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Audit Procedures

Electronic Workpapers and Reference Guide

Included
on Disk:

Audit Programs
ngagement Letters
orms and Checklists
uditor's Reports
overnment Documents

George Georgiades

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Electronic Workpapers and Reference Guide

George Georgiades

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ABOUT THE ACCOMPANYING DISKS

SYSTEM REQUIREMENTS

- IBM PC or compatible computer
- WordPerfect® 5.1 for MS-DOS™, Microsoft Word® 6.0 for Windows™, or compatible word processor
- 3 MB available on hard disk
- Disk drive capable of reading 3.5″ high-density disks.
- Laser or ink jet printer

INTRODUCTION AND INSTALLATION

Introduction

The disks provided with your *Miller Audit Procedures Guide* contains electronic versions of the model audit program, sample letters, practice aids, checklists, and sample reports, plus a stand-alone Automated Workpapers program, which can be used to produce more than 35 of the most common audit workpapers. The book and disks together contain all the material necessary to automate and perform a complete audit engagement.

The Automated Workpapers program contains all of the most common audit workpapers from Cash to Income Taxes. The system is completely menu driven so that even the computer novice can easily navigate through the various workpapers, enter data, and review all calculations. The menu system will automatically print the workpapers with portrait and landscape orientations and perform other utility functions. The electronic practice aids are intended to be used in conjunction with your word processing software. The electronic practice aids have been formatted in Word 6.0 for Windows and WordPerfect 5.1 for DOS versions. If you do not own either of these programs, your word processing software may be able to convert the documents into a usable format. Check the user's manual that accompanies your word processing software for more information about the conversion of documents.

Subject to the conditions in the license agreement and the limited warranty printed on the disk envelope, you may duplicate the files on this disk, modify them as necessary, and create your own customized versions. Opening the disk envelope and/or using the disk in any way indicates that you accept the terms of the licensing agreement.

If you experience any difficulties while running the Automated Workpapers program or editing the electronic practice aids and cannot resolve the problem using the information presented in this manual, fill out the Software Support Form and fax it to (800) 874-6418. A technical support representative will contact you with assistance.

Installation

To install the Automated Workpapers program and electronic practice aids, insert either disk in your floppy drive (e.g., **A:**). Select the File, Run command from the Windows Program manager, then type **A:INSTALL** in the command line. If you are running this program outside of Windows, type **A:INSTALL** from the DOS prompt. You will then be prompted to specify the drive where you would like the files installed (e.g., **C:**). The installation program will automatically create a subdirectory for you entitled "/APG96," where it will place all of the necessary files. The installation will not affect previous versions of *Miller Audit Procedures* software loaded on your computer. Please note that each disk contains a separate installation program; therefore, you will need to install each disk separately.

AUTOMATED WORKPAPERS

Creating New Files

Use the Newfile Utility to create a copy of the master program file. To load the Newfile Utility from DOS, first type **CD\APG96** to change to the *Miller Audit Procedures Guide* directory and strike ENTER. Type **Newfile** and strike ENTER to load the Newfile Utility program.

Once the Newfile Utility is loaded, you will be prompted to type a file name of eight of fewer characters. Please note that the filename should **not** include a three-letter extension. Type the filename and strike ENTER to create a new file.

> **Note:** If you enter the name of a file that already exists, the program will not automatically overwrite the existing file. You will be prompted to overwrite the existing file or not. Be careful; if you answer yes, the existing file will be overwritten with a new blank file.

When you create a new file for the Automated Workpapers program, two files are actually created. These files are simply copies of the master files,

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APG.WKM and APG.OVR. Both will have the file prefix that you entered in the last step, but one will have a .WKB extension and the other will have an .OVR extension. The extensions are added to the new files automatically.

The .WKB file contains all input data, and the .OVR file contains all of the hidden formulas, macros, and other code. Because these two files must be present to run the program, they are referred to collectively as a *program file*.

