

ACC531: Auditing and Assurance Services

Ch3. Engagement Planning and Audit Evidence

Jaeyoon Yu, Ph.D.
Central Michigan University

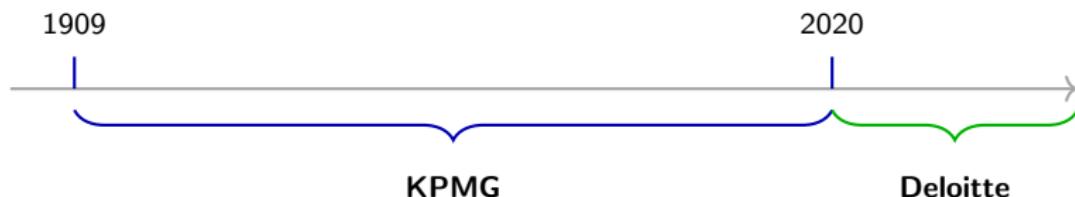
- 1 Pre-engagement Activities
- 2 Audit Plan
- 3 Materiality
- 4 Audit Procedures for Obtaining Audit Evidence

Figure: Auditor Change: General Motors



- **Deloitte**: Approximately **100 years** (1918–2017)

Figure: Auditor Change: General Electric



- **KPMG:** Approximately 100+ years (1909–2020)

- These large clients pay a substantial amount of audit fees to auditors.

Year: 2020	General Motors	General Electric
Audit Fees	\$21M	\$61.6M
Non-audit Fees	\$4M	\$14.6M

- Independence _____ might be lower for long-standing engagements.

Takeaway

- The successor auditor conduct _____ to determine whether they can take the client without significant disruption to the audit.
- Once accepted, the successor auditor should _____ carefully before audit work.

- These large clients pay a substantial amount of audit fees to auditors.

Year: 2020	General Motors	General Electric
Audit Fees	\$21M	\$61.6M
Non-audit Fees	\$4M	\$14.6M

- Independence in appearance might be lower for long-standing engagements.

Takeaway

- The successor auditor conduct _____ to determine whether they can take the client without significant disruption to the audit.
- Once accepted, the successor auditor should _____ carefully before audit work.

- These large clients pay a substantial amount of audit fees to auditors.

Year: 2020	General Motors	General Electric
Audit Fees	\$21M	\$61.6M
Non-audit Fees	\$4M	\$14.6M

- Independence in appearance might be lower for long-standing engagements.

Takeaway

- The successor auditor conduct pre-engagement evaluation to determine whether they can take the client without significant disruption to the audit.
- Once accepted, the successor auditor should _____ carefully before audit work.

- These large clients pay a substantial amount of audit fees to auditors.

Year: 2020	General Motors	General Electric
Audit Fees	\$21M	\$61.6M
Non-audit Fees	\$4M	\$14.6M

- Independence in appearance might be lower for long-standing engagements.

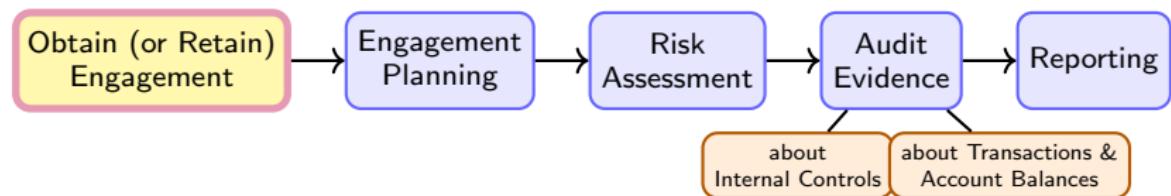
Takeaway

- The successor auditor conduct pre-engagement evaluation to determine whether they can take the client without significant disruption to the audit.
- Once accepted, the successor auditor should plan carefully before audit work.

- 1 Pre-engagement Activities
- 2 Audit Plan
- 3 Materiality
- 4 Audit Procedures for Obtaining Audit Evidence

LO 3-1

List and describe the required pre-engagement activities that auditors undertake before beginning an audit engagement.



- Public accounting firms need to manage their _____.
- They don't have to accept all clients (e.g., risky ones).
- Auditors should perform the following activities before accepting a client.

Client evaluation for
acceptance & continuation

Compliance with
independence &
ethical requirements

Contract with
client

- Public accounting firms need to manage their **business risks**.
- They don't have to accept all clients (e.g., risky ones).
- Auditors should perform the following activities before accepting a client.

Client evaluation for
acceptance & continuation

Compliance with
independence &
ethical requirements

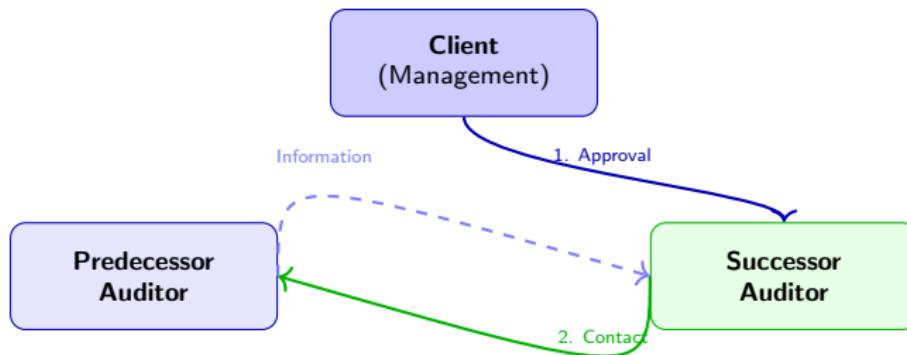
Contract with
client

What auditors need to evaluate before accepting a client:¹

- integrity of MGT.
- business and industry.
- financial statements.
- internal controls.

¹Client continuation decisions are similar to client acceptance decisions. We focus on the former here.

- The prospective auditor needs to **contact the predecessor** to seek information for:
 - MGT's integrity.
 - Any disagreement with MGT about accounting principles, etc.
 - Reasons for change of auditor.
- But first, a prospective auditor should get **approval** from the client.²



²Due to confidentiality, auditors cannot contact the predecessor auditor without the client's approval.

Auditors should check the followings before accepting a client:

- Independence in fact.
- Independence in appearance.³
- Due care.⁴

Are we able to provide objective, high-quality audit services to the client?
If not, we should not accept the client.

³See the GM and GE cases.

⁴apply the skill, diligence, and competence of a prudent professional to obtain reasonable assurance...

⁵See Ch2 for details.

Once the auditor and the client verbally agree to the audit engagement, they should put the agreement in writing in the form of an engagement letter.

Engagement Letter

September 15, 2023

Mr. Matt Lancaster Chair,
Audit Committee
Dunder-Mifflin Inc.
P.O. Box 349 Scranton,
Pennsylvania 18503

Dear Mr. Lancaster:

This letter will confirm our understanding of the arrangement for our audit of the financial statements of Dunder-Mifflin Inc. for the year ending December 31, 2023.

We will audit the Company's balance sheet at December 31, 2023, and the related statements of income, comprehensive income, stockholders' equity, and cash flows for the year then ended,⁶ for the purpose of expressing an opinion on them.⁷ We will also audit whether Dunder-Mifflin Inc. maintained effective internal control over financial reporting as of December 31, 2023, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO criteria).⁸ Dunder-Mifflin Inc.'s management is responsible for these financial statements and for maintaining effective internal control over financial reporting. Management is also responsible for making financial records and related information available for audit and for identifying and ensuring that the company complies with the laws and regulations that apply to its activities.⁹ Our responsibility is to express an opinion on these financial statements and an opinion on the effectiveness of the company's internal control over financial reporting based on our audits.¹⁰ If, for any reason, we are unable to complete the audit or are unable to form or have not formed an opinion, we may decline to express an opinion or decline to issue a report as a result of the engagement.¹¹

⁶ Scope of the audit

⁷ Objective of the audit

⁸ Internal control considerations

⁹ Management responsibilities

¹⁰ Auditor responsibilities

¹¹ Disclaimer if unable to form an opinion

Engagement Letter (cont.)

We will conduct our audits in accordance with the standards of the **Public Company Accounting Oversight Board**.¹² Those standards require that we plan and perform the audit to obtain reasonable assurance about **whether the financial statements are free of material misstatement** and **whether effective internal control** over financial reporting was maintained in all material respects. Our audit of the financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation.¹³ Our audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances.¹⁴ We believe that our audits provide a **reasonable basis** for our opinions.¹⁵

Our fee for these services will be at our regular hourly rates, plus travel and other out-of-pocket costs. Invoices will be rendered on a monthly basis and are payable on presentation.¹⁶ If this letter correctly expresses your understanding, please sign the enclosed copy where indicated and return it to us.

Sincerely,
Michael Scarn, LLP

DUNDER-MIFFLIN INC.
BY _____
Date _____

¹² PCAOB Auditing Standards

¹³ Audit of the financial statements

¹⁴ Audit of internal control over financial reporting

¹⁵ Opinion basis

¹⁶ Contract terms

Engagement Letter: Key Components

Key Elements Included:

Engagement Letter: Key Components

Key Elements Included:

- ① **Scope:** Audit of balance sheet, income statement, stockholders' equity, and cash flows

Engagement Letter: Key Components

Key Elements Included:

- ① **Scope:** Audit of balance sheet, income statement, stockholders' equity, and cash flows
- ② **Objective:** Express an opinion on the financial statements

Engagement Letter: Key Components

Key Elements Included:

- ① **Scope:** Audit of balance sheet, income statement, stockholders' equity, and cash flows
- ② **Objective:** Express an opinion on the financial statements
- ③ **Additional Service:** Audit of internal control over financial reporting (ICFR)

Engagement Letter: Key Components

Key Elements Included:

- ① **Scope:** Audit of balance sheet, income statement, stockholders' equity, and cash flows
- ② **Objective:** Express an opinion on the financial statements
- ③ **Additional Service:** Audit of internal control over financial reporting (ICFR)
- ④ **Management Responsibilities:** Financial statements and effective internal control

Key Elements Included:

- ① Scope:** Audit of balance sheet, income statement, stockholders' equity, and cash flows
- ② Objective:** Express an opinion on the financial statements
- ③ Additional Service:** Audit of internal control over financial reporting (ICFR)
- ④ Management Responsibilities:** Financial statements and effective internal control
- ⑤ Auditor Responsibilities:** Conduct audit per PCAOB standards

Key Elements Included:

- ① Scope:** Audit of balance sheet, income statement, stockholders' equity, and cash flows
- ② Objective:** Express an opinion on the financial statements
- ③ Additional Service:** Audit of internal control over financial reporting (ICFR)
- ④ Management Responsibilities:** Financial statements and effective internal control
- ⑤ Auditor Responsibilities:** Conduct audit per PCAOB standards
- ⑥ Opinion Basis:** Reasonable assurance (not absolute assurance)

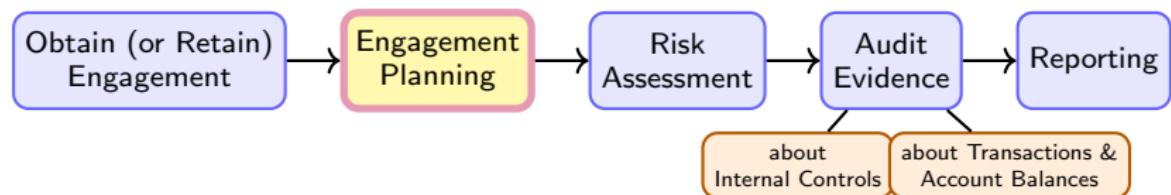
Engagement Letter: Key Components

Key Elements Included:

- ① Scope:** Audit of balance sheet, income statement, stockholders' equity, and cash flows
- ② Objective:** Express an opinion on the financial statements
- ③ Additional Service:** Audit of internal control over financial reporting (ICFR)
- ④ Management Responsibilities:** Financial statements and effective internal control
- ⑤ Auditor Responsibilities:** Conduct audit per PCAOB standards
- ⑥ Opinion Basis:** Reasonable assurance (not absolute assurance)
- ⑦ Contract Terms:** Regular hourly rates plus expenses

LO 3-2

Understand the importance of planning the audit engagement so that it is conducted in accordance with professional standards.

