**Audit Procedures**

Inspection of tangible assets:

1. This is the physical examination of tangible assets
2. Most common test is inventory.
3. This will test existence

Observation:

1. The process of watching a process or procedure being performed by others.
2. Will also do re-performance
3. The danger here is that people being watched will act differently

Inquiry:

1. Consider the knowledge, objectivity, experience, responsibility, and qualifications of the individual to be questioned
2. Ask clear, concise, and relevant questions
3. Use open or closed question appropriately
4. Listen actively and effectively
5. Consider the reactions and responses, then ask follow-up questions
6. Evaluate the response

External Confirmation:

1. The process of obtaining a representation of information or of an existing condition directly from a third party

Reliability of evidence obtained through confirmation is directly affected by:

1. The form of the confirmation
2. Prior existence with the entity
3. Nature of the information being confirmed
4. Intended respondent

Recalculation:

1. Determining the mathematical accuracy of documents of records
2. Check to see if math is right
3. Not sufficient audit evidence

Re-performance:

1. The auditor’s independent execution of procedures or controls that were originally performed as part of the internal control system.

Analytical procedures

1. Evaluations of financial information made by a study of plausible relationships among both financial and nonfinancial data
2. Scanning

Scanning:

1. The review of accounting data to identify significant or unusual items

**Audit Documentation**

General overview

1. This is property of the auditor and is confidential information. But it can be used in court
2. It must meet the minimum standard of re-performance
3. Do exactly what was just done. So it needs to be thorough.

The principal…

1. Record of the audit procedures performed, evidence obtained, and conclusions reached

Audit documentation has two functions:

1. To provide support for the audit report (NOT THE FINANCIAL STATEMENTS)
2. To aid in the planning, performance, and supervision of the audit

Audit documentation should:

1. Demonstrate how the audit complied with auditing and related professional practices standards
2. Support the basis for the auditor’s conclusions concerning each material financial statement assertion
3. Demonstrate that the underlying accounting records agreed or reconciled with the financial statements

Content of the audit documentation should:

1. Include a written audit program detailing audit procedures necessary to accomplish audit objectives
2. Enable a knowledgeable and experienced reviewer to…
3. Include two types of files

Enable a knowledgeable and experience reviewer to…

1. Understand the nature, timing, and extent, and results of audit procedures, evidence obtained, and conclusions reached
2. Determine who performed and reviewed the work, as well as the dates of the work and reviews.

Included two types of files:

1. Permanent files: Documentation that relates year to year. Applicable every year
2. Current files: Current year end documentation

Format of the audit documentation:

1. Heading: client name, title of the working paper, year-end date, initial and dated.
2. Indexing and cross-referencing: page numbering system. Notations that provide a trail from financial statements to audit documents
3. Tick marks: explanations for where the stuff came from. Notations made next to work paper items indicating auditor/reviews actions

How long must this documents be held?

1. Retained for seven per Sarbanes-Oxley

**Analytical Procedures**

1. Risk assessment
2. Substantive tests
3. Final analytics

Risk assessment:

1. Used to assist the auditor to better understand the business and to plan the nature, timing, and extent of audit procedures

Substantive tests:

1. Used to obtain evidential matter about particular assertions related to account balances or classes of transactions

Final analytics:

1. Used as an overall review of the financial information in the final review stage of the audit

Types of analytics:

1. Trend analysis
2. Ratio analysis
3. Reasonableness analysis

Steps in performing an analytic:

1. Develop an expectation
2. Define a tolerable difference
3. Compare and investigate

Develop an expectation:

1. Financial and operating data
2. Budgets and forecasts
3. Industry publications
4. Competitor information Management analyses
5. Analyst reports

Compare and investigate:

When is corroborating evidence required

1. Compare the expectation to the recorded amount and investigate any differences greater than the tolerable difference
2. Corroborating evidence is not required for risk assessment procedures
3. Corroborating evidence is required for substantive analytics and final analytics

Examples of analytics:

1. Short-term liquidity ratios: current ratio= current assets/current liabilities. Quick ratio= liquid assets/current liabilities Operating cash flow ratio=Cash flow from operations/current liabilities
2. Activity ratios: receivable turnover=credit sale/receivables days outstanding in accounts receivable= 365days/Receivables turnover inventory turnover=cost of goods sold/inventory days of inventory on hand=365days/Inventory turnover
3. Profitability ratios: gross profit percentage=Gross profit/net sales profit margin=net income/net sales return on assets=net income/total assets return on equity=net income/stockholders’ equity
4. Coverage ratios: debt to equity= short-term debt+long-term debt/ Stockholders’ equity times interest earned= Net income+interest expense/Interest expense

GREEN MOUNTAIN HYDROCASE

Risk factors that you believe would affect how you plan the job and where you would focus your attention:

1. The possible seasonality of rain cycles. Record levels this year. Could be too high. CURRENT ASSETS: ELECTRICT Y GENERATION
2. Only customer is Vermont Power & Light. Key customer here. Year 30 contract. Possible credit issue CURRENT ASSETS: VERMONT POWER & LIGHT.
3. Financial records are maintained on a tax basis. None public company. Limited liability partnership
4. There are several restrictive debt covenants: certain activities must be carried out. NOTES PAYABLE, LONG-TERM DEBT
5. Enviromental regulation in the past year placed on the plant. REVEUNE
6. People seeing kamikaze fish. REVEUNE