Retrieving a File (Running the Program)

To retrieve a file that you have created, first type CD\APG96 from the DOS prompt and strike ENTER to change to the *Miller Audit Procedures Guide* directory . From the *Miller Audit Procedures Guide* directory, type **RUN Filename**, where Filename is the name of the file created. From within Windows, select the File, Run command from the Windows Program Manager and type **RUN Filename** in the command line, where Filename is the name of the file created.

Wait until the file is completely loaded before striking any keys. The Main Menu will appear in the middle of the screen once the file is completely loaded. Use the arrow keys to highlight the menu option of your choice and strike ENTER to execute the option or simply type the first character of a menu option. Some menu options will take you to a submenu; from a submenu you can either select another option or press ESC to return to the prior menu.

Entering Data

If you are in a Data Entry screen, use the arrow keys to position the cursor on each unprotected cell. Unprotected cells are displayed in a different color or brightness than the protected cells. Input the requested label or number, strike ENTER, and move on to the input cell. Strike ESC from any Data Entry screen to return to the menu.

You cannot edit protected cells while in the Data Entry Mode (i.e., when the program menu is active). See "CTRL+C Mode" section to learn how to break out of the program menu to edit protected cells.

To access the first submenu, select Workpaper Information from the Main Menu. Then select General Audit Information to access the first input screen. The information you input in this screen will be used as the heading of each workpaper. If you make a mistake while inputting information, press the F2 function key to edit the cell contents.

As you type the first character of the date in the Financial Statement Date input cell, you will see / / in the top left corner of the screen. These slashes, which appear automatically, divide the month, day, and year in each location where a date input is required.

The Workpaper Reference column contains the default references that are transferred to the respective workpapers. These default references are based on the indexing scheme proposed in the *Miller Audit Procedures Guide*. If you prefer, you can edit the workpaper references to reflect your own indexing format.

Numbers need to be entered in a specific way. For example, enter dollar amounts without commas (e.g., type **1000** and "$1,000" will appear in the cell.) Enter percentages as the decimal equivalent. For example, type **.09** and "9%" will appear in the cell. Omit commas from decimal number inputs. For example, in a cell requiring a decimal input, type **1000.99**, and "1,000.99" will appear in the cell.

Strike ESC to return to the menu, then select Financial Statement Information. The data requested in the Financial Statement Information screen is used for the calculations in the various Analytical Procedures workpapers. After completing these two screens, strike ESC to return to the menu and ESC again to return to the Main Menu.

From the Main Menu, select Audit Workpapers to access the submenu that controls all of the workpaper groups. If you select a workpaper group, menu options for all of the workpapers contained in that group will appear. Select one of the workpaper menu options to view the actual workpaper and to enter data. Strike ESC to return to the menu.

CTRL+C Mode

Striking the "CTRL" and "C" keys at the same time will take you out of the Data Entry Mode. In the CTRL+C mode, the program menu is inactive, you can move freely through the program, edit protected cells, and access the secondary menu.

Use the F5 function key to go to a specified cell address.

To edit workpaper titles in the CTRL+ C mode, you must strike / to activate the secondary menu, then select Worksheet, Titles, Clear.

Strike ALT+A to reactivate the program menu.

Printing the Workpapers

To print a workpaper, select Print Workpapers from the Main Menu. Next, select Toggle Workpapers To Print to access the screen where you can determine which workpapers to print. To mark a workpaper to print, use the vertical arrow keys highlight the title of the workpaper you would like to print and type **1** in the input box next to the title. Repeat this process until all the workpapers you would like to print are marked with "1." Select Print Toggled Workpapers and Yes, to print all workpapers that are toggled to "1". To print all of the workpapers, enter a **1** next to Print All Workpapers. For most workpapers, only rows in which you have entered data will be displayed when you print.