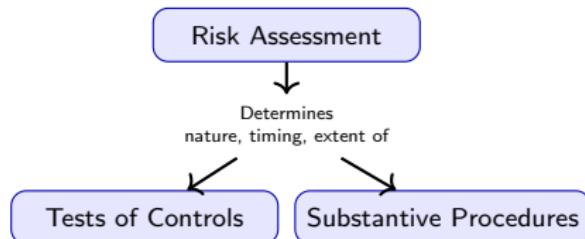


Audit Plan

A list of the audit procedures to be performed to gather sufficient appropriate evidence on which to base their opinion on the F/S.

When planning the engagement, auditors plan:

- ① the **nature, timing & extent** of audit procedures to be performed to _____ RMM at the FS and the assertion levels.
- ② the **nature, timing & extent** of tests of controls and substantive procedures to be performed to _____ RMM to an acceptable level.

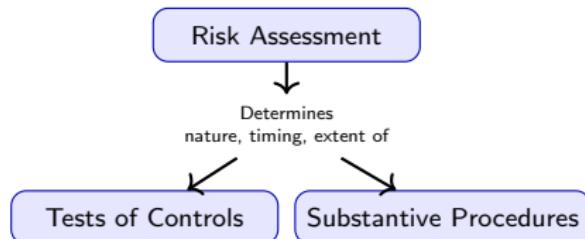


Audit Plan

A list of the audit procedures to be performed to gather sufficient appropriate evidence on which to base their opinion on the F/S.

When planning the engagement, auditors plan:

- ① the nature, timing & extent of audit procedures to be performed to assess RMM at the FS and the assertion levels.
- ② the nature, timing & extent of tests of controls and substantive procedures to be performed to _____ RMM to an acceptable level.

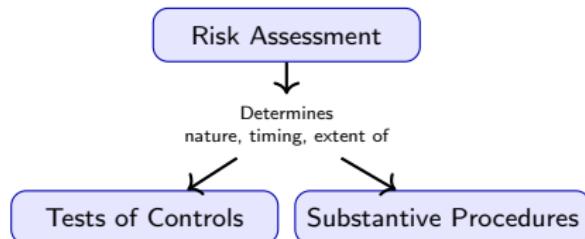


Audit Plan

A list of the audit procedures to be performed to gather sufficient appropriate evidence on which to base their opinion on the F/S.

When planning the engagement, auditors plan:

- ① the nature, timing & extent of audit procedures to be performed to assess RMM at the FS and the assertion levels.
- ② the nature, timing & extent of tests of controls and substantive procedures to be performed to mitigate RMM to an acceptable level.



"**Risk Assessment**" can be considered as part of the _____.¹⁷

- Before **Risk Assessment**, auditors need to understand the client's business, industry, & environment.
- After **Risk Assessment**, auditors tailor the audit plan further.

¹⁷ Given the importance of risk assessment, it is covered in Ch4 in detail.

Risk Assessment as part of (broad) audit planning

“**Risk Assessment**” can be considered as part of the **Engagement Planning**.¹⁷

- Before **Risk Assessment**, auditors need to understand the client's business, industry, & environment.
- After **Risk Assessment**, auditors tailor the audit plan further.

¹⁷ Given the importance of risk assessment, it is covered in Ch4 in detail.

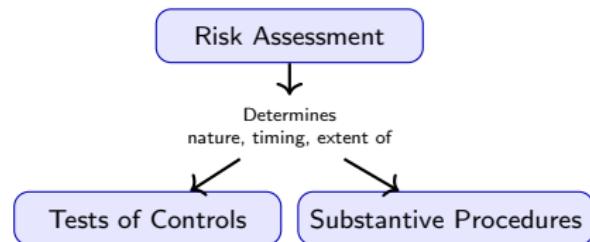
The nature and extent of audit procedures during the planning phase depends on:

- Company's size
- Complexity
- industry
- Auditor's prior experience with the client
- Any major changes from prior years
- Internal control systems (incl. IT systems)

Not surprisingly, auditors need to obtain an overall understanding of:

- the client' financial statements
- relevant management assertions
- internal controls
- audit risks

Auditors then plan ahead for further procedures:



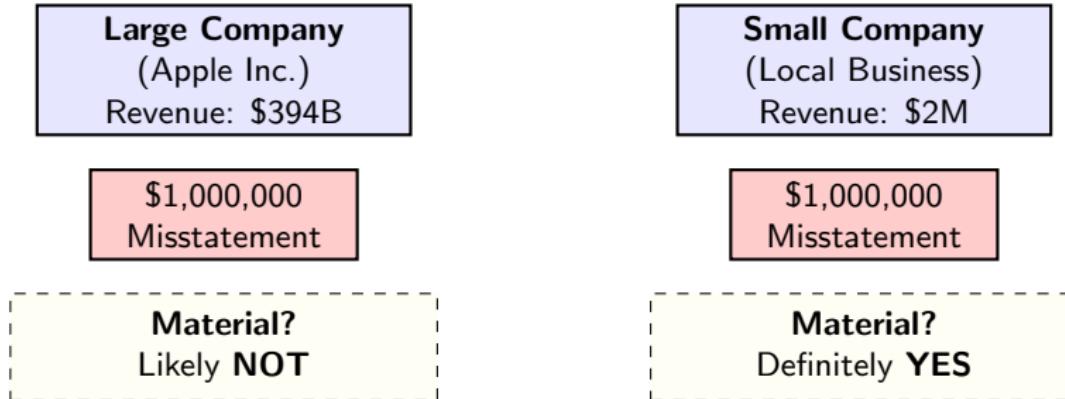
- ① Staffing the audit engagement.
- ② Use of IT auditors.
- ③ Considering the work of internal auditors.
- ④ Using the work of auditor-employed specialists
- ⑤ Using the work of a company's specialists
- ⑥ Time budget

¹⁸You can find detailed explanations of these matters in the textbook. For the exam, practicing with exercise questions provided should be sufficient.

LO 3-3

Define materiality and explain its importance in the audit planning process.

Materiality: An Opening Illustration



Materiality is relative!

What is Materiality?

Materiality¹⁹

Information is material if omitting or misstating it could influence decisions that users make on the basis of financial information.

¹⁹ Unless specified otherwise, materiality refers to overall materiality (OM). We'll study performance materiality (PM).

What is Materiality?

Materiality¹⁹

Information is material if omitting or misstating it could **influence decisions** that users make on the basis of financial information.

- Materiality is a **threshold** for determining what matters in financial statements.

¹⁹ Unless specified otherwise, materiality refers to overall materiality (OM). We'll study performance materiality (PM).

Materiality¹⁹

Information is material if omitting or misstating it could **influence decisions** that users make on the basis of financial information.

- Materiality is a **threshold** for determining what matters in financial statements.
- Materiality requires **professional judgment** - there is no fixed formula.

¹⁹ Unless specified otherwise, materiality refers to overall materiality (OM). We'll study performance materiality (PM).

Materiality¹⁹

Information is material if omitting or misstating it could **influence decisions** that users make on the basis of financial information.

- Materiality is a **threshold** for determining what matters in financial statements.
- Materiality requires **professional judgment** - there is no fixed formula.
- Materiality is **established during planning** and guides the entire audit process.

¹⁹ Unless specified otherwise, materiality refers to overall materiality (OM). We'll study performance materiality (PM).

What is Materiality?

Auditors do **not** provide absolute assurance. They don't ask clients to fix if:

What is Materiality?

Auditors do **not** provide absolute assurance. They don't ask clients to fix if:

- Unimportant accuracies.

What is Materiality?

Auditors do **not** provide absolute assurance. They don't ask clients to fix if:

- Unimportant accuracies.
- The cost of finding and correcting small misstatements is too high.

What is Materiality?

Auditors do **not** provide absolute assurance. They don't ask clients to fix if:

- Unimportant accuracies.
- The cost of finding and correcting small misstatements is **too high**.
- The time taken to find and correct small misstatements is **too long**.

What is Materiality?

Auditors do **not** provide absolute assurance. They don't ask clients to fix if:

- Unimportant inaccuracies.
- The cost of finding and correcting small misstatements is **too high**.
- The time taken to find and correct small misstatements is **too long**.

Reasonable Assurance

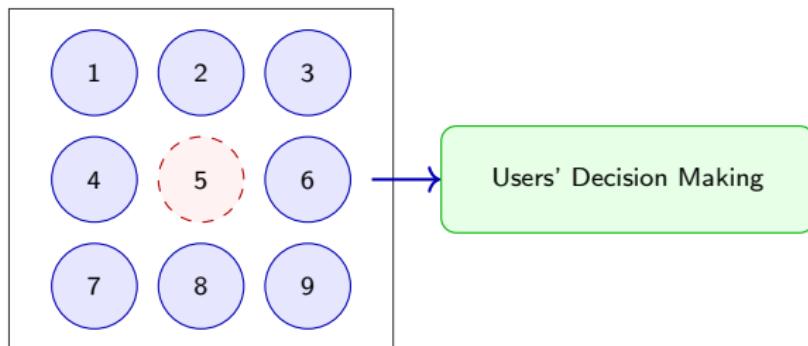
Auditors provide **reasonable assurance** that the financial statements are free from material misstatements.

What is Materiality?

Perspective of users

If omission or misstatement of information affects users' decisions, the information is material.

Would omission of a piece of information alter users' decision making?



EX 1. A company reported a net income of \$1.5B, which turned out to be misstated later. The true net income was \$1B. Some investors wouldn't have made investment decisions if they knew this. Indeed, \$0.5B is _____ to them.

EX 2. A company reported a net income of \$1.5B, which turned out to be misstated later. The true net income was \$1.4B. A common sense is that this misstatement wouldn't have affected users' decision making. Indeed, \$0.1B is _____ to them.

