		
6. Examine approval of account codings on _____ daily cash receipts listing.	_____	_____	_____	_____	_____	_____
7. Determine by inquiry, observation or inspection that items returned by the bank are received and opened by the owner or manager.	_____	_____	_____	_____	_____	_____
8. Examine evidence of accounting for prenumbered cash receipts tickets.	_____	_____	_____	_____	_____	_____
Sales:						
1. Determine by observation and examining evidence that sales invoices are matched with shipping reports and are posted to the sales journal by persons independent of the shipping or sales functions.	_____	_____	_____	_____	_____	_____
2. Determine by inquiry, observation or inspection that the persons posting the sales journal and general ledger are independent of the accounts receivable subledger posting function, and/or the owner or manager or other independent person periodically reconciles the subsidiary ledger to the general ledger.	_____	_____	_____	_____	_____	_____
3. Examine evidence of the owner's or manager's review of the monthly aged analysis of accounts receivable.	_____	_____	_____	_____	_____	_____
4. Examine evidence or observe that the owner or manager approves all discounts and allowances.	_____	_____	_____	_____	_____	_____
5. Examine evidence of the owner's or manager's review of monthly statements or invoices.	_____	_____	_____	_____	_____	_____
6. Examine evidence of the monthly balancing of the accounts receivable subledger to the general ledger. (Same as Collections step No. 5).	_____	_____	_____	_____	_____	_____

**CONTRACTORS' TESTS OF TRANSACTIONS PROGRAMS**  
SECTION II (Continued)

<u>Procedure</u>	<u>Error Rate</u>				<u>N/A</u>	<u>W/P Ref.</u>
	<u>Tolerable</u>	<u>Actual</u>	<u>Done</u>	<u>Date</u>		
7. Select a sample of _____ entries in the sales journal, obtain sales invoices or credit memos and examine for:						
a. Evidence of approval of account codings.	_____	_____	_____	_____	_____	_____
b. Double-checking of calculations and prices.	_____	_____	_____	_____	_____	_____
8. Examine evidence and/or observe owner or manager follow-up on customer complaints.	_____	_____	_____	_____	_____	_____
9. Observe that an approved sales price list is in use.	_____	_____	_____	_____	_____	_____
10. Examine evidence that the following prenumbered documents are accounted for:						
a. Credit memos.	_____	_____	_____	_____	_____	_____
b. Shipping reports.	_____	_____	_____	_____	_____	_____
c. Sales invoices.	_____	_____	_____	_____	_____	_____

**SYSTEM A SUBSTANTIVE TESTS**

**Collections:**

1. Test the footings in the general ledger cash account and investigate any debit entries not posted from the cash receipts journal. (Note--Step 1 may be omitted if results of Collections compliance tests Nos. 1 through 4 are positive.)	_____	_____	_____	_____	_____	_____
2. Foot and crossfoot the cash receipts journal for _____ months and trace totals to postings in the general ledger and if available, control totals for postings to the accounts receivable subledger. If no control totals are available, consider agreeing totals to an adding machine tape of the cash receipts postings to individual customer's cards.	_____	_____	_____	_____	_____	_____

**CONTRACTORS' TESTS OF TRANSACTIONS PROGRAMS**  
SECTION II (Continued)

	<u>Procedure</u>	<u>Error Rate</u>			<u>Date</u>	<u>N/A</u>	<u>W/P Ref.</u>
		<u>Tolerable</u>	<u>Actual</u>	<u>Done</u>			
*	3. Select a sample of _____ entries in the cash receipts journal and trace amount and date to supporting daily cash receipts listings.	_____	_____	_____	_____	_____	_____
	4. Select a sample of _____ daily cash receipts listings and perform the following steps:						
*	a. Foot each listing.	_____	_____	_____	_____	_____	_____
*	b. Trace to posting in cash receipts journal and compare for name, date and amount.	_____	_____	_____	_____	_____	_____
	c. Determine proper account coding and trace to cash receipts journal. (Note--sample size will not be reduced unless positive results are obtained from Collections compliance test No. 6.)	_____	_____	_____	_____	_____	_____
*	d. Obtain supporting authenticated detailed deposit slip and remittance advices and:						
*	(1) Trace deposit slip total to bank statement noting agreement of date and amount.	_____	_____	_____	_____	_____	_____
*	(2) Compare total and individual amounts on deposit slips and remittance advices to daily cash receipts listing.	_____	_____	_____	_____	_____	_____
	e. Trace individual amounts to postings in the accounts receivable subledger noting agreement of names, dates and amounts. (Note--if results of Collections compliance test No. 5 are positive, sample size may be reduced to 15 units.)	_____	_____	_____	_____	_____	_____

**CONTRACTORS' TESTS OF TRANSACTIONS PROGRAMS**  
SECTION II (Continued)

	<u>Procedure</u>	<u>Error Rate</u>				<u>W/P Ref.</u>
		<u>Tolerable</u>	<u>Actual</u>	<u>Done</u>	<u>Date</u>	
*	f. Recalculate cash discounts and compare to company policy or obtain owner or manager approval.	_____	_____	_____	_____	_____
*	5. Select a sample of _____ daily cash register reports and/or daily over-the-counter receipts tickets and perform the following:					
	a. Trace to duplicate deposit slips.	_____	_____	_____	_____	_____
	b. Account for the numerical sequence of cash receipts tickets. (Note--if results of Collections compliance test No. 8 are positive, this substantive test is not necessary.)	_____	_____	_____	_____	_____
	6. Scan the cash receipts journal for a period of _____ months and investigate any unusual entries.	_____	_____	_____	_____	_____
*	If results of compliance tests Nos. 1 and 2 are positive, sample size may be reduced to 15 units.					
	Sales:					
*****	1. Select _____ numerical series of _____ shipping reports, account for the numerical sequence, compare to sales invoices and entries in the sales journal for name, date and amount.	_____	_____	_____	_____	_____
*****	2. Select a representative sample of _____ shipping reports issued during the year, compare to sales invoices and entries in the sales journal for name, date and amount.	_____	_____	_____	_____	_____
	3. Select a sample of _____ entries in the sales journal and perform the following:					
*	a. Trace to sales invoices and shipping reports and compare similarity of name, date and amount.	_____	_____	_____	_____	_____

**CONTRACTORS' TESTS OF TRANSACTIONS PROGRAMS**  
SECTION II (Continued)

	Procedure	Error Rate			N/A	W/P Ref.
		Tolerable	Actual	Done		
*	b. Verify addresses for a representative number of customers by reference to an independent source such as phone book, city directory, etc.	_____	_____	_____	_____	_____
*****	c. Verify prices and recalculate invoices.	_____	_____	_____	_____	_____
*	d. Check for owner or manager approval of credit sales.	_____	_____	_____	_____	_____
*	e. Check for owner or manager approval of discounts and allowances.	_____	_____	_____	_____	_____
***	f. Trace postings to accounts receivable subledger and compare name, date and amount.	_____	_____	_____	_____	_____
****	g. Check propriety of account codings.	_____	_____	_____	_____	_____
**	4. Select _____ series of _____ credit memos and:					
	a. Compare to entries in sales journal or credit memo journal for name, date and amount.	_____	_____	_____	_____	_____
	b. Examine credit memos for approval of owner or manager.	_____	_____	_____	_____	_____
**	5. Select _____ credit memo entries from the sales journal or credit memo journal and compare to credit memos for:					
	a. Name, date and amounts.	_____	_____	_____	_____	_____
	b. Approval of owner or manager.	_____	_____	_____	_____	_____
	c. Examine supporting documents for propriety.	_____	_____	_____	_____	_____



**CONTRACTORS' TESTS OF TRANSACTIONS PROGRAMS**  
SECTION II (Continued)

<u>Procedure</u>	<u>Error Rate</u>		<u>Done</u>	<u>Date</u>	<u>N/A</u>	<u>W/P Ref.</u>
	<u>Tolerable</u>	<u>Actual</u>				
6. For _____ periods:						
a. Foot and crossfoot the sales journal, trace postings to the general ledger.	_____	_____	_____	_____	_____	_____
b. If available, agree sales journal postings to control totals for postings to the accounts receivable subledger. If control totals are not available, consider agreeing totals to an adding machine tape of the sales postings to individual customer cards.	_____	_____	_____	_____	_____	_____
7. Other procedures:						
_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____

\* If sales compliance tests Nos. 1, 2, 3 and 4 results are positive, sample size may be reduced to 15 units.

\*\* If the results of sales compliance tests Nos. 4, 8 and 10a are positive, sample size may be reduced to 15 units.

\*\*\* If results of sales compliance tests Nos. 2, 3, 5 and 6 are positive, sample size may be reduced to 15 units.

\*\*\*\* If results of sales compliance test No. 7a are positive, sample size may be reduced to 15 units.

\*\*\*\*\* If results of sales compliance tests Nos. 7b and 9 are positive, sample size may be reduced to 15 units.

\*\*\*\*\* If results of sales compliance tests Nos. 1 and 10b are positive, sample size may be reduced to one series of 25 units (Step No. 1) and 15 units (Step No. 2).

Modification of APs and TOBs (cross-reference related TOT step above) and reasons therefor:

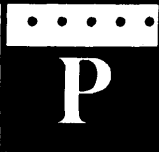
---



---



# CONTRACTORS' TESTS OF TRANSACTIONS PROGRAM SECTION II--SYSTEM B



**Client:** \_\_\_\_\_

**Engagement Date:** \_\_\_\_\_

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

**TRANSACTION CYCLE:** Sales and collections

	Error Rate					
Procedure	Tolerable	Actual	Done	Date	N/A	W/P Ref.

**SYSTEM B SUBSTANTIVE TESTS**

Collections:

1. Test the footings in the general ledger cash account and investigate any debit entries not posted from the cash receipts journal.
 

_____	_____	_____	_____	_____	_____
-------	-------	-------	-------	-------	-------
  
2. Foot and crossfoot the cash receipts journal for \_\_\_\_\_ months, trace totals to postings in the general ledger and, if available, control totals for postings to accounts receivable subledger. If no control totals are available, consider agreeing totals to an adding machine tape of the cash receipts postings to individual customer cards.
 

_____	_____	_____	_____	_____	_____
-------	-------	-------	-------	-------	-------
  
3. Select a sample of \_\_\_\_\_ entries in the cash receipts journal and trace amount and date to supporting duplicate deposit slips.
 

_____	_____	_____	_____	_____	_____
-------	-------	-------	-------	-------	-------
  
4. Select a sample of \_\_\_\_\_ duplicate deposit slips and remittance advices and perform the following steps:
  - a. Foot each deposit slip.
 

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

**CONTRACTORS' TESTS OF TRANSACTIONS PROGRAMS**  
**SECTION II (Continued)**

<u>Procedure</u>	<u>Error Rate</u>				<u>N/A</u>	<u>W/P Ref.</u>
	<u>Tolerable</u>	<u>Actual</u>	<u>Done</u>	<u>Date</u>		
b. Trace deposit slip amounts to posting in cash receipts journal and compare for name, date, amount and proper account coding.	_____	_____	_____	_____	_____	_____
c. Trace duplicate deposit slip total to bank statement noting agreement of date and amount.	_____	_____	_____	_____	_____	_____
d. Trace individual amounts on deposit slip to postings in the accounts receivable subledger noting agreement of names, dates and amounts.	_____	_____	_____	_____	_____	_____
e. Agree amounts on remittance advices to duplicate deposit slips.	_____	_____	_____	_____	_____	_____
f. Recalculate cash discounts and compare to company policy or obtain owner or manager approval.	_____	_____	_____	_____	_____	_____
5. Select a sample of _____ daily cash register reports and/or daily over-the-counter receipts tickets and perform the following:						
a. Trace to duplicate deposit slips.	_____	_____	_____	_____	_____	_____
b. Account for the numerical sequence of the prenumbered cash receipts tickets.	_____	_____	_____	_____	_____	_____
6. Scan the cash receipts journal for a period of _____ months and investigate any unusual entries.	_____	_____	_____	_____	_____	_____
7. Other procedures:						
_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____

**CONTRACTORS' TESTS OF TRANSACTIONS PROGRAMS**  
**SECTION II (Continued)**

<u>Procedure</u>	<u>Error Rate</u>		<u>Done</u>	<u>Date</u>	<u>N/A</u>	<u>W/P Ref.</u>
	<u>Tolerable</u>	<u>Actual</u>				
<b>Sales:</b>						
1. Select a representative sample of _____ sales invoices issued during the year and compare to entries in the sales journal for name, date and amount.	_____	_____	_____	_____	_____	_____
2. Select _____ numerical series of _____ sales invoice numbers, account for the numerical sequence, trace to entries in the sales journal and compare name, date and amount.	_____	_____	_____	_____	_____	_____
3. Select a representative sample of _____ entries in the sales journal and perform the following:						
a. Trace to sales invoices and compare similarity of name, date and amount.	_____	_____	_____	_____	_____	_____
b. Verify addresses for a representative number of customers by reference to an independent source such as phone book, city directory, etc.	_____	_____	_____	_____	_____	_____
c. Verify prices and recalculate invoices.	_____	_____	_____	_____	_____	_____
d. Check for owner or manager approval of credit sales.	_____	_____	_____	_____	_____	_____
e. Check for owner or manager approval of discounts or allowances. If credit memos are in use, examine support for propriety.	_____	_____	_____	_____	_____	_____
f. Trace postings to accounts receivable subledger and compare name, date and amount.	_____	_____	_____	_____	_____	_____
g. Check propriety of account codings.	_____	_____	_____	_____	_____	_____

**CONTRACTORS' TESTS OF TRANSACTIONS PROGRAMS**  
**SECTION II (Continued)**

<u>Procedure</u>	<u>Error Rate</u>				<u>N/A</u>	<u>W/P Ref.</u>
	<u>Tolerable</u>	<u>Actual</u>	<u>Done</u>	<u>Date</u>		
4. For _____ months, foot and crossfoot the sales journal, trace postings to the general ledger and, if available, to control totals for postings to the accounts receivable subledger. If control totals are not available, agree totals to an adding machine tape of the sales postings to individual customer cards.	_____	_____	_____	_____	_____	_____
5. Other procedures:						
_____						
_____						
_____						
_____						

Modification of APs and TOBs (cross-reference related TOT step above) and reasons therefor:

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

Prepared by: \_\_\_\_\_ Date \_\_\_\_\_  
(In-Charge)

Reviewed by: \_\_\_\_\_ Date \_\_\_\_\_  
(Executive)





# CONTRACTORS' TESTS OF TRANSACTIONS PROGRAM SECTION II--SYSTEM C

P

*Client:* \_\_\_\_\_

*Engagement Date:* \_\_\_\_\_

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

TRANSACTION CYCLE: Sales and collections

	Error Rate					
Procedure	Tolerable	Actual	Done	Date	N/A	W/P Ref.

**SYSTEM C SUBSTANTIVE TESTS**

Collections:

- |   |       |       |       |       |       |  |
|---|-------|-------|-------|-------|-------|--|
| 1. Test the footings in the general ledger cash account and investigate any debit entries not posted from the cash receipts journal.    | _____ | _____ | _____ | _____ | _____ |  |
| 2. Foot and crossfoot the cash receipts journal for _____ months and trace totals to postings in the general ledger.                    | _____ | _____ | _____ | _____ | _____ |  |
| 3. Select a sample of _____ daily entries in the cash receipts journal and trace amount and date to supporting duplicate deposit slips. | _____ | _____ | _____ | _____ | _____ |  |
| 4. Select a sample of _____ duplicate deposit slips and perform the following steps:  |       |       |       |       |       |  |
| a. Foot each deposit slip.  | _____ | _____ | _____ | _____ | _____ |  |
| b. Trace to posting in cash receipts journal and compare for name, amount and proper account coding.                                    | _____ | _____ | _____ | _____ | _____ |  |
| c. Trace duplicate deposit slip to bank statement noting agreement of amount.   | _____ | _____ | _____ | _____ | _____ |  |

**CONTRACTORS' TESTS OF TRANSACTIONS PROGRAMS**  
SECTION II (Continued)

<u>Procedure</u>	<u>Error Rate</u>			<u>Date</u>	<u>N/A</u>	<u>W/P Ref.</u>
	<u>Tolerable</u>	<u>Actual</u>	<u>Done</u>			
d. Agree to remittance advices, if available.	_____	_____	_____	_____	_____	_____
5. If accounting system is extremely weak, consider reconciling receipts per books to receipts per bank statement for _____ months (a proof of cash format should be used; beginning and ending balances need not be traced to supporting records and documents).	_____	_____	_____	_____	_____	_____
6. Scan the cash receipts journal for the year and investigate any unusual entries.	_____	_____	_____	_____	_____	_____
7. Other procedures:	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____
Sales:						
1. Select a representative sample of _____ sales invoices issued during the year and compare to entries in the sales journal for name, date and amount.	_____	_____	_____	_____	_____	_____
2. Select a sample of _____ entries in the sales journal and perform the following:						
a. Trace to sales invoices and compare similarity of name, date and amount.	_____	_____	_____	_____	_____	_____
b. Verify addresses for a representative number of customers by reference to an independent source such as phone book, city directory, etc.	_____	_____	_____	_____	_____	_____
c. Verify prices and recalculate invoices.	_____	_____	_____	_____	_____	_____



---

---

---

---

---

---

---

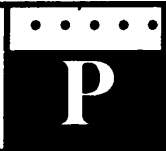
---

---

Prepared by: \_\_\_\_\_ Date \_\_\_\_\_  
(In-Charge)

Reviewed by: \_\_\_\_\_ Date \_\_\_\_\_  
(Executive)

# CONTRACTORS' TESTS OF TRANSACTIONS PROGRAM SECTION IIA--SYSTEM A



*Client:* \_\_\_\_\_

*Engagement Date:* \_\_\_\_\_

- MAJOR AUDIT AREAS:
1. Contracts receivable confirmation selection and alternative procedures.
  2. Contract revenue tests.

TRANSACTION CYCLE: Contract receivables and revenue

	Error Rate					
Procedure	Tolerable	Actual	Done	Date	N/A	W/P Ref.

**SYSTEM A COMPLIANCE TESTS**

- |  |       |       |       |       |       |       |
|--|-------|-------|-------|-------|-------|-------|
| <p>1. Determine by inquiry, observation or inspection that progress billings are prepared in accordance with the contract and contract cost breakdown and are based on appropriate supporting data such as architect certification, engineer estimates, etc.</p> | _____ | _____ | _____ | _____ | _____ | _____ |
| <p>2. Examine evidence that the following prenumbered documents are accounted for periodically:</p>  |       |       |       |       |       |       |
| a. Progress billings.  | _____ | _____ | _____ | _____ | _____ | _____ |
| b. Credit memos.   | _____ | _____ | _____ | _____ | _____ | _____ |
| <p>3. Select a sample of _____ progress billings and inspect for evidence of:</p>  |       |       |       |       |       |       |
| a. Owner or manager approval.  | _____ | _____ | _____ | _____ | _____ | _____ |
| b. Double-checking of billing and percentage calculations by a person independent of the preparer.   | _____ | _____ | _____ | _____ | _____ | _____ |
| <p>4. Determine by inquiry, observation or inspection that progress billings are posted to the contract revenue journal by a person independent of the billing and cash receipts functions.</p>  | _____ | _____ | _____ | _____ | _____ | _____ |

**CONTRACTORS' TESTS OF TRANSACTIONS PROGRAMS**  
SECTION IIA (Continued)

<u>Procedure</u>	<u>Error Rate</u>					<u>W/P Ref.</u>
	<u>Tolerable</u>	<u>Actual</u>	<u>Done</u>	<u>Date</u>	<u>N/A</u>	
5. Determine by inquiry, observation or inspection that the person posting the contract revenue journal and general ledger is independent of the accounts receivable subledger posting function and/or some other independent person periodically reconciles the subledger to the general ledger.	_____	_____	_____	_____	_____	_____
6. Inspect evidence that a monthly aged analysis of contract receivables, including retentions, is reviewed by the owner or manager.	_____	_____	_____	_____	_____	_____
7. Inspect evidence that a monthly report of over/under billings is reviewed by management personnel.	_____	_____	_____	_____	_____	_____
8. Inspect evidence the owner or manager approves all bad-debt writeoffs.	_____	_____	_____	_____	_____	_____
9. Determine by inquiry or observation that bad debts written off are controlled by the owner or manager or a person who does not have access to cash.	_____	_____	_____	_____	_____	_____
10. Select a sample of _____ contracts and inspect for owner or manager approval in writing.	_____	_____	_____	_____	_____	_____
11. Select a sample of _____ change orders and inspect evidence of written approval by an authorized customer representative before the extra work is performed.	_____	_____	_____	_____	_____	_____
* SYSTEM A SUBSTANTIVE TESTS:						
1. Select _____ numerical series of _____ progress billings prepared during the year, account for the numerical sequence and compare to entries in the contract revenue journal for name, date and amount.	_____	_____	_____	_____	_____	_____

**CONTRACTORS' TESTS OF TRANSACTIONS PROGRAMS**  
**SECTION IIA (Continued)**

<u>Procedure</u>	<u>Error Rate</u>				<u>N/A</u>	<u>W/P Ref.</u>
	<u>Tolerable</u>	<u>Actual</u>	<u>Done</u>	<u>Date</u>		
2. Select a sample of _____ entries in the contract revenue journal, obtain copies of the progress billings and perform the following:	_____	_____	_____	_____	_____	_____
a. Determine copies have been mailed to customers.	_____	_____	_____	_____	_____	_____
b. Inspect supporting data including evidence of costs incurred to date, engineers' estimates of percentage of completion, architects' certification and other pertinent information.	_____	_____	_____	_____	_____	_____
c. Inspect evidence of owner or manager approval.	_____	_____	_____	_____	_____	_____
d. Determine the billings are recorded in the contract revenue journal in the correct period.	_____	_____	_____	_____	_____	_____
e. Trace progress billings to posting in contracts receivable subledger for name, date and amount.	_____	_____	_____	_____	_____	_____
3. Select _____ numerical series of _____ change orders and/or credit memos, account for numerical sequence.	_____	_____	_____	_____	_____	_____
4. Select a sample of _____ change orders and/or credit memos and perform the following:						
a. Inspect for owner or manager approval.	_____	_____	_____	_____	_____	_____
b. Determine the change orders or credit memos have been properly reflected in progress billings, contract field and status reports and reports for estimating contract's profit or loss.	_____	_____	_____	_____	_____	_____
5. Obtain the contract revenue journal for _____ months, foot and crossfoot and trace column postings to the general ledger.	_____	_____	_____	_____	_____	_____





# CONTRACTORS' TESTS OF TRANSACTIONS PROGRAM SECTION IIA--SYSTEM B



*Client:* \_\_\_\_\_

*Engagement Date:* \_\_\_\_\_

- MAJOR AUDIT AREAS:
1. Contracts receivable confirmation selection and alternative procedures.
  2. Contract revenue tests.

TRANSACTION CYCLE: Contract receivables and revenue

	Error Rate					
Procedure	Tolerable	Actual	Done	Date	N/A	W/P Ref.

## SYSTEM B SUBSTANTIVE TESTS

- |   |       |       |       |       |       |       |
|---|-------|-------|-------|-------|-------|-------|
| <p>1. Select _____ numerical series of _____ progress billings prepared during the year, account for the numerical sequence and compare to entries in the contract revenue journal for name, date and amount.</p> | _____ | _____ | _____ | _____ | _____ | _____ |
| <p>2. Select a sample of _____ entries in the contract revenue journal, obtain copies of the progress billings and perform the following:</p>   |       |       |       |       |       |       |
| <p>a. Determine copies have been mailed to customers.</p>   | _____ | _____ | _____ | _____ | _____ | _____ |
| <p>b. Inspect supporting data including evidence of costs incurred to date, engineers' estimates of percentage of completion, architects' certification and other pertinent information.</p>                      | _____ | _____ | _____ | _____ | _____ | _____ |
| <p>c. Inspect evidence of owner or manager approval.</p>  | _____ | _____ | _____ | _____ | _____ | _____ |
| <p>d. Determine the billings are recorded in the contract revenue journal in the correct period.</p>  | _____ | _____ | _____ | _____ | _____ | _____ |

**CONTRACTORS' TESTS OF TRANSACTIONS PROGRAMS**  
SECTION IIA (Continued)

Procedure	Error Rate				N/A	W/P Ref.
	Tolerable	Actual	Done	Date		
e. Trace progress billings to posting in contracts receivable subledger for name, date and amount.	_____	_____	_____	_____	_____	_____
3. Select _____ numerical series of _____ change orders and/or credit memos, account for numerical sequence.	_____	_____	_____	_____	_____	_____
4. Select a sample of _____ change orders and/or credit memos and perform the following:						
a. Inspect for owner or manager approval.	_____	_____	_____	_____	_____	_____
b. Determine the change orders or credit memos have been properly reflected in progress billings, contract field and status reports and reports for estimating contract's profit or loss.	_____	_____	_____	_____	_____	_____
5. Obtain the contract revenue journal for _____ months, foot and crossfoot and trace column postings to the general ledger.	_____	_____	_____	_____	_____	_____
6. Other procedures:						
_____						
_____						
_____						
_____						

Modification of analytical procedures and tests of balances (cross-reference related TOT step above) and reasons therefor:

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_





# CONTRACTORS' TESTS OF TRANSACTIONS PROGRAM SECTION III--SYSTEM A

P

*Client:* \_\_\_\_\_

*Engagement Date:* \_\_\_\_\_

- MAJOR AUDIT AREAS:
1. Vouching and inspecting fixed assets.
  2. Search for unrecorded liabilities.
  3. Purchases cutoff.
  4. Expense account analysis and vouching.
  5. Construction contract costs.

TRANSACTION CYCLE: Acquisitions and payments

	Error Rate						
Procedure	Tolerable	Actual	Done	Date	N/A	W/P	Ref.

**SYSTEM A COMPLIANCE TESTS**

Payments:

- |  |       |       |       |       |       |       |       |
|--|-------|-------|-------|-------|-------|-------|-------|
| 1. Examine evidence to determine that supporting documents are being approved and canceled at time of check signing.   | _____ | _____ | _____ | _____ | _____ | _____ | _____ |
| 2. Examine evidence or observe that the numerical sequence of checks is accounted for by someone independent of the preparation function.  | _____ | _____ | _____ | _____ | _____ | _____ | _____ |
| 3. Inquire or observe that checks are mailed by the owner or manager or someone under his/her supervision after signing.   | _____ | _____ | _____ | _____ | _____ | _____ | _____ |
| 4. Examine evidence of the monthly balancing of the accounts payable and construction contract costs subledgers to the general ledger.   | _____ | _____ | _____ | _____ | _____ | _____ | _____ |
| 5. Examine evidence, inquire or observe that the bank reconciliation is prepared by the owner or manager or a person independent of the check signing function or that the reconciliation is reviewed by the owner or manager. | _____ | _____ | _____ | _____ | _____ | _____ | _____ |

**CONTRACTORS' TESTS OF TRANSACTIONS PROGRAMS**  
SECTION III (Continued)

<u>Procedure</u>	<u>Error Rate</u>					<u>W/P Ref.</u>
	<u>Tolerable</u>	<u>Actual</u>	<u>Done</u>	<u>Date</u>	<u>N/A</u>	
6. Determine by inquiry, observation or inspection that the check preparation function is independent of the purchases journal, general ledger and accounts payable and construction contract costs subledgers posting functions.	_____	_____	_____	_____	_____	_____
7. Determine by inquiry, observation or inspection that items returned by the bank are received and opened by the owner or manager.	_____	_____	_____	_____	_____	_____
8. Determine by observation or inspection that a check protector is in use.	_____	_____	_____	_____	_____	_____
Acquisitions:						
1. Determine by inquiry, observation or inspection that the persons posting the purchases journal and general ledger are independent of the accounts payable and construction contract costs subledgers posting function and/or the owner, manager or other independent person reconciles, or reviews the reconciliation of the subledgers to the general ledger.	_____	_____	_____	_____	_____	_____
2. Determine by inquiry, observation or by examining evidence that all supporting documents are matched by a person independent of the ordering function, or by the owner or manager, before entry in the purchases journal. Determine subcontractors billings are approved by job superintendents.	_____	_____	_____	_____	_____	_____
3. Examine evidence of the monthly balancing of the accounts payable and construction contract costs subledgers to the general ledger. (Same as Payments step No. 4).	_____	_____	_____	_____	_____	_____
4. Examine evidence of an independent review of purchases account codings.	_____	_____	_____	_____	_____	_____

**CONTRACTORS' TESTS OF TRANSACTIONS PROGRAMS**  
**SECTION III (Continued)**

<u>Procedure</u>	<u>Error Rate</u>					<u>W/P Ref.</u>
	<u>Tolerable</u>	<u>Actual</u>	<u>Done</u>	<u>Date</u>	<u>N/A</u>	
5. Examine evidence, or observe, that approved vendors' price lists are being used.	_____	_____	_____	_____	_____	_____
6. Examine evidence, or observe, that the numerical sequence of receiving reports is being accounted for.	_____	_____	_____	_____	_____	_____
7. Examine evidence, or observe, that the numerical sequence of purchase orders and/or purchase requisitions is being accounted for.	_____	_____	_____	_____	_____	_____
8. Examine evidence, or observe, that accounts payable subledger balances are periodically reconciled to vendors' statements by a person independent of the ordering and payments function.	_____	_____	_____	_____	_____	_____
9. Examine evidence, or observe, that the receiving department inspects the quantity and quality of materials when receiving reports are prepared.	_____	_____	_____	_____	_____	_____
<b>SYSTEM A SUBSTANTIVE TESTS</b>						
<b>Payments:</b>						
1. Foot and review the general ledger cash account and investigate any credit entries not posted from the cash disbursements journal. (Note--step may be omitted if results of Payments compliance test No. 6 are positive.)	_____	_____	_____	_____	_____	_____
2. Foot and crossfoot the cash disbursements journal for _____ months and trace totals to postings in the general ledger and, if available, control totals for postings to accounts payable and contract costs subledgers. If no control totals are available, consider agreeing to adding machine tape of cash disbursements postings to individual vendor cards and contract cost cards.	_____	_____	_____	_____	_____	_____

**CONTRACTORS' TESTS OF TRANSACTIONS PROGRAMS**  
**SECTION III (Continued)**

<u>Procedure</u>	<u>Error Rate</u>					<u>W/P Ref.</u>
	<u>Tolerable</u>	<u>Actual</u>	<u>Done</u>	<u>Date</u>	<u>N/A</u>	
3. Select a sample of _____ entries in the cash disbursements journal and perform the following procedures:						
* a. Obtain paid check and:						
* (1) Examine signature and endorsement.	_____	_____	_____	_____	_____	_____
* (2) Compare to entry for payee, date and amount.	_____	_____	_____	_____	_____	_____
b. Obtain supporting documents and:						
* (1) Determine that documents agree with disbursement and that vendor and nature of purchase are proper.	_____	_____	_____	_____	_____	_____
* (2) Examine for owner or manager approval for payment. For subcontractors payments, examine for job superintendent approval.	_____	_____	_____	_____	_____	_____
* (3) Compare vendor name and amount to entry.	_____	_____	_____	_____	_____	_____
* (4) Determine if discount was taken where appropriate.	_____	_____	_____	_____	_____	_____
* (5) Examine approval of disbursement account coding.	_____	_____	_____	_____	_____	_____
* (6) Determine if supporting documents are canceled to prevent duplicate payment. (Note--an A system normally includes a purchases journal. Additional supporting documents will be examined in the acquisitions transactions tests.)	_____	_____	_____	_____	_____	_____



**CONTRACTORS' TESTS OF TRANSACTIONS PROGRAMS**  
SECTION III (Continued)

<u>Procedure</u>	<u>Error Rate</u>					<u>W/P Ref.</u>
	<u>Tolerable</u>	<u>Actual</u>	<u>Done</u>	<u>Date</u>	<u>N/A</u>	
c. Trace _____ postings to the accounts payable subledger. (Note--if results of Payments compliance test No. 4 are positive, sample size may be reduced to 15 units.)	_____	_____	_____	_____	_____	_____
d. Trace _____ postings to construction contract costs subledger (Note--if results of Payments compliance test No. 4 are positive, sample size may be reduced to 15 units.)	_____	_____	_____	_____	_____	_____
4. Select _____ series of _____ duplicate check copies and account for the numerical sequence. Compare to the disbursements journal for name, date and amount. (Note--if results of Payments compliance test No. 2 are positive, reduce sample size to one series of 25.)	_____	_____	_____	_____	_____	_____
5. Scan the cash disbursements journal for a period of _____ months and investigate any unusual entries.	_____	_____	_____	_____	_____	_____
6. Count _____ petty cash funds on a surprise basis, examine vouchers and supporting documents and reconcile to general ledger balance.	_____	_____	_____	_____	_____	_____
7. Other procedures:  _____  _____  _____	_____	_____	_____	_____	_____	_____

\* If results of compliance tests Nos. 1, 3 and 6 are positive, sample size may be reduced to 15 units.

**CONTRACTORS' TESTS OF TRANSACTIONS PROGRAMS**  
**SECTION III (Continued)**

	<u>Procedure</u>	<u>Error Rate</u>				<u>W/P Ref.</u>
		<u>Tolerable</u>	<u>Actual</u>	<u>Done</u>	<u>Date</u>	
<b>Acquisitions:</b>						
*	1. Select a sample of _____ receiving reports issued during the year and trace to vendor invoices and entries in the purchases journal. Compare:					
	a. Type of merchandise.	_____	_____	_____	_____	_____
	b. Name of vendor.	_____	_____	_____	_____	_____
	c. Dates received.	_____	_____	_____	_____	_____
	d. Quantities.	_____	_____	_____	_____	_____
	e. Amounts.	_____	_____	_____	_____	_____
**	2. Select _____ series of _____ receiving reports issued during the year and account for the numerical sequence.	_____	_____	_____	_____	_____
***	3. Select _____ series of _____ purchase orders and/or purchase requisitions issued during the year and account for the numerical sequence.	_____	_____	_____	_____	_____
	4. Select a sample of _____ entries in the purchases journal and perform the following:					
	a. If paid, trace check number to entry in cash disbursements journal. If unpaid, investigate reasons.	_____	_____	_____	_____	_____
****	b. Obtain vendor invoice, receiving report, purchase order and/or purchase requisition and perform the following:					
	(1) Compare name, dates and amounts.	_____	_____	_____	_____	_____
	(2) Review invoice for approval of purchase by owner or manager.	_____	_____	_____	_____	_____

**CONTRACTORS' TESTS OF TRANSACTIONS PROGRAMS**  
**SECTION III (Continued)**

<u>Procedure</u>	<u>Error Rate</u>					<u>W/P Ref.</u>
	<u>Tolerable</u>	<u>Actual</u>	<u>Done</u>	<u>Date</u>	<u>N/A</u>	
(3) Review receiving report for proper approval.	_____	_____	_____	_____	_____	_____
(4) Review purchase order and/or purchase requisition for proper approval.	_____	_____	_____	_____	_____	_____
(5) Verify prices and recalculate footings and extensions on invoices.	_____	_____	_____	_____	_____	_____
(6) Compare quantities and descriptions.	_____	_____	_____	_____	_____	_____
(7) Check propriety of account codings.	_____	_____	_____	_____	_____	_____
(8) Determine that supporting documents are canceled to prevent reuse.	_____	_____	_____	_____	_____	_____
(9) Determine that contracts and operations account numbers are properly identified on supporting documents.	_____	_____	_____	_____	_____	_____
(10) Determine that subcontractors billings have been approved by job superintendents or are based on field status reports.	_____	_____	_____	_____	_____	_____
5. For _____ months, foot and crossfoot the purchases journal and trace postings to the general ledger and a sample of _____ postings to the construction contract costs subledger.	_____	_____	_____	_____	_____	_____
***** 6. If available, control totals for postings to the accounts payable and construction contract costs subledgers should be compared with purchases journal totals. If no control totals are available, consider agreeing purchase journal totals to an adding machine tape of purchases postings to individual vendor and contract cost cards.	_____	_____	_____	_____	_____	_____

**CONTRACTORS' TESTS OF TRANSACTIONS PROGRAMS**  
SECTION III (Continued)

<u>Procedure</u>	<u>Error Rate</u>				<u>N/A</u>	<u>W/P Ref.</u>
	<u>Tolerable</u>	<u>Actual</u>	<u>Done</u>	<u>Date</u>		
7. Scan the purchases journal for a period of _____ months and investigate large or unusual entries.	_____	_____	_____	_____	_____	_____
8. Other procedures:	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____

\* If Acquisitions compliance test No. 2 results are positive, sample size may be reduced to 15 units.

\*\* If Acquisitions compliance test No. 6 results are positive, sample size may be reduced to one series of 25.

\*\*\* If Acquisitions compliance test No. 7 results are positive, sample size may be reduced to one series of 25.

\*\*\*\* If results of Acquisitions compliance tests Nos. 1, 2 and 3 are positive, sample size may be reduced to 15 units. If Nos. 4, 5, 6, 7 and 8 are also positive, sample size may be reduced to 10 units.

\*\*\*\*\* If results of Acquisitions compliance tests Nos. 1, 2, 3 and 8 are positive, consider deleting step.

Modification of APs and TOBs (cross-reference related TOT step above) and reasons therefor:

---



---



---



---



---



---



---

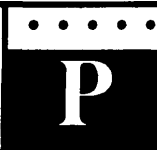


---





# CONTRACTORS' TESTS OF TRANSACTIONS PROGRAM SECTION III--SYSTEM B



*Client:* \_\_\_\_\_

*Engagement Date:* \_\_\_\_\_

- MAJOR AUDIT AREAS:
1. Vouching and inspecting fixed assets.
  2. Search for unrecorded liabilities.
  3. Purchases cutoff.
  4. Expense account analysis and vouching.
  5. Construction contract costs.

TRANSACTION CYCLE: Acquisitions and payments

	Error Rate					
Procedure	Tolerable	Actual	Done	Date	N/A	W/P Ref.

**SYSTEM B SUBSTANTIVE TESTS**

Payments:

1. Foot and review the general ledger cash account and investigate any credit entries not posted from the cash disbursements journal.
 

	_____	_____	_____	_____	_____	_____
--	-------	-------	-------	-------	-------	-------
  
2. Foot and crossfoot the cash disbursements journal for \_\_\_\_\_ months and trace totals to postings in the general ledger, and if available, to control totals in construction contract cost records.
 

	_____	_____	_____	_____	_____	_____
--	-------	-------	-------	-------	-------	-------
  
3. Select a sample of \_\_\_\_\_ entries in the cash disbursements journal and perform the following procedures:
  - a. Obtain paid check and:
    - (1) Examine owner or manager's signature and propriety of endorsement.
 