Workpapers shown with an "*" are set to print with a landscape orientation. For this to work properly, you must choose Select Printer from the Print Workpapers menu. Select the Laser or the Ink Jet printer options. You must print the workpapers on a laser or other printer with graphic capabilities because dot matrix printers are not capable of landscape (graphic) printing without external software.

Please note that if you receive an error message when printing the program will fall out of Data Entry Mode and the program menu will become inactive. Strike ESC to clear the printer error then Alt+A to reactivate the program menu. Contact Technical Support if you are problems persist.

Program Utilities

From the Main Menu, select Utilities to access the submenu controlling the Column and Row Display and Automatic/Manual Recalculation functions.

Column & Row Display

From the Column & Row Display feature you can choose to either Display Borders or Remove Borders from the workpapers by selecting the associated option. Displaying the borders will show the column letters across the top and the row numbers down the left side of the screen. Displaying the borders is useful when performing manual operations in the CTRL+C mode on a specified cell or range of cells. See the section entitled "CTRL+C Mode" for an explanation of manual operations.

Automatic/Manual Recalculation

Select Automatic/Manual Recalculation to run the program in either one of these modes. The default setting is Automatic Recalculation, which means that all formula results are updated immediately after each input. If the program seems sluggish while entering data, use the Manual Recalculation option, and the results of formulas will be updated only when you return to the menu.

Save & Exit

Select Save & Exit from the Main Menu to save any changes to the current file and to exit the program. First, you must select Save Program Data and Yes to save your data.

Then, select Exit Program to exit the program and return to your operating system. Be sure to save your file before using Quit or Exit.

Workpaper Listing

Each Audit Workpapers submenu option is listed below, with the individual workpapers contained under that submenu option.

Cash & Marketable Securities Workpapers

Bank Reconciliation	AA-1(a–e)
Proof of Cash	AA-2(a–e)
Bank Transfer Schedule	AA-3
Count Sheet of Securities	AB-1
Investment in Securities Analysis	AB-2

Accounts & Notes Receivable Workpapers

A/R Confirmation Control Summary	AD-1
A/R Confirmation Results Summary	AD-2
A/R Analytical Procedures	AD-3
A/R Rollforward from Confirmation Date to Balance Sheet Date	AD-4
A/R Reconciliation to General Ledger	AD-5
A/R Alternative Procedures & Review for Uncollectible Accounts	AD-6
A/R Allowance for Uncollectible Accounts	AD-7
Notes Receivable Analysis	AE-1

Inventory Workpapers

Inventory Test Count Sheet	AG-1

Inventory Reconciliation—Physical to Balance Sheet Date	AG-2
Inventory Price Test—Purchased Goods	AG-3
Receiving Cutoff	AG-4
Shipping Cutoff	AG-5
Inventory—Analytical Procedures	AG-6

Property, Plant, & Equipment Workpapers

Property, Plant, & Equipment—Summary Analysis	AJ-1
Property, Plant, & Equipment—Analytical Procedures	AJ-2
Property Additions	AJ-3
Property Deletions	AJ-4

Prepaids & Accruals Workpapers

Prepaid Insurance	AH-1
Prepaid & Accrued Property Taxes	AH-2
Other Prepaid Expenses	AH-3
Accrued Liabilities—Analytical Procedures	LD-1
A / P, Notes Payable, & Long-Term Debt Workpapers	
Accounts Payable Confirmation Results	LA-1
Accounts Payable & Purchases—Analytical Procedures	LA-2
Debt Obligations & Interest Analysis	LB-3
Debt Obligations & Interest—Analytical Procedures	LG-1

Income Taxes Workpapers

Analysis of Accrued/Refundable Income Taxes	LE-1
Deferred Income Taxes	LE-2
Summary of Carryforwards and Expiration Dates	LE-3

Equity, Revenue, Expense, & Misc. Workpapers

Carryforward Stock Book Analysis	EA-1
Analysis of Equity Accounts	EA-2
Revenue & Expense—Analytical Procedures	OC-1
Analysis of Legal Fees	OE-1
Analysis of Unrecorded Audit Differences	G-7