EX 1. A company reported a net income of \$1.5B, which turned out to be misstated later. The true net income was \$1B. Some investors wouldn't have made investment decisions if they knew this. Indeed, \$0.5B is **material** to them.

EX 2. A company reported a net income of \$1.5B, which turned out to be misstated later. The true net income was \$1.4B. A common sense is that this misstatement wouldn't have affected users' decision making. Indeed, \$0.1B is _____ to them.

EX 1. A company reported a net income of \$1.5B, which turned out to be misstated later. The true net income was \$1B. Some investors wouldn't have made investment decisions if they knew this. Indeed, \$0.5B is **material** to them.

EX 2. A company reported a net income of \$1.5B, which turned out to be misstated later. The true net income was \$1.4B. A common sense is that this misstatement wouldn't have affected users' decision making. Indeed, \$0.1B is **not material** to them.

Common Benchmarks for Planning Materiality

Auditors typically use **benchmarks** to establish planning materiality:

Benchmark	Description	Typical %
<u>Total Assets</u>	Appropriate for asset-intensive companies	0.5% – 1%
<u>Total Revenues</u>	Used when net income is volatile or negative	0.5% – 1%
<u>PBT</u> ²⁰	Common for profitable companies	3% – 5%

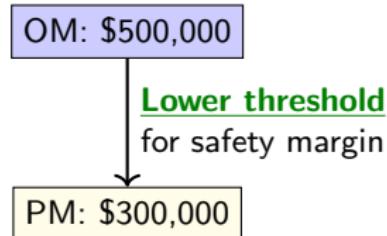
²⁰Profit Before Tax

EX. Suppose OM is \$500,000. The auditor finds a \$400,000 misstatement in inventory. It's lower than the OM, which looks OK. But what if there are other misstatements that are not detected? Let's say \$150,000. The aggregate of undetected misstatements is \$550,000, which is higher than the OM. This is not acceptable.

EX. Suppose OM is \$500,000. The auditor finds a \$400,000 misstatement in inventory. It's lower than the OM, which looks OK. But what if there are other misstatements that are not detected? Let's say \$150,000. The aggregate of undetected misstatements is \$550,000, which is higher than the OM. This is not acceptable.

Performance Materiality (PM)

- Auditors need to set PM that is lower than OM to reduce the risk that the aggregate of uncorrected and undetected misstatements exceeds OM.
- It helps auditors to have safety margin!



Though OM is \$500K,
auditors shouldn't allow misstatements exceeding PM (i.e., \$300K)!

Sometimes, misstatements can be material even if they're **small in dollar amount**:

- **Regulatory violations**: A \$50,000 fine might be material if it indicates non-compliance

Sometimes, misstatements can be material even if they're **small in dollar amount**:

- **Regulatory violations**: A \$50,000 fine might be material if it indicates non-compliance
- **Management fraud**: Even small amounts can be material due to the nature of fraud

Sometimes, misstatements can be material even if they're **small in dollar amount**:

- **Regulatory violations**: A \$50,000 fine might be material if it indicates non-compliance
- **Management fraud**: Even small amounts can be material due to the nature of fraud
- **Changes in trends**: A misstatement that changes a loss to a profit

Sometimes, misstatements can be material even if they're **small in dollar amount**:

- **Regulatory violations**: A \$50,000 fine might be material if it indicates non-compliance
- **Management fraud**: Even small amounts can be material due to the nature of fraud
- **Changes in trends**: A misstatement that changes a loss to a profit
- **Related party transactions**: Transactions with management or owners

Sometimes, misstatements can be material even if they're **small in dollar amount**:

- **Regulatory violations**: A \$50,000 fine might be material if it indicates non-compliance
- **Management fraud**: Even small amounts can be material due to the nature of fraud
- **Changes in trends**: A misstatement that changes a loss to a profit
- **Related party transactions**: Transactions with management or owners
- **Debt covenant violations**: Small misstatements that trigger covenant defaults

Sometimes, misstatements can be material even if they're **small in dollar amount**:

- **Regulatory violations**: A \$50,000 fine might be material if it indicates non-compliance
- **Management fraud**: Even small amounts can be material due to the nature of fraud
- **Changes in trends**: A misstatement that changes a loss to a profit
- **Related party transactions**: Transactions with management or owners
- **Debt covenant violations**: Small misstatements that trigger covenant defaults
- **A profit achieved due to misstatement**.

Sometimes, misstatements can be material even if they're **small in dollar amount**:

- **Regulatory violations**: A \$50,000 fine might be material if it indicates non-compliance
- **Management fraud**: Even small amounts can be material due to the nature of fraud
- **Changes in trends**: A misstatement that changes a loss to a profit
- **Related party transactions**: Transactions with management or owners
- **Debt covenant violations**: Small misstatements that trigger covenant defaults
- **A profit achieved due to misstatement**.
- **Meeting analysts' expectations due to misstatement**.

Sometimes, misstatements can be material even if they're small in dollar amount:

- Regulatory violations: A \$50,000 fine might be material if it indicates non-compliance
- Management fraud: Even small amounts can be material due to the nature of fraud
- Changes in trends: A misstatement that changes a loss to a profit
- Related party transactions: Transactions with management or owners
- Debt covenant violations: Small misstatements that trigger covenant defaults
- A profit achieved due to misstatement.
- Meeting analysts' expectations due to misstatement.

Remember

Materiality is not just about dollar amounts - qualitative factors matter too!

Possible Cumulative Effects

At the end of each audit engagement, auditors need to consider possible cumulative effects of uncorrected and undetected misstatements. For example,

Analysis

Possible Cumulative Effects

At the end of each audit engagement, auditors need to consider possible cumulative effects of uncorrected and undetected misstatements. For example,

- Overall materiality (OM) is \$500,000.

Analysis

Possible Cumulative Effects

At the end of each audit engagement, auditors need to consider possible cumulative effects of uncorrected and undetected misstatements. For example,

- Overall materiality (OM) is \$500,000.
- Performance materiality (PM) is \$300,000.

Analysis

Possible Cumulative Effects

At the end of each audit engagement, auditors need to consider possible cumulative effects of uncorrected and undetected misstatements. For example,

- Overall materiality (OM) is \$500,000.
- Performance materiality (PM) is \$300,000.
- The auditor finds a \$250,000 misstatement in inventory.

Analysis

Possible Cumulative Effects

At the end of each audit engagement, auditors need to consider possible cumulative effects of uncorrected and undetected misstatements. For example,

- Overall materiality (OM) is \$500,000.
- Performance materiality (PM) is \$300,000.
- The auditor finds a \$250,000 misstatement in inventory.
- The auditor finds a \$250,000 misstatement in A/R.

Analysis

Possible Cumulative Effects

At the end of each audit engagement, auditors need to consider possible cumulative effects of uncorrected and undetected misstatements. For example,

- Overall materiality (OM) is \$500,000.
- Performance materiality (PM) is \$300,000.
- The auditor finds a \$250,000 misstatement in inventory.
- The auditor finds a \$250,000 misstatement in A/R.
- The auditor finds a \$250,000 misstatement in PPE.

Analysis

Possible Cumulative Effects

At the end of each audit engagement, auditors need to consider possible cumulative effects of uncorrected and undetected misstatements. For example,

- Overall materiality (OM) is \$500,000.
- Performance materiality (PM) is \$300,000.
- The auditor finds a \$250,000 misstatement in inventory.
- The auditor finds a \$250,000 misstatement in A/R.
- The auditor finds a \$250,000 misstatement in PPE.

Analysis

- Inventory: Not material.

Possible Cumulative Effects

At the end of each audit engagement, auditors need to consider possible cumulative effects of uncorrected and undetected misstatements. For example,

- Overall materiality (OM) is \$500,000.
- Performance materiality (PM) is \$300,000.
- The auditor finds a \$250,000 misstatement in inventory.
- The auditor finds a \$250,000 misstatement in A/R.
- The auditor finds a \$250,000 misstatement in PPE.

Analysis

- Inventory: Not material.
- A/R: Not material.

Possible Cumulative Effects

At the end of each audit engagement, auditors need to consider possible cumulative effects of uncorrected and undetected misstatements. For example,

- Overall materiality (OM) is \$500,000.
- Performance materiality (PM) is \$300,000.
- The auditor finds a \$250,000 misstatement in inventory.
- The auditor finds a \$250,000 misstatement in A/R.
- The auditor finds a \$250,000 misstatement in PPE.

Analysis

- Inventory: Not material.
- A/R: Not material.
- PPE: Not material.

At the end of each audit engagement, auditors need to consider possible cumulative effects of uncorrected and undetected misstatements. For example,

- Overall materiality (OM) is \$500,000.
- Performance materiality (PM) is \$300,000.
- The auditor finds a \$250,000 misstatement in inventory.
- The auditor finds a \$250,000 misstatement in A/R.
- The auditor finds a \$250,000 misstatement in PPE.

Analysis

- Inventory: Not material.
- A/R: Not material.
- PPE: Not material.
- But the aggregate of uncorrected and undetected misstatements is \$750,000, which is higher than the PM and OM. This is not acceptable. Auditors should require the client to correct the misstatements.

Exercise Question

- Materiality is ultimately a matter of professional judgment. However, during the planning process auditors make a calculation of preliminary OM based on a benchmark or rule of thumb.
- FastFix is an online retail company that sells a variety of products including groceries, clothing, toys, and home decor and promises delivery within 5 days. The table below has select financial data from 2022, 2023, and 2024.

Table: FastFix Select Financial Data (in millions)

	2022	2023	2024
Net revenues	\$121,776	\$160,223	\$285,052
Profit before taxes	\$1,682	\$3,548	\$12,754
Total assets	\$98,325	\$101,524	\$157,221

Required: Calculate OM for 2022 – 2024 using each of the rules of thumb below:²¹

Rule of Thumb	2022	2023	2024
5% of profit before tax	_____	_____	_____
0.5% of revenues	_____	_____	_____
1% of total assets	_____	_____	_____

²¹ Units: \$ millions.

Exercise Question

- Materiality is ultimately a matter of professional judgment. However, during the planning process auditors make a calculation of preliminary OM based on a benchmark or rule of thumb.
- FastFix is an online retail company that sells a variety of products including groceries, clothing, toys, and home decor and promises delivery within 5 days. The table below has select financial data from 2022, 2023, and 2024.

Table: FastFix Select Financial Data (in millions)

	2022	2023	2024
Net revenues	\$121,776	\$160,223	\$285,052
Profit before taxes	\$1,682	\$3,548	\$12,754
Total assets	\$98,325	\$101,524	\$157,221

Required: Calculate OM for 2022 – 2024 using each of the rules of thumb below:²¹

Rule of Thumb	2022	2023	2024
5% of profit before tax	\$84.1	_____	_____
0.5% of revenues	_____	_____	_____
1% of total assets	_____	_____	_____

²¹ Units: \$ millions.