	_____	_____	_____	_____	_____	_____
--	-------	-------	-------	-------	-------	-------
    - (2) Compare to entry for payee, date and amount.
 

	_____	_____	_____	_____	_____	_____
--	-------	-------	-------	-------	-------	-------
    - (3) Compare to amount of entry on bank statement.
 

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

**CONTRACTORS' TESTS OF TRANSACTIONS PROGRAMS**  
**SECTION III (Continued)**

<u>Procedure</u>	<u>Error Rate</u>				<u>N/A</u>	<u>W/P Ref.</u>
	<u>Tolerable</u>	<u>Actual</u>	<u>Done</u>	<u>Date</u>		
b. Obtain supporting documents and:						
(1) Determine propriety of vendor and nature of purchase.	_____	_____	_____	_____	_____	_____
(2) Compare vendor name and invoice amount to entry.	_____	_____	_____	_____	_____	_____
(3) Determine if discount was taken where applicable.	_____	_____	_____	_____	_____	_____
(4) Check propriety of disbursement account coding.	_____	_____	_____	_____	_____	_____
(5) Note dates of supporting documents as a possible clue to duplication of previous disbursement. (Note--a B system normally contains a purchases journal. Additional supporting documents will be examined in the acquisitions transactions tests. System B may not include invoice cancellation at time of check signing. Sample size, therefore, may be larger than if invoices are canceled).	_____	_____	_____	_____	_____	_____
(6) Trace _____ postings to construction contract cost records.	_____	_____	_____	_____	_____	_____
4. Select _____ series of _____ duplicate check copies and account for the numerical sequence. Compare to disbursements journal for name, date and amount.	_____	_____	_____	_____	_____	_____
5. Scan the cash disbursements journal for a period of _____ months and investigate any unusual entries.	_____	_____	_____	_____	_____	_____
6. Count _____ petty cash funds on a surprise basis, examine vouchers and supporting documents and reconcile to general ledger balance.	_____	_____	_____	_____	_____	_____



**CONTRACTORS' TESTS OF TRANSACTIONS PROGRAMS**  
**SECTION III (Continued)**

<u>Procedure</u>	<u>Error Rate</u>				<u>N/A</u>	<u>W/P Ref.</u>
	<u>Tolerable</u>	<u>Actual</u>	<u>Done</u>	<u>Date</u>		
7. Other procedures:						
_____						
_____						
_____						
_____						
Acquisitions:						
1. Select a sample of _____ entries in the purchases journal and perform the following:						
a. If paid, trace check number to entry in cash disbursements journal. If unpaid, investigate reasons.						
b. Obtain supporting vendor invoice:						
(1) Compare name, dates and amounts.						
(2) Review invoice for approval of purchase by owner or manager.						
(3) Verify prices and recalculate footings and extensions on invoice.						
(4) Check propriety of account codings.						
(5) Determine if discount was taken, where applicable.						
(6) Determine that contracts and operations account numbers are properly identified on supporting documents.						

**CONTRACTORS' TESTS OF TRANSACTIONS PROGRAMS**  
SECTION III (Continued)

<u>Procedure</u>	<u>Error Rate</u>					<u>W/P Ref.</u>
	<u>Tolerable</u>	<u>Actual</u>	<u>Done</u>	<u>Date</u>	<u>N/A</u>	
(7) Determine that subcontractors billings have been approved by job superintendents or are based on field status reports.	_____	_____	_____	_____	_____	_____
2. If receiving reports are in use, select a sample of _____ issued during the year and trace to vendor invoices and entries in the purchases journal. Compare:						
a. Type of merchandise.	_____	_____	_____	_____	_____	_____
b. Name of vendor.	_____	_____	_____	_____	_____	_____
c. Dates received.	_____	_____	_____	_____	_____	_____
d. Quantities.	_____	_____	_____	_____	_____	_____
e. Amounts.	_____	_____	_____	_____	_____	_____
3. For _____ months, foot and crossfoot the purchases journal and trace postings to the general ledger and a sample of _____ postings to the construction contract costs subledger.	_____	_____	_____	_____	_____	_____
4. Scan the purchases journal for a period of _____ months and investigate large or unusual purchases.	_____	_____	_____	_____	_____	_____
5. Other procedures:						
_____						
_____						
_____						
_____						

(Note--System B may not include invoice cancellation at time of check signing. Sample sizes in such cases may be larger than if invoices are canceled.)





# CONTRACTORS' TESTS OF TRANSACTIONS PROGRAM SECTION III--SYSTEM C

.....  
**P**

*Client:* \_\_\_\_\_

*Engagement Date:* \_\_\_\_\_

- MAJOR AUDIT AREAS:
1. Vouching and inspecting fixed assets.
  2. Search for unrecorded liabilities.
  3. Purchases cutoff.
  4. Expense account analysis and vouching.
  5. Construction contract costs.

TRANSACTION CYCLE: Acquisitions and payments

Procedure	Error Rate		Date	N/A	W/P Ref.
Tolerable	Actual	Done	Date	N/A	Ref.

**SYSTEM C SUBSTANTIVE TESTS**

Payments:

- |   |       |       |       |       |       |
|---|-------|-------|-------|-------|-------|
| <p>1. Foot and review the general ledger cash account and investigate any credit entries not posted from the cash disbursements journal.</p>  | _____ | _____ | _____ | _____ | _____ |
| <p>2. Foot and crossfoot the cash disbursements journal for _____ months and trace totals to postings in the general ledger and a sample of _____ postings to the construction contract cost subledger.</p> | _____ | _____ | _____ | _____ | _____ |
| <p>3. Account for the numerical sequence of _____ series of _____ prenumbered checks. Compare to the disbursements journal for name, date and amount.</p>   | _____ | _____ | _____ | _____ | _____ |
| <p>4. Account for unnumbered checks or prenumbered checks written out of sequence for _____ months by tracing bank statement enclosures to the cash disbursements journal.</p>                              | _____ | _____ | _____ | _____ | _____ |
| <p>Enclosures must be totaled on an adding machine tape and agreed to bank statement totals.</p>  | _____ | _____ | _____ | _____ | _____ |

**CONTRACTORS' TESTS OF TRANSACTIONS PROGRAMS**  
SECTION III (Continued)

<u>Procedure</u>	<u>Error Rate</u>					<u>W/P Ref.</u>
	<u>Tolerable</u>	<u>Actual</u>	<u>Done</u>	<u>Date</u>	<u>N/A</u>	
5. Select a sample of _____ entries in the cash disbursements journal and perform the following procedures:						
a. Obtain paid check and:						
(1) Examine for an authorized signature and endorsement.	_____	_____	_____	_____	_____	_____
(2) Compare to entry for payee, date and amount.	_____	_____	_____	_____	_____	_____
(3) Compare to amount of entry on bank statement.	_____	_____	_____	_____	_____	_____
b. Obtain supporting documents and:						
(1) Compare vendor name and invoice amount to entry and determine that vendor and nature of purchase are proper.	_____	_____	_____	_____	_____	_____
(2) Determine if discount was taken where applicable.	_____	_____	_____	_____	_____	_____
(3) Check propriety of account coding.	_____	_____	_____	_____	_____	_____
(4) Verify prices and recalculate vendors' invoices.	_____	_____	_____	_____	_____	_____
(5) Note dates of supporting documents as a possible clue to duplication of previous disbursement.	_____	_____	_____	_____	_____	_____
(6) Determine that contracts and operations account numbers are properly identified on supporting documents.	_____	_____	_____	_____	_____	_____
(7) Trace _____ postings to construction contract cost records.	_____	_____	_____	_____	_____	_____

**CONTRACTORS' TESTS OF TRANSACTIONS PROGRAMS**  
SECTION III (Continued)

<u>Procedure</u>	<u>Error Rate</u>					<u>W/P</u> <u>Ref.</u>
	<u>Tolerable</u>	<u>Actual</u>	<u>Done</u>	<u>Date</u>	<u>N/A</u>	
<p>(Note-- a type C system normally doesn't contain a purchases journal. Consequently, all tests of transactions support will be concentrated in this step. The sample size, therefore, may be larger than normal. An extensive search for unrecorded liabilities will also be performed at engagement date.)</p>						
6. If accounting system is extremely weak, consider reconciling disbursements per books to disbursements per bank statement for _____ months. (Note--a proof of cash format should be used; beginning and ending balances need not be traced to supporting records and documents.)	_____	_____	_____	_____	_____	_____
7. Scan the cash disbursements journal for the year and investigate any unusual entries.	_____	_____	_____	_____	_____	_____
8. Count _____ petty cash funds on a surprise basis, examine vouchers and supporting documents and reconcile to general ledger balance.	_____	_____	_____	_____	_____	_____
9. Other procedures:	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____

Modification of APs and TOBs (cross-reference related TOT step above) and reasons therefor:

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_





# CONTRACTORS' TESTS OF TRANSACTIONS PROGRAM SECTION IV--SYSTEM A

P

*Client:* \_\_\_\_\_

*Engagement Date:* \_\_\_\_\_

MAJOR AUDIT AREAS: Payroll tests.

TRANSACTION CYCLE: Payroll and personnel

<u>Procedure</u>	<u>Error Rate</u>		<u>Done</u>	<u>Date</u>	<u>N/A</u>	<u>W/P Ref.</u>
	<u>Tolerable</u>	<u>Actual</u>				
<b>SYSTEM A COMPLIANCE TESTS</b>						
1. Observe that a time clock is used to record time or that time is logged by persons independent of payroll preparation, check signing or distribution functions.	_____	_____	_____	_____	_____	_____
2. Examine evidence of double-checking payroll rates and calculations by an independent person.	_____	_____	_____	_____	_____	_____
3. Examine evidence of periodic reconciliation of employees' earnings records to general ledger by persons independent of payroll preparation and distribution.	_____	_____	_____	_____	_____	_____
4. Select _____ payroll labor distributions and examine evidence that account codings are reviewed by someone other than preparer.	_____	_____	_____	_____	_____	_____
5. Select _____ personnel files and examine written evidence of the following:						
a. Wage rate authorization.	_____	_____	_____	_____	_____	_____
b. W-4 form signed by the employee.	_____	_____	_____	_____	_____	_____
c. Withholdings authorizations signed by employee and approved by the owner or manager.	_____	_____	_____	_____	_____	_____

**CONTRACTORS' TESTS OF TRANSACTIONS PROGRAMS**  
SECTION IV (Continued)

<u>Procedure</u>	<u>Error Rate</u>					<u>W/P Ref.</u>
	<u>Tolerable</u>	<u>Actual</u>	<u>Done</u>	<u>Date</u>	<u>N/A</u>	
6. Examine evidence or observe that payroll checks are accounted for by a person independent of the preparation function.	_____	_____	_____	_____	_____	_____
7. Examine evidence that the payroll bank account reconciliation is reviewed by the owner or manager.	_____	_____	_____	_____	_____	_____
8. Examine evidence that payroll expense recorded in the construction contract cost subledger is reconciled monthly to payroll expense in the general ledger.	_____	_____	_____	_____	_____	_____
9. Examine evidence that the allocation of payroll overhead to contracts is reviewed by the owner or manager.	_____	_____	_____	_____	_____	_____
<b>SYSTEM A SUBSTANTIVE TESTS</b>						
** 1. Select a sample of _____ series of _____ duplicate payroll checks and:						
a. Account for the numerical sequence.	_____	_____	_____	_____	_____	_____
b. Trace to payroll journal entries for name, date and amounts.	_____	_____	_____	_____	_____	_____
* 2. Select a sample of _____ entries in the payroll journal, obtain canceled checks, time cards (hours) and personnel files (rate and withholding information) and:						
a. Recompute gross pay. Scan withholdings and other deductions for reasonableness.	_____	_____	_____	_____	_____	_____
b. Examine time cards for approval by foreman, owner or manager.	_____	_____	_____	_____	_____	_____
c. Examine check for signature of owner or manager.	_____	_____	_____	_____	_____	_____
d. Examine or obtain owner or manager approval of rates of pay and withholdings.	_____	_____	_____	_____	_____	_____

**CONTRACTORS' TESTS OF TRANSACTIONS PROGRAMS**  
SECTION IV (Continued)

<u>Procedure</u>	<u>Error Rate</u>			<u>Date</u>	<u>N/A</u>	<u>W/P Ref.</u>
	<u>Tolerable</u>	<u>Actual</u>	<u>Done</u>			
e. Compare signature on W-4 form to check endorsement.	_____	_____	_____	_____	_____	_____
f. Trace postings to employees' earnings records.	_____	_____	_____	_____	_____	_____
g. Check account classification.	_____	_____	_____	_____	_____	_____
*** 3. Obtain _____ unissued payroll checks and control distribution to employees. Check the following:						
a. Proper identification.	_____	_____	_____	_____	_____	_____
b. Employee satisfaction with net pay computations.	_____	_____	_____	_____	_____	_____
4. Foot and crossfoot the payroll journal for _____ periods and trace totals to the general ledger and a sample of _____ postings to the construction contract costs subledger.	_____	_____	_____	_____	_____	_____
5. Scan the payroll journal for _____ months and investigate large or unusual entries.	_____	_____	_____	_____	_____	_____
6. Other procedures:						
_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____

\* If results of compliance tests Nos. 1, 2, 3 and 5 are positive, sample size may be reduced to 15 units.

\*\* If results of compliance tests Nos. 4 and 6 are positive, sample size may be reduced to one series of 25.

\*\*\* If the results of compliance tests Nos. 3, 6 and 7 are positive, consider deleting this step.



# CONTRACTORS' TESTS OF TRANSACTIONS PROGRAM SECTION IV--SYSTEM B

P

*Client:* \_\_\_\_\_

*Engagement Date:* \_\_\_\_\_

MAJOR AUDIT AREAS: Payroll tests.

TRANSACTION CYCLE: Payroll and personnel

	Error Rate					
Procedure	Tolerable	Actual	Done	Date	N/A	W/P Ref.

## SYSTEM B SUBSTANTIVE TESTS

1. Select a sample of \_\_\_\_\_ series of duplicate payroll checks and:
  - a. Account for the numerical sequence.
 

	_____	_____	_____	_____	_____	_____
--	-------	-------	-------	-------	-------	-------
  - b. Trace to payroll journal entries for name, date and amounts.
 

	_____	_____	_____	_____	_____	_____
--	-------	-------	-------	-------	-------	-------
  
2. Select a sample of \_\_\_\_\_ entries in the payroll journal, obtain canceled checks, time cards (hours) and personnel files (rate and withholding information) and:
  - a. Recompute gross pay. Scan withholdings and other deductions for reasonableness.
 

	_____	_____	_____	_____	_____	_____
--	-------	-------	-------	-------	-------	-------
  - b. Examine time cards for approval by foreman, owner or manager.
 

	_____	_____	_____	_____	_____	_____
--	-------	-------	-------	-------	-------	-------
  - c. Examine check for signature of owner or manager.
 

	_____	_____	_____	_____	_____	_____
--	-------	-------	-------	-------	-------	-------
  - d. Examine or obtain owner or manager approval of rates of pay and withholdings.
 

	_____	_____	_____	_____	_____	_____
--	-------	-------	-------	-------	-------	-------
  - e. Compare signature on W-4 form to check endorsement.
 

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

**CONTRACTORS' TESTS OF TRANSACTIONS PROGRAMS**  
SECTION IV (Continued)

<u>Procedure</u>	<u>Error Rate</u>					<u>W/P Ref.</u>
	<u>Tolerable</u>	<u>Actual</u>	<u>Done</u>	<u>Date</u>	<u>N/A</u>	
f. Trace postings to employees earnings records.	_____	_____	_____	_____	_____	_____
g. Check account classification.	_____	_____	_____	_____	_____	_____
3. Obtain _____ unissued payroll checks and control distribution to employees. Check the following:						
a. Proper identification.	_____	_____	_____	_____	_____	_____
b. Employee satisfaction with net pay computations.	_____	_____	_____	_____	_____	_____
4. Foot and crossfoot the payroll journal for _____ periods and trace totals to the general ledger and a sample of _____ postings to the construction contract costs subledger.	_____	_____	_____	_____	_____	_____
5. Scan the payroll journal for a period of _____ months and investigate large or unusual entries.	_____	_____	_____	_____	_____	_____
6. For _____ months, reconcile payroll expense in the construction contract costs subledger to payroll expense in the general ledger.	_____	_____	_____	_____	_____	_____
7. For _____ months, recalculate the allocation of payroll overhead to contracts.	_____	_____	_____	_____	_____	_____
8. Other procedures:						
_____						
_____						
_____						
_____						







# CONTRACTORS' TESTS OF TRANSACTIONS PROGRAM SECTION IV--SYSTEM C

P

*Client:* \_\_\_\_\_

*Engagement Date:* \_\_\_\_\_

MAJOR AUDIT AREAS: Payroll tests.

TRANSACTION CYCLE: Payroll and personnel

Procedure	Error Rate					W/P Ref.
	Tolerable	Actual	Done	Date	N/A	

### SYSTEM C SUBSTANTIVE TESTS

- |  |  |  |  |  |  |
|--|--|--|--|--|--|
| <p>1. Select a sample of _____ series of _____ duplicate payroll checks and:</p> <p style="margin-left: 20px;">a. Account for the numerical sequence.</p> <p style="margin-left: 20px;">b. Trace to payroll journal or cash disbursement journal entries for name, date and amounts.</p>   | <p>_____</p> <p>_____</p>  | <p>_____</p> <p>_____</p>  | <p>_____</p> <p>_____</p>  | <p>_____</p> <p>_____</p>  | <p>_____</p> <p>_____</p>  |
| <p>2. Select a sample of _____ entries in the payroll journal, or payroll entries in the cash disbursements journal, obtain canceled checks, time cards (hours) and personnel files (rate and withholding information) and:</p> <p style="margin-left: 20px;">a. Recompute gross pay. Scan withholdings and other deductions for reasonableness.</p> <p style="margin-left: 20px;">b. Examine check for signature.</p> <p style="margin-left: 20px;">c. Compare signature on W-4 form to check endorsement.</p> <p style="margin-left: 20px;">d. Trace postings to employees' earnings records.</p> <p style="margin-left: 20px;">e. Check account classification.</p> | <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> | <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> | <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> | <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> | <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> |

**CONTRACTORS' TESTS OF TRANSACTIONS PROGRAMS**  
SECTION IV (Continued)

<u>Procedure</u>	<u>Error Rate</u>					<u>W/P</u> <u>Ref.</u>
	<u>Tolerable</u>	<u>Actual</u>	<u>Done</u>	<u>Date</u>	<u>N/A</u>	
3. Obtain _____ unissued payroll checks and control distribution to employees. Check the following:						
a. Proper identification.	_____	_____	_____	_____	_____	_____
b. Employee satisfaction with net pay computations.	_____	_____	_____	_____	_____	_____
4. Foot and crossfoot the payroll journal for _____ periods and trace totals to the general ledger and a sample of _____ postings to the construction contract subledger.	_____	_____	_____	_____	_____	_____
5. Scan the payroll journal for a period of _____ months and investigate large or unusual entries.	_____	_____	_____	_____	_____	_____
6. If accounting system is extremely weak, consider reconciling receipts and disbursements per books to bank statements for _____ months. Beginning and ending balances do not need to be traced to supporting documents and records.	_____	_____	_____	_____	_____	_____
7. For _____ months, reconcile payroll expenses in the construction contract costs subledger to payroll expense in the general ledger.	_____	_____	_____	_____	_____	_____
8. For _____ months, recalculate the allocation of payroll overhead to contracts.	_____	_____	_____	_____	_____	_____
9. Other procedures:						
_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____





**CONTRACTORS' TESTS OF TRANSACTIONS  
PROGRAM SECTION V--SYSTEM A  
PART II**

.....  
**P**

*Client:* \_\_\_\_\_

*Engagement Date:* \_\_\_\_\_

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

TRANSACTION CYCLE: Inventory and warehousing--PERPETUAL INVENTORY RECORDS MAINTAINED

<u>Procedure</u>	<u>Error Rate</u>			<u>Date</u>	<u>N/A</u>	<u>W/P Ref.</u>
	<u>Tolerable</u>	<u>Actual</u>	<u>Done</u>			
<b>SYSTEM A COMPLIANCE TESTS</b>						
1. Observe that all classes of inventory are stored under good physical safeguards:						
a. Raw materials.	_____	_____	_____	_____	_____	_____
b. Work-in-process.	_____	_____	_____	_____	_____	_____
c. Finished goods.	_____	_____	_____	_____	_____	_____
2. Examine evidence or observe that physical counts are made and agreed to perpetual records by persons independent of the inventory and warehousing cycle, or that they are supervised by the owner or manager.	_____	_____	_____	_____	_____	_____
3. Examine copies of instructions for periodic physical counts.	_____	_____	_____	_____	_____	_____
4. Examine evidence or observe that the receiving department inspects the quantity and quality of materials when receiving reports are prepared.	_____	_____	_____	_____	_____	_____
5. Examine evidence that the following documents are periodically accounted for:						
a. Raw material requisitions.	_____	_____	_____	_____	_____	_____

**CONTRACTORS' TESTS OF TRANSACTIONS PROGRAMS**  
SECTION V (Continued)

<u>Procedure</u>	<u>Error Rate</u>					<u>W/P Ref.</u>
	<u>Tolerable</u>	<u>Actual</u>	<u>Done</u>	<u>Date</u>	<u>N/A</u>	
b. Labor charge documents.	_____	_____	_____	_____	_____	_____
c. Completed production orders.	_____	_____	_____	_____	_____	_____
d. Finished inventory requisitions.	_____	_____	_____	_____	_____	_____
6. Examine evidence or observe that the computations on the documents following are double-checked on at least a test basis by foremen or other independent persons:						
a. Completion of raw material goods requisitions.	_____	_____	_____	_____	_____	_____
b. Labor charge documents.	_____	_____	_____	_____	_____	_____
c. Completed production records.	_____	_____	_____	_____	_____	_____
d. Finished inventory requisitions.	_____	_____	_____	_____	_____	_____
e. Perpetual records posting.	_____	_____	_____	_____	_____	_____
7. Examine evidence of reconciliation of perpetual records with the general ledger by an independent person.	_____	_____	_____	_____	_____	_____
8. Other procedures:						
_____						
_____						
_____						
_____						

**SYSTEM A SUBSTANTIVE TESTS**

- \* 1. Select a sample of the following, examine evidence of double-checking of computations and account coding by an independent person and trace to the perpetual records and the source for general ledger entry:

**CONTRACTORS' TESTS OF TRANSACTIONS PROGRAMS**  
**SECTION V (Continued)**

<u>Procedure</u>	<u>Error Rate</u>					<u>W/P Ref.</u>
	<u>Tolerable</u>	<u>Actual</u>	<u>Done</u>	<u>Date</u>	<u>N/A</u>	
a. Raw material requisitions. Sample size _____.	_____	_____	_____	_____	_____	_____
b. Labor charge documents. Sample size _____.	_____	_____	_____	_____	_____	_____
c. Completed production records approved by the owner or manager. Sample size _____.	_____	_____	_____	_____	_____	_____
d. Finished inventory requisitions. Sample size _____.	_____	_____	_____	_____	_____	_____
* 2. Select a sample of _____ perpetual inventory records and perform the following:						
a. Trace all postings to supporting documents, i.e., raw material requisitions, labor charge documents, completed production bills of materials and charges, finished inventory requisitions, inventory adjustments approved by the owner or manager, and to the source of the general ledger entries.	_____	_____	_____	_____	_____	_____
b. Examine owner or manager approval of related bills of materials and charges.	_____	_____	_____	_____	_____	_____
c. Foot the inventory records.	_____	_____	_____	_____	_____	_____
d. Recalculate unit costs on the records.	_____	_____	_____	_____	_____	_____
e. Review record for evidence of obsolete or slow-moving items.	_____	_____	_____	_____	_____	_____
f. Recalculate overhead charged to the record, if applicable.	_____	_____	_____	_____	_____	_____
3. For _____ dates, agree the perpetual records control totals, if available, to the general ledger. If not available, see step 4.	_____	_____	_____	_____	_____	_____

**CONTRACTORS' TESTS OF TRANSACTIONS PROGRAMS**  
SECTION V (Continued)

	Procedure	Error Rate				W/P Ref.
		Tolerable	Actual	Done	Date	
**	4. For _____ dates, prepare an adding machine tape of the perpetual records and agree to the general ledger.	_____	_____	_____	_____	_____
	5. For _____ periods, recompute standard labor, material and overhead costs charged to production.	_____	_____	_____	_____	_____
***	6. Account for the numerical sequence of _____ series of _____ for the following:					
	a. Raw material requisitions.	_____	_____	_____	_____	_____
	b. Labor charge documents.	_____	_____	_____	_____	_____
	c. Completed production records.	_____	_____	_____	_____	_____
	d. Finished inventory requisitions.	_____	_____	_____	_____	_____
	7. Other procedures:					
	_____					
	_____					
	_____					
	_____					

\* If results of compliance tests Nos. 1, 2, 3, 4 and 6 are positive, sample size may be reduced to 15 units.

\*\* If results of compliance test No. 7 are positive, this step can be deleted.

\*\*\* If results of compliance test No. 5 are positive, sample size may be reduced to one series of 25 units for each document.

Modification of APs and TOBs (cross-reference related TOT step above) and reasons therefor:

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_







<b>CONTRACTORS' TESTS OF TRANSACTIONS PROGRAM SECTION V--SYSTEM B PART II</b>	..... <div style="background-color: black; color: white; padding: 10px; font-size: 2em; font-weight: bold; margin: 0 auto;">P</div>
<i>Client:</i> _____	
<i>Engagement Date:</i> _____	

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

TRANSACTION CYCLE: Inventory and warehousing--PERPETUAL INVENTORY RECORDS MAINTAINED

Procedure	Error Rate					W/P Ref.
	Tolerable	Actual	Done	Date	N/A	

**SYSTEM B SUBSTANTIVE TESTS**

1. Select a sample of the following, check the computations and the account codings and trace to the perpetual records and the source for general ledger entry:
  - a. Raw material requisitions.  
Sample size \_\_\_\_\_.  

--	--	--	--	--	--
  - b. Labor charge documents. Sample size \_\_\_\_\_.  

--	--	--	--	--	--
  - c. Completed production records approved by the owner or manager.  
Sample size \_\_\_\_\_.  

--	--	--	--	--	--
  - d. Finished inventory requisitions.  
Sample size \_\_\_\_\_.  

--	--	--	--	--	--
  
2. Select a sample of \_\_\_\_\_ perpetual inventory records and perform the following:
  - a. Trace all postings to supporting documents, i.e., raw material requisitions, labor charge documents, completed production bills of materials and charges, finished inventory requisitions, inventory adjustments approved by

**CONTRACTORS' TESTS OF TRANSACTIONS PROGRAMS**  
SECTION V (Continued)

<u>Procedure</u>	<u>Error Rate</u>					<u>W/P Ref.</u>
	<u>Tolerable</u>	<u>Actual</u>	<u>Done</u>	<u>Date</u>	<u>N/A</u>	
the owner or manager, and to the source of the general ledger entries.	_____	_____	_____	_____	_____	_____
b. Foot the inventory records.	_____	_____	_____	_____	_____	_____
c. Recalculate unit costs on the records.	_____	_____	_____	_____	_____	_____
d. Review record for evidence of obsolete or slow-moving items.	_____	_____	_____	_____	_____	_____
e. Recalculate overhead charged to the record.	_____	_____	_____	_____	_____	_____
3. For _____ dates, agree the perpetual records control totals to the general ledger.	_____	_____	_____	_____	_____	_____
4. For _____ dates, prepare an adding machine tape of the perpetual records and agree to the general ledger.	_____	_____	_____	_____	_____	_____
5. For _____ periods, recompute standard labor, material and overhead costs charged to production.	_____	_____	_____	_____	_____	_____
6. Account for the numerical sequence of _____ series of _____ for the following:						
a. Raw material requisitions.	_____	_____	_____	_____	_____	_____
b. Labor charge documents.	_____	_____	_____	_____	_____	_____
c. Completed production records.	_____	_____	_____	_____	_____	_____
d. Finished inventory requisitions.	_____	_____	_____	_____	_____	_____
7. Other procedures:						
_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____





# CONTRACTORS' TESTS OF TRANSACTIONS PROGRAM SECTION VI



*Client:* \_\_\_\_\_

*Engagement Date:* \_\_\_\_\_

MAJOR AUDIT AREAS: All

TRANSACTION CYCLES: All

Procedure	<u>Error Rate</u>					W/P Ref.
	<u>Tolerable</u>	<u>Actual</u>	<u>Done</u>	<u>Date</u>	<u>N/A</u>	
<b>SYSTEM A COMPLIANCE TESTS*</b>						
1. Obtain and review operations budgets.	_____	_____	_____	_____	_____	_____
2. Observe adequate safeguards over the following:						
a. Accounting records.	_____	_____	_____	_____	_____	_____
b. Securities and other valuable papers.	_____	_____	_____	_____	_____	_____
c. Other records.	_____	_____	_____	_____	_____	_____
3. Examine evidence that fixed assets records are periodically reviewed, checked to assets and reconciled to the general ledger.	_____	_____	_____	_____	_____	_____
4. Other procedures:						
_____						
_____						
_____						
_____						

\* Inadequate results from compliance tests of these secondary controls may require modification of tests of balances or analytical procedures.

**CONTRACTORS' TESTS OF TRANSACTIONS PROGRAMS**  
SECTION VI (Continued)

<u>Procedure</u>	<u>Error Rate</u>				<u>N/A</u>	<u>W/P Ref.</u>
	<u>Tolerable</u>	<u>Actual</u>	<u>Done</u>	<u>Date</u>		
<b>SYSTEM C SUBSTANTIVE TESTS**</b> (There are no system B procedures)						
1. Review general journal entries for the year and investigate any large or unusual balances.	_____	_____	_____	_____	_____	_____
2. For _____ months, trace entries in the general journal to the general ledger and review support.	_____	_____	_____	_____	_____	_____
3. Account for all entries to the general ledger during _____ months. Investigate any entries not made from source journals included in TOTs for applicable transaction cycles.	_____	_____	_____	_____	_____	_____
4. While performing other tests, determine that the owners' personal income and expenses are segregated from the business.	_____	_____	_____	_____	_____	_____
5. Examine a fidelity bond insurance policy covering all employees.	_____	_____	_____	_____	_____	_____
6. Determine that all employees in a position of trust have taken an annual vacation.	_____	_____	_____	_____	_____	_____
7. Obtain a copy of the chart of accounts.	_____	_____	_____	_____	_____	_____
8. Other procedures:	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____

\*\* Inadequate results from these substantive tests may subjectively affect the nature, extent or timing of tests of balances.



Modification of APs and TOBs (cross-reference related TOT step above) and reasons therefor:

Lined area for text entry, consisting of 18 horizontal lines.

Prepared by: \_\_\_\_\_ Date \_\_\_\_\_  
(In-Charge)

Reviewed by: \_\_\_\_\_ Date \_\_\_\_\_  
(Executive)



# CONTRACTORS' TESTS OF TRANSACTIONS PROGRAM SECTION VII--SYSTEM A

.....  
**P**

*Client:* \_\_\_\_\_

*Engagement Date:* \_\_\_\_\_

- MAJOR AUDIT AREAS:
1. Project Administration and Evaluation.
  2. Estimating and Bidding.
  3. Job-Site Accounting and Controls.

TRANSACTIONS CYCLE: Construction contract revenues and costs

	Error Rate					
Procedure	Tolerable	Actual	Done	Date	N/A	W/P Ref.

**SYSTEM A COMPLIANCE TESTS**  
Project Administration and Evaluation:

<p>1. Determine by inspection that progress schedules for equipment, personnel and materials are developed and approved by the owner or manager. Also determine that subcontractors have agreed to the schedules.</p>	_____	_____	_____	_____	_____	_____
<p>2. Determine by inquiry and observation that job foremen are familiar with engineering and work-method decisions and assumptions made in job estimating and bidding.</p>	_____	_____	_____	_____	_____	_____
<p>3. Inspect or observe the owner or manager's periodic evaluation of each contract in process to estimate profit or loss.</p>	_____	_____	_____	_____	_____	_____
<p>4. Determine by inspection, observation or inquiry that plans and specifications are double-checked by management, that ambiguous items are clarified and that changes are recommended where appropriate.</p>	_____	_____	_____	_____	_____	_____
<p>5. Select _____ representative progress, field and status reports and inspect evidence of owner or manager approval.</p>	_____	_____	_____	_____	_____	_____

**CONTRACTORS' TESTS OF TRANSACTIONS PROGRAMS**  
SECTION VII (Continued)

<u>Procedure</u>	<u>Error Rate</u>			<u>Date</u>	<u>N/A</u>	<u>W/P Ref.</u>
	<u>Tolerable</u>	<u>Actual</u>	<u>Done</u>			
6. Determine by inquiry or inspection that conferences with project engineers and architects are documented in writing.	_____	_____	_____	_____	_____	_____
7. Determine by inspection that the owner or manager reviews monthly schedules comparing costs to date plus estimated costs with total contract prices.	_____	_____	_____	_____	_____	_____
Estimating and Bidding:						
1. Select a sample of _____ contract estimates and perform the following:						
a. Inspect for initials evidencing:						
(1) Owner or manager approval.	_____	_____	_____	_____	_____	_____
(2) Double-checking of calculations.	_____	_____	_____	_____	_____	_____
(3) Estimates are double-checked against contract specifications, plans and drawings.	_____	_____	_____	_____	_____	_____
(4) Estimates are reviewed by management personnel for completeness and reasonableness.	_____	_____	_____	_____	_____	_____
b. Inspect evidence that estimates were obtained from more than one subcontractor for each phase of the work:						
(1) Determine that detailed estimates have been prepared for contract change orders.	_____	_____	_____	_____	_____	_____
2. Select a sample of _____ contracts in process and change orders, obtain all documentation and perform the following:						
a. Inspect the owner or manager approval of all contracts and change orders.	_____	_____	_____	_____	_____	_____

**CONTRACTORS' TESTS OF TRANSACTIONS PROGRAMS**  
SECTION VII (Continued)

<u>Procedure</u>	<u>Error Rate</u>					<u>W/P Ref.</u>
	<u>Tolerable</u>	<u>Actual</u>	<u>Done</u>	<u>Date</u>	<u>N/A</u>	
b. Determine by inquiry or inspection that contracts were approved after comparison to other bids to determine if amount was too low.	_____	_____	_____	_____	_____	_____
c. Inspect the subcontractors approval of change orders.	_____	_____	_____	_____	_____	_____
d. Determine that all items on the estimate summaries are either completed or lined out.	_____	_____	_____	_____	_____	_____
e. Determine that the estimates for change orders are double-checked and approved in writing by management.	_____	_____	_____	_____	_____	_____
f. Determine that subcontracts were awarded to the lowest bidder.	_____	_____	_____	_____	_____	_____
g. Determine that purchase orders for contract materials were issued to the lowest bidder.	_____	_____	_____	_____	_____	_____
h. Determine by inquiry or inspection that subcontractors included in estimates are reviewed for credit worthiness and high-quality.	_____	_____	_____	_____	_____	_____
i. Determine that performance bonds were obtained from subcontractors.	_____	_____	_____	_____	_____	_____
j. Review margins on bids to determine if high margins were used in areas where change orders were expected and low margins were used where change orders were not expected.	_____	_____	_____	_____	_____	_____
3. Inspect monthly analysis of all bidding activity for management approval.	_____	_____	_____	_____	_____	_____

**CONTRACTORS' TESTS OF TRANSACTIONS PROGRAMS**  
**SECTION VII (Continued)**

<u>Procedure</u>	<u>Error Rate</u>			<u>Date</u>	<u>N/A</u>	<u>W/P Ref.</u>
	<u>Tolerable</u>	<u>Actual</u>	<u>Done</u>			
Job-Site Accounting and Controls:						
1. Inspect evidence that the following documents at the job sit are accounted for periodically:						
a. Purchase orders.	_____	_____	_____	_____	_____	_____
b. Receiving reports.	_____	_____	_____	_____	_____	_____
2. Determine by inquiry if the owner or manager visits the job site periodically to verify reported progress.	_____	_____	_____	_____	_____	_____
3. Inspect evidence office and management personnel have reviewed the hiring and firing of job site personnel.	_____	_____	_____	_____	_____	_____
4. Determine by inspection hours reported on time records are approved by a job foreman or superintendent.	_____	_____	_____	_____	_____	_____
5. Determine by inquiry or observation job site payrolls are distributed by the job foremen or superintendents.	_____	_____	_____	_____	_____	_____
6. Make inquiry or observation to determine cash payroll distributions are periodically controlled by office or management personnel.	_____	_____	_____	_____	_____	_____
7. Determine by inspection or inquiry that tools and equipment at job sites are adequately safeguarded and accounted for periodically.	_____	_____	_____	_____	_____	_____
8. Determine by inspection or inquiry that an inventory of equipment at the job site is periodically compared to accounting records.	_____	_____	_____	_____	_____	_____
9. Inspect evidence or inquire non-chargeable equipment time is controlled and approved by the job foreman or superintendent.	_____	_____	_____	_____	_____	_____

**CONTRACTORS' TESTS OF TRANSACTIONS PROGRAMS**  
SECTION VII (Continued)

<u>Procedure</u>	<u>Error Rate</u>			<u>Date</u>	<u>N/A</u>	<u>W/P Ref.</u>
	<u>Tolerable</u>	<u>Actual</u>	<u>Done</u>			
10. Other procedures:						
_____						
_____						
_____						
_____						
<b>SYSTEM A SUBSTANTIVE TESTS*</b>						
Project Administration and Evaluation:						
1. Select _____ contract status reports for jobs in progress during the year and inspect for evidence of review by office and management personnel.						
Estimating and Bidding:						
1. Select _____ monthly reports comparing costs to date plus costs to complete with bid estimates and contract prices and perform the following:						
a. Determine that field status reports were used to prepare estimates of costs to complete.						
b. Determine that all change orders are included on the reports.						
c. Determine that all variances are explained and documented.						
d. Trace a sample of _____ accounts for costs to date to construction contract subledger.						
e. Trace a sample of _____ contracts' bid estimates to supporting summary and detailed estimates:						
(1) Determine that detailed estimates have been prepared for all contract change orders.						