ELECTRONIC PRACTICE AIDS

Opening the Files

1. Open your word processing program.
2. If you are using Microsoft Word, choose Open from the File menu. Select the subdirectory that contains the loaded files to list the names of the files.
3. From WordPerfect, press CTRL + F5 to list subdirectories. Select the subdirectory that contains the loaded files. Press ENTER to display a list of files on the disk.
4. Refer to the Disk Contents to find the filename of the document you want to use. The Disk Contents is also available on your disk in a file called "TOC." You can open this file and view it on your screen or print a hard copy to use for reference.
5. Highlight the name of the file you want to use and double-click your left mouse button to open the document in Microsoft Word. If you are using WordPerfect, highlight the name of the file and press 1 to retrieve the document. You can now modify and/or print this file.

Word Processing Tips

Wherever possible, the text of the documents has been converted to tables so that you can modify the text without altering the format of the documents. To maneuver within a table, press TAB to move to the next cell, and SHIFT + TAB to move backward one cell. If you want to move to a tab stop within a cell, press CTRL + TAB. For additional tips on working with tables, consult your word processor's manual. It might be helpful to turn on the invisible table lines in Microsoft Word while modifying the document by selecting Gridlines from the Table menu. In WordPerfect, press F11 to reveal all formatting codes at the bottom of the screen; this will help you determine the shape of the table. Additional table options can be found in WordPerfect under the Columns/Tables function ALT + F7.

Microsoft Word and WordPerfect are equipped with search capabilities to help you locate specific words or phrases within a document. The Find option listed under the Edit menu performs a search in Microsoft Word. If you are using WordPerfect, press SHIFT + F2 (Search) to locate key words.

Important: When you are finished using a file you will be asked to save it. If you have modified the file, you may want to save the modified file

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under a different name rather than the name of the original file. (Your word processing program will prompt you for a file name.) This will enable you to reuse the original file without your modifications. If you want to replace the original file with your modified file, save but do not change the name of the file.

Print Troubleshooting

If you are having difficulty printing your document in Microsoft Word or WordPerfect, the following suggestions may correct the problem.

Microsoft Word

- Select Print from the Microsoft Word File menu. Then choose the Printer function.
- Ensure that the correct printer is selected.
- From this window, choose Options.
- In the media box, make sure that the paper size is correct and that the proper paper tray is selected.
- Check your network connections if applicable.
- If you still have trouble printing successfully, it may be because your printer does not recognize the font Times New Roman. At this point, you should change the font of the document to your default font by selecting the document CTRL + A and then choosing Font from the Format menu and highlighting the name of the font you normally use. Changing the font of the document may require additional adjustments to the document format, such as margins, tab stops, and table cell height and width. Select Page Layout from the View menu to view the appearance of the pages before you try to print again.

WordPerfect

- Use Format, Page (SHIFT + F8, 2) to check your paper size. If 8.5 x 11" Standard is not selected, press 7 to correct it.
- If the paper size is correct, investigate all the different Print Options (SHIFT+ F7) available to you:

  7: Initialize Printer After pressing 7, you will receive the following prompt: "Proceed with Printer Initialization?" Choose Y for yes.

S: Select Printer Make sure the correct printer is selected. If not, position the cursor to highlight the appropriate printer and press 1 to select it.

1: Print Full Document Try printing the document again. Immediately afterward, choose SHIFT + F7, 4 to check the status of your print job. If an error message is displayed, consult your WordPerfect and printer manuals.

- If no current print job is showing, try the following additional Print options found in the Select Printer, Edit menu (SHIFT + F7, S, 3):

  1: **Name** Verify that the correct printer is selected.

  2: **Port** Verify that the correct printer port is selected.

  3: **Feeder** If you have a printer that requires a manual page feed, select it here.