Exercise Question

- Materiality is ultimately a matter of professional judgment. However, during the planning process auditors make a calculation of preliminary OM based on a benchmark or rule of thumb.
- FastFix is an online retail company that sells a variety of products including groceries, clothing, toys, and home decor and promises delivery within 5 days. The table below has select financial data from 2022, 2023, and 2024.

Table: FastFix Select Financial Data (in millions)

	2022	2023	2024
Net revenues	\$121,776	\$160,223	\$285,052
Profit before taxes	\$1,682	\$3,548	\$12,754
Total assets	\$98,325	\$101,524	\$157,221

Required: Calculate OM for 2022 – 2024 using each of the rules of thumb below:²¹

Rule of Thumb	2022	2023	2024
5% of profit before tax	\$84.1	\$177.4	_____
0.5% of revenues	_____	_____	_____
1% of total assets	_____	_____	_____

²¹ Units: \$ millions.

Exercise Question

- Materiality is ultimately a matter of professional judgment. However, during the planning process auditors make a calculation of preliminary OM based on a benchmark or rule of thumb.
- FastFix is an online retail company that sells a variety of products including groceries, clothing, toys, and home decor and promises delivery within 5 days. The table below has select financial data from 2022, 2023, and 2024.

Table: FastFix Select Financial Data (in millions)

	2022	2023	2024
Net revenues	\$121,776	\$160,223	\$285,052
Profit before taxes	\$1,682	\$3,548	\$12,754
Total assets	\$98,325	\$101,524	\$157,221

Required: Calculate OM for 2022 – 2024 using each of the rules of thumb below:²¹

Rule of Thumb	2022	2023	2024
5% of profit before tax	\$84.1	\$177.4	\$637.7
0.5% of revenues	—	—	—
1% of total assets	—	—	—

²¹ Units: \$ millions.

Exercise Question

- Materiality is ultimately a matter of professional judgment. However, during the planning process auditors make a calculation of preliminary OM based on a benchmark or rule of thumb.
- FastFix is an online retail company that sells a variety of products including groceries, clothing, toys, and home decor and promises delivery within 5 days. The table below has select financial data from 2022, 2023, and 2024.

Table: FastFix Select Financial Data (in millions)

	2022	2023	2024
Net revenues	\$121,776	\$160,223	\$285,052
Profit before taxes	\$1,682	\$3,548	\$12,754
Total assets	\$98,325	\$101,524	\$157,221

Required: Calculate OM for 2022 – 2024 using each of the rules of thumb below:²¹

Rule of Thumb	2022	2023	2024
5% of profit before tax	\$84.1	\$177.4	\$637.7
0.5% of revenues	\$608.8	—	—
1% of total assets	—	—	—

²¹ Units: \$ millions.

Exercise Question

- Materiality is ultimately a matter of professional judgment. However, during the planning process auditors make a calculation of preliminary OM based on a benchmark or rule of thumb.
- FastFix is an online retail company that sells a variety of products including groceries, clothing, toys, and home decor and promises delivery within 5 days. The table below has select financial data from 2022, 2023, and 2024.

Table: FastFix Select Financial Data (in millions)

	2022	2023	2024
Net revenues	\$121,776	\$160,223	\$285,052
Profit before taxes	\$1,682	\$3,548	\$12,754
Total assets	\$98,325	\$101,524	\$157,221

Required: Calculate OM for 2022 – 2024 using each of the rules of thumb below:²¹

Rule of Thumb	2022	2023	2024
5% of profit before tax	\$84.1	\$177.4	\$637.7
0.5% of revenues	\$608.8	\$801.1	_____
1% of total assets	_____	_____	_____

²¹ Units: \$ millions.

Exercise Question

- Materiality is ultimately a matter of professional judgment. However, during the planning process auditors make a calculation of preliminary OM based on a benchmark or rule of thumb.
- FastFix is an online retail company that sells a variety of products including groceries, clothing, toys, and home decor and promises delivery within 5 days. The table below has select financial data from 2022, 2023, and 2024.

Table: FastFix Select Financial Data (in millions)

	2022	2023	2024
Net revenues	\$121,776	\$160,223	\$285,052
Profit before taxes	\$1,682	\$3,548	\$12,754
Total assets	\$98,325	\$101,524	\$157,221

Required: Calculate OM for 2022 – 2024 using each of the rules of thumb below:²¹

Rule of Thumb	2022	2023	2024
5% of profit before tax	\$84.1	\$177.4	\$637.7
0.5% of revenues	\$608.8	\$801.1	\$1,425.3
1% of total assets			

²¹ Units: \$ millions.

Exercise Question

- Materiality is ultimately a matter of professional judgment. However, during the planning process auditors make a calculation of preliminary OM based on a benchmark or rule of thumb.
- FastFix is an online retail company that sells a variety of products including groceries, clothing, toys, and home decor and promises delivery within 5 days. The table below has select financial data from 2022, 2023, and 2024.

Table: FastFix Select Financial Data (in millions)

	2022	2023	2024
Net revenues	\$121,776	\$160,223	\$285,052
Profit before taxes	\$1,682	\$3,548	\$12,754
Total assets	\$98,325	\$101,524	\$157,221

Required: Calculate OM for 2022 – 2024 using each of the rules of thumb below:²¹

Rule of Thumb	2022	2023	2024
5% of profit before tax	\$84.1	\$177.4	\$637.7
0.5% of revenues	\$608.8	\$801.1	\$1,425.3
1% of total assets	\$983.2		

²¹ Units: \$ millions.

Exercise Question

- Materiality is ultimately a matter of professional judgment. However, during the planning process auditors make a calculation of preliminary OM based on a benchmark or rule of thumb.
- FastFix is an online retail company that sells a variety of products including groceries, clothing, toys, and home decor and promises delivery within 5 days. The table below has select financial data from 2022, 2023, and 2024.

Table: FastFix Select Financial Data (in millions)

	2022	2023	2024
Net revenues	\$121,776	\$160,223	\$285,052
Profit before taxes	\$1,682	\$3,548	\$12,754
Total assets	\$98,325	\$101,524	\$157,221

Required: Calculate OM for 2022 – 2024 using each of the rules of thumb below:²¹

Rule of Thumb	2022	2023	2024
5% of profit before tax	\$84.1	\$177.4	\$637.7
0.5% of revenues	\$608.8	\$801.1	\$1,425.3
1% of total assets	\$983.2	\$1,015.2	

²¹ Units: \$ millions.

Exercise Question

- Materiality is ultimately a matter of professional judgment. However, during the planning process auditors make a calculation of preliminary OM based on a benchmark or rule of thumb.
- FastFix is an online retail company that sells a variety of products including groceries, clothing, toys, and home decor and promises delivery within 5 days. The table below has select financial data from 2022, 2023, and 2024.

Table: FastFix Select Financial Data (in millions)

	2022	2023	2024
Net revenues	\$121,776	\$160,223	\$285,052
Profit before taxes	\$1,682	\$3,548	\$12,754
Total assets	\$98,325	\$101,524	\$157,221

Required: Calculate OM for 2022 – 2024 using each of the rules of thumb below:²¹

Rule of Thumb	2022	2023	2024
5% of profit before tax	\$84.1	\$177.4	\$637.7
0.5% of revenues	\$608.8	\$801.1	\$1,425.3
1% of total assets	\$983.2	\$1,015.2	\$1,572.2

²¹ Units: \$ millions.

LO 3-4

List and describe the 8 general types of audit procedures for gathering evidence.

Audit Procedures

Risk Assessment Procedures

Tests of Controls

Substantive Procedures

²² Risk assessment procedures by themselves do **NOT provide** sufficient appropriate evidence on which to base an audit opinion. But the auditor use them for planning the audit and tailoring it to the areas of the FS most likely to contain MMs.

Audit Procedures

Risk Assessment Procedures

Tests of Controls

Substantive Procedures

- ① Risk assessment procedures employed to obtain information for identifying and assessing the RMM in the FS whether due to error or fraud.²²

²² Risk assessment procedures by themselves do **NOT provide** sufficient appropriate evidence on which to base an audit opinion. But the auditor use them for planning the audit and tailoring it to the areas of the FS most likely to contain MMs.

Audit Procedures

Risk Assessment Procedures

Tests of Controls

Substantive Procedures

- ① Risk assessment procedures employed to obtain information for identifying and assessing the RMM in the FS whether due to error or fraud.²²
- ② Tests of controls performed to evaluate the operating effectiveness of internal controls in preventing or detecting MMs in account balances.

²² Risk assessment procedures by themselves do **NOT provide** sufficient appropriate evidence on which to base an audit opinion. But the auditor use them for planning the audit and tailoring it to the areas of the FS most likely to contain MMs.

Audit Procedures

Risk Assessment Procedures

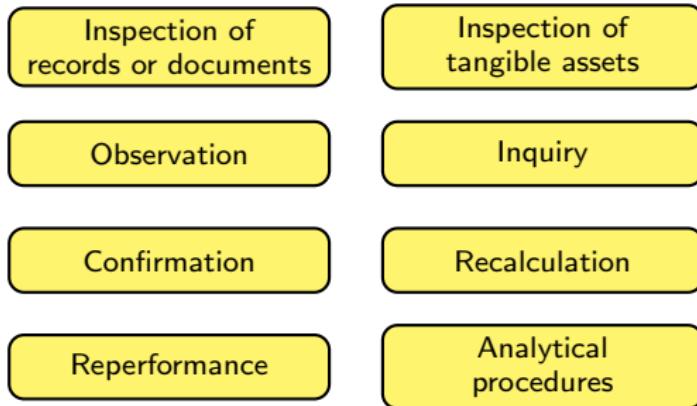
Tests of Controls

Substantive Procedures

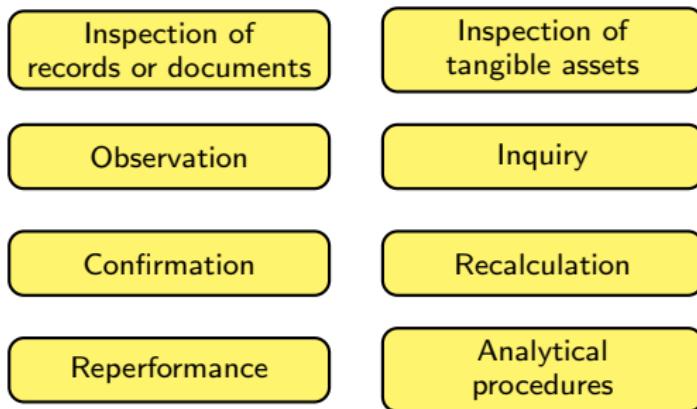
- ① Risk assessment procedures employed to obtain information for identifying and assessing the RMM in the FS whether due to error or fraud.²²
- ② Tests of controls performed to evaluate the operating effectiveness of internal controls in preventing or detecting MMs in account balances.
- ③ Substantive procedures performed to detect MMs in transactions and account balances.

²² Risk assessment procedures by themselves do **NOT provide** sufficient appropriate evidence on which to base an audit opinion. But the auditor use them for planning the audit and tailoring it to the areas of the FS most likely to contain MMs.