**CONTRACTORS' TESTS OF TRANSACTIONS PROGRAMS**  
**SECTION VII (Continued)**

<u>Procedure</u>	<u>Error Rate</u>					<u>W/P Ref.</u>
	<u>Tolerable</u>	<u>Actual</u>	<u>Done</u>	<u>Date</u>	<u>N/A</u>	
(2) Determine that quantities of material and hours of labor on bid estimates have been reviewed and compared to contract specifications by someone other than preparer.	_____	_____	_____	_____	_____	_____
(3) Test the mathematical calculations on _____ detailed bid estimates and trace to summaries of bid estimates.	_____	_____	_____	_____	_____	_____
(4) Select a sample of _____ materials costs categories on detailed bid estimates and trace to supporting calculations and documentation. Evaluate the reasonableness of these costs.	_____	_____	_____	_____	_____	_____
(5) Select a sample of _____ labor costs categories on detailed bid estimates and compare to calculations, union contracts or other supporting documentation. Evaluate the reasonableness of these costs.	_____	_____	_____	_____	_____	_____
(6) Select a sample of _____ equipment costs categories on detailed bid schedules and compare calculations to rental rates or rates charged for owned equipment. Evaluate the reasonableness of these costs.	_____	_____	_____	_____	_____	_____
<b>Job-Site Accounting and Controls:</b>						
1. Obtain job site records for equipment usage, select a sample of _____ time charges, trace to job billing records and postings in construction contract cost subledger.	_____	_____	_____	_____	_____	_____







# CONTRACTORS' TESTS OF TRANSACTIONS PROGRAM SECTION VII--SYSTEM B

P

*Client:* \_\_\_\_\_

*Engagement Date:* \_\_\_\_\_

- MAJOR AUDIT AREAS:
1. Project Administration and Evaluation.
  2. Estimating and Bidding.
  3. Job-Site Accounting and Controls

TRANSACTION CYCLE: Construction contract revenues and costs

	Error Rate						
Procedure	Tolerable	Actual	Done	Date	N/A	W/P	Ref.

**SYSTEM B SUBSTANTIVE TESTS\***

Project Administration and Evaluation:

1. Select \_\_\_\_\_ contract status reports for jobs in progress during the year and inspect for evidence of review by office and management personnel.
 

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

Estimating and Bidding:

1. Select \_\_\_\_\_ monthly reports comparing costs to date plus costs to complete with bid estimates and contract prices and perform the following:
  - a. Determine that field status reports were used to prepare estimates of costs to complete.
 

_____	_____	_____	_____	_____	_____
-------	-------	-------	-------	-------	-------
  - b. Determine that all change orders are included on the reports.
 

_____	_____	_____	_____	_____	_____
-------	-------	-------	-------	-------	-------
  - c. Determine that all variances are explained and documented.
 

_____	_____	_____	_____	_____	_____
-------	-------	-------	-------	-------	-------
  - d. Trace a sample of \_\_\_\_\_ accounts for costs to date to construction contract subledger.
 

_____	_____	_____	_____	_____	_____
-------	-------	-------	-------	-------	-------
  - e. Trace a sample of \_\_\_\_\_ contracts' bid estimates to supporting summary and detailed estimates:

**CONTRACTORS' TESTS OF TRANSACTIONS PROGRAMS**  
**SECTION VII (Continued)**

<u>Procedure</u>	<u>Error Rate</u>					<u>W/P Ref.</u>
	<u>Tolerable</u>	<u>Actual</u>	<u>Done</u>	<u>Date</u>	<u>N/A</u>	
(1) Determine that detailed estimates have been prepared for all contract change orders.	_____	_____	_____	_____	_____	_____
(2) Determine that quantities of material and hours of labor on bid estimates have been reviewed and compared to contract specifications by someone other than preparer.	_____	_____	_____	_____	_____	_____
(3) Test the mathematical calculations on _____ detailed bid estimates and trace to summaries of bid estimates.	_____	_____	_____	_____	_____	_____
(4) Select a sample of _____ materials costs categories on detailed bid estimates and trace to supporting calculations and documentation. Evaluate the reasonableness of these costs.	_____	_____	_____	_____	_____	_____
(5) Select a sample of _____ labor costs categories on detailed bid estimates and compare to calculations, union contracts or other supporting documentation. Evaluate the reasonableness of these costs.	_____	_____	_____	_____	_____	_____
(6) Select a sample of _____ equipment costs categories on detailed bid schedules and compare calculations to rental rates or rates charged for owned equipment. Evaluate the reasonableness of these costs.	_____	_____	_____	_____	_____	_____

**CONTRACTORS' TESTS OF TRANSACTIONS PROGRAMS**  
SECTION VII (Continued)

<u>Procedure</u>	<u>Error Rate</u>				<u>N/A</u>	<u>W/P Ref.</u>
	<u>Tolerable</u>	<u>Actual</u>	<u>Done</u>	<u>Date</u>		
Job-Site Accounting and Controls:						
1. Obtain job site records for equipment usage, select a sample of _____ time charges, trace to job billing records and postings in construction contract cost subledger.	_____	_____	_____	_____	_____	_____
2. Other procedures:	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____

\* Sample sizes may be selected judgmentally or may be based on the Tests of Transactions Nonstatistical Sample Size Selection Table when applicable.

Modification of APs and TOBs (cross-reference related TOT step above) and reasons therefor:

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Prepared by: \_\_\_\_\_ Date \_\_\_\_\_  
(In-Charge)

Reviewed by: \_\_\_\_\_ Date \_\_\_\_\_  
(Executive)





## **MATERIALITY COMPUTATION SCHEDULE AND SUMMARY OF POSSIBLE JOURNAL ENTRIES FORM**

### **PURPOSE**

This form and schedule comprise the framework for effective and efficient error analysis on audit engagements. The MATERIALITY COMPUTATION SCHEDULE includes the computation of the overall materiality limit, the lower limit for individually significant items and the basic allowance for unknown error in nonstatistical sampling applications supported by probability-proportional-to-size statistical theory.

The SUMMARY OF POSSIBLE JOURNAL ENTRIES FORM provides documentation for known but unadjusted, projected and estimated errors resulting from auditing procedures. The form is the framework for analyzing the causes of errors and, at the conclusion of the engagement, for assessing whether the financial statements contain acceptable amounts of known and unknown error.

### **PROFESSIONAL STANDARDS**

SAS No. 47, Audit Risk and Materiality in Conducting an Audit, requires a level of materiality to be established during planning. At the conclusion of the engagement, the pronouncement requires a comparison of the total known but unadjusted, projected and estimated errors from the current year, and the prior year, with the overall materiality limit.

### **USING THE FORM AND SCHEDULE**

The MATERIALITY COMPUTATION SCHEDULE should be completed by the in-charge accountant during planning and approved by the engagement executive before fieldwork is started. Passed adjustments, projected and estimated errors should be recorded on the SUMMARY OF POSSIBLE JOURNAL ENTRIES FORM during the engagement. The in-charge accountant should analyze the causes of major errors, and evaluate the acceptability of the level of errors in the financial statements during engagement completion.

Detailed instructions on how to use the form and schedule are attached to, or described on, the documents.





# MATERIALITY COMPUTATION SCHEDULE

S

*Client:* \_\_\_\_\_

*Engagement Date:* \_\_\_\_\_

## I. Overall Materiality Limit Computation:

Approximate balances at or near engagement date:

A. Earnings before income taxes \$ \_\_\_\_\_ x 10% = (Leave blank if earnings are unusually small in amount or in relation to net revenues. Use a three or four year average if annual fluctuations are significant.)

B. Net revenues \$ \_\_\_\_\_ (1) x 1% = \_\_\_\_\_

C. Total assets \$ \_\_\_\_\_ (1) x 1% = \_\_\_\_\_

Overall Materiality Limit-enter above the earnings before taxes column on the SUMMARY OF POSSIBLE JOURNAL ENTRIES FORM.

\$ \_\_\_\_\_

(1) When amounts exceed \$10,000,000, consider reducing percentage to .5%.

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

---

---

---

---

---

---

---

---

(Note--the overall materiality limit is normally the larger of the computations above. For asset dependent businesses such as financial institutions and some construction contractors, the total assets computation or an average of all computations may provide a more appropriate overall materiality limit. For service businesses, net revenues will usually be the appropriate base.

## II. Basic Allowance for Unknown Error Computation:

For nonstatistical sampling applications supported by PPS theory, the basic allowance can be used in place of tolerable error amount. If used in the model approach, it should also be considered when comparing total actual, projected and estimated error to the overall materiality limit on the SUMMARY OF POSSIBLE JOURNAL ENTRIES FORM.

Overall materiality limit from above \$ \_\_\_\_\_

Estimated known error from sampling and nonsampling tests         x 50%        

Basic allowance for unknown error \$                     

**III. Individually Significant Items - Computation of Lower Limit:**

The lower limit for individually significant items will usually range from 1/3 to 1/2 of the overall materiality limit. When overall engagement risk or risk of potential errors is high, use 1/3. When such risks are low, use 1/2. Individually significant items may also be determined judgmentally for each sampling application. The rationale for such judgmentally determined limits should be explained at the bottom of the page.

Lower limit for individually significant items \$                     

Rationale for lower limit:

---

---

---

---

---

---

---

---

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

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

---

---

---

---

---

---

---

---

## SUMMARY OF POSSIBLE JOURNAL ENTRIES FORM

### PURPOSES OF FORM

This form is designed to accomplish the following purposes:

1. To comply with the materiality and error evaluation guidelines in SAS No. 47, Audit Risk and Materiality in Conducting an Audit by enabling users to perform effective error analysis.
2. To evaluate the results of tests of balances sampling applications as required by SAS No. 39, Audit Sampling.
3. To save time on engagements by:
  - a. Limiting the number of adjusting journal entries that will be proposed and made.
  - b. Assigning the responsibility for error analysis to the in-charge accountant so that the aggregate of all errors can be considered in relation to the financial statements taken as a whole.

### INSTRUCTIONS

#### Preparation of Form

This form should be prepared for all audit engagements and, at the engagement executive's option, for review and full-disclosure compilation engagements. It should be prepared by the in-charge accountant during planning and finalized during engagement completion. It should be reviewed by the engagement executive and by the engagement partner.

The overall materiality limit should be obtained from the MATERIALITY COMPUTATION SCHEDULE for comparison with the earnings effects of errors. The maximum limit for possible journal entries should normally be the lower limit for individually significant items which also should be obtained from the MATERIALITY COMPUTATION SCHEDULE. Special circumstances, such as the effect of an error on a financial statement line item or the effect of an error on a debt covenant, may require proposing adjustments that are less than the maximum limit for possible journal entries on this form.

The minimum limit for possible journal entries should be assigned judgmentally. In setting the minimum limit, the in-charge should determine an amount that will permit "paper passing" a maximum number of possible adjustments without causing a material aggregate effect on the financial statements.

At the executive's option, materiality limits may be judgmentally assigned at the top of the form to major financial statements' classifications. This assignment is not an allocation of tolerable error and normally will be used only to measure the effects of passed adjustments on such classifications.

This form may be used to summarize supporting working papers prepared in two ways:

1. All known but unadjusted errors, projected errors from sampling applications and estimated errors from predictive analytical procedures and tests of accounting estimates are recorded on supporting working papers before any adjustments are proposed. Adjustments are proposed only after considering the aggregate effects of all errors.
2. Adjusting journal entries are proposed for amounts greater than the maximum limit for possible journal entries. The smaller the maximum limit, the fewer known and unadjusted errors on this form. In fact, if the minimum for possible journal entries is zero, all possible adjustments would be recorded. The supporting working papers should still include, however, projected errors from sampling applications and estimated errors from our predictive analytical procedures and tests of client's accounting estimates. If there are no projected or estimated errors, a statement to that effect should be made on the form.

### Error Analysis

Error analysis consists of considering the amount of the error (known error) and the condition it may represent (unknown error). Consideration of the amount of the error occurs when we decide to propose or pass an adjustment. We consider unknown error, or sampling risk, when we compare the total earnings effect of errors with the overall materiality limit.

For purposes of this error analysis, known and unknown error are considered to each represent 50% of the overall materiality limit. When the total amount of known errors on this form (known, but unadjusted, projected and estimated errors) exceeds 50% of the overall materiality limit, corrective action is required.

Corrective actions should first consist of analyzing the causes of significant projected and estimated errors. Any known errors resulting from this analysis should be proposed as adjustments. The amounts of the projected or estimated errors should then be recomputed. Other corrective actions may consist of proposing known errors for adjustment or expanding our procedures in the engagement areas affected by the errors.

**SUMMARY OF POSSIBLE JOURNAL ENTRIES FORM**

**F**

*Client:* \_\_\_\_\_

*Engagement Date:* \_\_\_\_\_

Overall Materiality Limits: \$ \_\_\_\_\_  
 Minimum Limit for PJE: \$ \_\_\_\_\_  
 Maximum Limit for PJE: \$ \_\_\_\_\_

	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____
<u>W/P Ref.</u>	<u>Current Assets</u>	<u>Current Liabilities</u>	<u>Other Assets</u>	<u>Other Liabilities</u>	<u>Stockholders' Equity</u>	<u>Revenues</u>	<u>Costs &amp; Expenses</u>	<u>Earnings Before Taxes</u>	<u>Other</u>

Prior year's errors aggregate effect on current earnings

Known, but unadjusted errors-Total from supporting working papers

Estimated errors-Total from supporting working papers

Projected errors-Total from supporting working papers

Adjustments made

Total unadjusted and projected errors

Errors as percentage of overall materiality limit

Prepared by: \_\_\_\_\_ Date \_\_\_\_\_  
 (In-Charge)

Reviewed by: \_\_\_\_\_ Date \_\_\_\_\_  
 (Executive)

\_\_\_\_\_ Date \_\_\_\_\_  
 (Partner)



## SAMPLING DOCUMENTATION

### PURPOSE

#### Sampling Decisions Working Paper

This working paper is designed to facilitate and document the decision to sample or not to sample. Sufficient, competent evidence may be obtained in some financial statement classifications by examining individually significant items that comprise a significant majority of the amounts of such classifications. In such circumstances, the sampling population may not be material and sampling may not be necessary to obtain a representative sample.

#### The Model Approach Working Paper

The model approach is a nonstatistical sampling method that is supported by probability-proportional-to-size statistical theory. Because it provides a framework for determining sample size by correlating influencing factors, and because it enables staff to efficiently correlate and document such factors, it is often the most efficient method for nonstatistical sampling applications for tests of balances.

#### The Error Projection Schedule

This schedule may be used to project the error results of sampling applications to the sampling population. Projected errors from sampling applications should be recorded on the SUMMARY OF POSSIBLE JOURNAL ENTRIES FORM.

### PROFESSIONAL STANDARDS

The requirements for statistical and nonstatistical sampling are included in SAS No. 39, Audit Sampling, and the AICPA's Audit Sampling Guide. Among other things, these pronouncements require decisions to sample or not to sample to be made and documented and, if sampling is performed, they require the factors influencing sample sizes to be correlated with the supporting rationale documented in the working papers. Errors discovered during sampling applications must also be projected to the sampling populations and recorded on the SUMMARY OF POSSIBLE JOURNAL ENTRIES FORM.

### USING THE SAMPLING DOCUMENTATION

Using the sampling documentation requires an awareness of when sampling is necessary and an understanding of the professional standards. A brief summary of some of the terminology and requirements of the professional standards follows.

#### Nonstatistical (Judgmental) Sampling in Substantive Tests of Balances

Nonstatistical (judgmental) sampling will normally be used on smaller construction contractor audits unless otherwise approved by the engagement executive. When planning a sampling application for the tests of balances, the in-charge should consider the financial statement assertions and audit objectives and their relationship to populations selected. For example, we cannot detect understatements by sampling recorded amounts but, instead, must select units to verify completeness from populations of all existing transactions. The



populations, and the appropriate sampling units, are described in the standard CONTRACTORS' TESTS OF BALANCES AUDIT PROGRAM.

An Approach to Nonstatistical Sampling in Tests of Balances:

1. Identify individually significant items.
2. Determine the sample size:
  - a. Consider variations within the population.
  - b. Consider the risk of incorrect acceptance.
  - c. Consider tolerable error amount.
  - d. Consider population size.
  - e. Consider expected error amount.
  - f. Consider planned reliance.
3. Select the sample.
4. Evaluate the sample results:
  - a. Project the error.
  - b. Consider sampling risk.
  - c. Consider qualitative aspects of test results.

Individually significant items are not subjected to sampling applications. Items such as large contract receivables should be examined individually. Procedures used for examining such items should ordinarily be the most reliable under the circumstances, e.g., positive confirmation requests. Individually significant items will normally comprise a substantial portion of the populations examined on small construction contractor audits.

Sample selection methods should produce representative samples and may include random selection, systematic selection with or without random starts or haphazard selection methods. Care should be taken to avoid bias, however, when a haphazard selection method is used. The method of selection and, if it is not apparent, how bias was avoided should be documented in the working papers.

Sample size selections for substantive tests of balances are affected by the following:

Variations within the population:

Sample sizes are generally smaller when the sampling population is stratified into homogeneous groups. Large sample sizes are usually required to obtain a representative sample from populations with significant variations. Common bases for stratification include the recorded amounts of items, the internal controls related to processing the transaction originating a class of balances or the risk of potential errors related to a class of transactions or balances.

Risk of incorrect acceptance:

In assessing an acceptable level of risk of incorrect acceptance, we should primarily consider the level of overall engagement risk. High overall engagement risk, for example, will require a low acceptable risk of incorrect acceptance. The risks of potential errors and the planned reliance on the substantive tests of balances may also affect the acceptable level of risk of incorrect acceptance.

Planned reliance on procedures:

High reliance on tests of balances will require larger sample sizes. Lower reliance on tests of balances will permit smaller sample sizes.

Tolerable errors amount:

As the amount of tolerable errors increases at a given level of incorrect acceptance, sample size decreases. Conversely, larger sample sizes are required to compensate for smaller amounts of tolerable errors.

Expected amount of errors:

As the expected amount of errors approaches the tolerable error, more precise information is needed from the sample and, therefore, the sample size should be larger.

Population size:

The population size has little effect unless it is unusually small, say, less than 500 units. In such cases, a computed sample size may be judgmentally reduced.

The following table illustrates the impact of the factors above on sample size planning.

**FACTORS INFLUENCING SAMPLE SIZES FOR A  
SUBSTANTIVE TEST OF BALANCES**

Factor	Conditions Leading to		Related Factor for Substantive Sample Planning
	Smaller Sample Size	Larger Sample Size	
a. Reliance on tests of controls.	Greater Reliance.	Lesser Reliance.	Allowable risk of incorrect acceptance.
b. Reliance on other substantive tests of balances related to same account balances or class of transactions (including analytical procedures).	Substantial reliance placed on other relevant substantive tests.	Little or no reliance on other relevant substantive tests.	Allowable risk of incorrect acceptance.
c. Measure of tolerable error for a specific account.	Larger measure of tolerable error.	Smaller measure of tolerable error.	Tolerable error.

- |    |                                |   |                                    |   |
|----|--------------------------------|---|------------------------------------|---|
| d. | Expected amounts of errors.    | Smaller errors or lower frequency.                                  | Larger errors or higher frequency. | Assessment of population characteristics. |
| e. | Number of items in population. | Virtually no effect on sample size unless population is very small. |                                    |   |

The Model Approach

Described on pages 59 and 60 of the AICPA Audit and Accounting Guide, Audit Sampling the model looks like this:

$$\frac{\text{Sampling Population}}{\text{Tolerable Error Amount}} \times \text{Assurance Factor} = \text{Sample Size}$$

(Basic Allowance for Unknown Error)

The computation of the basic allowance for unknown error is included on the MATERIALITY COMPUTATION SCHEDULE. The computed amount can be used for all nonstatistical sampling applications supported by PPS theory.

The assurance factors, also based on PPS statistical theory, from the AICPA Guide on Audit Sampling are as follows:

Level of Assurance (Complement of Risk of Incorrect Acceptance)	Assurance Factors	
	Little or no Error Expected	Some Error is Expected
High	3	6
Moderate	2.3	4
Low	1.5	3

Depending on the amount of the basic allowance for unknown error, sample sizes computed with this model may approximate those sizes selected judgmentally. Since the model is based on a highly stratified approach, and this approach will include minimal or no stratification, the sample should be somewhat larger than the computed amount when stratification is necessary. A factor ranging from 1.2 to 1.5 should be used to compensate for the lack of stratification and high overall engagement risk. The 20% increase is to compensate for the lack of stratification when stratification is necessary; the 30% increase is applicable when overall engagement risk is high (as for most construction contractors). A factor of 1.5 would be used, therefore, if overall engagement risk was high and the sampling population should have been stratified but wasn't.

**SAMPLING DECISION WORKING PAPER**  
**TESTS OF BALANCES (5)**

.....  
**F**

*Client:* \_\_\_\_\_  
*Engagement Date:* \_\_\_\_\_

	Amount of Recorded Population	Amount of Individually Sig. Items	Sampling Population	Is Sampling Population Material?(1)	Sampling Required? Required?	Plan to Stratify?(2)	Strata Criteria	Method of Sample Selection	Method of Sample Determining Sample Size(4)
<u>Potential Sampling Applications</u>									
Accounts receivable confirmations									
Inventory test counts									
Inventory price tests									
Inventory clerical tests: Extensions Footings									
Fixed assets vouching									
Accounts payable - tests of subsequent disbursements									
Expense accounts vouching: (List material accounts)									
Cutoff tests: Sales									
Purchases									
Other									

**Notes:**

- (1) Overall materiality, planned reliance and the extent of testing of all other financial statement classifications should be considered.
- (2) A larger sample will be necessary if we don't stratify.
- (3) Random, systematic or haphazard method are acceptable.
- (4) Judgmental, with memo documentation (J) or Model Approach (MA).
- (5) Working paper is to be prepared on all audit engagements.



# MODEL APPROACH WORKING PAPER TESTS OF BALANCES SAMPLING (1)

P

*Client:* \_\_\_\_\_

*Engagement Date:* \_\_\_\_\_

Description of Sampling Application:

\_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

Total recorded population for \_\_\_\_\_ \$ \_\_\_\_\_

Less amount of individually significant items - Describe  
 criteria for selecting individually significant items:

\_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_ (\_\_\_\_\_)

Sampling Population \$ \_\_\_\_\_

Sampling Model:

Sampling Population \$ \_\_\_\_\_ x Assurance factor of \_\_\_\_\_ =  
 Basic allowance for unknown error (2) \$ \_\_\_\_\_

Initial Sample Size of \_\_\_\_\_

Marginal Risk Factors:

1. If there are variations in the population, and you do not stratify, multiply the initial sample size by 1.2.
2. If overall engagement risk is high, multiply the initial sample size by 1.3.
3. If there are variations in the population and you do not stratify, and if overall engagement risk is high, multiply the initial sample size by 1.5.

x \_\_\_\_\_

Adjusted Sample Size \$ \_\_\_\_\_

Notes:

- (1) The model approach generally will not be used for populations containing less than 500 units or large populations of small-dollar units.
- (2) Amount should be one-half of overall materiality limit or determined by actual computation. The same amount will be used for all sampling applications.



# ERROR PROJECTION SCHEDULE--TESTS OF BALANCES SAMPLING

S

*Client:* \_\_\_\_\_

*Engagement Date:* \_\_\_\_\_

Description of Sampling Application:

\_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

Computation of Sample Error (select one method):

Ratio method:

Dollar amount of errors in sample      \$ \_\_\_\_\_      \_\_\_\_\_ % Error Rate

----- =

Dollar amount of sample      \$ \_\_\_\_\_

Average error per unit method (1):

Dollar amount of errors in sample      \$ \_\_\_\_\_      \_\_\_\_\_ Average Error  
Per Unit

----- =

Number of units in sample      \_\_\_\_\_

Error Projection Computation:

Ratio method:

Dollar amount of sampling population	\$	
Error rate	x	
Projected error (2)	\$	

Average error per unit method:

Number of units in sampling population		
Average error per unit	x	
Projected error (2)		

- (1) This method should be used primarily when the sampling population is stratified and when errors are relatively homogeneous in size. The ratio method should be used in other cases.
- (2) Post to SUMMARY OF POSSIBLE JOURNAL ENTRIES FORM if above minimum limit for entries.







# CONTRACTORS' ANALYTICAL PROCEDURES PROGRAM

P

*Client:* \_\_\_\_\_

*Engagement Date:* \_\_\_\_\_

## USE OF PROGRAM:

To provide maximum services to clients, and to perform quality, efficient engagements, analytical procedures should be used to the maximum extent practical on construction contractor audit engagements, regardless of the internal control structure evaluation.

Analytical procedures should be used for the early identification of problems and errors. If the client's records are adjusted prior to beginning year-end fieldwork, analytical procedures should be completed before beginning other tests of balances. Satisfactory completion of the analytical procedures may allow further time savings by modifying the nature and extent of other tests of balances.

If the client's records aren't adjusted prior to beginning the fieldwork, analytical procedures should be completed as soon as adjustments are finalized. The analytical procedures, in these cases, can corroborate the results of other tests of balances.

## INSTRUCTIONS:

The standard analytical procedures program should be modified by the in-charge accountant and approved by the engagement executive before its use on each engagement. The "N/A" column should be initialed for any steps not applicable. The "N/A" column can also be marked "N/R" for steps not required because of immateriality or other reasons.

The engagement executive and partner should review the program during planning and related documentation upon its completion.

Analytical procedures should be documented on appropriate analytical procedures working papers. Variances resulting from highly effective analytical procedures should be included on the SUMMARY OF POSSIBLE JOURNAL ENTRIES FORM for consideration during error analysis.



**CONTRACTORS' ANALYTICAL PROCEDURES PROGRAM**

<u>Procedures</u>	<u>Done</u>	<u>Date</u>	<u>N/A</u>	<u>W/P Ref.</u>	<u>Acceptable Results? (Yes or No)</u>	<u>Follow-up Procedures W/P Ref.</u>	<u>Follow-up Procedures Acceptable? (Yes or No)</u>	<u>Modification of TOBs for "No" Answers</u>
<b>I. GENERAL PLANNING:</b>								
1. a. Perform analytical procedures during planning. For clients with unadjusted trial balances at the engagement date, at a minimum, use interim information or the unadjusted trial balance for comparison to the prior year to identify risks of potential errors. Investigate and document such risks on working papers applicable to the affected accounts.	_____	_____	_____	_____	_____	_____	_____	_____
b. Review audit areas and determine opportunities for applying highly effective analytical procedures to verify applicable financial statement assertions.	_____	_____	_____	_____	_____	_____	_____	_____
c. Describe the predictive analytical procedures, e.g., quantity reconciliations and reasonableness tests, and the reductions or eliminations of related tests of balances.	_____	_____	_____	_____	_____	_____	_____	_____
d. Describe corroborating analytical procedures that can be performed at low levels of detail (by product line, division, class of transaction, etc.) and related reductions in tests of balances.	_____	_____	_____	_____	_____	_____	_____	_____
2. Make TOB program modifications to reflect high reliance on effective analytical procedures.	_____	_____	_____	_____	_____	_____	_____	_____
3. Compute the following ratios and compare with preceding years:	_____	_____	_____	_____	_____	_____	_____	_____

**CONTRACTORS' ANALYTICAL PROCEDURES PROGRAM (Continued)**

<u>Procedures</u>	<u>Done</u>	<u>Date</u>	<u>N/A</u>	<u>W/P Ref.</u>	<u>Acceptable Results? (Yes or No)</u>	<u>Follow-up Procedures W/P Ref.</u>	<u>Follow-up Procedures Acceptable? (Yes or No)</u>	<u>Modification of TOBs for "No" Answers</u>
a. Net earnings as a percentage of net fixed assets invested at beginning of the period (if fixed assets are significant).	_____	_____	_____	_____	_____	_____	_____	_____
b. Net earnings as a percentage of stockholders' equity at beginning of the period.	_____	_____	_____	_____	_____	_____	_____	_____
c. Net earnings as a percentage of long-term debt and stockholders' equity at beginning of the period.	_____	_____	_____	_____	_____	_____	_____	_____
d. Net earnings as a percent of revenues.	_____	_____	_____	_____	_____	_____	_____	_____
e. Current ratio.	_____	_____	_____	_____	_____	_____	_____	_____
<b>II. CASH:</b>								
1. Compare absolute balances with preceding year. Investigate significant changes.	_____	_____	_____	_____	_____	_____	_____	_____
2. Investigate accounts opened or closed during the year.	_____	_____	_____	_____	_____	_____	_____	_____
3. Investigate credit balances to determine if they represent actual bank overdrafts.	_____	_____	_____	_____	_____	_____	_____	_____
4. Compute quick current ratios (cash and net receivables) and compare with preceding years.	_____	_____	_____	_____	_____	_____	_____	_____
<b>III. ACCOUNTS RECEIVABLE, CONTRACTS RECEIVABLE AND REVENUES:</b>								
1. Compare absolute balances of accounts receivable, contracts receivable and revenues with preceding year. Investigate significant changes.	_____	_____	_____	_____	_____	_____	_____	_____
2. Investigate large and/or unusual balances classified as other accounts receivable.	_____	_____	_____	_____	_____	_____	_____	_____

**CONTRACTORS' ANALYTICAL PROCEDURES PROGRAM (Continued)**

<u>Procedures</u>	<u>Done</u>	<u>Date</u>	<u>N/A</u>	<u>W/P Ref.</u>	<u>Acceptable Results? (Yes or No)</u>	<u>Follow-up Procedures W/P Ref.</u>	<u>Follow-up Procedures Acceptable? (Yes or No)</u>	<u>Modification of TOBs for "No" Answers</u>
3. Compute the following ratios:								
a. Number of days net revenues in trade accounts and contracts receivable.	_____	_____	_____	_____	_____	_____	_____	_____
b. Year-end trade and contract accounts receivable as a percent of gross revenues.	_____	_____	_____	_____	_____	_____	_____	_____
<b>IV. ALLOWANCE FOR DOUBTFUL ACCOUNTS:</b>								
1. Compare absolute balance in allowance for doubtful accounts and bad debts with the preceding year. Investigate significant changes.	_____	_____	_____	_____	_____	_____	_____	_____
2. Compute the following ratios:								
a. Bad debts expense as a percentage of gross revenues.	_____	_____	_____	_____	_____	_____	_____	_____
b. Allowance for doubtful accounts as a percentage of trade accounts and contracts receivable.	_____	_____	_____	_____	_____	_____	_____	_____
c. Aging categories as a percentage of total accounts and contracts receivable compared to prior years.	_____	_____	_____	_____	_____	_____	_____	_____
<b>V. NOTES AND OTHER ACCOUNTS RECEIVABLE:</b>								
1. Compare absolute balances in notes receivable and interest income with the preceding year. Investigate significant changes.	_____	_____	_____	_____	_____	_____	_____	_____
2. Compute the ratio of interest earned to the average notes receivable outstanding.	_____	_____	_____	_____	_____	_____	_____	_____
<b>VI. INVENTORIES:</b>								
1. Compare absolute balances of inventory and costs of contract revenues classifications with the preceding year.	_____	_____	_____	_____	_____	_____	_____	_____

**CONTRACTORS' ANALYTICAL PROCEDURES PROGRAM (Continued)**

<u>Procedures</u>	<u>Done</u>	<u>Date</u>	<u>N/A</u>	<u>W/P Ref.</u>	<u>Acceptable Results? (Yes or No)</u>	<u>Follow-up Procedures W/P Ref.</u>	<u>Follow-up Procedures Acceptable? (Yes or No)</u>	<u>Modification of TOBs for "No" Answers</u>
2. Compare inventory classifications as a percentage of total inventory with preceding year.	_____	_____	_____	_____	_____	_____	_____	_____
3. Compute gross margin and compare with preceding years.	_____	_____	_____	_____	_____	_____	_____	_____
4. Compute inventory turnover and compare with preceding years.	_____	_____	_____	_____	_____	_____	_____	_____
<b>VII. MARKETABLE SECURITIES:</b>								
1. Compare absolute balances in marketable securities and related revenue and expense accounts with the preceding year. Investigate significant changes.	_____	_____	_____	_____	_____	_____	_____	_____
2. Compute rate of return on major classes of marketable securities and compare with preceding years.	_____	_____	_____	_____	_____	_____	_____	_____
<b>VIII. PREPAID EXPENSES:</b>								
1. Compare absolute balances in prepaid expense accounts with preceding year. Investigate significant changes.	_____	_____	_____	_____	_____	_____	_____	_____
<b>IX. FIXED ASSETS:</b>								
1. Compare absolute balances in fixed assets, capitalized leased assets, accumulated depreciation, accumulated amortization, depreciation, repairs and maintenance, rents, supplies, small tools and similar expense accounts with preceding year. Investigate significant changes.	_____	_____	_____	_____	_____	_____	_____	_____
2. Compute the following ratios:								
a. Depreciation expense by major fixed asset category as a percentage of cost by major fixed asset category.	_____	_____	_____	_____	_____	_____	_____	_____



**CONTRACTORS' ANALYTICAL PROCEDURES PROGRAM (Continued)**

<u>Procedures</u>	<u>Done</u>	<u>Date</u>	<u>N/A</u>	<u>W/P Ref.</u>	<u>Acceptable Results? (Yes or No)</u>	<u>Follow-up Procedures W/P Ref.</u>	<u>Follow-up Procedures Acceptable? (Yes or No)</u>	<u>Modification of TOBs for "No" Answers</u>
b. Accumulated depreciation by major fixed asset category as a percentage of cost by major fixed asset category.	_____	_____	_____	_____	_____	_____	_____	_____
<b>X. DEFERRED CHARGES AND INTANGIBLES:</b>								
1. Compare absolute balances in deferred charges, intangibles, accumulated amortization, and research and development accounts with the preceding year. Investigate significant changes.	_____	_____	_____	_____	_____	_____	_____	_____
<b>XI. ACCOUNTS PAYABLE AND PURCHASES:</b>								
1. Compare absolute balances in trade accounts payable, subcontractor payables and purchases with the preceding year. Investigate significant changes.	_____	_____	_____	_____	_____	_____	_____	_____
<b>XII. OTHER CURRENT LIABILITIES:</b>								
1. Compare absolute balances in other liability accounts to the preceding year. Investigate significant changes.	_____	_____	_____	_____	_____	_____	_____	_____
2. Investigate large and/or unusual balances classified as other current liabilities.	_____	_____	_____	_____	_____	_____	_____	_____
<b>XIII. NOTES PAYABLE AND LONG-TERM DEBT:</b>								
1. Compare absolute balances in long-term debt and interest expense with preceding year. Investigate significant changes.	_____	_____	_____	_____	_____	_____	_____	_____
2. Compute the following ratios and compare to preceding years:								
a. Long-term debt to stockholders' equity.	_____	_____	_____	_____	_____	_____	_____	_____
b. Interest expense as a percentage of:								
(1) Net revenues.	_____	_____	_____	_____	_____	_____	_____	_____

**CONTRACTORS' ANALYTICAL PROCEDURES PROGRAM (Continued)**

<u>Procedures</u>	<u>Done</u>	<u>Date</u>	<u>N/A</u>	<u>W/P Ref.</u>	<u>Acceptable Results? (Yes or No)</u>	<u>Follow-up Procedures W/P Ref.</u>	<u>Follow-up Procedures Acceptable? (Yes or No)</u>	<u>Modification of TOBs for "No" Answers</u>
(2) Average balance of notes payable and long-term debt outstanding.	_____	_____	_____	_____	_____	_____	_____	_____
<b>XIV. STOCKHOLDERS' EQUITY:</b>								
1. Compare absolute balances in stockholders' equity accounts with the preceding year. Investigate significant changes.	_____	_____	_____	_____	_____	_____	_____	_____
<b>XV. SALARIES, WAGES AND COMMISSIONS:</b>								
1. Compare absolute balances with the preceding year. Investigate significant changes.	_____	_____	_____	_____	_____	_____	_____	_____
2. Compute the following as a percentage of net revenues:								
a. Direct labor.	_____	_____	_____	_____	_____	_____	_____	_____
b. Indirect labor.	_____	_____	_____	_____	_____	_____	_____	_____
c. Commissions.	_____	_____	_____	_____	_____	_____	_____	_____
d. Office salaries.	_____	_____	_____	_____	_____	_____	_____	_____
3. Compute payroll tax expense as a percentage of total of wages, salaries and commissions.	_____	_____	_____	_____	_____	_____	_____	_____
<b>XVI. CONTRACT COSTS AND EXPENSE ACCOUNTS:</b>								
1. Compare absolute balances in expense accounts with the preceding year. Investigate significant changes.	_____	_____	_____	_____	_____	_____	_____	_____
2. Compare individual expense accounts with budgeted amounts. Investigate significant changes.	_____	_____	_____	_____	_____	_____	_____	_____
3. Compare individual cost or expense accounts as a percentage of total expenses in the following categories:								

**CONTRACTORS' ANALYTICAL PROCEDURES PROGRAM (Continued)**

<u>Procedures</u>	<u>Done</u>	<u>Date</u>	<u>N/A</u>	<u>W/P Ref.</u>	<u>Acceptable Results? (Yes or No)</u>	<u>Follow-up Procedures W/P Ref.</u>	<u>Follow-up Procedures Acceptable? (Yes or No)</u>	<u>Modification of TOBs for "No" Answers</u>
a. Estimating and bidding expenses.	_____	_____	_____	_____	_____	_____	_____	_____
b. Construction contract costs.	_____	_____	_____	_____	_____	_____	_____	_____
c. General and administrative expenses.	_____	_____	_____	_____	_____	_____	_____	_____
4. Compute gross margin on completed contracts and compare with original bid estimates.	_____	_____	_____	_____	_____	_____	_____	_____
5. Compare costs to date as a percent of total estimated costs on uncompleted contracts with engineers or superintendents estimates, status reports or other corroborating evidence of percent complete.	_____	_____	_____	_____	_____	_____	_____	_____

Prepared by: \_\_\_\_\_ Date \_\_\_\_\_  
 (In-Charge)

Reviewed by: \_\_\_\_\_ Date \_\_\_\_\_  
 (Engagement Executive)



## CONTRACTORS' TESTS OF BALANCES PROGRAM

### PURPOSE

This program has been designed to provide substantive evidence, when combined with evidence from the analytical procedures and tests of transactions or system's walk-through procedures, that is sufficient to verify the financial statement assertions in a given client's circumstances. The program contains worst-case, all-inclusive procedures. The program must be modified on each audit to reflect overall engagement risk, risks of potential errors and irregularities, the results of analytical procedures and the selection of the most cost-beneficial audit approach and procedures.

### PROFESSIONAL STANDARDS

This program includes auditing procedures designed to accomplish audit objectives to verify the financial statement assertions from SAS No. 31, Evidential Matter. Arranged in the acronym COVEROD, they are:

- C ompleteness  
To determine that all transactions and accounts that should be presented have been included in the financial statements.
- O ccurrence  
To determine that all transactions occurring during the period have been recorded in the financial statements (Cutoff).
- V aluation or Allocation  
To determine that all asset, liability, revenue and expense components have been included in the financial statements at appropriate amounts. (Classification, cutoff, mechanical accuracy.)
- E xistence  
To determine that the entity has rights to all assets recorded at a given date (Validity).
- R ights  
To determine that the entity has rights to all assets recorded at a given date (Ownership).
- O bligations  
To determine that all liabilities are obligations of the entity at a given date.
- D isclosure and Presentation  
To determine that all components of the financial statements are properly classified, described and disclosed.