  4: **Cartridges/Fonts/Print Wheels** You may find that you have access to additional fonts here, especially soft fonts. Note that if soft fonts are marked with an asterisk (*), you will have to choose Initialize Printer (SHIFT + F7, 7) every time you print for them to be downloaded.

  5: **Initial Base Font** You may be having difficulty because your printer is not compatible with CG Times. You can correct this problem by changing the base font of the document to your default font. Simply highlight the name of your default font and press ENTER. If you don't know what your default font is, try Courier 10cpi. Use the Print Preview function (SHIFT + F7, 6) to determine whether you need to make adjustments to the formatting of the document because of the font change.

Electronic Practice Aid Listing

Section I—Audit Programs

Audit Program—Preliminary and General Audit Procedures	**AP_PRELM**
Audit Program—Substantive Tests	**AP_SUB**
Audit Program—Tests of Controls	**AP_TESTS**

Section II—Correspondence and Confirmation Letters

Illustrative Audit Engagement Letter	**CORRES01**
Illustrative Letter of Representations	**CORRES02**

under a different name rather than the name of the original file. (Your word processing program will prompt you for a file name.) This will enable you to reuse the original file without your modifications. If you want to replace the original file with your modified file, save but do not change the name of the file.

Print Troubleshooting

If you are having difficulty printing your document in Microsoft Word or WordPerfect, the following suggestions may correct the problem.

Microsoft Word

- Select Print from the Microsoft Word File menu. Then choose the Printer function.
- Ensure that the correct printer is selected.
- From this window, choose Options.
- In the media box, make sure that the paper size is correct and that the proper paper tray is selected.
- Check your network connections if applicable.
- If you still have trouble printing successfully, it may be because your printer does not recognize the font Times New Roman. At this point, you should change the font of the document to your default font by selecting the document CTRL + A and then choosing Font from the Format menu and highlighting the name of the font you normally use. Changing the font of the document may require additional adjustments to the document format, such as margins, tab stops, and table cell height and width. Select Page Layout from the View menu to view the appearance of the pages before you try to print again.

WordPerfect

- Use Format, Page (SHIFT + F8, 2) to check your paper size. If 8.5 x 11" Standard is not selected, press 7 to correct it.
- If the paper size is correct, investigate all the different Print Options (SHIFT+ F7) available to you:

  7: Initialize Printer After pressing 7, you will receive the following prompt: "Proceed with Printer Initialization?" Choose Y for yes.

Request for Cutoff Bank Statement	**CORRES03**
Standard Form to Confirm Account Balance Information with Financial Institutions	**CORRES04**
Request for Confirmation of Securities Held by Brokers or Other Third Parties When Listing of Securities Is Included in the Confirmation Request	**CORRES05**
Request for Confirmation of Securities Held by Brokers or Other Third Parties When Listing of Securities Is *Not* Included in the Confirmation Request	**CORRES06**
Request for Confirmation of Accounts Receivable—Positive Request	**CORRES07**
Request for Confirmation of Accounts Receivable—Negative Request	**CORRES08**
Request for Confirmation of Notes Receivable	**CORRES09**
Request for Confirmation of Inventories Held by Warehouses or Other Third Parties When Listing of Inventories Is Provided by the Client and Enclosed with the Confirmation Request	**CORRES10**
Request for Confirmation of Inventories Held by Warehouses or Other Third Parties When Listing of Inventories Is *Not* Provided by the Client and *Not* Enclosed with the Confirmation Request	**CORRES11**
Standard Confirmation Inquiry for Life Insurance Policies	**CORRES12**
Request for Confirmation of Insurance Policies Other Than Life Insurance	**CORRES13**
Request for Confirmation of Accounts Payable	**CORRES14**
Request for Confirmation of Notes Payable	**CORRES15**
Request for Confirmation of Mortgage Debt	**CORRES16**
Request for Confirmation of Lines of Credit	**CORRES17**
Request for Confirmation of Contingent Liabilities	**CORRES18**
Request for Confirmation of Compensating Balances	**CORRES19**
Request for Confirmation of Lease Agreement	**CORRES20**
Request for Confirmation of Capital Stock—Transfer Agent or Registrar	**CORRES21**
Request for Confirmation of Defined Benefit Pension Plan Actuarial Information—FASB Statement No. 87	**CORRES22**