Audit procedures help auditors gather **sufficient appropriate evidence** to support their audit opinion. The right audit procedure should be selected to test the relevant



Audit procedures help auditors gather **sufficient appropriate evidence** to support their audit opinion. The right audit procedure should be selected to test the relevant **assertions**.



Illustrative Cases: Which Procedure?

EX 1. An auditor wants to verify that inventory shown on the balance sheet actually exists and is in good condition.

Answer: _____

EX 2. An auditor needs to verify the balance in a customer's account receivable by getting independent verification from the customer.

Answer: _____

EX 3. An auditor notices that sales increased by 50% while cost of goods sold only increased by 10%, which seems unusual.

Answer: _____

Illustrative Cases: Which Procedure?

EX 1. An auditor wants to verify that inventory shown on the balance sheet actually exists and is in good condition.

Answer: Inspection of tangible assets

EX 2. An auditor needs to verify the balance in a customer's account receivable by getting independent verification from the customer.

Answer: _____

EX 3. An auditor notices that sales increased by 50% while cost of goods sold only increased by 10%, which seems unusual.

Answer: _____

Illustrative Cases: Which Procedure?

EX 1. An auditor wants to verify that inventory shown on the balance sheet actually exists and is in good condition.

Answer: **Inspection of tangible assets**

EX 2. An auditor needs to verify the balance in a customer's account receivable by getting independent verification from the customer.

Answer: **Confirmation**

EX 3. An auditor notices that sales increased by 50% while cost of goods sold only increased by 10%, which seems unusual.

Answer: _____

EX 1. An auditor wants to verify that inventory shown on the balance sheet actually exists and is in good condition.

Answer: **Inspection of tangible assets**

EX 2. An auditor needs to verify the balance in a customer's account receivable by getting independent verification from the customer.

Answer: **Confirmation**

EX 3. An auditor notices that sales increased by 50% while cost of goods sold only increased by 10%, which seems unusual.

Answer: **Analytical procedures**

Inspection of Records or Documents

Examining records or documents, whether internal or external.

- Can be internal (purchase orders, invoices, checks)
- Can be external (vendor invoices, bank statements)
- Can be original documents or copies
- Reliability depends on source and nature of the document.

EX. An auditor inspects:

Inspection of Records or Documents

Examining records or documents, whether internal or external.

- Can be internal (purchase orders, invoices, checks)
- Can be external (vendor invoices, bank statements)
- Can be original documents or copies
- Reliability depends on source and nature of the document.

EX. An auditor inspects:

- a sample of purchase orders to verify that they are properly authorized and contain required information such as vendor name, date, and amount.

Inspection of Records or Documents

Examining records or documents, whether internal or external.

- Can be internal (purchase orders, invoices, checks)
- Can be external (vendor invoices, bank statements)
- Can be original documents or copies
- Reliability depends on source and nature of the document.

EX. An auditor inspects:

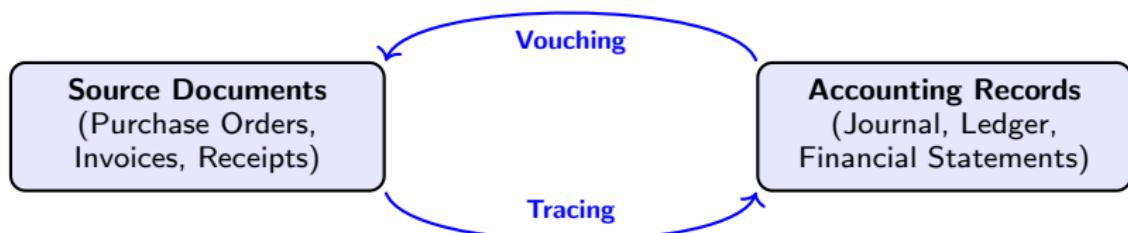
- a sample of purchase orders to verify that they are properly authorized and contain required information such as vendor name, date, and amount.
- bank statements to verify cash balances and reconcile them with the company's records.

Internal Records and Documents

- Evidence of internal controls
- General and subsidiary ledgers
- Journal entries
- Worksheets supporting cost allocations, computations, reconciliations, etc.
- Copies of sales invoices
- Internal memos or reports

External Records and Documents

- Vendor invoices
- Bank statements
- Customer confirmations
- Government filings (e.g. tax returns)
- Contracts from third parties
- Credit reports or correspondence from outsiders

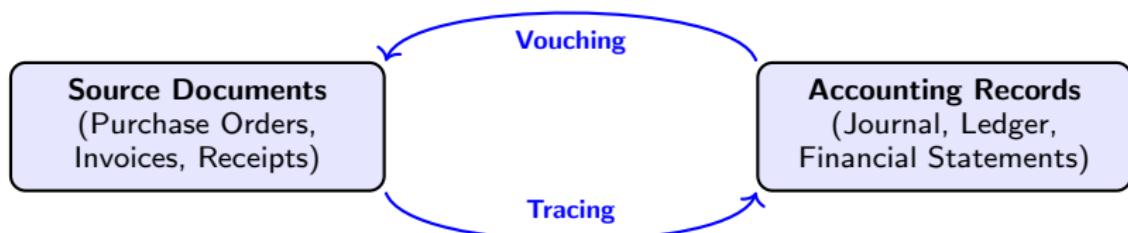


- **Vouching:** Tests whether recorded transactions actually occurred

- ▶ Relevant assertions: _____
- ▶ FROM Accounting records TO Source documents
- ▶ Example: Vouch a sales entry in the journal to the sales invoice / shipping doc / customer order

- **Tracing:** Tests whether all transactions were recorded

- ▶ Relevant assertions: _____
- ▶ FROM Source documents TO Accounting records
- ▶ Example: Trace a purchase order to see if it was recorded in the journal

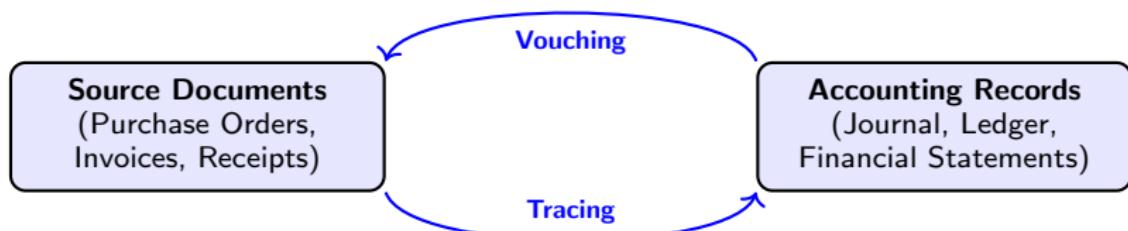


- **Vouching:** Tests whether recorded transactions actually occurred

- ▶ Relevant assertions: Occurrence/Existence
- ▶ FROM Accounting records TO Source documents
- ▶ Example: Vouch a sales entry in the journal to the sales invoice / shipping doc / customer order

- **Tracing:** Tests whether all transactions were recorded

- ▶ Relevant assertions: _____
- ▶ FROM Source documents TO Accounting records
- ▶ Example: Trace a purchase order to see if it was recorded in the journal



- **Vouching:** Tests whether recorded transactions actually occurred

- ▶ Relevant assertions: Occurrence/Existence
- ▶ FROM Accounting records TO Source documents
- ▶ Example: Vouch a sales entry in the journal to the sales invoice / shipping doc / customer order

- **Tracing:** Tests whether all transactions were recorded

- ▶ Relevant assertions: Completeness
- ▶ FROM Source documents TO Accounting records
- ▶ Example: Trace a purchase order to see if it was recorded in the journal

- If auditors are concerned about **overstatement** of an account, they would use the _____ procedure to test the _____ assertion.
- If auditors are concerned about **understatement** of an account, they would use the _____ procedure to test the _____ assertion.

- If auditors are concerned about **overstatement** of an account, they would use the **Vouching** procedure to test the _____ assertion.
- If auditors are concerned about **understatement** of an account, they would use the _____ procedure to test the _____ assertion.

- If auditors are concerned about overstatement of an account, they would use the Vouching procedure to test the Occurrence/Existence assertion.
- If auditors are concerned about understatement of an account, they would use the _____ procedure to test the _____ assertion.

- If auditors are concerned about overstatement of an account, they would use the Vouching procedure to test the Occurrence/Existence assertion.
- If auditors are concerned about understatement of an account, they would use the Tracing procedure to test the _____ assertion.

- If auditors are concerned about overstatement of an account, they would use the Vouching procedure to test the Occurrence/Existence assertion.
- If auditors are concerned about understatement of an account, they would use the Tracing procedure to test the Completeness assertion.

Scanning

- is the way auditors exercise their general alertness to unusual items and events in clients' documentation.
- is an "eyes-open" approach of looking for anything unusual.
- could be done with the help of computer-assisted audit techniques (CAATs).
- contributes some evidence related to the _____ of assets.²³
- contributes some evidence related to the _____ of accounting records.²⁴

²³ Starting from the balance sheet, auditors look for supporting evidence from records.

²⁴ Starting from recordds, auditors look for supporting evidence to the balance sheet.▶ ⏴ ⏵ ⏲ ⏶ ⏷ ⏸ ⏹ ⏺

Scanning

- is the way auditors exercise their general alertness to unusual items and events in clients' documentation.
- is an "eyes-open" approach of looking for anything unusual.
- could be done with the help of computer-assisted audit techniques (CAATs).
- contributes some evidence related to the **Existence** of assets.²³
- contributes some evidence related to the _____ of accounting records.²⁴

²³ Starting from the balance sheet, auditors look for supporting evidence from records.

²⁴ Starting from recordds, auditors look for supporting evidence to the balance sheet.▶ ⏴ ⏵ ⏲ ⏶ ⏷ ⏸ ⏹ ⏺

Scanning

- is the way auditors exercise their general alertness to unusual items and events in clients' documentation.
- is an "eyes-open" approach of looking for anything unusual.
- could be done with the help of computer-assisted audit techniques (CAATs).
- contributes some evidence related to the **Existence** of assets.²³
- contributes some evidence related to the **Completeness** of accounting records.²⁴

²³ Starting from the balance sheet, auditors look for supporting evidence from records.

²⁴ Starting from recordds, auditors look for supporting evidence to the balance sheet.▶ ⏴ ⏵ ⏲ ⏶ ⏷ ⏸ ⏹ ⏺

Inspection of Tangible Assets

Physical examination of the tangible assets.

- Provides evidence about _____ of assets
- Does **not** necessarily provide evidence about _____ and _____ of assets
- Often used for inventory and PPE

EX. An auditor physically inspects:

Inspection of Tangible Assets

Physical examination of the tangible assets.

- Provides evidence about **existence** of assets
- Does **not** necessarily provide evidence about _____ and _____ of assets
- Often used for inventory and PPE

EX. An auditor physically inspects:

Inspection of Tangible Assets

Physical examination of the tangible assets.