### USING THE CONTRACTORS' TESTS OF BALANCES PROGRAM

The in-charge accountant should modify the standard program based on the evaluation of overall engagement risk from the CLIENT ACCEPTANCE FORM, based on the risk of potential errors discovered while completing the CONTRACTORS' INTERNAL CONTROL STRUCTURE QUESTIONNAIRE, on the CONTRACTORS' TESTS OF

TRANSACTIONS PROGRAMS and on the results of the CONTRACTORS' ANALYTICAL PROCEDURES PROGRAM. The executive should review the program after the interim work and, if possible, after the analytical procedures have been completed. Any inapplicable procedures should be marked "N/A" or "N/R" before the year-end fieldwork is begun.

# CONTRACTORS' TESTS OF BALANCES AUDIT PROGRAM

•••••  
**P**

*Client:* \_\_\_\_\_

*Engagement Date:* \_\_\_\_\_

## INSTRUCTIONS

This program has been developed for use on construction contractor audit engagements. It is not a substitute for creative thinking. The minimum tests of balances procedures and sample sizes will be selected for an A or B system with satisfactory results from transactions testing and analytical procedures. Certain additional procedures and/or increased sample sizes in tests of balances will be required for accounts from cycles with weak accounting systems, i.e., System C. The same will be required for the tests of balances using the system's walk-through approach.

The CONTRACTORS' PLANNING MATRIX, the CONTRACTORS' INTERNAL CONTROL STRUCTURE QUESTIONNAIRE, the CONTRACTORS' RISK OF POTENTIAL ERRORS EVALUATION FORM, and the results of the tests of transactions and analytical procedures should be used for guidance when modifying this program and selecting sample sizes under the ABC Approach. The CONTRACTORS' SYSTEM'S WALK-THROUGH DOCUMENTATION FORM and analytical procedures should guide modification for the system's walk-through approach.

This CONTRACTORS' TESTS OF BALANCES AUDIT PROGRAM should be modified by the in-charge accountant and reviewed by the engagement executive. The "N/A" column should be initialed for any steps not applicable. The "N/A" column can also be marked "N/R" for steps not required.

## AUDIT PROGRAM

### INDEX

- I. PLANNING
- II. CASH
- III. TRADE ACCOUNTS RECEIVABLE
- IIIA. CONTRACT RECEIVABLES
- IV. OTHER ACCOUNTS RECEIVABLE
- V. NOTES RECEIVABLE
- VI. ALLOWANCE FOR DOUBTFUL ACCOUNTS
- VIIA. INVENTORIES: No Perpetual Records
- VII B. INVENTORIES: Perpetual Records
- VIII. MARKETABLE SECURITIES
- IX. PREPAID EXPENSES
- X. FIXED ASSETS
- XI. INVESTMENTS AND OTHER ASSETS
- XII. DEFERRED CHARGES AND INTANGIBLES
- XIII. ACCOUNTS PAYABLE
- XIV. ACCRUED EXPENSES, INCOME TAXES AND OTHER LIABILITIES
- XV. NOTES PAYABLE AND LONG-TERM DEBT
- XVI. CONTINGENT LIABILITIES, CONTRACTS AND COMMITMENTS
- XVII. STOCKHOLDERS' EQUITY
- XVIII. POST-BALANCE SHEET REVIEW
- XIX. RELATED-PARTY TRANSACTIONS
- XX. SALES
- XXI. COSTS OF SALES
- XXIA. CONSTRUCTION CONTRACTS
- XXII. PAYROLL TESTS
- XXIII. EXPENSE ACCOUNT ANALYSIS AND VOUCHING
- XXIV. OTHER REVENUES AND EXPENSES
- XXV. COMPLETING THE ENGAGEMENT



**CONTRACTORS' TESTS OF BALANCES AUDIT PROGRAM**

**I. PLANNING**

**OBJECTIVES:** To comply with and document the requirements of SAS No. 22. To design and conduct the examination in accordance with the standards of the profession in an efficient manner.

<u>Procedures</u>	<u>Done By</u>	<u>Date</u>	<u>N/A</u>	<u>W/P Ref.</u>
<b>Pre-Engagement Planning:</b>				
A. Prepare or update a CLIENT ACCEPTANCE FORM. Prepare special memoranda for potential problems with going concern assumption or management's integrity. Obtain engagement executive's approval before completing steps below.	_____	_____	_____	_____
B. Review the following items from the prior period:				
1. Accountants' report, financial statements and footnotes.	_____	_____	_____	_____
2. Planning and Supervision File.	_____	_____	_____	_____
3. Current, permanent, tax, correspondence and other working paper files.	_____	_____	_____	_____
4. Tax returns.	_____	_____	_____	_____
5. Management letter.	_____	_____	_____	_____
6. Time Budget and Control files including suggestions for future time savings.	_____	_____	_____	_____
C. Prepare preliminary Time Budget and Control forms.	_____	_____	_____	_____
D. Schedule staff and any specialists required.	_____	_____	_____	_____
E. Prepare an engagement letter that clearly indicates the nature of the engagement and client responsibilities and present to board of directors, CEO, owner, etc.	_____	_____	_____	_____
F. Meet with client and discuss:				
1. Engagement letter.	_____	_____	_____	_____
a. Discuss client's responsibility for internal control structure and financial statements.	_____	_____	_____	_____

**CONTRACTORS' TESTS OF BALANCES AUDIT PROGRAM (Continued)**

<u>Procedures</u>	<u>Done By</u>	<u>Date</u>	<u>N/A</u>	<u>W/P Ref.</u>
b. Auditor's responsibility under GAAS.	_____	_____	_____	_____
c. Concepts of reasonable assurance vs. absolute assurance.	_____	_____	_____	_____
d. Concepts of materiality and auditing procedures related to reasonable assurance.	_____	_____	_____	_____
e. Client's responsibility for disclosing potential errors, irregularities and illegal acts.	_____	_____	_____	_____
f. Auditor's responsibility for other information in documents containing audited financial statements.	_____	_____	_____	_____
g. Document the significant matters discussed in the CONTRACTORS' PLANNING MEMORANDUM.	_____	_____	_____	_____
2. Target dates.	_____	_____	_____	_____
3. Timing of work, i.e., physical inventories, confirmations, interim and year-end fieldwork.	_____	_____	_____	_____
4. Working space and equipment for staff.	_____	_____	_____	_____
5. Client assistance or use of paraprofessionals. Deliver and explain standard working papers and confirmation forms to be prepared by the client.	_____	_____	_____	_____
6. Changes in client's business or accounting systems.	_____	_____	_____	_____
7. Uses of report and financial statements.	_____	_____	_____	_____
8. Accounting estimates included in the financial statements and management's process for preparing such estimates. (Evaluate and document the reasonableness of such estimates during the audit of the applicable account or area.)	_____	_____	_____	_____
9. Observation of contracts in process:				
a. Determine locations of contracts in progress and approximate contract amounts.	_____	_____	_____	_____

**CONTRACTORS' TESTS OF BALANCES AUDIT PROGRAM (Continued)**

<u>Procedures</u>	<u>Done By</u>	<u>Date</u>	<u>N/A</u>	<u>W/P Ref.</u>
b. Determine the approximate percentage of completion of the contracts in progress.	_____	_____	_____	_____
c. Obtain a list of equipment and materials inventory located on sites of contracts in process.	_____	_____	_____	_____
G. Select and assemble appropriate Engagement Documentation Package.	_____	_____	_____	_____
H. Select standard working papers as applicable. Modify where appropriate.	_____	_____	_____	_____
I. Arrange a pre-engagement meeting with staff and discuss the following:				
1. Current economic climate or developments affecting client's business.	_____	_____	_____	_____
2. Significant changes in client's operations, accounting systems, accounting policies and procedures, applicable professional pronouncements, personnel, etc.	_____	_____	_____	_____
3. Concerns or problems encountered in prior period's engagement, scope limitations, departures from GAAP and material uncertainties.	_____	_____	_____	_____
4. Last year's report and management letter.	_____	_____	_____	_____
5. Report requirements and deadlines.	_____	_____	_____	_____
6. Client assistance.	_____	_____	_____	_____
7. Working arrangements and policies at client's facility.	_____	_____	_____	_____
8. Individual work responsibilities and budget requirements.	_____	_____	_____	_____

**Planning During Interim Work or Before Starting TOBs:**

- A. Based on the level of inherent and control risk, and on the efficiency of performing tests of balances, determine the most cost-beneficial audit approach, i.e., ABC approach or system's walk-through approach and review with the executive. Document the basis for the conclusions

**CONTRACTORS' TESTS OF BALANCES AUDIT PROGRAM (Continued)**

<u>Procedures</u>	<u>Done By</u>	<u>Date</u>	<u>N/A</u>	<u>W/P Ref.</u>
about the assessed level of control risk in the CONTRACTORS' PLANNING MEMORANDUM.	_____	_____	_____	_____
B. 1. Complete or have client complete the applicable CONTRACTORS' SYSTEM'S WALK-THROUGH DOCUMENTATION FORM or the CONTRACTORS' INTERNAL CONTROL STRUCTURE QUESTIONNAIRE and, if client uses significant computer or microcomputer applications, the appropriate INITIAL SURVEY OF EDP CONTROLS or MICROCOMPUTER INSTALLATION SURVEY FORM.	_____	_____	_____	_____
2. Document the decision to rely, or not rely, on tests of the internal control structure by using the appropriate questionnaire or form.	_____	_____	_____	_____
C. Prepare, or have client prepare, internal control flowcharts if specified by engagement executive.	_____	_____	_____	_____
D. Review flowcharts and CONTRACTORS' INTERNAL CONTROL STRUCTURE QUESTIONNAIRE, if applicable, and categorize type of System as A, B or C by transaction cycle.	_____	_____	_____	_____
E. Complete CONTRACTORS' RISK OF POTENTIAL ERRORS EVALUATION FORM, if applicable.	_____	_____	_____	_____
F. Record system selection on CONTRACTORS' PLANNING MATRIX, if applicable.	_____	_____	_____	_____
G. Complete CONTRACTORS' PLANNING MATRIX, if applicable, and obtain engagement executive's approval.	_____	_____	_____	_____
H. Obtain engagement executive's approval of CONTRACTORS' TESTS OF TRANSACTIONS PROGRAM design, if applicable, and select standard program corresponding with type of internal control system. Modify as considered necessary.	_____	_____	_____	_____
I. Complete MATERIALITY COMPUTATION SCHEDULE and enter overall materiality limit on SUMMARY OF POSSIBLE JOURNAL ENTRIES FORM. Obtain engagement executive's approval.	_____	_____	_____	_____

**CONTRACTORS' TESTS OF BALANCES AUDIT PROGRAM (Continued)**

<u>Procedures</u>	<u>Done By</u>	<u>Date</u>	<u>N/A</u>	<u>W/P Ref.</u>
J. Complete CONTRACTORS' TESTS OF TRANSACTIONS PROGRAM, evaluate results and modify CONTRACTORS' TESTS OF BALANCES AUDIT PROGRAM.	_____	_____	_____	_____
K. Complete the SAMPLING DECISIONS WORKING PAPER.	_____	_____	_____	_____
L. 1. Complete a CONTRACTORS' PLANNING MEMORANDUM and obtain executive's and partner's approval.	_____	_____	_____	_____
2. Plan for site visitations of _____ contracts in progress and document plans in CONTRACTORS' PLANNING MEMORANDUM or separate memorandum. Plans should include consideration of the following:				
a. Obtaining estimates of percentage of completion by job foreman or superintendent and discussing job status and problems.	_____	_____	_____	_____
b. Taking inventory of equipment and evaluating if it is being utilized effectively.	_____	_____	_____	_____
c. Making a controlled payoff.	_____	_____	_____	_____
d. Observing and documenting any materials inventory on site.	_____	_____	_____	_____
e. Counting any cash funds at sites.	_____	_____	_____	_____
f. Obtaining a list of numbers of on-site supplies of receiving reports, purchase orders, material requisitions or other accounting or operations documents and documenting on-site internal control procedures.	_____	_____	_____	_____
g. Reviewing on-site security.	_____	_____	_____	_____
h. Documenting any unprocessed invoices on hand.	_____	_____	_____	_____

**CONTRACTORS' TESTS OF BALANCES AUDIT PROGRAM (Continued)**

<u>Procedures</u>	<u>Done By</u>	<u>Date</u>	<u>N/A</u>	<u>W/P Ref.</u>
M. Obtain engagement executive's approval of modified CONTRACTORS' ANALYTICAL PROCEDURES PROGRAM and CONTRACTORS' TESTS OF BALANCES AUDIT PROGRAM.	_____	_____	_____	_____
N. Revise preliminary time budget and obtain engagement executive's approval.	_____	_____	_____	_____
O. Prepare CONTRACTORS' INTERNAL CONTROL STRUCTURE REPORTABLE CONDITIONS FORM.	_____	_____	_____	_____
P. Prepare documentation for communication of control-structure related matters.	_____	_____	_____	_____
<b>Planning Before or During Year-end Fieldwork:</b>				
A. Read, foot and test client-prepared working papers. Trace to general ledger or other appropriate source.	_____	_____	_____	_____
B. If statements are consolidated or combined, trace the working trial balance to consolidating or combining working papers. Trace consolidating working papers to general ledgers of consolidated or combined companies.	_____	_____	_____	_____
C. Obtain, read and excerpt all directors' and stockholders' meetings' minutes since last engagement.	_____	_____	_____	_____
D. Update permanent file.	_____	_____	_____	_____
E. Follow up on all potential errors, irregularities and illegal acts coming to our attention during the interim and year-end fieldwork. Prepare adequate documentation.	_____	_____	_____	_____
F. Supervise and review assistants' work frequently.	_____	_____	_____	_____
G. Accumulate staff's time daily. At least every five days, summarize time, and prepare an estimate of time to complete and compare to time budget. Discuss with engagement executive and take appropriate corrective action.	_____	_____	_____	_____

**CONTRACTORS' TESTS OF BALANCES AUDIT PROGRAM (Continued)**

<u>Procedures</u>	<u>Done By</u>	<u>Date</u>	<u>N/A</u>	<u>W/P Ref.</u>
H. Complete the CONTRACTORS' ANALYTICAL PROCEDURES PROGRAM as early as possible during the year-end fieldwork. Plan opportunities to reduce other tests of balances based on favorable results from high-reliance analytical procedures.	_____	_____	_____	_____
I. Frequently evaluate results of tests as year-end tests of balances progress. Compare results of year-end tests to tests of transactions results, if applicable. Reconsider the planned nature and extent of year-end tests on an ongoing basis to achieve the desired level of evidence in the least time, i.e., reevaluate the possibility of reducing planned procedures.	_____	_____	_____	_____

Prepared by: \_\_\_\_\_ Date \_\_\_\_\_

Reviewed by: \_\_\_\_\_ Date \_\_\_\_\_

## CONTRACTORS' TESTS OF BALANCES AUDIT PROGRAM

### II. CASH

**OBJECTIVES:** To determine that cash balances include all cash items on hand, in transit, or in banks that is company property. To determine that cash is properly classified and adequate disclosure is made of restricted or committed funds and of cash not subject to immediate withdrawal.

<u>Procedures</u>	<u>Done By</u>	<u>Date</u>	<u>N/A</u>	<u>W/P Ref.</u>
A. At engagement date, perform the following:				
1. Count undeposited funds on hand at _____ locations and control until deposited.	_____	_____	_____	_____
2. Count _____ petty cash and change funds paying particular attention to the nature of transactions in the fund.	_____	_____	_____	_____
3. Obtain last unused check numbers by physical inspection.	_____	_____	_____	_____
4. List any checks prepared and recorded prior to engagement date, but not yet issued.	_____	_____	_____	_____
5. Prepare and mail standard bank confirmations for _____ demand and time deposit accounts.	_____	_____	_____	_____
6. Prepare and mail a request for cutoff bank statements on _____ bank accounts to be sent directly to us. Consider proving any requested statement not received directly by agreeing the totals of enclosures to amounts on the statement.	_____	_____	_____	_____
B. Review the results of applicable sections of the CONTRACTORS' TESTS OF TRANSACTIONS and the CONTRACTORS' ANALYTICAL PROCEDURES PROGRAMS.				
_____	_____	_____	_____	_____
C. Obtain a bank reconciliation for _____ accounts as of engagement date and perform the following:				
1. Foot reconciliations.	_____	_____	_____	_____
2. Trace book balances to general ledger.	_____	_____	_____	_____
3. Trace bank balances to cutoff bank statement.	_____	_____	_____	_____
4. Agree bank balances to confirmations from bank.	_____	_____	_____	_____



**CONTRACTORS' TESTS OF BALANCES AUDIT PROGRAM (Continued)**

<u>Procedures</u>	<u>Done By</u>	<u>Date</u>	<u>N/A</u>	<u>W/P Ref.</u>
5. Trace reconciling items to bank cutoff statements or other supporting documents. Items not clearing during cutoff period should be challenged for propriety and traced to supporting documents.	_____	_____	_____	_____
6. Determine items in bank cutoff statement relating to periods before, or on, reconciliation date are properly reflected on the reconciliation.	_____	_____	_____	_____
7. Agree last deposit amount and last unissued check number obtained at engagement date to the source journals.	_____	_____	_____	_____
8. Examine (material/all) enclosures returned with bank cutoff statements to determine any unusual items or unrecorded transactions taking place prior to the engagement date.	_____	_____	_____	_____
9. For checks dated for the first _____ days after the reconciliation date, examine the date of the first bank endorsement to determine if they precede the reconciliation date.	_____	_____	_____	_____
10. Trace lists of any held checks to outstanding check lists.	_____	_____	_____	_____
D. Schedule interbank and intrabank transfers for _____ days before and after engagement date by reference to:				
1. Deposits in transit and outstanding checks on bank reconciliations.	_____	_____	_____	_____
2. Cash receipts and disbursements journals or duplicate deposit slips and check copies.	_____	_____	_____	_____
3. Enclosures in cutoff bank statements.	_____	_____	_____	_____
E. Determine that all such transfers were:				
1. Recorded on the books in the same period for both bank accounts.	_____	_____	_____	_____
2. Uncompleted transfers were properly accounted for in the bank reconciliations.	_____	_____	_____	_____
F. Review bank confirmations for details applicable to other areas of the financial statements.	_____	_____	_____	_____

**CONTRACTORS' TESTS OF BALANCES AUDIT PROGRAM (Continued)**

<u>Procedures</u>	<u>Done By</u>	<u>Date</u>	<u>N/A</u>	<u>W/P Ref.</u>
G. Segregate any bank overdrafts or funds subject to withdrawal restrictions.	_____	_____	_____	_____
H. Review any compensating balances arrangements for the benefit of the Company or related parties.	_____	_____	_____	_____
I. Additional procedures:				
_____				
_____	_____	_____	_____	_____

Prepared by: \_\_\_\_\_ Date \_\_\_\_\_

Reviewed by: \_\_\_\_\_ Date \_\_\_\_\_

## CONTRACTORS' TESTS OF BALANCES AUDIT PROGRAM

### III. TRADE ACCOUNTS RECEIVABLE

**OBJECTIVES:** To determine that all trade accounts receivable have been recorded. To determine that all recorded amounts represent valid trade receivables that are properly classified. To determine that disclosures are adequate.

<u>Procedures</u>	<u>Done By</u>	<u>Date</u>	<u>N/A</u>	<u>W/P Ref.</u>
A. Review the results of the applicable sections of the CONTRACTORS' TESTS OF TRANSACTIONS and the CONTRACTORS' ANALYTICAL PROCEDURES PROGRAMS.	_____	_____	_____	_____
B. Obtain a list of aged accounts receivable at engagement date, foot and trace to the general ledger (or prepare adjusting entry).	_____	_____	_____	_____
C. Trace _____ of the accounts to the subledger for name, amount and aged categories. Select _____ accounts in the subledger and compare to the aging. If no subledger is available (a C system), or if a system's walk-through procedure was performed, examine underlying sales invoices and collections documentation.	_____	_____	_____	_____
D. Review and document collections on accounts receivable for _____ days after engagement date.	_____	_____	_____	_____
E. Request confirmation of accounts receivable as follows:				
1. Positive requests on individually significant accounts with balances in excess of \$_____.	_____	_____	_____	_____
2. Positive requests on accounts from the sampling population as follows:				
3. Negative requests on accounts from the sampling population as follows:				

**CONTRACTORS' TESTS OF BALANCES AUDIT PROGRAM (Continued)**

<u>Procedures</u>	<u>Done By</u>	<u>Date</u>	<u>N/A</u>	<u>W/P Ref.</u>
(Note--A stronger system of internal control or a good accounting system, System A or B, will permit negative confirmations and sending confirmations before the engagement date.)				
F. If customer addresses have not been verified during transactions tests, select _____ accounts (at least 10) and independently verify addresses by reference to phone or business directories, phone calls to customers, documents received from customer, credit checks, etc.				
G. Send second requests on positive nonreplies.				
H. Perform alternative procedures on accounts not responding to second requests by examining posting dates for subsequent collections on the accounts receivable subledger for an A or B system. If no or partial subsequent collections, examine shipping and sales documents. Consider examining supporting documents for any unusually large account balances or for all nonreplies when such nonreplies are extensive. Examine subsequent collections documentation and shipping reports or sales invoices for C systems or when a system's walk-through approach has been used.				
I. Reconcile all confirmation exceptions by reference to the accounts receivable subledger or other documents. Be alert to explanations that may be evidence of overall conditions affecting the financial statements. Follow up on such conditions.				
J. Summarize the results of the confirmation procedures.				
K. Tests the sales cutoff by tracing entries in the sales journal for _____ days before and after engagement date to shipping reports, if available, and/or sales invoices.				
L. Determine, confirm and disclose accounts pledged, discounted, sold, assigned or guaranteed by others.				
M. Reclassify any material credit balances.				

**CONTRACTORS' TESTS OF BALANCES AUDIT PROGRAM (Continued)**

<u>Procedures</u>	<u>Done By</u>	<u>Date</u>	<u>N/A</u>	<u>W/P Ref.</u>
N. If sending confirmations at a date other than engagement date (System A and B), perform the following in addition to steps above:				
1. Select confirmations from a source that is reconciled to the general ledger.	_____	_____	_____	_____
2. Review transactions from the confirmation date to the engagement date for material or unusual items. Review supporting documents for such transactions.	_____	_____	_____	_____
3. Consider confirming several material account balances at the engagement date:	_____	_____	_____	_____
Positive _____				
Negative _____				
O. Additional Procedures:				
_____				
_____				
_____				
_____	_____	_____	_____	_____

Prepared by: \_\_\_\_\_ Date \_\_\_\_\_

Reviewed by: \_\_\_\_\_ Date \_\_\_\_\_

# CONTRACTORS' TESTS OF BALANCES AUDIT PROGRAM

## III.A. CONTRACT RECEIVABLES

**OBJECTIVES:** To determine that all contract receivables have been recorded. To determine that all recorded amounts represent valid receivables that are properly classified. To determine that disclosures are in accordance with industry standards.

<u>Procedures</u>	<u>Done By</u>	<u>Date</u>	<u>N/A</u>	<u>W/P Ref.</u>
A. Review the results of the applicable sections of the CONTRACTORS' TESTS OF TRANSACTIONS and the CONTRACTORS' ANALYTICAL PROCEDURES PROGRAMS.	_____	_____	_____	_____
B. Obtain a list of aged contract receivables at engagement date and foot and trace to the general ledger. Determine that retainages have been separately classified.	_____	_____	_____	_____
C. Trace _____ of the accounts to the subledger for name, amount and aged categories. Select _____ accounts in the subledger and compare to the aging. If no subledger is available, a C system, or if a system's walk-through procedure was performed, examine underlying billing invoices and collections documentation.	_____	_____	_____	_____
D. Review and document collections on contract receivables for _____ days after engagement date.	_____	_____	_____	_____
E. Request confirmation of contract receivables including contracts in progress at engagement date. Confirmations should include contract amount, change orders, amounts billed and/or collected to date, current and retainage receivable amounts, estimated completion date and a request for reporting any contractual disputes.	_____	_____	_____	_____
1. Positive requests on individually significant accounts with balances including retainage in excess of \$_____.	_____	_____	_____	_____
2. Positive requests on accounts from the sampling population as follows:				

**CONTRACTORS' TESTS OF BALANCES AUDIT PROGRAM (Continued)**

<u>Procedures</u>	<u>Done By</u>	<u>Date</u>	<u>N/A</u>	<u>W/P Ref.</u>
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
3. Negative requests on accounts from the sampling population as follows:				
_____				
_____				
_____				
_____				
(Note: Good internal control procedures or a good accounting system (System A or B) will permit negative confirmations and sending confirmations before the engagement date. Using a System C or a system's walk-through approach requires sending positive confirmations as of the engagement date.)				
F. Send second requests on positive nonreplies.	_____	_____	_____	_____
G. Perform alternative procedures on accounts not responding to second requests by examining posting dates for subsequent collections on the contracts receivable subledger for a System A. If no subsequent collections, examine contract and progress billings. Consider examining supporting documents for any unusually large account balances or for all nonreplies when such nonreplies are extensive. Also examine subsequent collections, contracts, progress billings and other documentation when a System C or system's walk-through approach is used.	_____	_____	_____	_____
H. Reconcile all confirmation exceptions by reference to the contract receivable subledger or other documents. Be alert to explanations that may be evidence of overall conditions affecting the financial statements. Follow up on such conditions.	_____	_____	_____	_____
I. Summarize the results of the confirmation procedures.	_____	_____	_____	_____

**CONTRACTORS' TESTS OF BALANCES AUDIT PROGRAM (Continued)**

<u>Procedures</u>	<u>Done By</u>	<u>Date</u>	<u>N/A</u>	<u>W/P Ref.</u>
J. Obtain a list of any unbilled receivables and confirm. If confirmation is not possible, perform alternate procedures including subsequent examination of the billing, cash collections and an evaluation of the propriety of the billing at the engagement date based on accumulated cost and other data.	_____	_____	_____	_____
K. Obtain a list of any unapproved change orders and contract claims that have been recorded. Trace to general ledger and confirm. If confirmation is not possible, perform alternate procedures including tests of the cost accumulation underlying the claim, examination of proper authorization, review of contract, subsequent billing and collection, etc. Consider discussion with legal counsel. (Auditor must evaluate the propriety of the claim and whether or not it is collectible.)	_____	_____	_____	_____
L. Classify balances as of audit date as to:				
1. Billed receivables - completed contracts.	_____	_____	_____	_____
2. Billed receivables - contracts in progress.	_____	_____	_____	_____
3. Retained percentages - all contracts in progress--				
a. Current.	_____	_____	_____	_____
b. Long-term.	_____	_____	_____	_____
4. Unbilled receivables.	_____	_____	_____	_____
5. Contract claim receivables.	_____	_____	_____	_____
6. Credit balances.	_____	_____	_____	_____
7. Others.	_____	_____	_____	_____
M. If sending confirmations at a date other than engagement date, perform the following in addition to steps above:				
1. Select confirmations from a source that is reconciled to the general ledger.	_____	_____	_____	_____
2. Review transactions from the confirmation date to the engagement date for material or unusual items. Review supporting documents for such transactions.	_____	_____	_____	_____



**CONTRACTORS' TESTS OF BALANCES AUDIT PROGRAM (Continued)**

<u>Procedures</u>	<u>Done By</u>	<u>Date</u>	<u>N/A</u>	<u>W/P Ref.</u>
3. Consider confirming several material account balances at the engagement date:	_____	_____	_____	_____
Positive _____				
Negative _____				
N. Additional procedures:				
_____				
_____				
_____				
_____	_____	_____	_____	_____

Prepared by: \_\_\_\_\_ Date \_\_\_\_\_  
 Reviewed by: \_\_\_\_\_ Date \_\_\_\_\_

## CONTRACTORS' TESTS OF BALANCES AUDIT PROGRAM

### IV. OTHER ACCOUNTS RECEIVABLE

**OBJECTIVES:** To determine that all accounts have been recorded. To determine that all recorded amounts represent valid receivables that are properly classified. To determine that disclosures are adequate.

<u>Procedures</u>	<u>Done By</u>	<u>Date</u>	<u>N/A</u>	<u>W/P Ref.</u>
A. Review the results of applicable sections of the CONTRACTORS' ANALYTICAL PROCEDURES PROGRAM and assess impact on tests of balances.	_____	_____	_____	_____
B. Inquire about the existence of other accounts receivable. Determine that all have been recorded.	_____	_____	_____	_____
C. Obtain a list of other accounts receivable and agree to the general ledger.	_____	_____	_____	_____
D. Request positive confirmations of all significant balances. Send second requests on nonreplies.	_____	_____	_____	_____
E. Perform alternative procedures on accounts not responding to second requests.	_____	_____	_____	_____
F. Reconcile any exceptions received.	_____	_____	_____	_____
G. Separately classify related-party receivables.	_____	_____	_____	_____
H. Additional procedures:				
_____				
_____				
_____				
_____				

Prepared by: \_\_\_\_\_ Date \_\_\_\_\_

Reviewed by: \_\_\_\_\_ Date \_\_\_\_\_

**CONTRACTORS' TESTS OF BALANCES AUDIT PROGRAM**

**V. NOTES RECEIVABLE**

**OBJECTIVES:** To determine that all notes receivable have been recorded. To determine that all recorded amounts represent valid receivables that are properly classified. To determine that disclosures are adequate.

<u>Procedures</u>	<u>Done By</u>	<u>Date</u>	<u>N/A</u>	<u>W/P Ref.</u>
A. Review the results of applicable sections of the CONTRACTORS' ANALYTICAL PROCEDURES PROGRAM and assess impact on tests of balances.	_____	_____	_____	_____
B. Inquire about the existence of notes receivable. Determine that all have been recorded.	_____	_____	_____	_____
C. Obtain a list of notes receivable and agree to the general ledger.	_____	_____	_____	_____
D. Examine properly signed and dated notes and any collateral supporting balances due.	_____	_____	_____	_____
E. Request positive confirmation on all significant balances. Send second requests on nonreplies.	_____	_____	_____	_____
F. Examine evidence of periodic or subsequent payments on notes not responding to second requests.	_____	_____	_____	_____
G. Reconcile any confirmation exceptions received.	_____	_____	_____	_____
H. Separately classify notes from related parties.	_____	_____	_____	_____
I. Test calculation of any accrued interest receivable and consider reconciling to interest income.	_____	_____	_____	_____
J. Additional procedures:				
_____				
_____				
_____				
_____				

Prepared by: \_\_\_\_\_ Date \_\_\_\_\_

Reviewed by: \_\_\_\_\_ Date \_\_\_\_\_

## CONTRACTORS' TESTS OF BALANCES AUDIT PROGRAM

### VI. ALLOWANCE FOR DOUBTFUL ACCOUNTS

**OBJECTIVES:** To determine that adequate allowances have been provided for trade receivables, contract receivables, other receivables and notes receivable.

<u>Procedures</u>	<u>Done By</u>	<u>Date</u>	<u>N/A</u>	<u>W/P Ref.</u>
A. Review the results of applicable sections of the CONTRACTORS' ANALYTICAL PROCEDURES PROGRAM and assess impact on tests of balances.	_____	_____	_____	_____
B. Obtain an analysis of the bad debt expense and allowance accounts for the year. Challenge the reasonableness of the chargeoffs and recoveries. Discuss with management.	_____	_____	_____	_____
C. Examine correspondence files and discuss with management significant accounts written off during the year.	_____	_____	_____	_____
D. Review the aged trial balance and other lists of notes, contracts and accounts and discuss balances over _____ days old with management. Discussions of delinquent contract receivables should include both engineering and financial management personnel to determine if any of the following problems exist:				
1. Disputed costs billed on cost-plus type contracts.	_____	_____	_____	_____
2. Billings to be revised to retain customer goodwill.	_____	_____	_____	_____
3. Equipment not meeting contract guarantees and "make-good" costs are anticipated.	_____	_____	_____	_____
4. Amounts not being billed in accordance with the contract. For retained amounts, test the retained percentage back to the contract to see that correct rates are being used and that retainage is being calculated.	_____	_____	_____	_____
5. Contract cancellation or postponement.	_____	_____	_____	_____
6. Credit difficulties.	_____	_____	_____	_____

In light of these discussions, consider the adequacy of the allowances for doubtful items and that adequate provision has been made for fulfillment of related contract guarantees.

**CONTRACTORS' TESTS OF BALANCES AUDIT PROGRAM (Continued)**

<u>Procedures</u>	<u>Done By</u>	<u>Date</u>	<u>N/A</u>	<u>W/P Ref.</u>
E. Examine credit memos issued after the engagement date and determine need for an allowance for discounts, returns and allowances.	_____	_____	_____	_____
F. Summarize results of procedures above and evaluate the adequacy of the allowance.	_____	_____	_____	_____
G. Prepare a memo describing the procedures performed and conclusions reached.	_____	_____	_____	_____
H. Additional procedures:				
_____				
_____				
_____				
_____	_____	_____	_____	_____

Prepared by: \_\_\_\_\_ Date \_\_\_\_\_

Reviewed by: \_\_\_\_\_ Date \_\_\_\_\_

## CONTRACTORS' TESTS OF BALANCES AUDIT PROGRAM

### VIIA. INVENTORIES (NO PERPETUAL RECORDS)

**OBJECTIVES:** To evaluate the internal controls over the count. To determine that physical counts are accurate. To determine that inventory balances represent existing, saleable goods owned by the company. To determine that inventories and costs of goods sold are priced, classified, reported and disclosed in accordance with generally accepted accounting principles.

<u>Procedures</u>	<u>Done By</u>	<u>Date</u>	<u>N/A</u>	<u>W/P Ref.</u>
A. Review the CONTRACTORS' INTERNAL CONTROL STRUCTURE QUESTIONNAIRE and assess its impact on the nature, extent and timing of inventory tests of balances procedures.	_____	_____	_____	_____
B. Review the client's plans for taking inventory at all locations, control over tags and counts sheets, identifying obsolete items, consigned and customers' goods, controlling movement of inventory during the count and control over shipping and receiving.	_____	_____	_____	_____
C. Review or assist in preparing physical inventory instructions.	_____	_____	_____	_____
D. Review last year's inventory summaries and current production records. Consider selecting representative test count items in advance. Observe the taking of the physical inventory:				
1. Obtain a copy of the tag or sheet control form.	_____	_____	_____	_____
2. Obtain last receiving and shipping report numbers and sales invoice numbers.	_____	_____	_____	_____
3. See that goods movement is controlled during the count and that the physical cutoff is proper.	_____	_____	_____	_____
4. Identify and record any obsolete goods for follow-up.	_____	_____	_____	_____
5. Observe counting and recording procedure by all inventory crews to see that inventory instructions are being followed.	_____	_____	_____	_____
6. Make and record representative test counts for later tracing to inventory computation sheets as follows:				

**CONTRACTORS' TESTS OF BALANCES AUDIT PROGRAM (Continued)**

<u>Procedures</u>	<u>Done By</u>	<u>Date</u>	<u>N/A</u>	<u>W/P Ref.</u>
a. Record counts for individually significant inventory items with totals in excess of \$_____.	_____	_____	_____	_____
b. Record counts for representative items from sampling population as follows:				
_____				
_____				
_____				
_____	_____	_____	_____	_____
7. See that tags or count sheets contain adequate descriptions, units of measure, last operation completed (WIP), and appraisal of inventory condition if obsolete or slow-moving.	_____	_____	_____	_____
8. Make a final walk-through to determine that all goods were counted, obsolete or consigned goods were identified and that all inventory tags or sheets have been collected.	_____	_____	_____	_____
9. Confirm goods out on consignment or at outside warehouses.	_____	_____	_____	_____
10. Prepare a memo describing the observation procedures and conclusions reached.	_____	_____	_____	_____
E. Trace shipping and receiving report numbers obtained during the observation to determine they were recorded in the proper period.	_____	_____	_____	_____
1. Examine shipping and receiving reports for _____ days before and after the inventory date, trace to the appropriate source journal and cutoff numbers and determine a proper cutoff was made.	_____	_____	_____	_____
2. Review reconciliation of inventory to engagement date if counted at another date. Examine supporting documents or source journals for major items on reconciliation.	_____	_____	_____	_____
3. Review credit memos for _____ days before and after inventory to determine they were recorded in the proper period.	_____	_____	_____	_____

**CONTRACTORS' TESTS OF BALANCES AUDIT PROGRAM (Continued)**

<u>Procedures</u>	<u>Done By</u>	<u>Date</u>	<u>N/A</u>	<u>W/P Ref.</u>
F. Obtain a copy of client's final inventory summary and trace _____ items to and from tags or sheets control form.	_____	_____	_____	_____
G. Trace all test counts to summary.	_____	_____	_____	_____
H. Determine that all individually significant items test counted are included in the summary and extended and footed properly.	_____	_____	_____	_____
I. Foot _____ pages and _____ page totals and extend _____ line items in the sampling population.	_____	_____	_____	_____
J. Review summary to determine obsolete goods noted during observation have been excluded or priced at net realizable value.	_____	_____	_____	_____
K. Compare major items categories with the prior year and investigate material changes.	_____	_____	_____	_____
L. 1. Determine client's pricing method for raw materials and make a selection of items for price testing from the sampling population as follows:  _____  _____  _____  _____				
Compare prices to vendor invoices or price lists. If client uses LIFO method, additional procedures for testing base prices and computations should be designed and performed. Determine that the method is consistent.	_____	_____	_____	_____
2. Perform price tests for all individually significant items of raw materials that were included in test counts.	_____	_____	_____	_____
M. Review _____ price computations for work-in-process and finished goods for propriety and consistency.	_____	_____	_____	_____



**CONTRACTORS' TESTS OF BALANCES AUDIT PROGRAM (Continued)**

<u>Procedures</u>	<u>Done By</u>	<u>Date</u>	<u>N/A</u>	<u>W/P Ref.</u>
N. 1. Support price computations for work-in-process and finished goods items in the sampling population by reference to invoices, bills of materials and charges and cost accounting records as follows:  _____  _____  _____	_____	_____	_____	_____
2. Support price computations for all individually significant items of work-in-process and finished goods that were included in test counts.	_____	_____	_____	_____
O. Determine that all classes of inventory have been subjected to tests of replacement costs and/or net realizable value.	_____	_____	_____	_____
P. Test, or prepare, an allocation of overhead to work-in-process and finished goods. Determine if the method is consistent with prior years.	_____	_____	_____	_____
Q. Prepare any necessary inventory adjustments, or review client's adjustments, and complete the CONTRACTORS' ANALYTICAL PROCEDURES PROGRAM.	_____	_____	_____	_____
R. Determine that customers' goods have been excluded from inventory. If material, consider confirming.	_____	_____	_____	_____
S. Determine any intercompany or interdepartmental profit to be eliminated in consolidation.	_____	_____	_____	_____
T. Determine if any inventory has been pledged.	_____	_____	_____	_____
U. For significant amounts of inventory stored at outside locations, consider performing the following procedures:				
1. Review and test the owner's control procedures for investigating the warehouseman and evaluating the warehouseman's performance.	_____	_____	_____	_____

**CONTRACTORS' TESTS OF BALANCES AUDIT PROGRAM (Continued)**

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

Note--Stronger controls over the count and inventory compilation may allow less observation time, fewer test counts and smaller pricing and clerical tests. The existence of internal controls over the count, however, must be verified during the count observation. Refer to the CONTRACTORS' INTERNAL CONTROL STRUCTURE QUESTIONNAIRE, the CONTRACTORS' PLANNING MATRIX or the CONTRACTORS' SYSTEM'S WALK-THROUGH DOCUMENTATION FORM for a determination of the extent of procedures to be performed. Pursuant to SAS No. 39, sample selections must be representative and consider the materiality of the inventory items. The following guidelines will apply to the nature and timing of tests unless otherwise approved by the engagement executive.