Request for Confirmation of Postretirement Health Care Benefits Actuarial Information—FASB Statement No. 106	**CORRES23**
Illustrative Audit Inquiry Letter to Client Legal Counsel if Management Has Provided Details of Legal Actions	**CORRES24**
Illustrative Audit Inquiry Letter to Client Legal Counsel if Management Has *Not* Provided Details of Legal Actions	**CORRES25**
Communication to the Client of Reportable Conditions—Report Does *Not* Include a Statement about Whether Any of the Reportable Conditions Identified Are Material Weaknesses	**CORRES26**
Communication to the Client of Reportable Conditions—Report Includes a Statement That None of the Reportable Conditions Identified Are Material Weaknesses	**CORRES27**
Communication to the Client of Reportable Conditions—Report Includes a Statement That Some of the Reportable Conditions Identified Are Material Weaknesses	**CORRES28**
Report on Material Weaknesses Separate from Report on Reportable Conditions—Nonexistence Of Material Weaknesses	**CORRES29**
Report on Material Weaknesses Separate from Report on Reportable Conditions—Material Weaknesses Identified	**CORRES30**

Section III—Practice Aids, Forms, and Checklists

Client Acceptance and Retention Evaluation Form	**FORMS01**
Workpaper Organization and Indexing	**FORMS02**
Audit Planning Questionnaire	**FORMS03**
Audit Time Budget and Control	**FORMS04**
Individual Time Accumulation Sheet	**FORMS05**
Inherent Risk Assessment Form—Account Balance or Transaction Class Level	**FORMS06**
Planning Materiality Calculation Form	**FORMS07**
Internal Control Structure Questionnaire	**FORMS08**
Audit Sampling Worksheet for Substantive Tests	**FORMS09**

Audit Sampling Worksheet for Tests of Controls	**FORMS10**
Analytical Procedures—Ratio Analysis Form	**FORMS11**
Inventory Observation Checklist	**FORMS12**
Audit Review and Approval Checklist	**FORMS13**
Tax Review Checklist	**FORMS14**
Differences of Professional Opinion Form	**FORMS15**
Financial Statement Disclosure Checklist	**FORMS16**

Section V—Auditor's Reports

Standard Unqualified Report—Single Year Financial Statements	**REPORT01**
Standard Unqualified Report—Comparative Financial Statements	**REPORT02**
Successor Auditor's Unqualified Opinion When Predecessor Auditor's Report Is Unqualified and Is *Not* Presented	**REPORT03**
Successor Auditor's Unqualified Opinion When Predecessor Auditor's Report Included an Explanatory Paragraph and Is *Not* Presented	**REPORT04**
Successor Auditor's Unqualified Opinion When Prior-Year Financial Statements Have Been Restated Following Issuance of the Predecessor's Report and the Successor Auditor Has *Not* Applied Sufficient Procedures to Satisfy Himself as to the Appropriateness of the Restatement Adjustments	**REPORT05**
Successor Auditor's Unqualified Opinion When Prior-Year Financial Statements Have Been Restated Following Issuance of the Predecessor's Report and the Successor Auditor Has Applied Sufficient Procedures to Satisfy Himself as to the Appropriateness of the Restatement Adjustments	**REPORT06**
Auditor's Unqualified Opinion—Opinion Based in Part on Report of Another Auditor	**REPORT07**
Auditor's Unqualified Opinion When There Is a Change in Accounting Principles or in the Method of Their Application That Has a Material Effect on the Comparability of the Financial Statements	**REPORT08**
Auditor's Unqualified Opinion Including an Explanatory Paragraph Regarding a Litigation Uncertainty	**REPORT09**

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