- Provides evidence about **existence** of assets
- Does **not** necessarily provide evidence about **ownership** and _____ of assets
- Often used for inventory and PPE

EX. An auditor physically inspects:

Inspection of Tangible Assets

Physical examination of the tangible assets.

- Provides evidence about **existence** of assets
- Does **not** necessarily provide evidence about **ownership** and **completeness** of assets
- Often used for inventory and PPE

EX. An auditor physically inspects:

- inventory in a warehouse to verify that the items listed in the inventory records **actually exist** and are in saleable condition.

Inspection of Tangible Assets

Physical examination of the tangible assets.

- Provides evidence about **existence** of assets
- Does **not** necessarily provide evidence about **ownership** and **completeness** of assets
- Often used for inventory and PPE

EX. An auditor physically inspects:

- inventory in a warehouse to verify that the items listed in the inventory records **actually exist** and are in saleable condition.
- But some inventory might be held on consignment from others and is therefore not owned by the company. Inspection doesn't test the ownership or completeness of the inventory.

Observation

Looking at a process or procedure being performed by others.

- Evidence is limited to the **point in time** when the observation occurs
- Useful for understanding _____ and processes

EX. An auditor observes:

Observation

Looking at a process or procedure being performed by others.

- Evidence is limited to the **point in time** when the observation occurs
- Useful for understanding **internal controls** and processes

EX. An auditor observes:

Observation

Looking at a process or procedure being performed by others.

- Evidence is limited to the **point in time** when the observation occurs
- Useful for understanding **internal controls** and processes

EX. An auditor observes:

- the inventory **counting process** to ensure that company employees are following proper procedures for counting and recording inventory.

Observation

Looking at a process or procedure being performed by others.

- Evidence is limited to the **point in time** when the observation occurs
- Useful for understanding **internal controls** and processes

EX. An auditor observes:

- the inventory **counting process** to ensure that company employees are following proper procedures for counting and recording inventory.
- the cash **handling process** at a retail store to verify that cashiers are following proper procedures for handling cash transactions.

Inquiry

Seeking information of knowledgeable persons, both financial and non-financial, throughout the entity or outside the entity.

- Can be **formal** (written) or **informal** (oral)
- Provides _____ evidence than other procedures
- Should be _____ with other evidence
- Used throughout the audit process

EX. An auditor inquires:

Inquiry

Seeking information of knowledgeable persons, both financial and non-financial, throughout the entity or outside the entity.

- Can be **formal** (written) or **informal** (oral)
- Provides **less reliable** evidence than other procedures
- Should be _____ with other evidence
- Used throughout the audit process

EX. An auditor inquires:

Inquiry

Seeking information of knowledgeable persons, both financial and non-financial, throughout the entity or outside the entity.

- Can be **formal** (written) or **informal** (oral)
- Provides **less reliable** evidence than other procedures
- Should be **corroborated** with other evidence
- Used throughout the audit process

EX. An auditor inquires:

Inquiry

Seeking information of knowledgeable persons, both financial and non-financial, throughout the entity or outside the entity.

- Can be **formal** (written) or **informal** (oral)
- Provides **less reliable** evidence than other procedures
- Should be **corroborated** with other evidence
- Used throughout the audit process

EX. An auditor inquires:

- of MGT about the company's policies for recognizing revenue and whether there have been any changes during the year.

Inquiry

Seeking information of knowledgeable persons, both financial and non-financial, throughout the entity or outside the entity.

- Can be **formal** (written) or **informal** (oral)
- Provides **less reliable** evidence than other procedures
- Should be **corroborated** with other evidence
- Used throughout the audit process

EX. An auditor inquires:

- of MGT about the company's policies for recognizing revenue and whether there have been any changes during the year.
- of the A/P clerk about the process for processing vendor invoices and what controls are in place to prevent duplicate payments.

Confirmation

A specific type of inquiry that involves obtaining a representation of information or an existing condition directly from a third party.

- Provides _____ evidence because it comes from independent third parties
- Commonly used for A/R, A/P, and bank balances

EX. An auditor sends confirmations:

Confirmation

A specific type of inquiry that involves obtaining a representation of information or an existing condition directly from a third party.

- Provides **highly reliable** evidence because it comes from independent third parties
- Commonly used for **A/R**, **A/P**, and **bank balances**

EX. An auditor sends confirmations:

Confirmation

A specific type of inquiry that involves obtaining a representation of information or an existing condition directly from a third party.

- Provides **highly reliable** evidence because it comes from independent third parties
- Commonly used for A/R, A/P, and bank balances

EX. An auditor sends confirmations:

- to customers asking them to verify the amount they owe the company as of the balance sheet date.

Confirmation

A specific type of inquiry that involves obtaining a representation of information or an existing condition directly from a third party.

- Provides **highly reliable** evidence because it comes from independent third parties
- Commonly used for A/R, A/P, and bank balances

EX. An auditor sends confirmations:

- to customers asking them to verify the amount they owe the company as of the balance sheet date.
- to the company's bank asking the bank to verify the cash balance and any outstanding loans as of year-end.

Positive Confirmations

- Requests that the third party **respond whether or not** they agree with the information stated in the request.
- Provides _____ because non-responses must be followed up.
- Used when individual balances are _____, errors are expected, or internal controls are _____.

Negative Confirmations

- Requests that the third party **respond only if** they disagree with the information stated in the request.
- No response is interpreted as agreement.
- Provides _____ evidence due to risk of non-responses going unnoticed.
- Suitable when the assessed level of risk is _____, many accounts are involved, and individual balances are _____.

Positive Confirmations

- Requests that the third party **respond whether or not** they agree with the information stated in the request.
- Provides **stronger evidence** because non-responses must be followed up.
- Used when individual balances are _____, errors are expected, or internal controls are _____.

Negative Confirmations

- Requests that the third party **respond only if** they disagree with the information stated in the request.
- No response is interpreted as agreement.
- Provides _____ evidence due to risk of non-responses going unnoticed.
- Suitable when the assessed level of risk is ___, many accounts are involved, and individual balances are _____.

Positive Confirmations

- Requests that the third party **respond whether or not** they agree with the information stated in the request.
- Provides **stronger evidence** because non-responses must be followed up.
- Used when individual balances are **large**, errors are expected, or internal controls are **weak**.

Negative Confirmations

- Requests that the third party **respond only if** they disagree with the information stated in the request.
- No response is interpreted as agreement.
- Provides _____ evidence due to risk of non-responses going unnoticed.
- Suitable when the assessed level of risk is ___, many accounts are involved, and individual balances are _____.

Positive Confirmations

- Requests that the third party **respond whether or not** they agree with the information stated in the request.
- Provides **stronger evidence** because non-responses must be followed up.
- Used when individual balances are **large**, errors are expected, or internal controls are **weak**.

Negative Confirmations

- Requests that the third party **respond only if** they disagree with the information stated in the request.
- No response is interpreted as agreement.
- Provides _____ evidence due to risk of non-responses going unnoticed.
- Suitable when the assessed level of risk is ___, many accounts are involved, and individual balances are ____.

Positive Confirmations

- Requests that the third party **respond whether or not** they agree with the information stated in the request.
- Provides **stronger evidence** because non-responses must be followed up.
- Used when individual balances are **large**, errors are expected, or internal controls are **weak**.

Negative Confirmations

- Requests that the third party **respond only if** they disagree with the information stated in the request.
- No response is interpreted as agreement.
- Provides **less reliable** evidence due to risk of non-responses going unnoticed.
- Suitable when the assessed level of risk is , many accounts are involved, and individual balances are .

Positive Confirmations

- Requests that the third party **respond whether or not** they agree with the information stated in the request.
- Provides **stronger evidence** because non-responses must be followed up.
- Used when individual balances are **large**, errors are expected, or internal controls are **weak**.

Negative Confirmations

- Requests that the third party **respond only if** they disagree with the information stated in the request.
- No response is interpreted as agreement.
- Provides **less reliable** evidence due to risk of non-responses going unnoticed.
- Suitable when the assessed level of risk is **low**, many accounts are involved, and individual balances are _____.

Positive Confirmations

- Requests that the third party **respond whether or not** they agree with the information stated in the request.
- Provides **stronger evidence** because non-responses must be followed up.
- Used when individual balances are **large**, errors are expected, or internal controls are **weak**.

Negative Confirmations

- Requests that the third party **respond only if** they disagree with the information stated in the request.
- No response is interpreted as agreement.
- Provides **less reliable** evidence due to risk of non-responses going unnoticed.
- Suitable when the assessed level of risk is **low**, many accounts are involved, and individual balances are **small**.

Recalculation

Checking the mathematical accuracy of documents or records.

- Involves **rechecking** computations performed by the entity
- Can be done **manually** or using **computer-assisted audit techniques**
- Provides evidence about _____ and _____

EX. An auditor recalculates:

Recalculation

Checking the mathematical accuracy of documents or records.

- Involves rechecking computations performed by the entity
- Can be done manually or using computer-assisted audit techniques
- Provides evidence about accuracy and _____

EX. An auditor recalculates:

Recalculation

Checking the mathematical accuracy of documents or records.

- Involves rechecking computations performed by the entity
- Can be done manually or using computer-assisted audit techniques
- Provides evidence about accuracy and valuation

EX. An auditor recalculates:

Recalculation

Checking the mathematical accuracy of documents or records.

- Involves rechecking computations performed by the entity
- Can be done manually or using computer-assisted audit techniques
- Provides evidence about accuracy and valuation

EX. An auditor recalculates:

- depreciation expense by applying the company's depreciation method and rates to the asset balances to verify the accuracy of the recorded depreciation.

Recalculation

Checking the mathematical accuracy of documents or records.

- Involves rechecking computations performed by the entity
- Can be done manually or using computer-assisted audit techniques
- Provides evidence about accuracy and valuation

EX. An auditor recalculates:

- depreciation expense by applying the company's depreciation method and rates to the asset balances to verify the accuracy of the recorded depreciation.
- the total of an accounts receivable aging report by adding up all the individual customer balances to ensure the total matches the general ledger balance.

Reperformance

The auditor's independent execution of procedures or controls that were originally performed as part of the entity's internal control.

- Involves **independently** performing the same procedure
- Provides evidence about the **effectiveness** of _____
- More _____ than observation because auditor performs it independently

EX. An auditor reperforms:

Reperformance

The auditor's independent execution of procedures or controls that were originally performed as part of the entity's internal control.

- Involves **independently** performing the same procedure
- Provides evidence about the **effectiveness** of **controls**
- More _____ than observation because auditor performs it independently

EX. An auditor reperforms:

Reperformance

The auditor's independent execution of procedures or controls that were originally performed as part of the entity's internal control.

- Involves **independently** performing the same procedure
- Provides evidence about the **effectiveness** of **controls**
- More **reliable** than observation because auditor performs it independently

EX. An auditor reperforms:

Reperformance

The auditor's independent execution of procedures or controls that were originally performed as part of the entity's internal control.