**CONTRACTORS' TESTS OF BALANCES AUDIT PROGRAM (Continued)**

Systems B and C and system's walk-through approach--  
all items counted simultaneously at or near engagement date.

System A--all items counted simultaneously within a  
reasonable time period near engagement date.

Prepared by: \_\_\_\_\_ Date \_\_\_\_\_

Reviewed by: \_\_\_\_\_ Date \_\_\_\_\_

## CONTRACTORS' TESTS OF BALANCES AUDIT PROGRAM

### VIII. INVENTORIES (PERPETUAL RECORDS)

**OBJECTIVES:** To evaluate the internal controls over the count. To determine that physical counts are accurate. To determine that inventory balances represent existing, saleable goods owned by the company. To determine that inventories and costs of sales are priced, classified, reported and disclosed in accordance with generally accepted accounting principles.

<u>Procedures</u>	<u>Done By</u>	<u>Date</u>	<u>N/A</u>	<u>W/P Ref.</u>
A. Review results of the applicable CONTRACTORS' TESTS OF TRANSACTIONS and CONTRACTORS' ANALYTICAL PROCEDURES PROGRAMS and assess their impact on the nature, extent and timing of inventory tests of balances procedures.	_____	_____	_____	_____
B. Review the client's plans for taking inventory at all locations, control over tags and count sheets, identifying obsolete items, consigned and customers' goods, controlling movement of inventory during the count and control over shipping and receiving.	_____	_____	_____	_____
C. Review or assist in preparing physical inventory instructions.	_____	_____	_____	_____
D. Review last year's inventory summaries and current perpetual records. Select items for observation in advance.	_____	_____	_____	_____
E. Observe the taking of the physical inventory of selected items:				
1. Obtain a copy of the tag or sheet control form.	_____	_____	_____	_____
2. Obtain last receiving and shipping report numbers and sales invoice numbers at date of count.	_____	_____	_____	_____
3. See that goods movement is controlled during the count and that the physical cutoff is proper.	_____	_____	_____	_____
4. Identify and record any obsolete goods for follow-up.	_____	_____	_____	_____
5. Observe counting and recording procedure by all inventory crews to see that inventory instructions are being followed.	_____	_____	_____	_____

**CONTRACTORS' TESTS OF BALANCES AUDIT PROGRAM (Continued)**

<u>Procedures</u>	<u>Done By</u>	<u>Date</u>	<u>N/A</u>	<u>W/P Ref.</u>
6. Make and record representative test counts for later tracing to inventory compilation sheets as follows:				
a. Record counts for individually significant inventory items with totals in excess of \$_____.	_____	_____	_____	_____
b. Record counts for representative items from the sampling population as follows:				
_____				
_____				
_____				
_____	_____	_____	_____	_____
7. See that tags or count sheets contain adequate description, units of measure, last operations completed (WIP) and appraisal of inventory condition if obsolete or slowmoving.	_____	_____	_____	_____
8. Make a final walk-through to determine that all goods were counted, obsolete or consigned goods are identified, and that all inventory tags or sheets have been collected.	_____	_____	_____	_____
9. Prepare a memo describing the observation procedures and conclusions reached.	_____	_____	_____	_____
F. Trace shipping and receiving report numbers obtained during the observation to determine they were recorded in the proper period.	_____	_____	_____	_____
G. 1. Examine shipping and receiving reports for _____ days before and after the inventory date, trace to the appropriate source journal and cutoff numbers and determine a proper cutoff was made.	_____	_____	_____	_____
2. Review credit memos for _____ days before and after inventory to determine they were recorded in the proper period.	_____	_____	_____	_____
H. Obtain a copy of client's inventory summary and trace _____ items to tags or sheets and control form.	_____	_____	_____	_____

**CONTRACTORS' TESTS OF BALANCES AUDIT PROGRAM (Continued)**

<u>Procedures</u>	<u>Done By</u>	<u>Date</u>	<u>N/A</u>	<u>W/P Ref.</u>
I. Trace all test counts to summary.	_____	_____	_____	_____
J. Determine that perpetual records have been adjusted to the physical count. Obtain engagement date inventory summary:				
1. Foot _____ pages and _____ page totals and extend _____ line items in the sampling population.	_____	_____	_____	_____
2. Determine that all individually significant items test counted are included in the summary and extended and footed properly.	_____	_____	_____	_____
3. Review summary to determine obsolete goods noted during observation have been excluded or priced at net realizable value.	_____	_____	_____	_____
4. a. Determine client's pricing method for raw materials, work-in-process and finished goods and make a selection of items for price testing from the sampling population as follows:				
_____				
_____				
_____				
_____				
Compare prices to perpetual records. Determine that the method is consistent.	_____	_____	_____	_____
b. Support price computations for all individually significant items of raw materials, work-in-process and finished goods that were included in test counts.	_____	_____	_____	_____
5. Trace _____ items to perpetual records. Compare amounts and unit prices.	_____	_____	_____	_____
K. Confirm goods out on consignment at engagement date.	_____	_____	_____	_____
L. Determine that all classes of inventory have been subjected to tests of replacement costs and/or net realizable value.	_____	_____	_____	_____

**CONTRACTORS' TESTS OF BALANCES AUDIT PROGRAM (Continued)**

<u>Procedures</u>	<u>Done By</u>	<u>Date</u>	<u>N/A</u>	<u>W/P Ref.</u>
M. If standard or job costs are used, review calculations and variances to determine that they approximate actual amounts computed on the client's costing method.	_____	_____	_____	_____
N. Determine if any inventory has been pledged.	_____	_____	_____	_____
O. Determine that customers' goods have been excluded from inventory. If material, consider confirming.	_____	_____	_____	_____
P. If overhead allocations were not tested during tests of transactions, test the allocation of overhead to work-in-process and finished goods. Determine if the method is consistent with prior years.	_____	_____	_____	_____
Q. Determine any intercompany or interdepartmental profit to be eliminated in consolidation.	_____	_____	_____	_____
R. For significant amounts of inventory stored at outside locations, consider performing the following procedures:				
1. Review and test the owner's control procedures for investigating the warehouseman and evaluating the warehouseman's performance.	_____	_____	_____	_____
2. Obtain an independent accountant's report on the warehouseman's system of internal accounting control relevant to custody of goods and, if applicable, pledging of receipts, or apply alternative procedures at the warehouse to gain reasonable assurance that information received from the warehouseman is reliable.	_____	_____	_____	_____
3. Observe physical counts of the goods, if practicable and reasonable.	_____	_____	_____	_____
4. If warehouse receipts have been pledged as collateral, confirm with lenders pertinent details of the pledged receipts (on a test basis, if appropriate).	_____	_____	_____	_____
S. Additional procedures:				
_____				
_____				

**CONTRACTORS' TESTS OF BALANCES AUDIT PROGRAM (Continued)**

<u>Procedures</u>	<u>Done By</u>	<u>Date</u>	<u>N/A</u>	<u>W/P Ref.</u>
_____				
_____				

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

System B--all items counted at or near engagement date. Not all counts observed.

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

Prepared by: \_\_\_\_\_ Date \_\_\_\_\_

Reviewed by: \_\_\_\_\_ Date \_\_\_\_\_



## CONTRACTORS' TESTS OF BALANCES AUDIT PROGRAM

### VIII. MARKETABLE SECURITIES

**OBJECTIVES:** To determine the ownership and existence of the securities. To determine if securities are classified and recorded consistently in accordance with generally accepted accounting principles. To determine that all required disclosures have been made.

<u>Procedures</u>	<u>Done By</u>	<u>Date</u>	<u>N/A</u>	<u>W/P Ref.</u>
A. Review the results of the applicable section of the CONTRACTORS' ANALYTICAL PROCEDURES PROGRAM and assess impact on tests of balances.	_____	_____	_____	_____
B. Obtain a list of securities at engagement date including descriptions, number of shares, cost, carrying amount and market value. Trace balances to the general ledger. Review subsequent transactions to determine completeness of list.	_____	_____	_____	_____
C. Examine securities on hand at engagement date and obtain a receipt for their return.	_____	_____	_____	_____
D. Obtain confirmation of securities held by others at engagement date.	_____	_____	_____	_____
E. Test computations of _____ carrying amounts, including bond premium and discount amortization, accrued and earned income and gains or losses during the period.	_____	_____	_____	_____
F. Review published reporting services for stock dividends, exchanges, splits, etc.	_____	_____	_____	_____
G. For marketable equity securities, check computations of market values and determine that unrealized losses have been reflected properly.	_____	_____	_____	_____
H. For equity securities, check computations of current value at engagement date and date of report; challenge carrying amount.	_____	_____	_____	_____
I. For debt securities, review carrying basis and amortization.	_____	_____	_____	_____
J. Examine brokers' advices and/or directors' approval for major transactions during the period.	_____	_____	_____	_____

**CONTRACTORS' TESTS OF BALANCES AUDIT PROGRAM (Continued)**

<u>Procedures</u>	<u>Done By</u>	<u>Date</u>	<u>N/A</u>	<u>W/P Ref.</u>
K. Determine proper classification by reference to the nature of the security and management's intention (marketable securities, marketable equity securities, current or noncurrent).	_____	_____	_____	_____
L. Determine if any securities are pledged or restricted.	_____	_____	_____	_____
M. Additional procedures:				
_____				
_____				
_____				
_____	_____	_____	_____	_____

Prepared by: \_\_\_\_\_ Date \_\_\_\_\_

Reviewed by: \_\_\_\_\_ Date \_\_\_\_\_

**CONTRACTORS' TESTS OF BALANCES AUDIT PROGRAM**

**IX. PREPAID EXPENSES**

**OBJECTIVES:** To determine that the amounts represent actual costs that are proper charges against future operations. To determine that amortization, classification and disclosure are proper.

<u>Procedures</u>	<u>Done By</u>	<u>Date</u>	<u>N/A</u>	<u>W/P Ref.</u>
A. Review the applicable section of the CONTRACTORS' ANALYTICAL PROCEDURES PROGRAM and assess impact on tests of balances.	_____	_____	_____	_____
B. Obtain a schedule of prepaid insurance and expense. Review for reasonableness.	_____	_____	_____	_____
C. Inquire as to the adequacy of insurance coverage.	_____	_____	_____	_____
D. Obtain analysis of other prepaid expenses, deferred charges and intangibles. Investigate and support as considered necessary.	_____	_____	_____	_____
E. Additional procedures:				
_____				
_____				
_____				
_____				

Prepared by: \_\_\_\_\_ Date \_\_\_\_\_

Reviewed by: \_\_\_\_\_ Date \_\_\_\_\_

## CONTRACTORS' TESTS OF BALANCES AUDIT PROGRAM

### X. FIXED ASSETS

**OBJECTIVES:** To determine that balances in fixed asset accounts represent owned property recorded consistently in accordance with generally accepted accounting principles. To determine that all fixed assets are properly recorded. To determine that depreciation and amortization provisions are adequate and computed consistently in accordance with GAAP. To determine that leases have been consistently accounted for in accordance with GAAP. To determine that disclosures are adequate.

<u>Procedures</u>	<u>Done By</u>	<u>Date</u>	<u>N/A</u>	<u>W/P Ref.</u>
A. Review the results of the applicable sections of the CONTRACTORS' TESTS OF TRANSACTIONS and CONTRACTORS' ANALYTICAL PROCEDURES PROGRAMS and determine impact on tests of balances.	_____	_____	_____	_____
B. Obtain a schedule showing cost and accumulated depreciation and amortization by beginning balance, additions, retirements and ending balances and agree to the general ledger.	_____	_____	_____	_____
C. Obtain detailed schedules of additions and retirements:				
1. Vouch major additions to vendors' invoices, construction cost records, titles or deeds or contracts to determine assets are being recorded in accordance with GAAP.	_____	_____	_____	_____
2. Physically inspect _____ assets and/or examine tax bills, deeds, licenses, etc.	_____	_____	_____	_____
3. Determine that the capitalization policy is being consistently applied.	_____	_____	_____	_____
4. Determine the investment credit recapture on disposals. Summarize for tax return and provision computation.	_____	_____	_____	_____
D. Obtain or prepare a schedule of gain or loss on sale of assets. Trace major amounts to supporting documents and records and review for reasonableness.	_____	_____	_____	_____
E. Review repairs and maintenance, supplies, small tools and other accounts for any assets that should be capitalized.	_____	_____	_____	_____

**CONTRACTORS' TESTS OF BALANCES AUDIT PROGRAM (Continued)**

<u>Procedures</u>	<u>Done By</u>	<u>Date</u>	<u>N/A</u>	<u>W/P Ref.</u>
F. Determine the carrying amount of assets pledged on notes or other indebtedness.	_____	_____	_____	_____
G. Determine the cost of any significant fully depreciated assets being carried in the accounts if meaningful for disclosure purposes.	_____	_____	_____	_____
H. Inquire as to any significant expansion plans.	_____	_____	_____	_____
I. Review rental income and expense accounts to determine leased and subleased assets.	_____	_____	_____	_____
J. Perform a reasonableness test of depreciation and amortization by using average rates and lives and one-half year for additions and disposals.	_____	_____	_____	_____
K. Challenge reasonableness of assets' lives used for accounting and income tax purposes.	_____	_____	_____	_____
L. Challenge the reasonableness of the method used to charge equipment usage to jobs and test the calculations of rates.	_____	_____	_____	_____
M. Read client's depreciation schedules for consistency of methods and reasonableness. Test a selection of _____ computations. Agree schedule to general ledger. Consider deleting this step if step J results are acceptable.	_____	_____	_____	_____
N. Review lease agreements to determine if leases meet criteria for capitalization and see that they are accounted for properly.	_____	_____	_____	_____
1. Lease terms:				
a. Lease term (from-to)	_____	_____	_____	_____
b. Estimated economic life of property.	_____	_____	_____	_____
c. Fair value of property at inception of lease.	_____	_____	_____	_____
d. Minimum lease payments.	_____	_____	_____	_____
e. Executory cost provisions.	_____	_____	_____	_____
f. Renewal option terms.	_____	_____	_____	_____

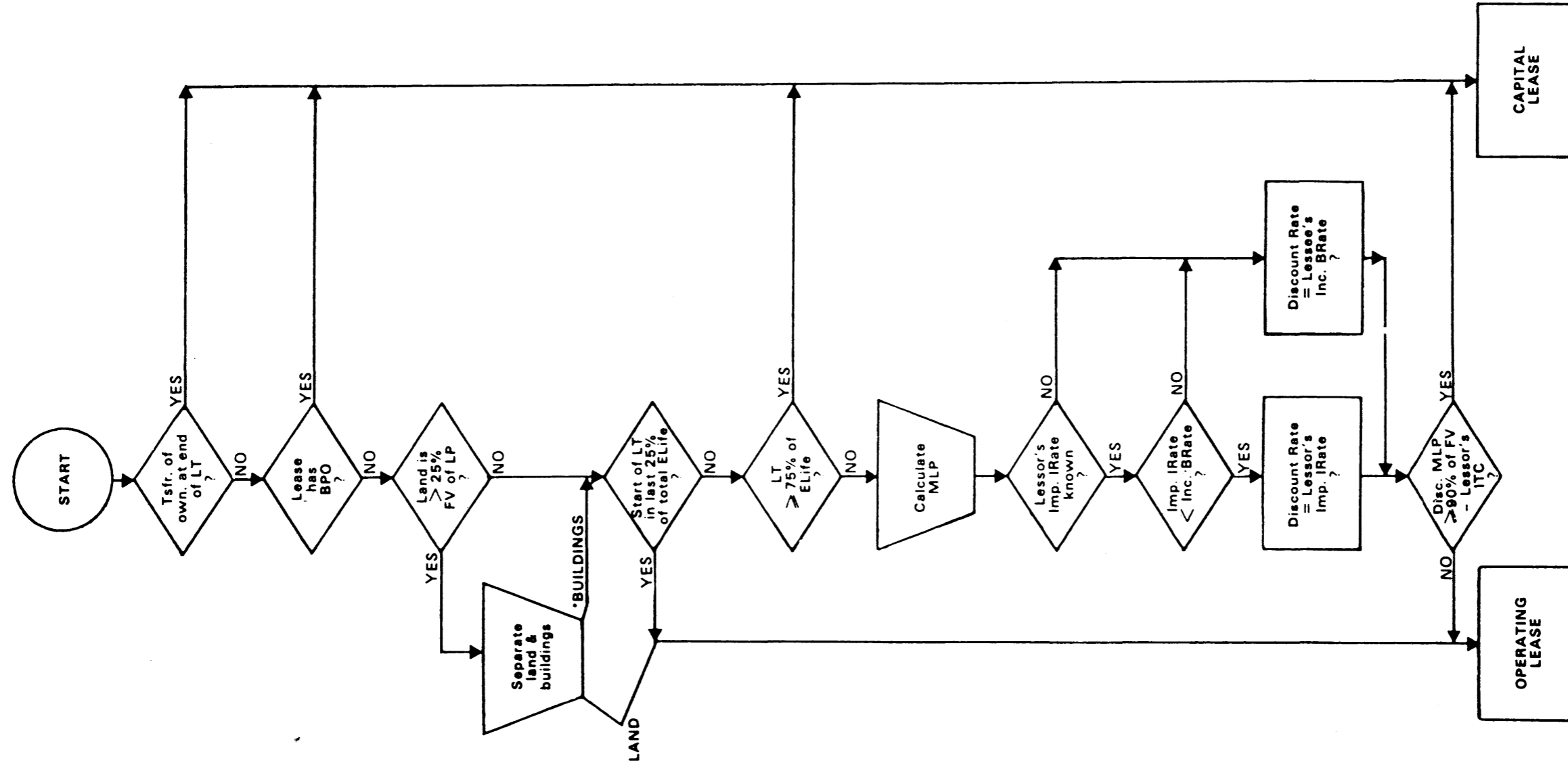
**CONTRACTORS' TESTS OF BALANCES AUDIT PROGRAM (Continued)**

<u>Procedures</u>	<u>Done By</u>	<u>Date</u>	<u>N/A</u>	<u>W/P Ref.</u>
g. Interest rate implicit in the lease (if known or determinable).	_____	_____	_____	_____
h. Client's incremental borrowing rate.	_____	_____	_____	_____
i. Present value of minimum lease payments (less estimated executory costs) at beginning of lease term.	_____	_____	_____	_____
j. Purchase option:				
(1) Amount.	_____	_____	_____	_____
(2) Terms (date, etc.).	_____	_____	_____	_____
k. Expected fair value of leased property at end of lease term.	_____	_____	_____	_____
2. "Type of lease" determination (see accompanying flowcharts).	_____	_____	_____	_____
O. Gather and document information for report disclosure and tax return preparation.	_____	_____	_____	_____
P. Consider and compute any capitalized interest.	_____	_____	_____	_____
Q. Additional procedures:				
_____				
_____				
_____				
_____				

Prepared by: \_\_\_\_\_ Date \_\_\_\_\_

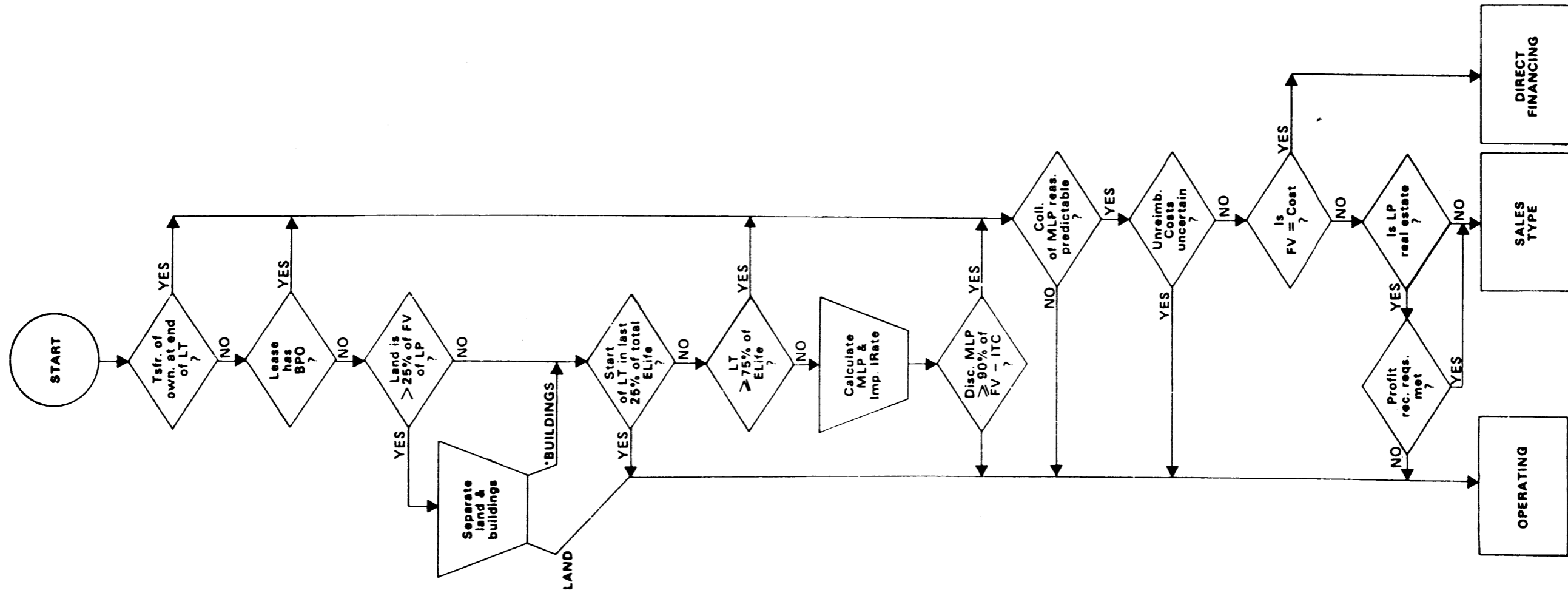
Reviewed by: \_\_\_\_\_ Date \_\_\_\_\_

LESSEE CLASSIFICATION OF A LEASE FLOWCHART



\*This document also addresses part of a building.

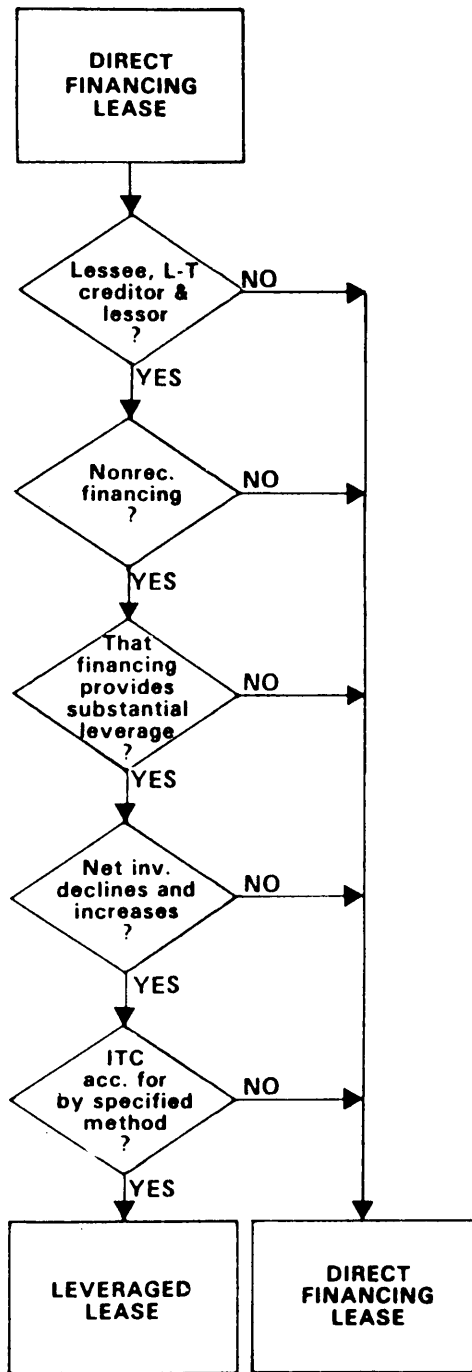
LESSOR CLASSIFICATION OF A LEASE FLOWCHART



\*This document also addresses part of a building.



LEVERAGED LEASE CLASSIFICATION FLOWCHART





## CONTRACTORS' TESTS OF BALANCES PROGRAM

### XI. INVESTMENTS AND OTHER ASSETS

**OBJECTIVES:** To determine ownership and existence of the investments or assets. To determine if investments and other assets are classified and recorded consistently in accordance with generally accepted accounting principles. To determine that all required disclosures have been made.

<u>Procedures</u>	<u>Done By</u>	<u>Date</u>	<u>N/A</u>	<u>W/P Ref.</u>
A. Review the results of the applicable section of the CONTRACTORS' ANALYTICAL PROCEDURES PROGRAM and assess impact on tests of balances.	_____	_____	_____	_____
B. Obtain schedules of investments and other assets and agree to general ledger.	_____	_____	_____	_____
C. Confirm:				
1. Securities held by others.	_____	_____	_____	_____
2. Cash surrender value of life insurance.	_____	_____	_____	_____
D. For life insurance, reconcile prepaid premiums at beginning of period, premiums paid and increase in cash surrender value with life insurance expense.	_____	_____	_____	_____
E. Review _____ calculations of investment earnings and related accruals for reasonableness.	_____	_____	_____	_____
F. Examine documentation supporting investment transactions during the year.	_____	_____	_____	_____
G. For equity investments, determine current value at engagement date and at report date. Challenge carrying amount.	_____	_____	_____	_____
H. If investments are carried on the equity method:				
1. Determine the company's equity in net assets at year-end and earnings (losses) and distributions for the year based on audited information.	_____	_____	_____	_____
2. Obtain a reconciliation of intercompany transactions and balances. Determine reasonableness.	_____	_____	_____	_____
3. Check computation of amortization of cost over book value.	_____	_____	_____	_____

**CONTRACTORS' TESTS OF BALANCES AUDIT PROGRAM (Continued)**

<u>Procedures</u>	<u>Done By</u>	<u>Date</u>	<u>N/A</u>	<u>W/P Ref.</u>
I. Determine if any investments are pledged or restricted.	_____	_____	_____	_____
J. For majority-owned subsidiaries, determine consolidated presentation complies with SFAS No. 94.	_____	_____	_____	_____
K. Additional procedures:				
_____				
_____				
_____				
_____				

Prepared by: \_\_\_\_\_ Date \_\_\_\_\_

Reviewed by: \_\_\_\_\_ Date \_\_\_\_\_

**CONTRACTORS' TESTS OF BALANCES AUDIT PROGRAM**

**XII. DEFERRED CHARGES AND INTANGIBLES**

**OBJECTIVES:** To determine that amounts represent actual charges that are properly classified. To determine that amortization methods and disclosures are in accordance with generally accepted accounting principles consistently applied.

<u>Procedures</u>	<u>Done By</u>	<u>Date</u>	<u>N/A</u>	<u>W/P Ref.</u>
A. Review results of the applicable section of the CONTRACTORS' ANALYTICAL PROCEDURES PROGRAM and assess impact on tests of balances.	_____	_____	_____	_____
B. Obtain schedules of deferred charges and intangibles and agree to general ledger.	_____	_____	_____	_____
C. Examine documentation supporting major transactions during the year.	_____	_____	_____	_____
D. Review capitalization policies and amortization computations as considered necessary.	_____	_____	_____	_____
E. Determine if there has been permanent impairment of carrying amounts.	_____	_____	_____	_____
F. Determine any required disclosures.	_____	_____	_____	_____
G. Additional procedures:				
_____				
_____				
_____				
_____				

Prepared by: \_\_\_\_\_ Date \_\_\_\_\_

Reviewed by: \_\_\_\_\_ Date \_\_\_\_\_

## CONTRACTORS' TESTS OF BALANCES AUDIT PROGRAM

### XIII. ACCOUNTS PAYABLE

**OBJECTIVES:** To determine all significant, existing liabilities are recorded at the proper amounts and that they are valid obligations of the entity. To determine that all classifications and disclosures are proper.

<u>Procedures</u>	<u>Done By</u>	<u>Date</u>	<u>N/A</u>	<u>W/P Ref.</u>
A. Review results of the applicable sections of the CONTRACTORS' TESTS OF TRANSACTIONS and CONTRACTORS' ANALYTICAL PROCEDURES PROGRAMS and assess impact on tests of balances.	_____	_____	_____	_____
B. Obtain a list of accounts payable, foot and agree to general ledger.	_____	_____	_____	_____
C. Trace _____ balances to the accounts payable subledger. Trace _____ additional balances from the subledger to the list. If a subledger is not in use (System B or C), or if the system's walk-through approach is used, trace _____ balances to supporting vendor statements or unpaid invoices.	_____	_____	_____	_____
D. Segregate amounts due to officers, employees, stockholders, affiliates and other related parties.	_____	_____	_____	_____
E. Send confirmation requests to _____ major suppliers and selected other accounts with zero balances. Reconcile and follow up on differences. (The number of requests can be reduced or eliminated for an A system.)	_____	_____	_____	_____
F. Review client reconciliations of available current vendors' statements to accounts payable subledger. Follow up on unresolved problems. (If a subledger is not in use, System B or C, or for the system's walk-through approach, step may not be applicable.)	_____	_____	_____	_____
G. Obtain the purchases journal (Systems A and B) and trace all entries over \$_____ for a period of _____ days after engagement date to supporting documents to determine recording in the proper period.	_____	_____	_____	_____
H. Obtain the cash disbursements journal and trace all entries over \$_____ for a period of _____ days after engagement date to supporting documents to determine recording in the proper period.	_____	_____	_____	_____

**CONTRACTORS' TESTS OF BALANCES AUDIT PROGRAM (Continued)**

<u>Procedures</u>	<u>Done By</u>	<u>Date</u>	<u>N/A</u>	<u>W/P Ref.</u>
I. Review the open receiving report, open purchase order and open purchase requisition files for _____ days after engagement date (Systems A and B) for unrecorded liabilities.	_____	_____	_____	_____
J. Review the open vendor invoice files for _____ days after the engagement date to determine recording in the proper period.	_____	_____	_____	_____
K. Investigate any disputed items which have not been recorded.	_____	_____	_____	_____
L. Determine that credit memos received _____ days after engagement date have been recorded in the proper period.	_____	_____	_____	_____
M. Determine any payables due after one year and consider imputing interest.	_____	_____	_____	_____
N. Classify accounts payable as follows:				
--Trade	_____	_____	_____	_____
--Subcontracts	_____	_____	_____	_____
--Subcontracts retainage-- current and noncurrent	_____	_____	_____	_____
--Material debt balances	_____	_____	_____	_____
--Due after one year	_____	_____	_____	_____
--Other	_____	_____	_____	_____
O. 1. Obtain a schedule of subcontracts in process and trace unpaid balances to accounts payable list.	_____	_____	_____	_____
2. Determine that all costs related to contracts in progress have been recorded in the construction contract cost subledger and considered in determining the percentage of completion.	_____	_____	_____	_____
P. Send confirmation requests to all major subcontractors. Confirm the following items from the client's records:				
1. Original contract amount.	_____	_____	_____	_____
2. Change order additions or deletions.	_____	_____	_____	_____

**CONTRACTORS' TESTS OF BALANCES AUDIT PROGRAM (Continued)**

<u>Procedures</u>	<u>Done By</u>	<u>Date</u>	<u>N/A</u>	<u>W/P Ref.</u>
3. Amended contract.	_____	_____	_____	_____
4. Total billings to date.	_____	_____	_____	_____
5. Balance due on contract.	_____	_____	_____	_____
6. Received to date.	_____	_____	_____	_____
7. Current receivable (payable to client).	_____	_____	_____	_____
8. Retainage receivable (payable to client).	_____	_____	_____	_____
Q. Additional procedures:				
_____				
_____				
_____				
_____				

Prepared by: \_\_\_\_\_ Date \_\_\_\_\_

Reviewed by: \_\_\_\_\_ Date \_\_\_\_\_



**CONTRACTORS' TESTS OF BALANCES AUDIT PROGRAM**

**XIV. ACCRUED EXPENSES, INCOME TAXES AND OTHER LIABILITIES**

**OBJECTIVES:** To determine all significant, existing liabilities are recorded at the proper amounts. To determine that all classifications and disclosures are proper. To determine that income taxes are recorded in accordance with generally accepted accounting principles.

<u>Procedures</u>	<u>Done By</u>	<u>Date</u>	<u>N/A</u>	<u>W/P Ref.</u>
A. Review results of the applicable section of the CONTRACTORS' ANALYTICAL PROCEDURES PROGRAM and assess impact on tests of balances.	_____	_____	_____	_____
B. Obtain a schedule of all accrued expenses and other liabilities and agree to general ledger.	_____	_____	_____	_____
C. Examine subsequent payments and supporting documents such as tax returns, depository receipts, tax receipts, etc.	_____	_____	_____	_____
D. Test calculations of accrued expenses and examine support as considered necessary.	_____	_____	_____	_____
E. Discuss with management any accrued expenses or liabilities at last engagement date not provided for currently. Be alert for unrecorded liabilities such as warranty costs, legal fees, compensated absences, etc.	_____	_____	_____	_____
F. Obtain analysis of all balance sheet and earnings statement federal and state income tax accounts. Examine supporting documents and challenge for reasonableness.	_____	_____	_____	_____
G. Review the reconciliation of earnings (loss) per books with the tax returns and the computation of current and deferred income tax expense and liabilities. Determine that deferred taxes have been accounted for under the liability method required by SFAS No. 96.	_____	_____	_____	_____
H. Determine any disparate relationships between pretax earnings and income tax expense which should be disclosed.	_____	_____	_____	_____
I. Investigate the status of any unsettled prior years' tax matters and recent RARs. Determine impact of prior years' settlements on current year.	_____	_____	_____	_____
J. Review a schedule of net operating loss carryovers and unused investment tax credits for propriety.	_____	_____	_____	_____

**CONTRACTORS' TESTS OF BALANCES AUDIT PROGRAM (Continued)**

<u>Procedures</u>	<u>Done By</u>	<u>Date</u>	<u>N/A</u>	<u>W/P Ref.</u>
K. Complete a TAX RETURN PREPARATION CHECKLIST.	_____	_____	_____	_____
L. Obtain tax department review of the income tax working papers.	_____	_____	_____	_____
M. Obtain income tax disclosure information:				
1. Classification of deferred taxes on the balance sheet.	_____	_____	_____	_____
2. Composition of provision, i.e., amounts of taxes currently payable and deferred, any investment tax credits or operating loss carry-overs, rate adjustments, changes in entity, etc.	_____	_____	_____	_____
3. Prior-period adjustment allocations.	_____	_____	_____	_____
N. Consider additional tax liabilities to any new states in which client does business.	_____	_____	_____	_____
O. Additional procedures:				
_____				
_____				
_____				
_____	_____	_____	_____	_____

Prepared by: \_\_\_\_\_ Date \_\_\_\_\_

Reviewed by: \_\_\_\_\_ Date \_\_\_\_\_

## CONTRACTORS' TESTS OF BALANCES AUDIT PROGRAM

### XV. NOTES PAYABLE AND LONG-TERM DEBT

**OBJECTIVES:** To determine all existing notes and debts are recorded and classified properly. To obtain all information for report disclosures.

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

**CONTRACTORS' TESTS OF BALANCES AUDIT PROGRAM (Continued)**

<u>Procedures</u>	<u>Done By</u>	<u>Date</u>	<u>N/A</u>	<u>W/P Ref.</u>
L. Review or recompute the computation of balances in capitalized lease obligations accounts. Gather information for report disclosure.	_____	_____	_____	_____
M. Additional procedures:				
_____				
_____				
_____				
_____	_____	_____	_____	_____

Prepared by: \_\_\_\_\_ Date \_\_\_\_\_

Reviewed by: \_\_\_\_\_ Date \_\_\_\_\_

**CONTRACTORS' TESTS OF BALANCES AUDIT PROGRAM**

**XVI. CONTINGENT LIABILITIES, CONTRACTS AND COMMITMENTS**

**OBJECTIVES:** To obtain information for evaluation and adjustment or footnote and/or report disclosure.

<u>Procedures</u>	<u>Done By</u>	<u>Date</u>	<u>N/A</u>	<u>W/P Ref.</u>
A. Discuss with management their description and evaluation of possible and existing litigation, claims and assessments, including violations of laws.	_____	_____	_____	_____
B. Examine all available documents concerning these matters.	_____	_____	_____	_____
C. Request letter from client's attorneys regarding contingencies and commitments and other matters. Investigate reasons for any changes in legal counsel.	_____	_____	_____	_____
D. Review minutes of directors' meetings and discuss all pertinent items with management. Make excerpts and agree to applicable working papers.	_____	_____	_____	_____
E. Analyze legal expense for any undisclosed matters.	_____	_____	_____	_____
F. Obtain a schedule of any purchase contracts or commitments.	_____	_____	_____	_____
G. Investigate any product warranties.	_____	_____	_____	_____
H. Obtain or prepare a schedule of open letters of credit.	_____	_____	_____	_____
I. Obtain information on any endorsements guarantees, or indemnification of debts on bonds of others.	_____	_____	_____	_____
J. If considered necessary, obtain UCC information and agree to notes payable and debt working papers.	_____	_____	_____	_____
K. Obtain copies and amendments for all pension plans. Confirm pension information with actuaries, insurance companies or other trustee.	_____	_____	_____	_____
L. Obtain a copy of the actuarial report and/or trustee's pension fund report and determine:				
1. Actuarial information agrees with client's records.	_____	_____	_____	_____
2. The accounting and funding policies, and employee groups covered by the plans.	_____	_____	_____	_____

**CONTRACTORS' TESTS OF BALANCES AUDIT PROGRAM (Continued)**

<u>Procedures</u>	<u>Done By</u>	<u>Date</u>	<u>N/A</u>	<u>W/P Ref.</u>
3. Adequate provision has been made for current obligations.	_____	_____	_____	_____
4. Pension cost provisions agree.	_____	_____	_____	_____
5. Report disclosure information is available.	_____	_____	_____	_____
6. Compliance with SFAS Nos. 87 and 88.	_____	_____	_____	_____
M. Additional procedures:				
_____				
_____				
_____				
_____				

Prepared by: \_\_\_\_\_ Date \_\_\_\_\_

Reviewed by: \_\_\_\_\_ Date \_\_\_\_\_

## CONTRACTORS' TESTS OF BALANCES AUDIT PROGRAM

### XVII. STOCKHOLDERS' EQUITY

**OBJECTIVES:** To determine that amounts of, and transactions in, stockholders' equity are presented in accordance with generally accepted accounting principles, including adequate disclosure.

<u>Procedures</u>	<u>Done By</u>	<u>Date</u>	<u>N/A</u>	<u>W/P Ref.</u>
A. Update or obtain a listing of all capital stock issued and outstanding, treasury stock and other equity accounts transactions during the year and agree to the general ledger.	_____	_____	_____	_____
B. Examine minutes, articles of incorporation or other documents in support of transactions.	_____	_____	_____	_____
C. Verify outstanding stock by agreeing open stubs in stock certificate book to the listing or confirm with the transfer agent the total issued shares and the total shares issued in the Company's name. Determine that surrendered certificates have been canceled and accounted for.	_____	_____	_____	_____
D. Inspect or confirm treasury stock certificates.	_____	_____	_____	_____
E. Determine that declared and unpaid dividends are properly recorded. Compare paid dividends to Directors' minutes.	_____	_____	_____	_____
F. Determine and document any restrictions on equity accounts.	_____	_____	_____	_____
G. Inquire as to any options, warrants, stock purchase plans at engagement date.	_____	_____	_____	_____
H. Obtain information for each class of stock concerning preferences, dividend requirements and arrearages, redemption or conversion rights and call provisions for disclosure.	_____	_____	_____	_____

**CONTRACTORS' TESTS OF BALANCES AUDIT PROGRAM (Continued)**

<u>Procedures</u>	<u>Done By</u>	<u>Date</u>	<u>N/A</u>	<u>W/P Ref.</u>
I. Additional procedures:				
_____				
_____				
_____				
_____				

Prepared by: \_\_\_\_\_ Date \_\_\_\_\_

Reviewed by: \_\_\_\_\_ Date \_\_\_\_\_



# CONTRACTORS' TESTS OF BALANCES AUDIT PROGRAM

## XVIII. POST-BALANCE SHEET REVIEW

**OBJECTIVES:** To consider events and transactions from engagement date to the last day of fieldwork and the need to adjust the current financial statements and/or make footnote and/or report disclosure for any circumstances affecting the year under examination.

Procedures	Done By	Date	N/A	W/P Ref.
A. If available, review financial statements and schedules or general ledger and source journals of the company for the period subsequent to the engagement date to _____ (date of last day of fieldwork).	_____	_____	_____	_____
B. Refer to latest reconciliations of major bank accounts and inquire into any unusual items.	_____	_____	_____	_____
C. Refer to latest aging of accounts receivable and compare with aging totals at the engagement date. Inquire into material or troublesome accounts.	_____	_____	_____	_____
D. Discuss with company management and investigate the following matters for the period from engagement date to the date of our opinion (Names of management should be recorded in working papers):				
1. Company operations and market conditions.	_____	_____	_____	_____
2. Sales and profit trends of the company compared to trends in the industry.	_____	_____	_____	_____
3. Increases or decreases in sales prices of company's products and in basic raw material prices. Consider impact on inventory valuation at engagement date.	_____	_____	_____	_____
4. Subsequent bookings or cancellations of sales orders.	_____	_____	_____	_____
5. Status of items accounted for at engagement date based on tentative data.	_____	_____	_____	_____
6. Commitments or plans for major purchases of capital additions or material and consideration of possible losses due to price trends.	_____	_____	_____	_____
7. Federal taxes--changes in law, agents' reports, deficiency assessments, etc.	_____	_____	_____	_____

**CONTRACTORS' TESTS OF BALANCES AUDIT PROGRAM (Continued)**

<u>Procedures</u>	<u>Done By</u>	<u>Date</u>	<u>N/A</u>	<u>W/P Ref.</u>
8. Renegotiation and price redetermination under government contracts--possible effect and proceedings, if any.	_____	_____	_____	_____
9. Pending lawsuits.	_____	_____	_____	_____
10. Liabilities in dispute or being contested, such as customers' claims, creditors' invoices or claims, warranties, guarantees, state and local tax assessments.	_____	_____	_____	_____
11. Dividends declared or paid.	_____	_____	_____	_____
12. Losses of important customers, exceptional bad debt losses, or pledging of receivables.	_____	_____	_____	_____
13. Changes in accounting and financial policies.	_____	_____	_____	_____
14. New pension plans.	_____	_____	_____	_____
15. New borrowings, issues of capital stock or other financing, including any new dividend restrictions or important related covenants.	_____	_____	_____	_____
16. Potential losses on marketable securities, carrying amounts of equity investments, receivables, inventory or other assets not already considered.	_____	_____	_____	_____
17. Potential disclosure of investee activities.	_____	_____	_____	_____
18. Regulatory commissions or governmental body requirements or laws that could adversely affect the company.	_____	_____	_____	_____
19. Purchase or sale of major plant and equipment; destructions or abandonments of plant, etc.	_____	_____	_____	_____
20. Status and impact of wage negotiations in progress.	_____	_____	_____	_____
21. Effect of changes in management, development of substitute products, model changes, lives of business, etc.	_____	_____	_____	_____

**CONTRACTORS' TESTS OF BALANCES AUDIT PROGRAM (Continued)**

<u>Procedures</u>	<u>Done By</u>	<u>Date</u>	<u>N/A</u>	<u>W/P Ref.</u>
22. Significant matters in letters to us from the company's legal counsel. (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 our report.)	_____	_____	_____	_____
23. Related-party transactions.	_____	_____	_____	_____
24. Read and excerpt the available minutes of meetings of stockholders, directors, and other executive committees of the company. Inquire as to meetings for which minutes are not available and as to matters discussed at such meetings, and obtain a letter from management confirming the subject matters discussed and any decisions reached which are to be incorporated in the formal minutes of such meetings.	_____	_____	_____	_____
25. Consider adjustment of year-end financial statements or disclosure of any items resulting from the above procedures.	_____	_____	_____	_____
E. For construction contracts, perform the following:				
1. Contracts in process at engagement date:				
a. For all significant contracts, determine the accuracy of total estimated costs and gross profit used at engagement date:				
(1) If contract is complete at post-balance sheet review date, compare the total estimated cost used to the actual cost incurred.	_____	_____	_____	_____
(2) If contract is still in process at post-balance sheet review date, update work previously done on total estimated costs to determine whether any changes have occurred which would significantly affect the contract gross profit.	_____	_____	_____	_____
b. Refer to latest aging of accounts receivable and compare with aging at engagement date. Inquire into material or troublesome accounts. If necessary, correspond again with the company's legal counsel.	_____	_____	_____	_____

**CONTRACTORS' TESTS OF BALANCES AUDIT PROGRAM (Continued)**

<u>Procedures</u>	<u>Done By</u>	<u>Date</u>	<u>N/A</u>	<u>W/P Ref.</u>
c. Beware of hidden reserves for estimated costs of call-back work after contract completion.	_____	_____	_____	_____
2. Contracts obtained after engagement date:				
a. Determine the nature and estimated profitability of contracts obtained after yearend:				
(1) Review the estimate-bid file and ascertain whether the company's add-on for profit and contingencies allows a normal profit margin.	_____	_____	_____	_____
(2) Review bid results. Determine the company's bid is not unreasonable in comparison to bids of competitors.	_____	_____	_____	_____
b. For contracts obtained after yearend, evaluate the impact, if any, on the financial statements and your report.	_____	_____	_____	_____
3. Inquire about and investigate any subsequent cancellations of contracts.	_____	_____	_____	_____
F. Discuss contents of representation letter with management and obtain appropriate signatures.	_____	_____	_____	_____
G. Additional procedures:				
_____				
_____				
_____				
_____	_____	_____	_____	_____

Prepared by: \_\_\_\_\_ Date \_\_\_\_\_

Reviewed by: \_\_\_\_\_ Date \_\_\_\_\_

# CONTRACTORS' TESTS OF BALANCES AUDIT PROGRAM

## XIX. RELATED-PARTY TRANSACTIONS

**OBJECTIVES:** To identify related parties and related-party transactions. To determine if the substance of such transactions is reflected in the accounts. To obtain all information necessary for footnote and/or report disclosure.

<u>Procedures</u>	<u>Done By</u>	<u>Date</u>	<u>N/A</u>	<u>W/P Ref.</u>
A. Make inquiries of management about related parties, obtain related-party confirmation if applicable, and inquire about any recorded or unrecorded transactions during the year.	_____	_____	_____	_____
B. Obtain names of stockholders and directors for evidence of related-party transactions.	_____	_____	_____	_____
C. Review last year's working papers for evidence of related-party transactions.	_____	_____	_____	_____
D. Ask predecessor auditors about related parties.	_____	_____	_____	_____
E. Investigate transactions with major customers, suppliers and lenders for undisclosed relationships.	_____	_____	_____	_____
F. Review minutes of stockholders' and directors' meetings for evidence of related parties.	_____	_____	_____	_____
G. Be alert for potential related-party transactions while examining confirmations of receivables and payables, large unusual transactions and attorneys' letters.	_____	_____	_____	_____
H. Obtain a list of major customers, amounts of sales during the year and amounts of receivables at yearend. Agree to detail client records. Consider disclosure.	_____	_____	_____	_____
I. Examine supporting documents of significant related-party transactions to determine:				
1. Business purpose.	_____	_____	_____	_____
2. Board of Directors' approval.	_____	_____	_____	_____
3. Reasonableness and consistency of amounts to be disclosed.	_____	_____	_____	_____
4. Financial capabilities of related parties.	_____	_____	_____	_____

**CONTRACTORS' TESTS OF BALANCES AUDIT PROGRAM (Continued)**

<u>Procedures</u>	<u>Done By</u>	<u>Date</u>	<u>N/A</u>	<u>W/P Ref.</u>
J. Additional procedures:				
_____				
_____				
_____				
_____				

Prepared by: \_\_\_\_\_ Date \_\_\_\_\_

Reviewed by: \_\_\_\_\_ Date \_\_\_\_\_

**CONTRACTORS' TESTS OF BALANCES AUDIT PROGRAM**

**XX. SALES**

**OBJECTIVES:** To determine that all revenues are recorded and that they apply to the current period, that they are properly matched with related costs, that they are classified properly and that revenue is recognized consistently in accordance with generally accepted accounting principles.

<u>Procedures</u>	<u>Done By</u>	<u>Date</u>	<u>N/A</u>	<u>W/P Ref.</u>
A. Review the results of the applicable sections of the CONTRACTORS' TESTS OF TRANSACTIONS and CONTRACTORS' ANALYTICAL PROCEDURES PROGRAMS and assess impact on tests of balances.	_____	_____	_____	_____
B. Scan source journals for _____ periods for major transactions. Determine that they are accounted for properly. Follow up on any unusual or related-party transactions.	_____	_____	_____	_____
* C. Obtain or prepare a schedule of monthly sales by financial statement classification.	_____	_____	_____	_____
* D. Compare schedule to prior periods and investigate large or unusual fluctuations.	_____	_____	_____	_____
** E. Additional procedures:				
_____				
_____				
_____				
_____				

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

**CONTRACTORS' TESTS OF BALANCES AUDIT PROGRAM (Continued)**

\*\* If no transactions tests are performed, predictive analytical procedures, or other special procedures, may be necessary to verify the completeness assertion for revenues. Transactions tests of the payroll and payments and acquisitions cycles that include tracing source journal entries to the construction contract cost subledger contribute evidence for verifying the completeness assertion of contract revenues.

Prepared by: \_\_\_\_\_ Date \_\_\_\_\_

Reviewed by: \_\_\_\_\_ Date \_\_\_\_\_



**CONTRACTORS' TESTS OF BALANCES AUDIT PROGRAM**

**XXI. COSTS OF SALES**

**OBJECTIVES:** To determine that costs of sales are recorded in the proper period, properly classified and presented consistently in accordance with generally accepted accounting principles.

<u>Procedures</u>	<u>Done By</u>	<u>Date</u>	<u>N/A</u>	<u>W/P Ref.</u>
A. Review the results of the applicable sections of the CONTRACTORS' TESTS OF TRANSACTIONS and CONTRACTORS' ANALYTICAL PROCEDURES PROGRAMS and assess impact on tests of balances.	_____	_____	_____	_____
B. If major, unexplained variances exist, scan entries in source journals and investigate timing, size and method of recording unusual items. Discuss findings with management.	_____	_____	_____	_____
C. Additional procedures:				
_____				
_____				
_____				
_____				

Prepared by: \_\_\_\_\_ Date \_\_\_\_\_

Reviewed by: \_\_\_\_\_ Date \_\_\_\_\_



**CONTRACTORS' TESTS OF BALANCES AUDIT PROGRAM (Continued)**

<u>Procedures</u>	<u>Done By</u>	<u>Date</u>	<u>N/A</u>	<u>W/P Ref.</u>
a. Charges accumulated on cost-plus type contracts which are not reimbursable -- such charges should be segregated on contractor's cost records.	_____	_____	_____	_____
b. Excessive charges for contractor's equipment used on the job site. The rates charged should be designed to absorb all applicable costs, including but not in excess of actual overhead.	_____	_____	_____	_____
c. Charges for rented equipment, with option to buy. Review the acquisition of construction equipment in this manner and give due consideration to wear and tear on the equipment at the job site, estimated future life, fair market value, etc., in determining the propriety of the contractor's accounting treatment.	_____	_____	_____	_____
d. The contractor's policy with respect to overhead. The overhead applied should not be in excess of actual overhead and should not include elements of idle plant or equipment expense or other abnormal costs. Allocation of general and administrative expense to contracts in process is occasionally justified to avoid distortion of the income of contractors using the completed contract basis of recognizing income.	_____	_____	_____	_____
B. If the client is a general contractor and substantial portions of the project are to be undertaken by subcontractors, also examine the subcontracts and prepare a similar schedule.	_____	_____	_____	_____
C. As determined during planning, arrange for site visits to contract locations. (Any material or troublesome jobs should be visited at or near yearend.) Consider the following:				
1. Obtaining estimates of percentage of completion from job foreman or superintendent and discussing job status and problems. Taking photographs is a good method of documenting visit and percentage of completion.	_____	_____	_____	_____

**CONTRACTORS' TESTS OF BALANCES AUDIT PROGRAM (Continued)**

<u>Procedures</u>	<u>Done By</u>	<u>Date</u>	<u>N/A</u>	<u>W/P Ref.</u>
2. Reviewing on-site security.	_____	_____	_____	_____
3. Obtaining a list of numbers and copies of on-site supplies of receiving reports, purchase orders, material requisitions or other accounting and operations documents and documenting on-site internal control procedures.	_____	_____	_____	_____
4. Taking inventory of equipment and determining if it is being utilized effectively.	_____	_____	_____	_____
5. Making a controlled payoff. (See TOTs Payroll Program for procedures.)	_____	_____	_____	_____
6. Observing and documenting materials inventory not yet used in construction. (If significant, it may be advisable to take a physical inventory.)	_____	_____	_____	_____
7. Counting any cash funds at sites.	_____	_____	_____	_____
8. Documenting any unprocessed invoices on hand.	_____	_____	_____	_____
D. Obtain a schedule of contracts in progress at engagement date. At a minimum, this schedule should show the following:				
-- Contract name and job number.	_____	_____	_____	_____
-- Progress billings to date, including retentions.	_____	_____	_____	_____
* -- Remaining to be billed.	_____	_____	_____	_____
-- Total amended contract amount including change orders to date.	_____	_____	_____	_____
-- Total costs incurred to date by category, including retainage payable and any costs discovered in the search for unrecorded liabilities. (Agree to contract cost subledger by job.)	_____	_____	_____	_____
-- Estimated additional costs to complete by category.	_____	_____	_____	_____
-- Total estimated costs.	_____	_____	_____	_____
-- Estimated gross profit amount.	_____	_____	_____	_____

**CONTRACTORS' TESTS OF BALANCES AUDIT PROGRAM (Continued)**

<u>Procedures</u>	<u>Done By</u>	<u>Date</u>	<u>N/A</u>	<u>W/P Ref.</u>
-- Estimated gross profit percentage.	_____	_____	_____	_____
-- Percentage of completion (costs to date divided by total estimated cost).	_____	_____	_____	_____
-- Profit recognized to date.	_____	_____	_____	_____
* -- Collections to date.	_____	_____	_____	_____
* -- Balance of contract receivables.	_____	_____	_____	_____
-- Billings in excess of costs and estimated earnings.	_____	_____	_____	_____
-- Costs and estimated earnings in excess of billings.	_____	_____	_____	_____
-- Losses to be recognized.	_____	_____	_____	_____
* These amounts may be included on a separate schedule or on contract receivable working papers.				
1. Agree progress billings to date, amounts remaining to be billed, and total amended contract amounts to confirmations in accounts receivable working papers.	_____	_____	_____	_____
2. Costs incurred to date:				
a. For all contracts, trace costs incurred to date to construction contract cost subledger. Payroll should be traced to payroll summaries that reconcile to the general ledger.	_____	_____	_____	_____
b. If System A or B transactions tests have not been performed, select _____ contracts completed during the year and _____ contracts in progress at the engagement date and perform the following:				
(1) Select _____ representative entries on the construction contract cost subledger for payroll, materials, equipment and overhead charges and trace to appropriate source journal. Examine appropriate underlying support for charges. For subcontractor costs, perform the following:				

**CONTRACTORS' TESTS OF BALANCES AUDIT PROGRAM (Continued)**

<u>Procedures</u>	<u>Done By</u>	<u>Date</u>	<u>N/A</u>	<u>W/P Ref.</u>
i. Examine the contractor's agreements with subcontractors.	_____	_____	_____	_____
ii. Compare charges made by subcontractor with contract agreement or purchase orders issued by general contractor.	_____	_____	_____	_____
iii. Compare change orders for terms of payment and method of billing with contract or purchase order.	_____	_____	_____	_____
iv. Review for liens or claims of the subcontractor.	_____	_____	_____	_____
v. Compare confirmation replies from subcontractor to amounts included in construction contract cost subledger.	_____	_____	_____	_____
vi. Compare subcontract percentage of completion to overall contract percentage of completion.	_____	_____	_____	_____
(2) Select _____ representative entries from all source journals affecting construction contract cost subledger and trace to the subledger to determine posting to the proper job in the proper period and amount.	_____	_____	_____	_____
(3) Compare total estimated costs, and estimated costs to complete, on all significant uncompleted contracts to supporting documentation. Review summary and detail estimates and change orders, test mathematical and clerical accuracy of the documentation, review correspondence files and discuss estimates with owner or manager and other financial management personnel. Evaluate the reasonableness of estimated costs. (Note--This step may not be necessary if System A or B transactions tests have been satisfactorily performed.)	_____	_____	_____	_____

**CONTRACTORS' TESTS OF BALANCES AUDIT PROGRAM (Continued)**

<u>Procedures</u>	<u>Done By</u>	<u>Date</u>	<u>N/A</u>	<u>W/P Ref.</u>
3. Review the construction contract cost subledger and investigate any unusual entries. Reconcile the subledger to the general ledger and to the schedules for contracts in process and completed contracts.	_____	_____	_____	_____
4. Review and recalculate payroll overhead allocations in the subledger on a test basis. Determine if the allocations are consistent with actual payroll overhead incurred.	_____	_____	_____	_____
5. Review and test the allocations for other job costs including any job overhead.	_____	_____	_____	_____
6. Determine that costs incurred to date include any amounts found in the audit of accounts payable.	_____	_____	_____	_____
7. Determine that costs incurred to date do not include:				
a. Charges on cost-plus type contracts that cannot be billed.	_____	_____	_____	_____
b. Excessive charges for owned equipment and certain rental payments where the company has an option to buy.	_____	_____	_____	_____
c. Overhead charges which are not directly related to contracts.	_____	_____	_____	_____
8. Estimated additional costs and total estimated costs:				
a. For all major contracts, obtain a schedule which compares the original contract and total cost amounts with the amounts at engagement date. Investigate any unusual variations with engineering personnel who are responsible for the specific contracts. Document reasons for the changes and the dollar amounts involved.	_____	_____	_____	_____
b. Select _____ major contracts and perform the following:				
(1) Obtain a schedule of costs incurred to date and estimated additional costs by job phase or cost category.	_____	_____	_____	_____

**CONTRACTORS' TESTS OF BALANCES AUDIT PROGRAM (Continued)**

<u>Procedures</u>	<u>Done By</u>	<u>Date</u>	<u>N/A</u>	<u>W/P Ref.</u>
i. Compare total estimated costs shown above with original bid estimate by individual item. Make sure any possible penalties for late completion are included in estimated costs.	_____	_____	_____	_____
ii. Investigate any unusual variations with engineering personnel who are responsible for the specific contracts. Document the reasons for the changes and the dollar amounts involved.	_____	_____	_____	_____
(2) Verify the reasonableness of estimated costs to complete by reference to the following:				
i. Information obtained during job site visits, such as knowledge of a potential problem.	_____	_____	_____	_____
ii. Commitment file for uncompleted subcontracting work.	_____	_____	_____	_____
iii. Open purchase order file.	_____	_____	_____	_____
iv. A review of reports of independent architects and engineers and any interim financial data.	_____	_____	_____	_____
v. Discussions with contractor's engineering personnel and project managers who are responsible for the contracts.	_____	_____	_____	_____
vi. Comparison against actual costs that were incurred in subsequent period.	_____	_____	_____	_____
9. Estimated gross profit amount and estimated gross profit percentage:				
a. On all major contracts, compare the estimated gross profit percentage with actual historical gross profit percentages obtained on similar contracts. Compare percentage of completion based on estimated costs, cubic yards, or engineering				



**CONTRACTORS' TESTS OF BALANCES AUDIT PROGRAM (Continued)**

<u>Procedures</u>	<u>Done By</u>	<u>Date</u>	<u>N/A</u>	<u>W/P Ref.</u>
or architectural estimates to estimates obtained during job site visits. Obtain explanations for any unusual variations.	_____	_____	_____	_____
b. For all major contracts that were in progress at the previous audit date, compare the estimated gross profit amount and percentage at that date with current data, including completed contract schedules. Determine if the estimates previously used were reliable.	_____	_____	_____	_____
c. Determine that incentive hours, provisions for early completions or for low costs in cost-plus type contracts are taken into account in computing the estimated profits on contracts. As an overall test of contract profitability, compare the amount of the contract awarded to the client with the amounts bid by other contractors for a sample of _____ major contracts. Investigate significant differences.	_____	_____	_____	_____
d. Investigate any contract which shows an abnormally low gross profit and evaluate the possibility of a potential loss.	_____	_____	_____	_____
e. For any contract with a potential loss, full provision for the loss should be made in the current period, regardless of the contractor's method of recognizing contract profits. However, if there is a close relationship between profitable and unprofitable contracts, such as in the case of contracts which are parts of the same project, the group may be treated as a unit in determining the necessity for a provision for loss.	_____	_____	_____	_____
f. Determine that the percentage of completion on the contracts in progress schedule is reasonable and a true measure of actual contract completion.	_____	_____	_____	_____
g. Consider propriety of disregarding certain costs as a measure of performance in the early stages of a contract for the purpose of determining estimated profits. All or a portion of the cost of materials and subcontracts could be excluded if it appears that such exclusion would result in more	_____	_____	_____	_____

**CONTRACTORS' TESTS OF BALANCES AUDIT PROGRAM (Continued)**

<u>Procedures</u>	<u>Done By</u>	<u>Date</u>	<u>N/A</u>	<u>W/P Ref.</u>
meaningful periodic allocation of income. Examples of such situations include when substantial quantities of materials may have been accumulated on a job site but not used or when engineering or architectural fees have been incurred which may, for example, represent 15% of total estimated costs when work performance on the contract is only 5% complete.	_____	_____	_____	_____
E. 1. Obtain a detail schedule of contracts completed at engagement date. Use the following column headings:				
-- Contract name and number.	_____	_____	_____	_____
-- Contract description.	_____	_____	_____	_____
* -- Cash received.	_____	_____	_____	_____
* -- Accounts receivable.	_____	_____	_____	_____
-- Total revenues:				
-- Recognized in the prior period.	_____	_____	_____	_____
-- Recognized in the current period.	_____	_____	_____	_____
-- Total costs:				
-- Recognized in the prior period.	_____	_____	_____	_____
-- Recognized in the current period.	_____	_____	_____	_____
-- Gross profit amount:				
-- Recognized in the prior period.	_____	_____	_____	_____
-- Recognized in the current period.	_____	_____	_____	_____
-- Gross profit percentage.	_____	_____	_____	_____
* These amounts may be included on a separate schedule or in the contracts receivable working papers.				
2. Agree contracts to the accounts receivable working papers.	_____	_____	_____	_____

**CONTRACTORS' TESTS OF BALANCES AUDIT PROGRAM (Continued)**

<u>Procedures</u>	<u>Done By</u>	<u>Date</u>	<u>N/A</u>	<u>W/P Ref.</u>
3. Agree total costs to the construction contract cost subledger.	_____	_____	_____	_____
4. For contracts that were in progress at the previous engagement date, compare the estimated gross profit amount at that date to the actual gross profit to determine if estimates were reliable.	_____	_____	_____	_____
5. Determine that contracts are completed. A contract may be considered complete when it is completed, or is substantially completed. Substantially completed means remaining costs are not significant in amount. The company's policy must be consistent.	_____	_____	_____	_____
6. Review pertinent details extracted from the contract files in program steps A and B above. Determine that contract gross profit has been reasonably stated.	_____	_____	_____	_____
7. Maintain completed contract data in permanent file for use as a reference on future engagements.	_____	_____	_____	_____
F. The management representation letter should include the following:				
-- Method of income recognition used and, if applicable, percentage of completion on major contracts.	_____	_____	_____	_____
-- Provision for losses on contracts.	_____	_____	_____	_____
-- Reasonableness of estimated costs to complete.	_____	_____	_____	_____
-- Unapproved change orders, claims and contract postponements or cancellations.	_____	_____	_____	_____
-- Any subordination or waiving of contract rights to lenders or others.	_____	_____	_____	_____
G. Perform the following for contract revenues and costs:				
1. Obtain a schedule of contract revenues and costs for completed and uncompleted contracts. Reconcile to the general ledger and financial statement balances.	_____	_____	_____	_____

**CONTRACTORS' TESTS OF BALANCES AUDIT PROGRAM (Continued)**

<u>Procedures</u>	<u>Done By</u>	<u>Date</u>	<u>N/A</u>	<u>W/P Ref.</u>
2. Analyze gross profit margins on all significant completed contracts and investigate any unusually high or low profit margins.	_____	_____	_____	_____
a. For uncompleted contracts, compare profit margins with the final results in similar closed contracts.	_____	_____	_____	_____
b. Compare the final profit on completed contracts with the estimated profit on those contracts in the prior year to evaluate the company's historical experience.	_____	_____	_____	_____
c. If major, unexplained variances exist, scan entries in source journals and investigate timing, size and method of recording unusual items. Discuss findings with management.	_____	_____	_____	_____
3. For _____ contracts, compare date of progress billings cutoff to date of cutoff for job cost postings. Compare billings and retainage with contract terms. Follow up on significant amounts of completed but unbilled work, change orders, etc. and consider recording.	_____	_____	_____	_____
H. Obtain a list of any contracts accepted on which no work has been performed:				
1. Review the original bid estimate and estimated profit.	_____	_____	_____	_____
2. Compare with bids entered by other contractors and investigate any significant differences.	_____	_____	_____	_____
3. Evaluate the impact, if any, on the financial statements and our report.	_____	_____	_____	_____

**CONTRACTORS' TESTS OF BALANCES AUDIT PROGRAM (Continued)**

<u>Procedures</u>	<u>Done By</u>	<u>Date</u>	<u>N/A</u>	<u>W/P Ref.</u>
I. Additional procedures:				
_____				
_____				
_____				
_____				

Prepared by: \_\_\_\_\_ Date \_\_\_\_\_

Reviewed by: \_\_\_\_\_ Date \_\_\_\_\_

**CONTRACTORS' TESTS OF BALANCES AUDIT PROGRAM**

**XXII. PAYROLL TESTS**

**OBJECTIVES:** To determine that all valid payroll costs of the entity are recorded in the proper period, properly classified and presented consistently in accordance with generally accepted accounting principles.

<u>Procedures</u>	<u>Done By</u>	<u>Date</u>	<u>N/A</u>	<u>W/P Ref.</u>
A. Review the results of the applicable sections of the CONTRACTORS' TESTS OF TRANSACTIONS and CONTRACTORS' ANALYTICAL PROCEDURES PROGRAMS and assess impact on tests of balances.	_____	_____	_____	_____
B. Scan source journals for _____ periods for unusual transactions to determine they are recorded properly.	_____	_____	_____	_____
* C. Prepare a schedule of monthly payroll costs by department.	_____	_____	_____	_____
* D. Compare schedules to prior periods, budget and production records and investigate significant fluctuations.	_____	_____	_____	_____
* E. Reconcile gross wages on payroll tax returns to general ledger.	_____	_____	_____	_____
F. Additional procedures:				
_____				
_____				
_____				
_____				
* If results from tests of transactions for Systems A and B are satisfactory, these steps may not be necessary.				

Prepared by: \_\_\_\_\_ Date \_\_\_\_\_

Reviewed by: \_\_\_\_\_ Date \_\_\_\_\_

## CONTRACTORS' TESTS OF BALANCES AUDIT PROGRAM

### XXIII. EXPENSE ACCOUNT ANALYSIS AND VOUCHING

**OBJECTIVES:** To determine that expenses are valid and are recorded in the proper period, properly classified and presented consistently in accordance with generally accepted accounting principles.

<u>Procedures</u>	<u>Done By</u>	<u>Date</u>	<u>N/A</u>	<u>W/P Ref.</u>
A. Review the results of the applicable sections of the CONTRACTORS' TESTS OF TRANSACTIONS and CONTRACTORS' ANALYTICAL PROCEDURES PROGRAMS and assess impact on tests of balances.	_____	_____	_____	_____
* B. Scan source journals for _____ periods for large or unusual transactions and determine they are properly recorded.	_____	_____	_____	_____
* C. Obtain a detailed analysis of charges and credits to expense accounts with unusual fluctuations from prior years, and the following:				
1. Officers' salaries and bonuses. Determine Board of Director's authorization.	_____	_____	_____	_____
2. Officers' expenses (for tax return).	_____	_____	_____	_____
3. Contributions (eligible for deduction).	_____	_____	_____	_____
4. Rents (look for potential capitalizable leases).	_____	_____	_____	_____
5. Legal and professional services (look for any payments that may represent undisclosed legal matters).	_____	_____	_____	_____
6. Taxes (for tax return).	_____	_____	_____	_____
7. Repairs and maintenance (look for capitalizable items).	_____	_____	_____	_____
8. Supplies and small tools (look for capitalizable items).	_____	_____	_____	_____
9. Travel and entertainment expenses (look for adequate documentation).	_____	_____	_____	_____
10. Miscellaneous expense.	_____	_____	_____	_____
11. Property tax expense (for unrecorded property).	_____	_____	_____	_____

**CONTRACTORS' TESTS OF BALANCES AUDIT PROGRAM (Continued)**

<u>Procedures</u>	<u>Done By</u>	<u>Date</u>	<u>N/A</u>	<u>W/P Ref.</u>
12. Other accounts:				
_____				
_____				
_____				
_____				
D. As considered necessary, obtain supporting vendor invoices or other documentation to determine that charges or credits to the accounts above apply to the company and are recorded in the accounts above at the proper amount in the proper period (primarily System C). Documentation for immaterial account balances need not be examined.				
E. Additional procedures:				
_____				
_____				
_____				
_____				

\* Satisfactory results from tests of transactions will allow examination of less detail. If the income statement includes only summary totals of major revenues, costs and expenses, and we are disclaiming assurance on the details of supplementary information, stronger controls, Systems A and B, may permit omission of detailed analysis except for analytical procedures follow-up and certain accounts affecting financial statement disclosures or income tax return preparation. Giving full assurance on supplementary information will normally require either tests of transactions or detail support tests for all accounts in excess of the lower limit for individually significant items.

Prepared by: \_\_\_\_\_ Date \_\_\_\_\_

Reviewed by: \_\_\_\_\_ Date \_\_\_\_\_



**CONTRACTORS' TESTS OF BALANCES AUDIT PROGRAM**

**XXIV. OTHER REVENUES AND EXPENSES**

**OBJECTIVES:** To determine that revenues and expenses apply to the current period, that they are properly matched, that they are classified properly and that the revenue and expenses are recognized consistently in accordance with generally accepted accounting principles.

<u>Procedures</u>	<u>Done By</u>	<u>Date</u>	<u>N/A</u>	<u>W/P Ref.</u>
A. Review the results of the applicable sections of the CONTRACTORS' TESTS OF TRANSACTIONS and CONTRACTORS' ANALYTICAL PROCEDURES PROGRAMS and assess impact on tests of balances.	_____	_____	_____	_____
B. Obtain a schedule of other revenues and expenses and investigate large or unusual items.	_____	_____	_____	_____
C. Scan the source journals for major transactions omitted from the schedule.	_____	_____	_____	_____
D. Additional procedures:				
_____				
_____				
_____				
_____				

Prepared by: \_\_\_\_\_ Date \_\_\_\_\_

Reviewed by: \_\_\_\_\_ Date \_\_\_\_\_

**CONTRACTORS' TESTS OF BALANCES AUDIT PROGRAM**

**XXV. COMPLETING THE ENGAGEMENT**

<u>Procedures</u>	<u>Done By</u>	<u>Date</u>	<u>N/A</u>	<u>W/P Ref.</u>
A. Complete and evidence in working papers all levels of review.	_____	_____	_____	_____
B. Complete the CONTRACTORS' ENGAGEMENT PERFORMANCE REPORT REVIEW CHECKLIST.	_____	_____	_____	_____
C. Obtain signed letter of representation.	_____	_____	_____	_____
D. Obtain client approval of all adjustments made and passed.	_____	_____	_____	_____
E. Complete the REPORTING CHECKLIST and the CONTRACTORS' DISCLOSURE SUPPLEMENT and prepare report.	_____	_____	_____	_____
F. Complete the INDEPENDENT REPORT REVIEW CHECKLIST.	_____	_____	_____	_____
G. Complete the REPORT PROCESSING CHECKLIST.	_____	_____	_____	_____
H. Prepare the communication of control structure-related matters and other matters for the audit committee or other persons of equivalent authority.	_____	_____	_____	_____
I. Complete a TAX PLANNING CHECKLIST when specified by the Engagement Executive.	_____	_____	_____	_____
J. Document outside consultations, consultations with firm specialists and resolutions of differences of opinion among firm personnel.	_____	_____	_____	_____
K. Complete time accumulations, compare to budget and develop list of suggestions to improve the efficiency of next year's engagement.	_____	_____	_____	_____
L. Clear and dispose of all review points lists.	_____	_____	_____	_____
M. Hold post-engagement conference with staff.	_____	_____	_____	_____
N. Complete staff performance appraisals and review with staff.	_____	_____	_____	_____
O. Communicate to the audit committee, or others having responsibility for oversight of the financial reporting process, the following:	_____	_____	_____	_____

**CONTRACTORS' TESTS OF BALANCES AUDIT PROGRAM (Continued)**

<u>Procedures</u>	<u>Done By</u>	<u>Date</u>	<u>N/A</u>	<u>W/P Ref.</u>
1. Control structure-related matters noted in the audit.	_____	_____	_____	_____
2. Material errors, irregularities or illegal acts discovered during the audit.	_____	_____	_____	_____
3. Significant accounting policies used or changed.	_____	_____	_____	_____
4. Methods of accounting for significant, unusual transactions.	_____	_____	_____	_____
5. The preparation and reasonableness of accounting estimates.	_____	_____	_____	_____
6. Material adjustments.	_____	_____	_____	_____
7. Any disagreements about matters affecting the financial statements or report, whether or not resolved.	_____	_____	_____	_____
8. Consultations with other accountants about accounting or auditing matters.	_____	_____	_____	_____
9. Major issues discussed with management prior to auditors' retention.	_____	_____	_____	_____
10. Difficulties encountered in dealing with management during the audit.	_____	_____	_____	_____
P. Additional procedures:				
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____

Prepared by: \_\_\_\_\_ Date \_\_\_\_\_

Reviewed by: \_\_\_\_\_ Date \_\_\_\_\_





## CONSULTATION FORM

### PURPOSE

The CONSULTATION FORM is provided to document consultations on construction contractor audits with outside specialists or firm personnel having special expertise. Such consultations may include, for example, the use of specialists to perform procedures on certain engagements, such as actuaries or data processing systems specialists, the resolution of problems or compensation for errors arising from auditing procedures or the correct application of a unique or complex accounting principle.

### PROFESSIONAL STANDARDS

The AICPA's Statement on Quality Control Standards No. 1, System of Quality Control for a CPA Firm, states:

"Policies and procedures for consultation should be established to provide the firm with reasonable assurance that personnel will seek assistance, to the extent required, from persons having appropriate levels of knowledge, competence, judgment, and authority."

The CONSULTATION FORM should be used to document compliance with this quality control standard.

### USING THE QUALITY CONTROL FORM

The form should normally be completed by the in-charge accountant, and reviewed by the engagement executive, as unusual problems arise on engagements. The original copy of the form should be filed with the engagement documentation. Filing a copy of the form in a central subject file will facilitate resolution of similar problems by other firm personnel.