- Involves **independently** performing the same procedure
- Provides evidence about the **effectiveness** of **controls**
- More **reliable** than observation because auditor performs it independently

EX. An auditor reperforms:

- the bank reconciliation that was prepared by the company's accounting staff to verify that it was done correctly and that all reconciling items were properly identified.

Reperformance

The auditor's independent execution of procedures or controls that were originally performed as part of the entity's internal control.

- Involves **independently** performing the same procedure
- Provides evidence about the **effectiveness** of **controls**
- More **reliable** than observation because auditor performs it independently

EX. An auditor reperforms:

- the bank reconciliation that was prepared by the company's accounting staff to verify that it was done correctly and that all reconciling items were properly identified.
- the control procedure of reviewing and approving purchase orders by independently reviewing a sample of purchase orders to verify they meet the company's approval criteria.

Analytical Procedures

Evaluations of financial information through analysis of plausible relationships among both financial and non-financial data.

- Involves **comparing** current period data with prior periods, budgets, or industry data
- Used for **planning**, **testing**, and **final review**
- Can identify **unusual** relationships or trends that require investigation

EX. An auditor performs analytical procedures:

Analytical Procedures

Evaluations of financial information through analysis of plausible relationships among both financial and non-financial data.

- Involves **comparing** current period data with prior periods, budgets, or industry data
- Used for **planning**, **testing**, and **final review**
- Can identify **unusual** relationships or trends that require investigation

EX. An auditor performs analytical procedures:

- by comparing the current year's gross profit margin (40%) with the prior year's margin (35%) and investigating the significant increase to understand if it's due to pricing changes, cost reductions, or potential misstatements.

Analytical Procedures

Evaluations of financial information through analysis of plausible relationships among both financial and non-financial data.

- Involves **comparing** current period data with prior periods, budgets, or industry data
- Used for **planning, testing, and final review**
- Can identify **unusual** relationships or trends that require investigation

EX. An auditor performs analytical procedures:

- by comparing the current year's gross profit margin (40%) with the prior year's margin (35%) and investigating the significant increase to understand if it's due to pricing changes, cost reductions, or potential misstatements.
- by calculating the accounts receivable turnover ratio and comparing it to industry averages to assess the reasonableness of the accounts receivable balance and identify potential collection issues.

Exercise Question (1/3)

- Auditors use different types of audit procedures to gather the evidence necessary to conclude that the RMM for each relevant assertion has been reduced to an acceptably low level.
- Identify the type of procedure used by auditors for each of the following examples.²⁵

	Example	Proc
1	Find brokers' invoices and canceled checks showing agreement with record amounts for securities investments.	—
2	Observe test counting of client's physical inventory taking.	—
3	Select a sample of shipping documents and trace them to sales invoices, sales journal recording, and posting to general ledger.	—
4	Ask client personnel about accounting events.	—
5	Study financial info in relation to nonfinancial info.	—
6	Scan expense accounts for credit entries.	—

²⁵ Options: D-V. Document Inspection (Vouching); D-T. Document Inspection (Tracing); D-S. Document Inspection (Scanning); O. Observation; ITA. Inspection of Tangible Assets; INQ. Inquiry & written representation; C. Confirmation; RC. Recalculation; RP. Reperformance; A. Analytical Procedures;

Exercise Question (1/3)

- Auditors use different types of audit procedures to gather the evidence necessary to conclude that the RMM for each relevant assertion has been reduced to an acceptably low level.
- Identify the type of procedure used by auditors for each of the following examples.²⁵

	Example	Proc
1	Find brokers' invoices and canceled checks showing agreement with record amounts for securities investments.	D-V
2	Observe test counting of client's physical inventory taking.	-
3	Select a sample of shipping documents and trace them to sales invoices, sales journal recording, and posting to general ledger.	-
4	Ask client personnel about accounting events.	-
5	Study financial info in relation to nonfinancial info.	-
6	Scan expense accounts for credit entries.	-

²⁵ Options: D-V. Document Inspection (Vouching); D-T. Document Inspection (Tracing); D-S. Document Inspection (Scanning); O. Observation; ITA. Inspection of Tangible Assets; INQ. Inquiry & written representation; C. Confirmation; RC. Recalculation; RP. Reperformance; A. Analytical Procedures;

Exercise Question (1/3)

- Auditors use different types of audit procedures to gather the evidence necessary to conclude that the RMM for each relevant assertion has been reduced to an acceptably low level.
- Identify the type of procedure used by auditors for each of the following examples.²⁵

	Example	Proc
1	Find brokers' invoices and canceled checks showing agreement with record amounts for securities investments.	D-V
2	Observe test counting of client's physical inventory taking.	O
3	Select a sample of shipping documents and trace them to sales invoices, sales journal recording, and posting to general ledger.	—
4	Ask client personnel about accounting events.	—
5	Study financial info in relation to nonfinancial info.	—
6	Scan expense accounts for credit entries.	—

²⁵ Options: D-V. Document Inspection (Vouching); D-T. Document Inspection (Tracing); D-S. Document Inspection (Scanning); O. Observation; ITA. Inspection of Tangible Assets; INQ. Inquiry & written representation; C. Confirmation; RC. Recalculation; RP. Reperformance; A. Analytical Procedures;

Exercise Question (1/3)

- Auditors use different types of audit procedures to gather the evidence necessary to conclude that the RMM for each relevant assertion has been reduced to an acceptably low level.
- Identify the type of procedure used by auditors for each of the following examples.²⁵

	Example	Proc
1	Find brokers' invoices and canceled checks showing agreement with record amounts for securities investments.	D-V
2	Observe test counting of client's physical inventory taking.	O
3	Select a sample of shipping documents and trace them to sales invoices, sales journal recording, and posting to general ledger.	D-T
4	Ask client personnel about accounting events.	
5	Study financial info in relation to nonfinancial info.	
6	Scan expense accounts for credit entries.	

²⁵ Options: D-V. Document Inspection (Vouching); D-T. Document Inspection (Tracing); D-S. Document Inspection (Scanning); O. Observation; ITA. Inspection of Tangible Assets; INQ. Inquiry & written representation; C. Confirmation; RC. Recalculation; RP. Reperformance; A. Analytical Procedures;

Exercise Question (1/3)

- Auditors use different types of audit procedures to gather the evidence necessary to conclude that the RMM for each relevant assertion has been reduced to an acceptably low level.
- Identify the type of procedure used by auditors for each of the following examples.²⁵

	Example	Proc
1	Find brokers' invoices and canceled checks showing agreement with record amounts for securities investments.	D-V
2	Observe test counting of client's physical inventory taking.	O
3	Select a sample of shipping documents and trace them to sales invoices, sales journal recording, and posting to general ledger.	D-T
4	Ask client personnel about accounting events.	INQ
5	Study financial info in relation to nonfinancial info.	—
6	Scan expense accounts for credit entries.	—

²⁵ Options: D-V. Document Inspection (Vouching); D-T. Document Inspection (Tracing); D-S. Document Inspection (Scanning); O. Observation; ITA. Inspection of Tangible Assets; INQ. Inquiry & written representation; C. Confirmation; RC. Recalculation; RP. Reperformance; A. Analytical Procedures;

Exercise Question (1/3)

- Auditors use different types of audit procedures to gather the evidence necessary to conclude that the RMM for each relevant assertion has been reduced to an acceptably low level.
- Identify the type of procedure used by auditors for each of the following examples.²⁵

	Example	Proc
1	Find brokers' invoices and canceled checks showing agreement with record amounts for securities investments.	D-V
2	Observe test counting of client's physical inventory taking.	O
3	Select a sample of shipping documents and trace them to sales invoices, sales journal recording, and posting to general ledger.	D-T
4	Ask client personnel about accounting events.	INQ
5	Study financial info in relation to nonfinancial info.	A
6	Scan expense accounts for credit entries.	

²⁵ Options: D-V. Document Inspection (Vouching); D-T. Document Inspection (Tracing); D-S. Document Inspection (Scanning); O. Observation; ITA. Inspection of Tangible Assets; INQ. Inquiry & written representation; C. Confirmation; RC. Recalculation; RP. Reperformance; A. Analytical Procedures;

Exercise Question (1/3)

- Auditors use different types of audit procedures to gather the evidence necessary to conclude that the RMM for each relevant assertion has been reduced to an acceptably low level.
- Identify the type of procedure used by auditors for each of the following examples.²⁵

	Example	Proc
1	Find brokers' invoices and canceled checks showing agreement with record amounts for securities investments.	D-V
2	Observe test counting of client's physical inventory taking.	O
3	Select a sample of shipping documents and trace them to sales invoices, sales journal recording, and posting to general ledger.	D-T
4	Ask client personnel about accounting events.	INQ
5	Study financial info in relation to nonfinancial info.	A
6	Scan expense accounts for credit entries.	D-S

²⁵ Options: D-V. Document Inspection (Vouching); D-T. Document Inspection (Tracing); D-S. Document Inspection (Scanning); O. Observation; ITA. Inspection of Tangible Assets; INQ. Inquiry & written representation; C. Confirmation; RC. Recalculation; RP. Reperformance; A. Analytical Procedures;

Exercise Question (2/3)

- Auditors use different types of audit procedures to gather the evidence necessary to conclude that the RMM for each relevant assertion has been reduced to an acceptably low level.
- Identify the type of procedure used by auditors for each of the following examples.²⁶

	Example	Proc
7	Compare financial information with that of prior periods.	—
8	Obtain written client representation letter.	—
9	Scan payroll check lists for unusually large checks.	—
10	Complete an internal control questionnaire.	—
11	Obtain client's lawyer's letter.	—
12	Study predictable financial information patterns.	—

²⁶ Options: D-V. Document Inspection (Vouching); D-T. Document Inspection (Tracing); D-S. Document Inspection (Scanning); O. Observation; ITA. Inspection of Tangible Assets; INQ. Inquiry & written representation; C. Confirmation; RC. Recalculation; RP. Reperformance; A. Analytical Procedures;

Exercise Question (2/3)

- Auditors use different types of audit procedures to gather the evidence necessary to conclude that the RMM for each relevant assertion has been reduced to an acceptably low level.
- Identify the type of procedure used by auditors for each of the following examples.²⁶

	Example	Proc
7	Compare financial information with that of prior periods.	A
8	Obtain written client representation letter.	—
9	Scan payroll check lists for unusually large checks.	—
10	Complete an internal control questionnaire.	—
11	Obtain client's lawyer's letter.	—
12	Study predictable financial information patterns.	—

²⁶ Options: D-V. Document Inspection (Vouching); D-T. Document Inspection (Tracing); D-S. Document Inspection (Scanning); O. Observation; ITA. Inspection of Tangible Assets; INQ. Inquiry & written representation; C. Confirmation; RC. Recalculation; RP. Reperformance; A. Analytical Procedures;

Exercise Question (2/3)

- Auditors use different types of audit procedures to gather the evidence necessary to conclude that the RMM for each relevant assertion has been reduced to an acceptably low level.
- Identify the type of procedure used by auditors for each of the following examples.²⁶

	Example	Proc
7	Compare financial information with that of prior periods.	A
8	Obtain written client representation letter.	INQ
9	Scan payroll check lists for unusually large checks.	—
10	Complete an internal control questionnaire.	—
11	Obtain client's lawyer's letter.	—
12	Study predictable financial information patterns.	—

²⁶ Options: D-V. Document Inspection (Vouching); D-T. Document Inspection (Tracing); D-S. Document Inspection (Scanning); O. Observation; ITA. Inspection of Tangible Assets; INQ. Inquiry & written representation; C. Confirmation; RC. Recalculation; RP. Reperformance; A. Analytical Procedures;

Exercise Question (2/3)

- Auditors use different types of audit procedures to gather the evidence necessary to conclude that the RMM for each relevant assertion has been reduced to an acceptably low level.
- Identify the type of procedure used by auditors for each of the following examples.²⁶

	Example	Proc
7	Compare financial information with that of prior periods.	A
8	Obtain written client representation letter.	INQ
9	Scan payroll check lists for unusually large checks.	D-S
10	Complete an internal control questionnaire.	—
11	Obtain client's lawyer's letter.	—
12	Study predictable financial information patterns.	—

²⁶ Options: D-V. Document Inspection (Vouching); D-T. Document Inspection (Tracing); D-S. Document Inspection (Scanning); O. Observation; ITA. Inspection of Tangible Assets; INQ. Inquiry & written representation; C. Confirmation; RC. Recalculation; RP. Reperformance; A. Analytical Procedures;

Exercise Question (2/3)

- Auditors use different types of audit procedures to gather the evidence necessary to conclude that the RMM for each relevant assertion has been reduced to an acceptably low level.
- Identify the type of procedure used by auditors for each of the following examples.²⁶

	Example	Proc
7	Compare financial information with that of prior periods.	<u>A</u>
8	Obtain written client representation letter.	<u>INQ</u>
9	Scan payroll check lists for unusually large checks.	<u>D-S</u>
10	Complete an internal control questionnaire.	<u>INQ</u>
11	Obtain client's lawyer's letter.	—
12	Study predictable financial information patterns.	—

²⁶ Options: **D-V**. Document Inspection (Vouching); **D-T**. Document Inspection (Tracing); **D-S**. Document Inspection (Scanning); **O**. Observation; **ITA**. Inspection of Tangible Assets; **INQ**. Inquiry & written representation; **C**. Confirmation; **RC**. Recalculation; **RP**. Reperformance; **A**. Analytical Procedures;

Exercise Question (2/3)

- Auditors use different types of audit procedures to gather the evidence necessary to conclude that the RMM for each relevant assertion has been reduced to an acceptably low level.
- Identify the type of procedure used by auditors for each of the following examples.²⁶

	Example	Proc
7	Compare financial information with that of prior periods.	<u>A</u>
8	Obtain written client representation letter.	<u>INQ</u>
9	Scan payroll check lists for unusually large checks.	<u>D-S</u>
10	Complete an internal control questionnaire.	<u>INQ</u>
11	Obtain client's lawyer's letter.	<u>C</u>
12	Study predictable financial information patterns.	<u>_</u>

²⁶ Options: **D-V**. Document Inspection (Vouching); **D-T**. Document Inspection (Tracing); **D-S**. Document Inspection (Scanning); **O**. Observation; **ITA**. Inspection of Tangible Assets; **INQ**. Inquiry & written representation; **C**. Confirmation; **RC**. Recalculation; **RP**. Reperformance; **A**. Analytical Procedures;

Exercise Question (2/3)

- Auditors use different types of audit procedures to gather the evidence necessary to conclude that the RMM for each relevant assertion has been reduced to an acceptably low level.
- Identify the type of procedure used by auditors for each of the following examples.²⁶

	Example	Proc
7	Compare financial information with that of prior periods.	<u>A</u>
8	Obtain written client representation letter.	<u>INQ</u>
9	Scan payroll check lists for unusually large checks.	<u>D-S</u>
10	Complete an internal control questionnaire.	<u>INQ</u>
11	Obtain client's lawyer's letter.	<u>C</u>
12	Study predictable financial information patterns.	<u>A</u>

²⁶ Options: **D-V**. Document Inspection (Vouching); **D-T**. Document Inspection (Tracing); **D-S**. Document Inspection (Scanning); **O**. Observation; **ITA**. Inspection of Tangible Assets; **INQ**. Inquiry & written representation; **C**. Confirmation; **RC**. Recalculation; **RP**. Reperformance; **A**. Analytical Procedures;

Exercise Question (3/3)

- Auditors use different types of audit procedures to gather the evidence necessary to conclude that the RMM for each relevant assertion has been reduced to an acceptably low level.
- Identify the type of procedure used by auditors for each of the following examples.²⁷

	Example	Proc
13	Analyze valuation of receivables by re-aging them by due date.	_____
14	Obtain accounts receivable confirmations.	_____
15	Compare financial information with budgets and forecasts.	_____
16	Verify existence of fixed assets by locating them.	_____
17	Compare financial information to industry statistics.	_____
18	Recompute the client's calculation of depreciation expense.	_____

²⁷ Options: D-V. Document Inspection (Vouching); D-T. Document Inspection (Tracing); D-S. Document Inspection (Scanning); O. Observation; ITA. Inspection of Tangible Assets; INQ. Inquiry & written representation; C. Confirmation; RC. Recalculation; RP. Reperformance; A. Analytical Procedures;

Exercise Question (3/3)

- Auditors use different types of audit procedures to gather the evidence necessary to conclude that the RMM for each relevant assertion has been reduced to an acceptably low level.
- Identify the type of procedure used by auditors for each of the following examples.²⁷

	Example	Proc
13	Analyze valuation of receivables by re-aging them by due date.	RP
14	Obtain accounts receivable confirmations.	-
15	Compare financial information with budgets and forecasts.	-
16	Verify existence of fixed assets by locating them.	-
17	Compare financial information to industry statistics.	-
18	Recompute the client's calculation of depreciation expense.	-

²⁷ Options: D-V. Document Inspection (Vouching); D-T. Document Inspection (Tracing); D-S. Document Inspection (Scanning); O. Observation; ITA. Inspection of Tangible Assets; INQ. Inquiry & written representation; C. Confirmation; RC. Recalculation; RP. Reperformance; A. Analytical Procedures;

Exercise Question (3/3)

- Auditors use different types of audit procedures to gather the evidence necessary to conclude that the RMM for each relevant assertion has been reduced to an acceptably low level.
- Identify the type of procedure used by auditors for each of the following examples.²⁷

	Example	Proc
13	Analyze valuation of receivables by re-aging them by due date.	RP
14	Obtain accounts receivable confirmations.	C
15	Compare financial information with budgets and forecasts.	-
16	Verify existence of fixed assets by locating them.	-
17	Compare financial information to industry statistics.	-
18	Recompute the client's calculation of depreciation expense.	-

²⁷ Options: D-V. Document Inspection (Vouching); D-T. Document Inspection (Tracing); D-S. Document Inspection (Scanning); O. Observation; ITA. Inspection of Tangible Assets; INQ. Inquiry & written representation; C. Confirmation; RC. Recalculation; RP. Reperformance; A. Analytical Procedures;

Exercise Question (3/3)

- Auditors use different types of audit procedures to gather the evidence necessary to conclude that the RMM for each relevant assertion has been reduced to an acceptably low level.
- Identify the type of procedure used by auditors for each of the following examples.²⁷

	Example	Proc
13	Analyze valuation of receivables by re-aging them by due date.	RP
14	Obtain accounts receivable confirmations.	C
15	Compare financial information with budgets and forecasts.	A
16	Verify existence of fixed assets by locating them.	—
17	Compare financial information to industry statistics.	—
18	Recompute the client's calculation of depreciation expense.	—

²⁷ Options: D-V. Document Inspection (Vouching); D-T. Document Inspection (Tracing); D-S. Document Inspection (Scanning); O. Observation; ITA. Inspection of Tangible Assets; INQ. Inquiry & written representation; C. Confirmation; RC. Recalculation; RP. Reperformance; A. Analytical Procedures;

Exercise Question (3/3)

- Auditors use different types of audit procedures to gather the evidence necessary to conclude that the RMM for each relevant assertion has been reduced to an acceptably low level.
- Identify the type of procedure used by auditors for each of the following examples.²⁷

	Example	Proc
13	Analyze valuation of receivables by re-aging them by due date.	<u>RP</u>
14	Obtain accounts receivable confirmations.	<u>C</u>
15	Compare financial information with budgets and forecasts.	<u>A</u>
16	Verify existence of fixed assets by locating them.	<u>ITA</u>
17	Compare financial information to industry statistics.	<u> </u>
18	Recompute the client's calculation of depreciation expense.	<u> </u>

²⁷ Options: D-V. Document Inspection (Vouching); D-T. Document Inspection (Tracing); D-S. Document Inspection (Scanning); O. Observation; ITA. Inspection of Tangible Assets; INQ. Inquiry & written representation; C. Confirmation; RC. Recalculation; RP. Reperformance; A. Analytical Procedures;

Exercise Question (3/3)

- Auditors use different types of audit procedures to gather the evidence necessary to conclude that the RMM for each relevant assertion has been reduced to an acceptably low level.
- Identify the type of procedure used by auditors for each of the following examples.²⁷

	Example	Proc
13	Analyze valuation of receivables by re-aging them by due date.	<u>RP</u>
14	Obtain accounts receivable confirmations.	<u>C</u>
15	Compare financial information with budgets and forecasts.	<u>A</u>
16	Verify existence of fixed assets by locating them.	<u>ITA</u>
17	Compare financial information to industry statistics.	<u>A</u>
18	Recompute the client's calculation of depreciation expense.	<u> </u>

²⁷ Options: D-V. Document Inspection (Vouching); D-T. Document Inspection (Tracing); D-S. Document Inspection (Scanning); O. Observation; ITA. Inspection of Tangible Assets; INQ. Inquiry & written representation; C. Confirmation; RC. Recalculation; RP. Reperformance; A. Analytical Procedures;

Exercise Question (3/3)

- Auditors use different types of audit procedures to gather the evidence necessary to conclude that the RMM for each relevant assertion has been reduced to an acceptably low level.
- Identify the type of procedure used by auditors for each of the following examples.²⁷

	Example	Proc
13	Analyze valuation of receivables by re-aging them by due date.	<u>RP</u>
14	Obtain accounts receivable confirmations.	<u>C</u>
15	Compare financial information with budgets and forecasts.	<u>A</u>
16	Verify existence of fixed assets by locating them.	<u>ITA</u>
17	Compare financial information to industry statistics.	<u>A</u>
18	Recompute the client's calculation of depreciation expense.	<u>RC</u>

²⁷ Options: D-V. Document Inspection (Vouching); D-T. Document Inspection (Tracing); D-S. Document Inspection (Scanning); O. Observation; ITA. Inspection of Tangible Assets; INQ. Inquiry & written representation; C. Confirmation; RC. Recalculation; RP. Reperformance; A. Analytical Procedures;