# CONSULTATION FORM

F

*Client:* \_\_\_\_\_

*Engagement Date:* \_\_\_\_\_

## Brief Summary of Issue

---

---

---

---

---

---

## Important Facts

---

---

---

---

---

---

## Resolution

---

---

---

---

---

---

Consultant Signature: \_\_\_\_\_ Date \_\_\_\_\_

Prepared by: \_\_\_\_\_ Date \_\_\_\_\_  
(Engagement Staff)

Reviewed by: \_\_\_\_\_ Date \_\_\_\_\_  
(Engagement Executive)







## **REPRESENTATION LETTERS**

### **PURPOSE**

The purpose of a representation letter is to document oral representations made by a client to firm personnel during the course of an audit engagement.

### **PROFESSIONAL STANDARDS**

SAS No. 19, Client Representations, paragraph number one, states:

"This statement establishes a requirement that the independent auditor obtain written representations from management as part of an audit performed in accordance with generally accepted auditing standards and provides guidance concerning the representations to be obtained."

Paragraph number two continues:

"During an audit, management makes many representations to the auditor, both oral and written, in response to specific inquiries or through financial statements. Such representations from management are part of the evidential matter the independent auditor obtains, but they are not a substitute for the application of those auditing procedures necessary to afford a reasonable basis for his opinion on the financial statements. Written representations from management ordinarily confirm oral representations given to the auditor, indicate and document the continuing appropriateness of such representations, and reduce the possibility of misunderstanding concerning the matters that are the subject of the representations."

### **USING THE REPRESENTATION LETTER**

The representation letter should be obtained near the completion of the fieldwork or the completion of all significant procedures on the engagement. It should be dated as of the date of the auditor's report, signed by at least the chief executive and the financial officer of the entity and filed with the current engagement documentation.

The following representation letter is for illustrative purposes only, and should be tailored to fit the circumstances for each individual engagement.

**REPRESENTATION LETTER--AUDIT OF  
CONSTRUCTION CONTRACTOR**

[CLIENT NAME AND ADDRESS]  
[DATE OF COMPLETION OF FIELDWORK]

[ENGAGEMENT PARTNER'S NAME]  
[FIRM NAME]

Dear \_\_\_\_\_ :

In connection with your audit of the financial statements of \_\_\_\_\_,  
(Client Name)  
for the year ended \_\_\_\_\_ for the purpose of expressing an opinion as  
(Engagement Date)  
to whether the financial statements present fairly the financial position, results of  
operations, and cash flows of \_\_\_\_\_ in conformity with  
(Client Name)  
generally accepted accounting principles, we confirm, to the best of our knowledge and  
belief, the following representations made to you during your audit:

1. a. We are responsible for the fair presentation in the financial statements of financial position, results of operations, and cash flows in conformity with generally accepted accounting principles.
- b. Construction contract revenues have been recognized on the \_\_\_\_\_  
\_\_\_\_\_ method.
2. We have made available to you:
  - a. All financial records and related data, including contract backlog information.
  - 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 affect on our financial statements.
3. There have been no:
  - a. Irregularities involving management or employees who have significant roles in the system of internal accounting control.
  - 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, guarantees and joint venture participations.
  - 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.
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 Statement of Financial Accounting Standards 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.

- c. Recognize anticipated losses on contracts when they become known.
10. The company has satisfactory title to all owned assets.
  11.
    - a. Provision has been made for any material loss to be sustained in the fulfillment of, or from inability to fulfill, any contract commitments.
    - b. Provision has been made for any material loss to be sustained from unapproved change orders, claims and contract postponements or cancellations.
  12. Provision has been made for any material loss to be sustained as a result of purchase commitments for inventory quantities in excess of normal requirements or at prices in excess of the prevailing market prices.
  13. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
  14. No events have occurred subsequent to the balance sheet date that would require adjustment to, or disclosure in, the financial statements.

\_\_\_\_\_  
[CHIEF EXECUTIVE OFFICER]

\_\_\_\_\_  
[CHIEF FINANCIAL OFFICER]



## SUPERVISION AND REVIEW CHECKLISTS

### PURPOSE

These checklists have been designed to evidence the quality control procedures for construction contractor audit engagements.

### PROFESSIONAL STANDARDS

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

SAS No. 22, Planning and Supervision, paragraph 13, 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."

These checklists have been designed to facilitate compliance with these standards on construction contractor audits.

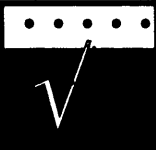
### USING THE CHECKLISTS

The checklists should be completed by the responsible persons, and reviewed, upon completion of the auditing procedures.





# TAX ACCRUAL/PROVISION REVIEW CHECKLIST



*Client:* \_\_\_\_\_

*Engagement Date:* \_\_\_\_\_

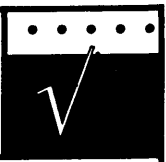
- |   | Done  |       |
|---|-------|-------|
|   | By    | Date  |
| 1. Reviewed, as considered necessary, current file working trial balances, possible journal entries, adjusting journal entries, eliminating journal entries, memoranda, post-balance sheet review sections, legal letters, minutes, etc.                                      | _____ | _____ |
| 2. Reviewed, as considered necessary, current file assets schedules, i.e., allowance for doubtful accounts, inventory (including all LIFO calculations, if applicable), prepaid items and deferred charges, plant and equipment (depreciation methods, recapture, ITC, etc.). | _____ | _____ |
| 3. Reviewed, as considered necessary, current file liabilities and equity schedules, i.e., notes payable to officers-shareholders, accrued liabilities, deferred credits and deferred income, capital stock, retained earnings and paid-in capital, etc.                      | _____ | _____ |
| 4. Reviewed, as considered necessary, operations file, i.e., revenues, costs of sales, general and administrative expenses, selling expenses, and other income and expense.   | _____ | _____ |
| 5. The following working papers were reviewed in detail and initialed:<br>All tax provision/accrual working papers, tax memoranda, LIFO calculations (if applicable), other (please list)   |       |       |
| _____   |       |       |
| _____   |       |       |
| _____   |       |       |
| _____   | _____ | _____ |
| 6. Reviewed tax-related footnotes to financial statements and other tax-related financial statement disclosures, i.e., LIFO footnotes and disclosures.  | _____ | _____ |
| 7. Reviewed TAX RETURN PREPARATION CHECKLIST.   | _____ | _____ |
| 8. In my opinion the tax provision and accruals set forth in the working paper schedules are reasonable and adequate.   | _____ | _____ |

Tax Executive's Signature \_\_\_\_\_ Date \_\_\_\_\_

Audit Executive's Signature \_\_\_\_\_ Date \_\_\_\_\_



# CONTRACTORS' ENGAGEMENT PERFORMANCE AND REPORT REVIEW CHECKLIST



*Client:* \_\_\_\_\_

*Engagement Date:* \_\_\_\_\_

**INSTRUCTIONS:**

This checklist is documentation of completing the in-charge, executive and partner engagement review responsibilities. It should be prepared by the in-charge and approved by the executive and partner at the completion of the engagement. All no answers should be commented on below.

IN-CHARGE PROCEDURES:	Yes	No	See Additional Comments
-----------------------	-----	----	-------------------------------

**Mechanical Considerations:**

- |  |       |       |       |
|--|-------|-------|-------|
| 1. Have all required engagement forms and documents been completed, signed and dated?              | _____ | _____ | _____ |
| 2. Have all working papers been reviewed for:  |       |       |       |
| a. Initials and dates of preparation and review.   | _____ | _____ | _____ |
| b. Cosmetics, i.e., proper headings, tickmark explanations, proper indexing and cross-referencing. | _____ | _____ | _____ |
| c. Footing and testing of schedules prepared by client.  | _____ | _____ | _____ |
| d. Posting of adjustments and cross-referencing to trial balance.                                  | _____ | _____ | _____ |
| e. Agreeing beginning balances to prior year's working papers.                                     | _____ | _____ | _____ |
| 3. Do financial statements agree with the trial balance?   | _____ | _____ | _____ |

**Conceptual Considerations:**

- |   |       |       |       |
|---|-------|-------|-------|
| 1. Have you reviewed all work done by assistants and cleared all review points? | _____ | _____ | _____ |
| 2. Does the evidence collected accomplish the objectives of the engagement?     | _____ | _____ | _____ |

	Yes	No	See Additional Comments
3. Are the conclusions of engagement personnel consistent?	_____	_____	_____
4. Are you satisfied there are no material irregularities or illegal acts?	_____	_____	_____
5. Has the engagement been completed in accordance with firm policy, GAAS and is GAAP proper?	_____	_____	_____
6. Is the documentation of problems adequate?	_____	_____	_____

Report, Financial Statements and Footnotes:

1. Has the CONTRACTORS' DISCLOSURE CHECKLIST been completed?	_____	_____	_____
2. Are the financial statements' format, disclosures and terminology consistent with firm policies, i.e., do they follow the illustrative financial statements and include specialized industry requirements?	_____	_____	_____
3. Is the report on the engagement appropriate in light of any problems encountered?	_____	_____	_____

Mechanical Accuracy of Financial Statements:

1. Have the financial statements been footed and internally cross-referenced?	_____	_____	_____
2. Have all numbers in the financial statements and footnotes been traced to supporting working papers?	_____	_____	_____
3. Have all computations been recalculated?	_____	_____	_____

Completing the Review:

1. Have all circumstances requiring modification of the standard report on this engagement been documented in an accompanying memorandum?	_____	_____	_____
2. Have the staff and executive agreed upon any deviations from the standard report?	_____	_____	_____
3. Has the client reviewed and approved a tentative draft of the financial statements, footnotes, and report?	_____	_____	_____
4. Have all adjusting journal entries been discussed with and forwarded to the client?	_____	_____	_____

	Yes	No	See Additional Comments
5. Has a communication of reportable conditions and operations suggestions been prepared and presented to the client?	_____	_____	_____
6. Have all review notes been cleared and, if necessary, additional comments made on working papers or in next year's time control file?	_____	_____	_____
7. Have all review point sheets and "to do" lists been destroyed?	_____	_____	_____

Additional Comments:

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

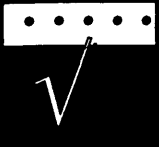
\_\_\_\_\_

Prepared by: \_\_\_\_\_ Date \_\_\_\_\_  
(In-Charge)

Reviewed by: \_\_\_\_\_ Date \_\_\_\_\_  
(Engagement Executive)

\_\_\_\_\_ Date \_\_\_\_\_  
(Engagement Partner)



<h2 style="margin: 0;">CONTRACTORS' INDEPENDENT REPORT REVIEW CHECKLIST</h2>	
<p><i>Client:</i> _____</p> <p><i>Engagement Date:</i> _____</p>	

**INSTRUCTIONS:**

This checklist should be completed for all construction contractors audit engagements. It should be completed by a manager or partner not having direct engagement management responsibility on the subject engagement. All "no" answers must be commented on below. The checklist should be completed prior to the final issuance of the report.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
Checklists:			
1. Have all the following checklists been completed?			
a. CONTRACTORS' ENGAGEMENT PERFORMANCE AND REPORT REVIEW CHECKLIST?	_____	_____	_____
b. CONTRACTORS' DISCLOSURE CHECKLIST?	_____	_____	_____
c. REPORT PROCESSING CHECKLIST?	_____	_____	_____

**Report, Financial Statements, and Footnotes:**

1. Have the financial statements and footnotes been prepared in accordance with firm policies, including the use of construction contractor industry reporting practices?	_____	_____	_____
2. Have all engagement performance and reporting problems been appropriately documented and resolved?	_____	_____	_____
3. Is the engagement report on the firm's services justified by the circumstances and work performed?	_____	_____	_____
4. Have the circumstances requiring a departure from the standard report been documented?	_____	_____	_____
5. Are any conclusions evidenced in such documentation justified by the work performed?	_____	_____	_____
6. Have you read the financial statements, footnotes and report to determine any additional unresolved problems?	_____	_____	_____



- |   | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|---|------------|-----------|------------|
| 7. Have all legal letters been received and necessary disclosures made in the financial statements?   | _____      | _____     | _____      |
| 8. Regarding the financial statements taken as a whole, does it appear:   |            |           |            |
| a. That they are in conformity with generally accepted accounting principles, that applicable reporting standards have been met, and that the disclosures are adequate? | _____      | _____     | _____      |
| b. That they are ready to be typed in the form reviewed by you?   | _____      | _____     | _____      |

Additional Comments:

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

Prepared by: \_\_\_\_\_ Date \_\_\_\_\_  
(Partner or Manager)

## CONTRACTORS' REPORTING CHECKLIST



**Client:** \_\_\_\_\_

**Engagement Date:** \_\_\_\_\_

This checklist is designed for use as a guide in drafting financial statements, writing footnotes and preparing reports for nonpublic, accrual basis corporations. The latest authoritative pronouncements considered in preparing this checklist are:

SAS No. 63  
FASB Statement No. 105  
FASB Interpretation No. 38  
FASB Technical Bulletin 88-2  
SSARS No. 6

The checklist is not intended to include all possible disclosures. Professional judgment must be exercised in each circumstance to determine that all required disclosures of generally accepted accounting principles have been made. This checklist should be used in connection with other available authoritative pronouncements and this Construction Contractors Audit Manual.

This checklist does not include all detailed disclosures required by:

- SEC Regulation S-X.
- SEC Regulation S-K.
- AICPA Audit and Accounting Guides.
- AICPA Statements of Position.
- Other FASB Statements, Interpretations and Technical Bulletins not generally applicable to nonpublic, for-profit, accrual basis corporations.

The following references have been included in the checklists:

- AC section and paragraph of accounting pronouncements published in FASB Accounting Standards--Current Text, Volumes 1 and 2.
- AU section and paragraph of auditing pronouncements published in AICPA Professional Standards, Volume 1.
- AR section and paragraph of accounting and review services pronouncements published in AICPA Professional Standards, Volume 2.

**INSTRUCTIONS:**

The checklist should be completed in its entirety by the in-charge accountant for all full-disclosure engagements. The report section only should be completed for disclosures-omitted compilations. It should be reviewed by the engagement executive.

**COMPILATION AND REVIEW REPORTS**

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
1. Considering the work performed and findings reached, has the appropriate report been selected?	_____	_____	_____
2. Is the salutation proper?	_____	_____	_____
3. Is the report dated as of the last significant procedure performed? (AR 100.15,.33)	_____	_____	_____
4. Have all financial statement titles and dates been mentioned in the report?	_____	_____	_____
5. Are departures from generally accepted accounting principles described in a separate paragraph? (AR 100.39-.40)	_____	_____	_____
a. Have the effects of the departure been disclosed?	_____	_____	_____
b. If management has not determined the effects of the departure, does the report so state?	_____	_____	_____
6. Does the report indicate the omission of substantially all disclosures from compiled financial statements? (AR 100.19,.21)	_____	_____	_____
7. Is selected information accompanying compiled financial statements that omit substantially all required disclosures appropriately identified? (AR 100.19)	_____	_____	_____
8. Has any lack of independence been disclosed in our compilation report? (AR 100.22)	_____	_____	_____
9. Has each page of the financial statements been referenced to the accountant's report? (AR 100.16,.34 and AR 200.06)	_____	_____	_____
10. Does the report indicate the degree of responsibility we are taking with respect to any supplementary information? (AR 100.43)	_____	_____	_____
11. Are other comprehensive bases of accounting clearly disclosed? (AR 100.20)	_____	_____	_____
12. Does the report cover all periods presented? (AR 200.02)	_____	_____	_____

- |  | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|--|------------|-----------|------------|
| 13. For comparative compiled financial statements that omit substantially all disclosures and that previously did not omit substantially all disclosures, does an additional paragraph in our report describe the previous level of service and extent of disclosure, and the date of the previous report ?<br>(AR 200.29-.30)                                 | _____      | _____     | _____      |
| 14. Has any changed reference to a departure from generally accepted accounting principles in the prior period been described in our report in an additional paragraph that includes the previous report date, a description of the change and a statement that prior period financial statements have been revised?<br>(AR 200.13-.15)                        | _____      | _____     | _____      |
| 15. Does our report on comparative financial statements which were audited, but the report thereon not reissued include an additional paragraph that indicates the date of the report, the nature of the opinion and any reasons for qualifications, and that no auditing procedures have been performed subsequent to the date of such report?<br>(AR 200.28) | _____      | _____     | _____      |
| 16. Has our report been updated when the same or higher level service has been performed in the current period?<br>(AR 200.08)   | _____      | _____     | _____      |
| 17. Does our current period report on a lower level of service include an additional paragraph describing our responsibility for the prior period, or is it accompanied by, or combined with, a reissued report on the prior period? (AR 200.11-.12)   | _____      | _____     | _____      |
| 18. Have we made reference in an additional paragraph to any predecessor's compilation or review report on comparative statements which has not been reissued (AR 200.17-.19), or have we performed an audit, review or compilation of such statements and reported accordingly?   | _____      | _____     | _____      |
| 19. Have any changes of prior period financial statements reported on by a predecessor been approved by and considered in the predecessor's report thereon?<br>(AR 200.25-.26)   | _____      | _____     | _____      |

Prepared by: \_\_\_\_\_ Date \_\_\_\_\_  
(In-Charge)

Approved by: \_\_\_\_\_ Date \_\_\_\_\_  
(Executive)

**AUDIT REPORTS**

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
1. Does the report have a title that includes the word "independent"? (AU 508.08)	_____	_____	_____
2. Is the report dated as of the last significant procedure performed? (AU 530)	_____	_____	_____
3. Are limitations on the scope of the examination adequately described? (AU 508.40-.48)	_____	_____	_____
4. If the auditor is not independent, has the appropriate audit disclaimer been expressed for public companies, and a compilation report issued for nonpublic companies, regardless of the extent of services provided? (AU 220, 504.08-10 and AR 100.22, .38)	_____	_____	_____
5. Have the financial statements been prepared in conformity with generally accepted accounting principles or another comprehensive basis of accounting? (AU 410, 411, 504.07, 508.49-.66, 544 and 623)	_____	_____	_____
6. Has appropriate qualification been made for any unacceptable changes in accounting principles or an explanatory paragraph added for inconsistent applications? (AU 420 and 508.38-.39, .59-.66)	_____	_____	_____
7. Has an additional paragraph been added to our report to explain any qualification resulting from a departure from generally accepted accounting principles? (AU 341.10-.16, 431, 435.08-.18, 508.38-.39 and .49-.58 and 544)	_____	_____	_____
8. Does our report disclose any limitation of auditing procedures for beginning balances on new engagements? (AU 508.38-.48, .67-.73 and 326.22)	_____	_____	_____
9. Has any limitation in our examination of noncurrent investments been disclosed? (AU 508.44)	_____	_____	_____
10. Are qualifying or explanatory paragraphs of our report worded so they can be clearly understood by the reader? (AU 544, 508.11-.83, 623 and 435.08-.18)	_____	_____	_____
11. Has reliance on the work of other auditors been properly disclosed? (AU 543)	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
12. When comparative financial statements are issued, does our report indicate the level of service performed and the degree of our responsibility for prior year's statements? (AU 505 and AU 504)	_____	_____	_____
13. Have we issued a qualified opinion or disclaimer when the presence of errors or possible irregularities has been discovered? (AU 316)	_____	_____	_____
14. Have any illegal acts been properly disclosed in the financial statements? (AU 317)	_____	_____	_____
15. Has an explanatory paragraph been added when unusual uncertainties are present? (AU 508.16-.33 and AU 341)	_____	_____	_____
16. Have any material effects of changes in accounting principles (including restatement) been accompanied by an explanatory paragraph after our opinion? (AU 508)	_____	_____	_____
17. Have all the reasons been stated for a qualified, disclaimed or adverse opinion?	_____	_____	_____
18. Have all pages of the financial statements been referenced to the notes?	_____	_____	_____
19. If information is to supplement the basic financial statements and auditor's report in an auditor-submitted document (long-form report):			
a. Is there a clear distinction between the client's representations and auditor's representations? (AU 551.20)	_____	_____	_____
b. Does the auditor's report on the supplemental information:			
(1) State that the examination was made for the purpose of forming an opinion on the basic financial statements taken as a whole?	_____	_____	_____
(2) Specifically identify the supplemental information?	_____	_____	_____
(3) State that the supplemental information is presented for purposes of analysis and is not part of the basic financial statements?	_____	_____	_____
(4) State whether the supplemental information has been subjected to the auditing procedures applied in examining the basic financial statements and the appropriate expression of opinion or disclaimer? (AU 551.06-.11)	_____	_____	_____



**FINANCIAL STATEMENT DISCLOSURES**

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<b>FORMAT:</b>			
1. Have we used the company's full legal name on the report cover, title page and financial statement headings?	_____	_____	_____
2. Have we included an accurate table of contents?	_____	_____	_____
3. Have we followed the format used in the firm's illustrative financial statements?	_____	_____	_____
4. Are the financial statements and notes comparative?	_____	_____	_____
5. Are all notes appropriately referenced to financial statement classifications?	_____	_____	_____
6. Has each financial statement been marked with a reference to the notes?	_____	_____	_____
7. Have all significant recurring accounting policies used by the company been described in Note 1 to the financial statements? (AC A10)	_____	_____	_____
8. Have all related-party transactions been properly disclosed in a note to the financial statements? (AU 334 and AC R36)	_____	_____	_____
9. Have nonmonetary transactions been recorded at the fair values of the assets or services involved and do the notes to the financial statements describe the nature, basis of accounting and any gains or losses recognized in connection with the transactions? (AC N35)	_____	_____	_____
10. Have the special reporting requirements for "Development Stage Enterprises" been considered, if applicable? (AC De4)	_____	_____	_____
11. Have the special reporting requirements for interim financial statements been considered? (AC I73, AU 722)	_____	_____	_____
12. Have all leases in the financial statements of a lessee or lessor been properly accounted for? (AC L10)	_____	_____	_____
13. Have the AICPA Audit and Accounting Guides and Statements of Position for specialized industries been followed? (AC A06.112)	_____	_____	_____
14. If our report is included in a company's annual report or other documents, have we read such reports or documents for consistency? (AU 550)	_____	_____	_____



	<u>Yes</u>	<u>No</u>	<u>N/A</u>
15. Are significant subsequent events affecting the current financial statements properly recorded or disclosed? (AU 560)	_____	_____	_____

**CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS**

1. When a company in a group has a direct or indirect controlling financial interest in the other companies, consolidated financial statements are required for a fair presentation. Have such controlled companies been consolidated? (AC C51)	_____	_____	_____
2. Has consideration been given to combining the financial statements of companies which are under common control to achieve a fair presentation? (AC C51.121-.122)	_____	_____	_____
3. Have the principles of consolidation or combination been disclosed? (AC C51.108)	_____	_____	_____
4. Have all subsidiaries, whether or not homogeneous in their operations, been consolidated? (AC C51)	_____	_____	_____
5. Have all material intercompany balances and transactions been eliminated? (AC C51.109-.114)	_____	_____	_____
6. Have material events occurring during the period between a parent and subsidiary's fiscal yearend been disclosed? (AC C51.107 and I89.120)	_____	_____	_____
7. Have minority interests in the equity and profits been presented separately? (AC C51.115-.116)	_____	_____	_____

**ACCOUNTING CHANGES**

1. In satisfying the disclosure requirements for accounting changes, have items been disclosed if they are material individually, or in the aggregate, in relation to current and trend net earnings, or those which can be reasonably expected to have a material affect on future period's financial statements? (AC A06.133 and AU 420.18)	_____	_____	_____
2. For those changes in accounting principle requiring restatement, e.g., changes in long-term construction contract reporting or changes to the reporting entity, have the nature and justification for the change, and the effect on net earnings (and earnings per share, if applicable, been disclosed for all periods presented? (AC A06.114, .123-.127; A35.112-.119 and AU 420.19)	_____	_____	_____

- |   | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|---|------------|-----------|------------|
| 3. For other changes in accounting principles and changes in accounting estimates not requiring retroactive adjustment, have the nature of and justification for the change, its effect on net earnings and earnings per share, if applicable, and the required pro forma data on the face of the earnings statement been disclosed?<br>(AC A06.115-.120, .130-.132, .135-.138)         | _____      | _____     | _____      |
| 4. Have prior-period adjustments for the correction of errors in previously issued financial statements been described in a note to the financial statements for the year in which the errors are corrected, along with the effect on earnings (and earnings per share, if applicable), for the immediately preceding period as well as for all periods presented?<br>(AC A35.103-.108) | _____      | _____     | _____      |
| 5. Have accounting changes been correctly reported on interim financial statements? (AC I73.131-.145)   | _____      | _____     | _____      |

**BUSINESS COMBINATIONS**

- |   |       |       |       |
|---|-------|-------|-------|
| 1. For any business combination, have you considered the purchase or pooling of interests accounting methods, effects on earnings, accounting for goodwill and leases, disclosures, and restatements of financial statements?<br>(AC B50, I60 and L10.137-.142, .161) | _____ | _____ | _____ |
|---|-------|-------|-------|

**CASH**

- |   |       |       |       |
|---|-------|-------|-------|
| 1. Are funds subject to withdrawal restrictions reported separately in the balance sheet?   | _____ | _____ | _____ |
| 2. Are true bank overdrafts, those which are in fact loans and for which no offsetting deposits are available, classified as current liabilities?                               | _____ | _____ | _____ |
| 3. Have any cash equivalents (short-term, highly liquid investments with original maturities of three months or less) been combined with cash on hand and in banks?<br>(AC C25) | _____ | _____ | _____ |

**MARKETABLE SECURITIES**

- |   |       |       |       |
|---|-------|-------|-------|
| 1. Are all marketable securities listed on an exchange or do they have a ready market to justify their classifications?           | _____ | _____ | _____ |
| 2. Are current and noncurrent marketable securities portfolios each recorded at the lower of cost or market?<br>(AC I89.102-.104) | _____ | _____ | _____ |

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
3. Have the basis, the aggregate market value and the gross unrealized gains and losses on marketable equity securities been disclosed? (AC I89.106 and .123)	_____	_____	_____

**ACCOUNTS AND NOTES RECEIVABLE**

1. Are all accounts and notes receivable classified by source, i.e., trade, amounts due from parent, subsidiaries, affiliated companies, employees, stockholders, officers, directors, or other related parties? (AC R36.105)	_____	_____	_____
2. Have allowances for uncollectible accounts been disclosed and deducted from the receivables to which they relate? (AC C58.128-.129 and V18.102)	_____	_____	_____
3. Have unearned discounts, finance charges and interest been disclosed and deducted from the related receivables? (AC B05.107A and D22 footnote 6)	_____	_____	_____
4. Has any contingent liability on receivables sold or discounted been disclosed?	_____	_____	_____
5. Has the transfer of receivables with recourse been accounted for properly? (AC R20)	_____	_____	_____
6. Has interest been imputed on noninterest bearing notes, due beyond one year, for property, goods or services and has it been deducted from the related receivables? (AC I69.109)	_____	_____	_____
7. Has a debt restructuring occurred and, if so, have appropriate disclosures been made? (AC D22.136-.137)	_____	_____	_____

**INVENTORIES**

1. Have the major classes of inventory been disclosed? (AC I78.103-.120)	_____	_____	_____
2. Have the basis of valuation and the method of determining cost been disclosed in the notes to the financial statements? (AC I78.120)	_____	_____	_____
3. Has overhead been allocated to inventory in accordance with generally accepted accounting principles? (AC I78.106)	_____	_____	_____
4. Have any material losses on inventory purchase commitments been recorded and properly disclosed? (AC I78.121, .122)	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
5. Have the amounts of any significant losses from inventory valuation at the lower of cost or market, or from unusual valuation methods, been properly disclosed? (AC I78.117)	_____	_____	_____

**PREPAID EXPENSES**

1. Have charges with future benefits extending beyond one year been classified as noncurrent assets? (AC B05.107)	_____	_____	_____
---	-------	-------	-------

**PROPERTY AND EQUIPMENT**

1. Have the major classes of depreciable assets and the method of valuation been disclosed in the balance sheet or notes to the financial statements? (AC D40.105 and AU 431.02)	_____	_____	_____
2. Have the allowances for depreciation and a general description of the methods used in computing depreciation for major classes of depreciable assets been disclosed? (AC D40.105)	_____	_____	_____
3. Have the major asset classifications of any capitalized leased assets and related accumulated amortization been disclosed in the balance sheet or the notes to the financial statements? (AC L10.112)	_____	_____	_____
4. Have the terms of, and any gain or loss on, any significant sale and leaseback transactions during the period been disclosed? (AC L10.128-.130M)	_____	_____	_____
5. Do the notes to the financial statements of a lessor of property and equipment disclose the components of the net investment for sales-type or direct financing leases? (AC L10.119)	_____	_____	_____
6. Are the components of a lessor's net investment in leveraged leases disclosed in the notes to the financial statements? (AC L10.149)	_____	_____	_____
7. Have a lessor's cost and accumulated depreciation by major classes of assets held under operating leases been disclosed? (AC L10.119)	_____	_____	_____
8. Have significant amounts of property and equipment that are idle, fully depreciated or held for investment or sale been classified separately?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
9. Has interest on constructed assets of the company, and certain equity investees, not for sale in the ordinary course of the business, been capitalized? (AC I67)	_____	_____	_____

**INVESTMENT IN AFFILIATES**

1. Has the equity method of accounting been used for investments in common stock of unconsolidated subsidiaries, corporate joint ventures, or other 50% or less but more than 20% - owned companies? (AC I82)	_____	_____	_____
2. Have the basis at which the investment is stated, any allowance for losses on the investment, or applicable market values been disclosed? (AC A10 and I82.110)	_____	_____	_____
3. Has summarized information for assets, liabilities and results of operations been included in the notes to financial statements for investments accounted for under the equity method? (AC I82.110)	_____	_____	_____
4. Are any additional disclosures required by sections AC I82 and I25 (or I42) necessary for investments and affiliates accounted for under the equity or cost methods?	_____	_____	_____

**INTANGIBLE ASSETS, OTHER ASSETS AND DEFERRED CHARGES**

1. Have significant deferred charges and intangible assets been classified separately? (AC B05.102-.107 and I60)	_____	_____	_____
2. Has the carrying basis of intangible assets, other assets or deferred charges been disclosed?	_____	_____	_____
3. Have the method and the period of amortization of intangible assets, other assets and deferred charges been disclosed? (AC I60.111)	_____	_____	_____

**COMMITMENTS AND CONTINGENCIES**

1. Have all material commitments (except to complete contracts in process), guarantees and gain or loss contingencies (including indirect guarantees of indebtedness of others) been disclosed? (AC C32, C59, I78.121 and Co4.113)	_____	_____	_____
2. Has proper disclosure been made for lease obligations of lessees under capital and operating leases? (AC L10.112)	_____	_____	_____
3. Have proper disclosures been made for lessors under sales-type, direct-financing, leveraged or operating leases? (AC L10.119)	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<b><u>CURRENT ASSETS AND LIABILITIES</u></b>			
1. Are current assets and liabilities properly classified? (AC B05)	_____	_____	_____
2. Are line items grouped in accordance with their significance and materiality ?	_____	_____	_____
3. Are current assets listed in the order of their liquidity?	_____	_____	_____
4. Are current liabilities stated in the order of priority of claims on assets?	_____	_____	_____
<b><u>EMPLOYEE COMPENSATION AND BENEFITS</u></b>			
1. Have all material accruals and significant disclosures been made for the following:			
a. Paid employee absences? (AC C44)	_____	_____	_____
b. Stock purchase and option plans? (AC C47)	_____	_____	_____
c. Pension plans? (AC P16)	_____	_____	_____
d. Profit sharing and deferred compensation plans? (AC C38)	_____	_____	_____
e. Postretirement health care and life insurance benefits? (AC P50)	_____	_____	_____
<b><u>INCOME TAXES</u></b>			
1. Have one net current and one net noncurrent deferred taxes classification been included in the balance sheet, if applicable? (AC I25)	_____	_____	_____
2. If a deferred tax liability is not recognized for undistributed subsidiary of joint venture earnings, indefinite reversals or investment changes, is the required information disclosed? (AC I25.124)	_____	_____	_____
3. Has income tax expense or benefit been allocated to continuing and discontinued operations, extraordinary items, effects of accounting changes and items excluded from net income? (AC I25)	_____	_____	_____
4. Are the significant components of income tax expense disclosed? (AC I25.126)	_____	_____	_____
5. If income tax expense for continuing operations differs significantly from the "expected" amount, are the reasons disclosed? (AC I25.127)	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
6. Are the amounts and expiration dates of unused loss and credit carryovers disclosed both for financial and tax reporting? (AC I25.128)	_____	_____	_____

**NOTES PAYABLE, LONG-TERM DEBT AND LONG-TERM OBLIGATIONS**

1. Have the following long-term debt and long-term obligations disclosures been made:			
a. Terms and interest rates for all obligations.	_____	_____	_____
b. For recorded, unconditional purchase obligations, disclose for each of the five years following the date of the latest balance sheet (AC C32.105):			
(1) The aggregate amount of payments recognized on the balance sheet.	_____	_____	_____
(2) The combined amount of maturities and sinking fund requirements.	_____	_____	_____
c. For unrecorded unconditional purchase obligations (AC C32.102):			
(1) The nature and term of the obligation.	_____	_____	_____
(2) The amount of the fixed and determinable portion of the obligation as of the date of the latest balance sheet presented in the aggregate and, if determinable, for each of the five succeeding fiscal years.	_____	_____	_____
(3) The nature of any variable components of the obligation.	_____	_____	_____
(4) If applicable, the amounts purchased under the obligation for each period for which an earnings statement is presented.	_____	_____	_____
d. For long-term borrowings and capital stock with mandatory redemption requirements, maturities for each of the five years following the date of the latest balance sheet. (AC C32.104)	_____	_____	_____
2. Have the short-term notes payable, the current portion of the long-term debt and obligations due or callable by a creditor within one operating cycle been classified as current liabilities? (AC B05)	_____	_____	_____
3. Has any collateral pledged on debt, or any significant restrictive debt covenants, been disclosed? (AC C59.120)	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
4. Have capitalized lease obligations been separately classified? (L10)	_____	_____	_____
5. Have long-term noninterest bearing notes exchanged for assets other than cash been recorded at their fair market value, i.e., the face amount of the note discounted to its present value? (AC I69)	_____	_____	_____
6. Have short-term obligations reclassified as long-term debt pursuant to refinancing plans been properly disclosed? (AC B05.118)	_____	_____	_____
7. Have any debt restructurings been properly disclosed? (AC D22.121-.122)	_____	_____	_____
8. Have any defaults on loan agreements and their effect on classification of the obligation been disclosed?	_____	_____	_____
9. When product financing arrangements are made by the company as a sponsor, have the related assets and liabilities been recorded? (AC D18)	_____	_____	_____
10. Has debt considered extinguished for financial reporting purposes, been properly treated in the financial statements? (AC D14)	_____	_____	_____

**FINANCIAL INSTRUMENTS**

1. Does the entity have a financial instrument that is:			
a. Cash in banks or on hand, or	_____	_____	_____
b. Evidence of an ownership interest in an entity, or	_____	_____	_____
c. A contract that both:			
(1) Imposes on one entity a contractual obligation (liability)			
(i) To deliver cash or financial instrument to a second entity, or	_____	_____	_____
(ii) To exchange financial instruments on potentially unfavorable terms with the second entity?	_____	_____	_____
(2) Conveys to that second entity a contractual right:			
(i) To receive cash or another financial instrument from the first entity, or	_____	_____	_____
(ii) To exchange other financial instruments on potentially favorable terms with the first entity?[FASB 105,par. 6 (AC F25.106)]	_____	_____	_____



	<u>Yes</u>	<u>No</u>	<u>N/A</u>
2. For financial instruments with off-balance risk (except for those excluded in the statement), was the following disclosed either in the body of the financial statements or in the notes by class of financial instrument:			
a. The face or contract amount (or notional principal amount if there is no face or contact amount)? _____	_____	_____	_____
b. The nature and terms, including, at a minimum, a discussion of:			
(1) The credit and market risk of those instruments? _____	_____	_____	_____
(2) The cash requirements of those instruments? _____	_____	_____	_____
(3) The related accounting policy pursuant to the requirements of APB Opinion No. 22, "Disclosure of Accounting Policies"? [SFAS 105, par. 17 (AC F25.112)] _____	_____	_____	_____
3. For financial instruments with off-balance sheet risk (except as noted above in 2.), was the following disclosed either in the body of the financial statements or in the notes by class of financial instrument:			
a. The amount of accounting loss the entity would incur if any party to the financial instrument failed completely to perform according to the terms of the contract and the collateral or other security, if any, for the amount due proven to be of no value to the entity? _____	_____	_____	_____
b. The entity's policy of requiring collateral or other security to support financial instruments subject to credit risk, information about the entity's access to that collateral or other security, and the nature and a brief description of the collateral or other security supporting those financial instruments? [SFAS 105, par. 18 (AC F25.113)] _____	_____	_____	_____
4. Were disclosures of all significant concentrations of credit risk arising from all financial instruments, whether from an individual counterparty or groups of counterparties (except for certain insurance and investment contracts, purchase and pension obligations), included in the following:			
a. Information about the (shared) activity, region, or economic characteristic that identifies the concentration? _____	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
b. The amount of the accounting loss due to credit risk the entity would incur if parties to the financial instruments that make up the concentration failed completely to perform according to the terms of the contracts and the collateral or other security, if any, for the amount due proved to be of no value to the entity?	_____	_____	_____
c. The entity's policy of requiring collateral or other security to support financial instruments subject to credit risk, information about the entity's access to that collateral or other security, and the nature and a brief description of the collateral or other security supporting those financial instruments? [SFAS 105, par. 20 (AC F25.115)]	_____	_____	_____

**STOCKHOLDERS' EQUITY**

1. Have changes in stockholders' equity other than earnings or losses for the period been disclosed in the statements or notes? (AC C08.101-.102)	_____	_____	_____
2. For capital stock, have the following disclosures been made:			
a. Title of issue, par or stated value per share, and the number of shares authorized, issued and outstanding or in treasury?	_____	_____	_____
b. Dividend and liquidation preferences, call and conversion or redemption rights, cumulative features, dividend arrearages on preferred stock and unusual voting rights? (AC C16 and E09.110)	_____	_____	_____
c. Number of shares reserved for options, warrants or conversions?	_____	_____	_____
d. Stock option prices, number of shares under option and options exercisable at balance sheet date? (AC C47.123)	_____	_____	_____
e. The number of shares and prices of any options exercised during the period? (AC C47.123)	_____	_____	_____
f. Details of any stock subscriptions or receivables for stock issued?	_____	_____	_____
3. Have relatively small stock dividends been accounted for by transferring the fair value of the shares issued from retained earnings to permanent capital accounts? (AC C20.103)	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
4. Have restrictions on dividend payments been disclosed?	_____	_____	_____
5. Is treasury stock properly recorded and disclosed? (AC C23)	_____	_____	_____

**STATEMENT OF EARNINGS**

1. Has any concentration of sales to major customers been considered for disclosure in the notes to financial statements? (AC S20.103 and S20.145)	_____	_____	_____
2. Have sales with significant rights of return been excluded from the earnings statement? (AC R75.105-.109)	_____	_____	_____
3. Have material intercompany transactions in consolidated statements been eliminated? (AC C51.109)	_____	_____	_____
4. Has the method of recognizing earnings under long-term construction or cost reimbursement contracts been disclosed in the notes to the financial statements? (AC Co4 and Co5)	_____	_____	_____
5. Has a lessor's method of accounting for leasing activities been disclosed in the notes to financial statements? (AC L10.119)	_____	_____	_____
6. Has the equity in the net earnings, extraordinary items and prior period adjustments of affiliates accounted for by the equity method been properly reflected in the financial statements? (AC I82)	_____	_____	_____
7. Have proper disclosures been made for pension plans and other postretirement benefits? (AC P16 and P50)	_____	_____	_____
8. Have any stock compensation plans been properly disclosed? (AC C47)	_____	_____	_____
9. Has depreciation expense for the period been disclosed in the basic financial statements or the notes to financial statements? (AC D40.105)	_____	_____	_____
10. Has interest expense been disclosed, if significant?	_____	_____	_____
11. Has any gain or loss resulting from early debt extinguishment been classified separately in the earnings statement? (AC D14, and I17.104 and .113)	_____	_____	_____
12. Have research and development costs been disclosed and charged to expense? (AC R50)	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
13. Has net realized gain or loss on marketable equity securities, been disclosed in the statement of earnings or notes? (AC I89.106)	_____	_____	_____
14. Have the results of any discontinued operations and any gain or loss from disposal of a segment of a business, including a provision for anticipated losses, and any related income taxes been disclosed separately from the results of continuing operations, immediately preceding any extraordinary items? (AC I13.101-.103, .105)	_____	_____	_____
15. Have any extraordinary items, i.e., unusual in nature and occurring infrequently, net of related income taxes, been disclosed on the statement of earnings? (AC I17.106-.113, .117 and .102)	_____	_____	_____
16. Have any material unusual or infrequent events or transactions that do not qualify as extraordinary items been classified as separate components of earnings from continuing operations? (AC I22.101)	_____	_____	_____
17. Has the provision for income taxes been computed on pretax accounting income? (AC I25)	_____	_____	_____
18. Are the tax effects of realizable net operating loss carrybacks recognized in the loss period? (AC I25)	_____	_____	_____
19. Have the tax benefits of any book operating loss carryovers been realized in the current period? (AC I25)	_____	_____	_____
20. Have the components of income tax expense for continuing operations been disclosed in the income statement or notes? ( AC I25)	_____	_____	_____
21. Have income taxes been allocated to income from continuing operations, discontinued operations, cumulative effect of a change in accounting principle, extraordinary items and prior period adjustments? (AC I25)	_____	_____	_____
22. Have unused amounts of book <u>and</u> tax operating loss carryovers and related expiration dates been disclosed? (AC I25)	_____	_____	_____
23. Have unusual relationships between income tax expense on the return and the provision for taxes based on pretax accounting income been explained (public companies should reconcile the effective tax rate with the federal statutory rate using dollar amounts or percentages)? (AC I25.127)	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
24. Have the reasons for not providing income taxes on undistributed earnings of a subsidiary or corporate joint venture been disclosed? (AC I25)	_____	_____	_____
25. Have the tax effects of temporary differences caused by changes in the valuation of marketable securities been recognized? (AC I25)	_____	_____	_____
26. Has the nonprovision of income taxes on an S corporation or partnership been disclosed in the notes?	_____	_____	_____
27. Have the amounts of any investment tax credits carryovers been disclosed? (AC I25)	_____	_____	_____
28. Have the net differences between the reported amounts and tax bases of assets and liabilities been disclosed? (AC I25)	_____	_____	_____
29. Have the transition requirements of the FASB Special Report, <u>A Guide to Implementation of Statement 96 on Accounting for Income Taxes</u> , paragraphs 44 through 51, been followed?	_____	_____	_____
30. For prior period adjustments:			
a. Have effects on net earnings, and net earnings per share, if applicable, of all prior periods presented been disclosed in the year of adjustment? (AC A35.106 and .107)	_____	_____	_____
b. For single period statements, have the effects of the prior period adjustment on retained earnings at the beginning of the period and on the net earnings, and net earnings per share, if applicable, of the immediately preceding period been disclosed? (AC A35.107)	_____	_____	_____
c. Have any historical summaries of financial data been restated for the prior period adjustments? (AC A35.108)	_____	_____	_____
31. Section AC E09 suspends reporting of earnings per share by nonpublic companies. If presentation is included, however, the following disclosures should be made:			
a. Net earnings or loss per share should be shown on the face of the earnings statement. Complex capital structures require primary and dilutive presentations. (AC E09.103, .108)	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
b. Earnings per share should be presented for the cumulative effect of an accounting change. (AC E09.104)	_____	_____	_____
c. Earnings per share data for earnings before extraordinary items should be disclosed. (AC E09.104)	_____	_____	_____
d. The method of computation of earnings per share should be disclosed. (AC E09.111)	_____	_____	_____
32. Have transactions in the company's capital stock been excluded from the determination of earnings? (AC C08 and C23)	_____	_____	_____
33. Has gain or loss been recognized upon the involuntary conversion of a nonmonetary asset to a monetary asset? (AC N35.114)	_____	_____	_____

**STATEMENT OF CASH FLOWS**

1. When financial statements include both the balance sheet and a statement of earnings, has a statement of cash flows also been included? (AC C25)	_____	_____	_____
2. Does the statement separately classify the gross cash receipts and payments resulting from operating, financing and investing activities? (Operating activities can be presented by the direct or indirect methods.) (AC C25)	_____	_____	_____
3. Does the statement reconcile the beginning and ending cash and cash equivalents balances? (AC C25)	_____	_____	_____
4. If the direct method of reporting net cash flow is used, has a reconciliation of net earnings to net cash flow from operating activities been provided in a separate schedule? (AC C25)	_____	_____	_____
5. Has a separate schedule or footnote been prepared for non-operating, non-cash transactions? (AC C25)	_____	_____	_____
6. Has the entity's policy for determining any cash equivalents been included in the summary of significant accounting policies footnote? (AC C25)	_____	_____	_____
7. Have the amounts of interest and income taxes paid on a cash basis been appropriately disclosed for all periods presented? (AC C25)	_____	_____	_____











## **ILLUSTRATIVE AUDIT REPORT, FINANCIAL STATEMENTS AND NOTES**

### **PURPOSE**

These blank, illustrative documents are included to facilitate the preparation of the report, financial statements and footnotes on construction contractor audits. Illustrative statements and footnotes have been included for both the percentage of completion and completed contract methods.

### **PROFESSIONAL STANDARDS**

The format for the statements and notes have been obtained from the AICPA's Industry Audit and Accounting Guide, Construction Contractors. The audit report is from SAS No. 58, Reports on Audited Financial Statements.

### **USING THE ILLUSTRATIONS**

The illustrations are designed to be reproduced and modified to eliminate research and drafting time. The illustrations must be carefully modified on each engagement to reflect the unique circumstances of each client.

**STANDARD AUDIT REPORT--COMPARATIVE**  
**FINANCIAL STATEMENTS**

\_\_\_\_\_  
\_\_\_\_\_  
(Company Name)

Independent Auditor's Report

We have audited the accompanying balance sheets of \_\_\_\_\_  
as of \_\_\_\_\_ and the related statements of earnings and retained  
(Company Name)  
(Engagement Date)  
earnings and cash flows for the years then ended. These financial statements are the  
responsibility of the Company's management. Our responsibility is to express an opinion  
on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those  
standards require that we plan and perform the audits to obtain reasonable assurance about  
whether the financial statements are free of material misstatement. An audit includes  
examining, on a test basis, evidence supporting the amounts and disclosures in the financial  
statements. An audit also includes assessing the accounting principles used and significant  
estimates made by management, as well as evaluating the overall financial statement  
presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material  
respects, the financial position of \_\_\_\_\_ as of  
(Company Name)  
\_\_\_\_\_, and the results of its operations and its cash flows  
(Engagement Date)  
for the years then ended in conformity with generally accepted accounting principles.

\_\_\_\_\_  
(Signature)

\_\_\_\_\_  
(Date)

**ILLUSTRATIVE FINANCIAL STATEMENTS AND FOOTNOTES**  
**PERCENTAGE OF COMPLETION METHOD**

---

BALANCE SHEETS

---

<u>Assets</u>	<u>19</u>	<u>19</u>
Cash and cash equivalents	\$ _____	\$ _____
Certificates of deposit	_____	_____
Contract receivables (Note 2)	_____	_____
Costs and estimated earnings in excess of billings on uncompleted contracts (Note 3)	_____	_____
Inventories	_____	_____
Prepaid charges and other assets	_____	_____
Advances to and equity in joint venture (Note 4)	_____	_____
Note receivable, related company (Note 5)	_____	_____
Property and equipment (Notes 6 and 8)	_____	_____
	\$ _____	\$ _____
 <u>Liabilities and Stockholders' Equity</u>		
Notes payable (Note 8)	\$ _____	\$ _____
Lease obligations payable (Note 9)	_____	_____
Accounts payable (Note 7)	_____	_____
Billings in excess of costs and estimated earnings on uncompleted contracts (Note 3)	_____	_____
Accrued income taxes payable	_____	_____
Other accrued liabilities	_____	_____
Deferred income taxes (Note 13)	_____	_____
Contingent liability (Note 10)	_____	_____
Stockholders' equity		
Common stock--\$____ par value, _____ authorized shares, _____ issued and outstanding shares	_____	_____
Retained earnings	_____	_____
	\$ _____	\$ _____

See accompanying Notes to Financial Statements.

\_\_\_\_\_  
STATEMENTS OF EARNINGS AND RETAINED EARNINGS

YEARS ENDED \_\_\_\_\_

	19	19
Contract revenues earned	\$ _____	\$ _____
Cost of revenues earned	_____	_____
Gross profit	_____	_____
Selling, general and administrative expenses	_____	_____
Earnings from operations	_____	_____
Other income (expense)	_____	_____
Equity in earnings from unconsolidated joint venture	_____	_____
Gain on sale of equipment	_____	_____
Interest expense (net of interest income of \$ _____ in 19__ and \$ _____ in 19__) (Note 8)	_____	_____
Earnings before income taxes	_____	_____
Provision for income taxes (Note 13)	_____	_____
Net earnings	_____	_____
Retained earnings, beginning of year	_____	_____
Less: Dividends paid (per share, \$ _____ (19__); \$ _____ (19__))	_____	_____
Retained earnings, end of year	\$ _____	\$ _____

See accompanying Notes to Financial Statements.

STATEMENTS OF CASH FLOWS  
YEARS ENDED \_\_\_\_\_  
Increase (Decrease) in Cash and Cash Equivalents

	19	19
<b>CASH FLOWS FROM (USED FOR) OPERATING ACTIVITIES:</b>		
Net Earnings	\$ _____	\$ _____
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	_____	_____
Provision for losses on accounts receivable	_____	_____
Gain on sale of equipment	_____	_____
Change in assets and liabilities:		
_____ in contract receivables	_____	_____
_____ in costs and estimated earnings in excess of billings in uncompleted contracts	_____	_____
_____ in billings in excess of costs and estimated earnings on uncompleted contracts	_____	_____
_____ in inventory	_____	_____
_____ in prepaid charges and other assets	_____	_____
_____ in accounts payable	_____	_____
_____ in other liabilities	_____	_____
_____ in interest and income taxes payable	_____	_____
_____ in deferred taxes	_____	_____
Total adjustments	_____	_____
<b>NET CASH FROM (USED FOR) OPERATING ACTIVITIES</b>	_____	_____
<b>CASH FLOWS FROM (USED FOR) INVESTING ACTIVITIES (Note 15):</b>		
_____ in notes receivable	_____	_____
Proceeds from sale of equipment	_____	_____
_____ in advances to and equity in joint venture	_____	_____
Capital expenditures	_____	_____
<b>NET CASH FROM (USED FOR) INVESTING ACTIVITIES</b>	_____	_____
<b>CASH FLOWS FROM (USED FOR) FINANCING ACTIVITIES (Note 15):</b>		
Principal payments under capital lease obligation	_____	_____
Payments on notes payable	_____	_____
_____ in notes payable	_____	_____
Proceeds from issuance of common stock	_____	_____
Dividends paid	_____	_____

---

STATEMENTS OF CASH FLOWS

YEARS ENDED \_\_\_\_\_

Increase (Decrease) in Cash and Cash Equivalents (Continued)

NET CASH FROM (USED FOR) FINANCING ACTIVITIES	_____	_____
NET INCREASE IN CASH AND CASH EQUIVALENTS	_____	_____
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	_____	_____
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ <u>_____</u>	\$ <u>_____</u>

See accompanying Notes to Financial Statements.



---

## NOTES TO FINANCIAL STATEMENTS

---

### NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

*Company's activities and operating cycle.* The company is engaged in a single industry: the construction of industrial and commercial buildings. The work is performed under cost-plus-fee contracts, fixed-price contracts, and fixed-price contracts modified by incentive and penalty provisions. These contracts are undertaken by the company alone or in partnership with other contractors through joint ventures. The company also manages, for a fee, construction projects of others.

The length of the company's contracts varies but is typically about two years. Therefore, assets and liabilities are not classified as current and noncurrent because the contract-related items in the balance sheet have realization and liquidation periods extending beyond one year.

*Revenue and cost recognition.* Revenues from fixed-price and modified fixed-price construction contracts are recognized on the percentage-of-completion method, measured by the percentage of labor hours incurred to date to estimated total labor hours for each contract.\* This method is used because management considers expended labor hours to be the best available measure of progress on these contracts. Revenues from cost-plus-fee contracts are recognized on the basis of costs incurred during the period plus the fee earned, measured by the cost-to-cost method.

Contracts to manage, supervise, or coordinate the construction activity of others are recognized only to the extent of the fee revenue. The revenue earned in a period is based on the ratio of hours incurred to the total estimated hours required by the contract.

Contract costs include all direct material and labor costs and those indirect costs related to contract performance, such as indirect labor, supplies, tools, repairs, and depreciation costs. Selling, general, and administrative costs are charged to expense as incurred. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes in job performance, job conditions, and estimated profitability, including those arising from contract penalty provisions, and final contract settlements may result in revisions to costs and income and are recognized in the period in which the revisions are determined. Profit incentives are included in revenues when their realization is reasonably assured. An amount equal to contract costs attributable to claims is included in revenues when realization is probable and the amount can be reliably estimated.

The asset, "Costs and estimated earnings in excess of billings on uncompleted contracts," represents revenues recognized in excess of amounts billed. The liability, "Billings in excess of costs and estimated earnings on uncompleted contracts," represents billings in excess of revenues recognized.

---

\*There are various other alternatives to the percentage of labor hours method for measuring percentage of completion, which, in many cases, may be more appropriate in measuring the extent of progress toward completion of the contract (labor dollars, units of output, and the cost-to-cost method and its variations).

*Inventories.* Inventories are stated at the lower of cost (first-in, first-out method) or market.

*Property and equipment.* Depreciation and amortization are provided principally on the straight-line method over the estimated useful lives of the assets. Amortization of leased equipment under capital leases is included in depreciation and amortization. Interest costs connected with the construction of major equipment or facilities are capitalized during the period of construction activity.

*Income taxes.* Deferred income taxes are provided for temporary differences in reporting income for financial statement and tax purposes arising primarily from differences in the methods of accounting for construction contracts, depreciation, and bad debts.

Construction contracts are reported for tax purposes on the completed-contract method and for financial statement purposes on the percentage-of-completion method. Accelerated depreciation is used for tax reporting, and straight-line depreciation is used for financial statement reporting. An allowance for bad debts is provided in the financial statements and the direct writeoff method is used for tax purposes.

*Cash equivalents.* For purposes of the Statements of Cash Flows, the Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

NOTE 2--CONTRACT RECEIVABLES:

	<u>19</u>	<u>19</u>
Contract receivables:		
Billed		
Completed contracts	\$ _____	\$ _____
Contracts in progress	_____	_____
Retained	_____	_____
Unbilled	_____	_____
Less: Allowances for doubtful accounts	_____	_____
	<u>\$ _____</u>	<u>\$ _____</u>

Contract receivables at \_\_\_\_\_, include a claim, expected to be collected within one year, for \$ \_\_\_\_\_ arising from a dispute with the owner over design and specification changes in a building currently under construction. The changes were made at the request of the owner to improve the thermal characteristics of the building and, in the opinion of counsel, gave rise to a valid claim against the owner.

The retained and unbilled contract receivables at \_\_\_\_\_, included \$ \_\_\_\_\_ that was not expected to be collected within one year.

NOTE 3--COSTS AND ESTIMATED EARNINGS ON UNCOMPLETED CONTRACTS:

	<u>19</u>	<u>19</u>
Costs incurred on uncompleted contracts	\$ _____	\$ _____
Estimated earnings	_____	_____

Less: Billings to date	_____	_____
	\$ _____	\$ _____
Included in accompanying balance sheets under the following captions:		
Costs and estimated earnings in excess of billings on uncompleted contracts	\$ _____	\$ _____
Billings in excess of costs and estimated earnings on uncompleted contracts	\$ _____	\$ _____

NOTE 4--ADVANCES TO AND EQUITY IN JOINT VENTURE:

The company has a minority interest (one-third) in a general partnership joint venture formed to construct an office building. All of the partners participate in construction, which is under the general management of the company. Summary information on the joint venture follows:

	_____	_____
	19	19
Current assets	\$ _____	\$ _____
Construction and other assets	_____	_____
Less: Liabilities	_____	_____
Net assets	\$ _____	\$ _____
Revenue	\$ _____	\$ _____
Net earnings	\$ _____	\$ _____
Company's interest	_____	_____
Share of net earnings	\$ _____	\$ _____
Advances to joint venture	\$ _____	\$ _____
Equity in net assets	_____	_____
Total advances and equity	\$ _____	\$ _____

NOTE 5--TRANSACTIONS WITH RELATED PARTY:

The note receivable, related company, is an installment note bearing annual interest at \_\_\_\_\_%, payable quarterly, with the principal payable in annual installments of \$ \_\_\_\_\_, commencing \_\_\_\_\_.

The major stockholder of the Company owns the majority of the outstanding common stock of this related company, whose principal activity is leasing land and buildings. The Company rents land and office facilities from the related company on a ten-year lease ending \_\_\_\_\_, for an annual rental of \$ \_\_\_\_\_.

NOTE 6--PROPERTY AND EQUIPMENT:

	_____	_____
	19	19
Assets:		
Land	\$ _____	\$ _____
Buildings	_____	_____
Shop and construction equipment	_____	_____
Automobiles and trucks	_____	_____
Leased equipment under capital leases	_____	_____

Accumulated depreciation and amortization:

Buildings	_____	_____
Shop and construction equipment	_____	_____
Automobiles and trucks	_____	_____
Leased equipment under capital leases	_____	_____

Net property and equipment \$ \_\_\_\_\_ \$ \_\_\_\_\_

NOTE 7--ACCOUNTS PAYABLE:

Accounts payable include amounts due to subcontractors, totaling \$ \_\_\_\_\_ at \_\_\_\_\_, and \$ \_\_\_\_\_ at \_\_\_\_\_, which have been retained pending completion and customer acceptance of jobs. Accounts payable at \_\_\_\_\_, include \$ \_\_\_\_\_ that are not expected to be paid within one year.

NOTE 8--NOTES PAYABLE:

	_____	_____
	19	19
Unsecured note payable to bank, due in quarterly installments of \$ _____ plus interest at ____ % over prime	\$ _____	\$ _____
Note payable to bank, collateralized by equipment, due in monthly installments of \$ _____ plus interest at ____ % through _____, 19__	\$ _____	\$ _____

At \_\_\_\_\_, 19\_\_, the payments due within one year totaled \$ \_\_\_\_\_. Long-term debt maturities are as follows:

19__	\$ _____
19__	_____
19__	_____
19__	_____
19__	_____

Interest capitalized amounted to \$ \_\_\_\_\_ in 19\_\_ and \$ \_\_\_\_\_ in 19\_\_. Interest paid, net of amounts capitalized, amounted to \$ \_\_\_\_\_ in 19\_\_ and \$ \_\_\_\_\_ in 19\_\_.

NOTE 9--LEASES:

The company leases certain specialized construction equipment under leases classified as capital leases. The following is a schedule showing the future minimum lease payments under capital leases by years and the present value of the minimum lease payments as of \_\_\_\_\_:

	<u>Capital Leases</u>	<u>Operating Leases</u>
Year ending _____:		
19__	_____	_____
19__	_____	_____
19__	_____	_____
19__	_____	_____
19__	_____	_____
Total minimum lease payments	_____	\$ _____
Less: Executory costs and imputed interest	_____	
Present value of minimum lease payments	\$ _____	

At \_\_\_\_\_, 19\_\_, the present value of minimum lease payments due within one year is \$\_\_\_\_\_.

Total rental expense, excluding payments on capital leases, totaled \$\_\_\_\_\_ in 19\_\_ and \$\_\_\_\_\_ in 19\_\_.

**NOTE 10--CONTINGENT LIABILITY:**

A claim for \$\_\_\_\_\_ has been filed against the Company and its bonding company arising out of the failure of a subcontractor of the company to pay its suppliers. In the opinion of counsel and management, the outcome of this claim will not have a material effect on the Company's financial position, results of operations, or cash flows.

**NOTE 11--PENSION PLAN:**

The Company has a defined benefit pension plan covering substantially all of its employees. The benefits are based on years of service and the employee's compensation during the last five years of employment. The Company's funding policy is to contribute annually the maximum amount that can be deducted for federal income tax purposes. Contributions are intended to provide not only for benefits attributed to service to date but also for those expected to be earned in the future.

The following table sets forth the plan's funded status and amounts recognized in the company's balance sheet at \_\_\_\_\_, 19\_\_ and 19\_\_ (in thousands):

	<u>19</u>	<u>19</u>
Actuarial present value of benefit obligations:		
Accumulated benefit obligation, including vested benefits of \$_____ in 19__ and \$_____ in 19__	\$ _____	\$ _____
Projected benefit obligation for service rendered to date	\$ _____	\$ _____
Plan assets at fair value, primarily listed stock and U.S. bonds	_____	_____
Projected benefit obligation in excess of plan assets	_____	_____
Unrecognized net gain from past experience different from that assumed and effects of changes in assumptions	_____	_____

Prior service cost not yet recognized in net periodic pension cost	_____	_____
Unrecognized net obligation at _____, 19__ being recognized over 15 years	_____	_____
Prepaid pension cost included in other assets	\$ _____	\$ _____

Net pension cost for 19\_\_ and 19\_\_ included the following components (in thousands):

	19	19
Service cost--benefits earned during the period	\$ _____	\$ _____
Interest cost on projected benefit obligation	_____	_____
Actual return on plan assets	_____	_____
Net amortization and deferral	_____	_____
Net periodic pension cost	\$ _____	\$ _____

The weighted-average discount rate and rate of increase in future compensation levels used in determining the actuarial present value of the projected benefit obligation were \_\_\_ percent and \_\_\_ percent, respectively. The expected long-term rate of return on assets was \_\_\_ percent.

NOTE 12--MANAGEMENT CONTRACTS:

The company manages or supervises commercial and industrial building contracts of others for a fee. These fees totaled \$\_\_\_\_\_ in 19\_\_ and \$\_\_\_\_\_ in 19\_\_ and are included in contract revenues earned.

NOTE 13--PROVISION FOR INCOME TAXES:

The provision for income taxes consists of:

	19	19
Income taxes currently payable	\$ _____	\$ _____
Deferred income taxes arising from temporary differences	_____	_____
Investment credit carryforwards	_____	_____
Operating loss carryforwards	_____	_____
Adjustments of deferred tax liabilities	_____	_____
	\$ _____	\$ _____
Effective tax rate	_____%	_____%
State income taxes, less federal tax effect	_____	_____
Investment credits carryforwards	_____	_____
Operating loss carryforwards	_____	_____
Adjustments of deferred tax liabilities (or asset for changes in law, rates or tax status)	_____	_____
	_____%	_____%
Statutory Federal rate	_____%	_____%

The net difference between the tax bases and the reported amounts of assets and liabilities causing temporary differences between income tax and financial accounting comprises:

Reported Amounts:

Billings in excess of costs and estimated earnings on uncompleted contracts	\$ _____	\$ _____
Property and equipment	_____	_____
Allowance for bad debts	_____	_____

Tax Bases:

Billings in excess of costs and estimated earnings on uncompleted contracts	_____	_____
Property and equipment	_____	_____
Allowance for bad debts	_____	_____
Net Difference	\$ _____	\$ _____

Income taxes paid amounted to \$ \_\_\_\_\_ in 19\_\_ and \$ \_\_\_\_\_ in 19\_\_.

The Company has unused investment tax credit and operating loss carryovers available to offset future income. The amounts and years of expirations are as follows:

Investment Tax Credits

19__	\$ _____
19__	_____
19__	_____
	\$ _____

Operating Loss Carryovers

	Financial Reporting	Tax Purposes
19__	\$ _____	\$ _____
19__	_____	_____
19__	_____	_____
	\$ _____	\$ _____

NOTE 14--BACKLOG\*:

The following schedule shows a reconciliation of backlog representing signed contracts, excluding fees from management contracts, in existence at \_\_\_\_\_, 19\_\_ and 19\_\_:

Balance, _____, 19__	\$ _____
Contract adjustments	_____
New contracts, 19__	_____
	_____
Less: Contract revenue earned, 19__	_____
Balance, _____, 19__	\$ _____

In addition, between \_\_\_\_\_, 19\_\_ and \_\_\_\_\_, 19\_\_ \*\*, the company entered into additional construction contracts with revenues of \$ \_\_\_\_\_.

\*The presentation of backlog information, although encouraged, is not a required disclosure.

\*\*Date of auditor's report (completion of fieldwork).

NOTE 15--NONCASH INVESTING AND FINANCING ACTIVITIES:

The Company purchased equipment with a fair value of \$\_\_\_\_\_ in 19\_\_\_\_ and \$\_\_\_\_\_ in 19\_\_\_\_ on open account. Capital lease obligations of \$\_\_\_\_\_ in 19\_\_\_\_ and \$\_\_\_\_\_ in 19\_\_\_\_ were incurred when the company entered into a lease for new equipment.

NOTE 16--SUBSEQUENT EVENTS:

On \_\_\_\_\_, 19\_\_\_\_, the Company purchased the land, buildings and equipment of a parts supplier for \$\_\_\_\_\_. Upon the hiring of new employees, the Company intends to begin production of various machinery parts in this facility.



STANDARD AUDIT REPORT--SUPPLEMENTARY INFORMATION

Independent Auditor's Report on Supplementary Information

---

---

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information, presented on the following pages \_\_\_\_\_ through \_\_\_\_\_ is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information has been subjected to the audit procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

---

(Firm Signature)  
Certified Public Accountants

---

(Date)

ILLUSTRATIVE SUPPLEMENTARY INFORMATION

PERCENTAGE OF COMPLETION METHOD

EARNINGS FROM CONTRACTS

YEAR ENDED \_\_\_\_\_

	<u>19</u>	<u>19</u>		
	<u>Revenues earned</u>	<u>Cost of revenues earned</u>	<u>Gross profit (loss)</u>	<u>Gross profit (loss)</u>
Contracts completed during the year	\$ _____	\$ _____	\$ _____	\$ _____
Contracts in progress at yearend	_____	_____	_____	_____
Management contract fees earned	_____	_____	_____	_____
Unallocated indirect and warranty costs	_____	_____	_____	_____
Minority interest in joint venture	_____	_____	_____	_____
Charges on prior year contracts	_____	_____	_____	_____
	<u>\$ _____</u>	<u>\$ _____</u>	<u>\$ _____</u>	<u>\$ _____</u>





**ILLUSTRATIVE FINANCIAL STATEMENTS AND FOOTNOTES**  
**COMPLETED CONTRACT METHOD**

---

BALANCE SHEETS

---

<u>Assets</u>	19	19
Current assets:		
Cash and cash equivalents	\$ _____	\$ _____
Contract receivables (Note 2)	_____	_____
Costs in excess of billings on uncompleted contracts (Note 3)	_____	_____
Inventories (Note 4)	_____	_____
Prepaid expenses	_____	_____
Total current assets	_____	_____
Cash value of life insurance	_____	_____
Property and equipment:		
Building	_____	_____
Equipment	_____	_____
Trucks and autos	_____	_____
Less accumulated depreciation	_____	_____
Land	_____	_____
	\$ _____	\$ _____
<u>Liabilities and Stockholders' Equity</u>		
Current liabilities:		
Current portion of long-term debt (Note 5)	\$ _____	\$ _____
Accounts payable	_____	_____
Accrued salaries and wages	_____	_____
Accrued income taxes	_____	_____
Accrued and other liabilities	_____	_____
Billings in excess of costs on uncompleted contracts (Note 3)	_____	_____
Total current liabilities	_____	_____
Long-term debt (Note 5)	_____	_____
Stockholders' equity:		
Common stock--\$____ par value, _____ authorized shares, _____ issued and outstanding shares	_____	_____
Additional paid-in capital	_____	_____
Retained earnings	_____	_____
	\$ _____	\$ _____

See accompanying Notes to Financial Statements.

---

STATEMENTS OF EARNINGS AND RETAINED EARNINGS

YEARS ENDED \_\_\_\_\_

	19	19
Contract revenues	\$ _____	\$ _____
Costs and expenses:		
Cost of contracts completed	_____	_____
General and administrative	_____	_____
Interest expense	_____	_____
Earnings before income taxes	_____	_____
Income taxes (Note 8)	_____	_____
Net earnings	_____	_____
Retained earnings		
Balance, beginning of year	_____	_____
Dividends paid (\$_____ per share)	_____	_____
Balance, end of year	\$ _____	\$ _____

See accompanying Notes to Financial Statements.

STATEMENT OF CASH FLOWS  
YEAR ENDED \_\_\_\_\_  
Increase (Decrease) in Cash and Cash Equivalents

	19	19
<b>CASH FLOWS FROM (USED FOR) OPERATING ACTIVITIES:</b>		
Net Earnings	\$ _____	\$ _____
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation	_____	_____
_____ in contract receivables	_____	_____
_____ in billings in excess of costs on uncompleted contracts	_____	_____
_____ in costs in excess of billings on uncompleted contracts	_____	_____
_____ in inventories	_____	_____
_____ in prepaid expenses	_____	_____
_____ in accounts payable	_____	_____
_____ in accrued salaries and wages	_____	_____
_____ in accrued income taxes	_____	_____
_____ in accrued liabilities	_____	_____
<b>NET CASH FROM (USED FOR) OPERATING ACTIVITIES</b>	_____	_____
<b>CASH FLOWS FROM (USED FOR) INVESTING ACTIVITIES:</b>		
Purchase of property and equipment	_____	_____
_____ in cash value of life insurance	_____	_____
<b>NET CASH FROM (USED FOR) INVESTING ACTIVITIES</b>	_____	_____
<b>CASH FLOWS FROM (USED FOR) FINANCING ACTIVITIES:</b>		
Proceeds from issuance of long-term debt	_____	_____
Principal payments on long-term debt	_____	_____
Cash dividends paid	_____	_____
_____ in other liabilities	_____	_____
<b>NET CASH FROM (USED FOR) FINANCING ACTIVITIES</b>	_____	_____
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	_____	_____
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	_____	_____
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	\$ _____	\$ _____

See accompanying Notes to Financial Statements.

---

NOTES TO FINANCIAL STATEMENTS

---

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

*Company's activities.* The company is a contractor and performs \_\_\_\_\_. Work is performed primarily under fixed-price contracts. Time-and-material contracts comprised approximately \_\_\_\_% of the company's business.

*Revenue and cost recognition.* Revenues from fixed-price construction contracts are recognized on the completed-contract method. This method is used because the typical contract is completed in two months or less and financial position and results of operations do not vary significantly from those which would result from use of the percentage-of-completion method. A contract is considered complete when all costs except insignificant items have been incurred and the contract has been performed according to specifications or has been accepted by the customer.

Revenues from time-and-material contracts are recognized currently as the work is performed.

Contract costs include all direct material and labor costs and those indirect costs related to contract performance, such as indirect labor, supplies, tools, repairs, and depreciation costs. General and administrative costs are charged to expense as incurred. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined. Claims are included in revenues when received.

Costs in excess of amounts billed are classified as current assets under costs in excess of billings on uncompleted contracts. Billings in excess of costs are classified under current liabilities as billings in excess of costs on uncompleted contracts. Contract retentions are included in accounts receivable.

*Property and equipment.* Depreciation is provided over the estimated lives of the assets principally on the declining-balance method, except on the building where the straight-line method is used. Interest costs connected with the construction of major equipment or facilities are capitalized during the period of construction activity.

*Cash equivalents.* For purposes of the Statements of Cash Flows, the Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

NOTE 2--CONTRACT RECEIVABLES:

	19	19
Completed contracts, including retentions	\$ _____	\$ _____
Contracts in progress:		
Current accounts	_____	_____



Retentions	_____	_____
Less: Allowance for doubtful accounts	_____	_____
	\$ _____	\$ _____

Retentions include \$\_\_\_\_\_ in 19\_\_\_\_, which are expected to be collected after 12 months.

NOTE 3--COSTS AND BILLINGS ON UNCOMPLETED CONTRACTS:

	_____	_____
	19	19
Costs incurred on uncompleted contracts	\$ _____	\$ _____
Billings on uncompleted contracts	_____	_____
	\$ _____	\$ _____
Included in accompanying balance sheets under the following captions:		
Costs in excess of billings on uncompleted contracts	\$ _____	\$ _____
Billings in excess of costs on uncompleted contracts	_____	_____
	\$ _____	\$ _____

NOTE 4--INVENTORIES:

	_____	_____
	19	19
Construction materials	\$ _____	\$ _____
Parts and supplies	_____	_____
	\$ _____	\$ _____

Inventories are stated at the lower of cost (first-in, first-out method) or market.

NOTE 5--LONG-TERM DEBT:

	_____	_____
	19	19
Notes payable, bank:		
Notes due in quarterly installments of \$_____, plus interest at __%	\$ _____	\$ _____
Notes due in monthly installments of \$_____, plus interest at prime plus __%	_____	_____
Mortgage payable		
Due in quarterly payments of \$_____, including interest at __%, collateralized by building	_____	_____
	_____	_____
Less current portion	\$ _____	\$ _____

Long-term debt maturities are as follows:

19__	\$ _____
19__	_____
19__	_____
19__	_____
19__	_____

Interest capitalized amounted to \$ \_\_\_\_\_ in 19\_\_ and \$ \_\_\_\_\_ in 19\_\_.  
 Interest paid, net of amounts capitalized, amounted to \$ \_\_\_\_\_ in 19\_\_ and \$ \_\_\_\_\_ in 19\_\_.

NOTE 6--PENSION PLAN:

The Company has a defined benefit pension plan covering substantially all of its employees. The benefits are based on years of service and the employee's compensation during the last five years of employment. The Company's funding policy is to contribute annually the maximum amount that can be deducted for federal income tax purposes. Contributions are intended to provide not only for benefits attributed to service to date but also for those expected to be earned in the future.

The following table sets forth the plan's funded status and amounts recognized in the company's balance sheet at \_\_\_\_\_, 19\_\_ and 19\_\_ (in thousands):

	19__	19__
Actuarial present value of benefit obligations:		
Accumulated benefit obligation, including vested benefits of \$ _____ in 19__ and \$ _____ in 19__	\$ _____	\$ _____
Projected benefit obligation for service rendered to date	\$ _____	\$ _____
Plan assets at fair value, primarily listed stocks and U.S. bonds	_____	_____
Projected benefit obligation in excess of plan assets	_____	_____
Unrecognized net gain from past experience different from that assumed and effects of changes in assumptions	_____	_____
Prior service cost not yet recognized in net periodic pension cost	_____	_____
Unrecognized net obligation at _____, 19__ being recognized over 15 years	_____	_____
Prepaid pension cost included in other assets	\$ _____	\$ _____

Net pension cost for 19\_\_ and 19\_\_ included the following components (in thousands):

	19__	19__
Service cost--benefits earned during the period	\$ _____	\$ _____
Interest cost on projected benefit obligation	_____	_____
Actual return on plan assets	_____	_____
Net amortization and deferral	_____	_____
Net periodic pension cost	\$ _____	\$ _____

The weighted-average discount rate and rate of increase in future compensation levels used in determining the actuarial present value of the projected benefit obligation were \_\_\_ percent and \_\_\_ percent, respectively. The expected long-term rate of return on assets was \_\_\_ percent.

NOTE 7--BACKLOG\*

The estimated gross revenue on work to be performed on signed contracts was \$\_\_\_\_\_ at \_\_\_\_\_, and \$\_\_\_\_\_ at \_\_\_\_\_. In addition to the backlog of work to be performed, there was gross revenue, to be reported in future periods under the completed-contract method used by the Company, of \$\_\_\_\_\_ at \_\_\_\_\_, and \$\_\_\_\_\_ at \_\_\_\_\_.

NOTE 8--INCOME TAXES:

Income tax expense consists of:

	19	19
Income taxes currently payable	\$ _____	\$ _____
Investment credits carryforwards	_____	_____
Operating loss carryforwards	_____	_____
_____	_____	_____
_____	\$ _____	\$ _____
Effective tax rate	_____%	_____%
State income taxes, less federal effect	_____	_____
Investment credit carryforwards	_____	_____
Operating loss carryforwards	_____	_____
Adjustments of deferred tax liabilities (or assets) for changes in law, rates or tax status	_____	_____
_____	_____	_____
Statutory Federal rate	_____%	_____%

Income taxes paid amounted to \$\_\_\_\_\_ in 19\_\_ and \$\_\_\_\_\_ in 19\_\_.

\*The presentation of backlog information, although encouraged, is not a required disclosure.





## **Titles Available in the Small Firm Library Series**

Comprehensive Engagement Manual (008801)

Bank Audit Manual (008804)

Small Business Audit Manual (008803)

Construction Contractors' Audit Manual (008802)

### **TECHNICAL HOTLINE**

**The AICPA Technical Information Service answers  
inquiries about specific audit or accounting problems.**

**Call Toll Free**

**(800) 223-4158 (Except New York)**

**(800) 522-5430 (New York Only)**

**This service is free to AICPA members.**