

Audit Work Program – Investments and Other Assets
Subsidiary/Department: _____
Date: _____

AUDIT OBJECTIVES:

To determine whether:

1. Investments and other assets represent all proper charges or amounts that can reasonably be expected to be realized through future operations or otherwise and are properly recorded.
2. Accumulated amortization reflects all amortization charges to income applied on a consistent basis.
3. The amortization provision of other assets has been properly recorded.
4. All income, expenses and gains and losses associated with investments have been properly accounted for on a consistent basis.
5. Any nontemporary diminution of the value of investments and other assets has been recognized as a charge to income.
6. Investments and other assets are properly described and classified and adequate disclosures (including amounts pledged) with respect to these amounts have been made.

AUDIT PROCEDURES:

Procedures	WP Ref.	Done Y/N?	By	Date	Comments
1) ANALYTICAL PROCEDURES—GENERAL a. Compare the balance of each significant investment and other assets account with the comparable balance for the preceding period. Investigate significant or unusual fluctuations. b. Compare changes in investment balances with information regarding dividends or earnings of the investee, which would normally affect the carrying amounts. 2) INVESTMENTS IN JOINT VENTURES, PARTNERSHIPS AND OTHER COMPANIES a. Have the client prepare an analysis detailing the relationship of the individual audit unit to all of its investees, including joint ventures, partnerships and other companies. 1. Examine stock certificates or other documentation (e.g., partnership or joint venture agreement) that provide evidence of ownership. A. Compare distributions received for investments in partnerships and joint ventures with the terms of the agreement to determine whether any changes to the agreement occurred during the period. B. Analyze investee agreements to determine how an increase or decrease in net assets of the					

<p>investee will affect cash payments to the investor over the life of the investee and upon its liquidation.</p> <p>C. Evaluate whether the specified profit and loss allocation to record the investor's equity in the investee's earnings reasonably reflects the allocation of cash and liquidating distributions over the term of the agreement.</p> <p>2. Confirm ownership with a transfer agent/registrar or the investee. Note that confirmation of ownership with the investee would be appropriate only if the investee cannot be significantly influenced by the investor.</p> <p>a. For significant investments, obtain the investee's audited financial statements and review them for items of audit significance (e.g. incurrence of operating losses, deteriorating financial condition, significant litigation, other contingencies, etc.).</p> <p>1. Assess the financial statement impact of any items of audit significance noted in our review.</p> <p>2. If the investee's audited financial statements are examined by other auditors and they are significant to the client's financial statements, complete Form AP-331B, "Using the Work of Other Auditors Practice Aid."</p> <p>b. If audited financial statements are not available for any significant investee, assess the need to extend the scope of our audit work to the investee's financial statements.</p> <p>c. Determine whether the subsidiary's method of accounting for investments (e.g., cost or equity method) is appropriate, based upon the ownership interest of the individual audit unit and its ability to exercise significant influence over the operating and financial policies of the affiliate.</p> <p>d. Discuss with client personnel any changes in circumstances that require a change in the method of accounting for an investment. Discuss such changes with the partner and manager and determine whether they are reasonable.</p> <p>1. Determine whether the accounting has been properly applied.</p> <p>2. Obtain written representation from management concerning any change in their intentions regarding the investment (e.g., temporary versus long-term) or ability to</p>					
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<p>exercise influence.</p> <p>e. Review the nature and amount of transactions between the investor and investee. Consider the need to examine supporting detail in order to identify:</p> <ul style="list-style-type: none"> ▪ Related-party transactions that should be disclosed. ▪ Intercompany profits to be eliminated. ▪ Advances to investees, which may be accounted for either as receivables or as an increase in the investment. <p>f. Have the subsidiary prepare an analysis of the activity or changes in the investments accounts during the current period. Verify the clerical accuracy of the analysis and test it as follows:</p> <ol style="list-style-type: none"> 1. Determine that earnings, dividends or other distributions of investees were properly accounted for during the period. 2. Trace activity to supporting documentation or financial statements of the investees for the current period. Recalculate amounts of investment income recorded. 3. In the year of acquisition of an investment, review the underlying data and evidence as to the accuracy of the amounts and the propriety of the carrying values. 4. Consider the effects (if any) of taxes on the undistributed earnings of the investees and foreign currency fluctuations and translations during the audit period. <p>g. For investments carried at cost, compare the carrying value of the investment to market value. Determine whether provisions have been recorded for apparent nontemporary declines in value.</p> <p>h. For investments accounted for under the equity method, have the subsidiary prepare a reconciliation of the investment accounts to the equity accounts of the investees. Investigate differences and propose adjustments, as appropriate.</p> <ol style="list-style-type: none"> 1. If any of the investees have a different fiscal year from that of the client and the client estimates its equity in the investee's income or losses for periods between their respective year-ends and the audit date, perform the following: <ol style="list-style-type: none"> A. Examine any current period unaudited interim financial statements received 					
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<p>from the investees and consider the historical reliability of such interim financial statements.</p> <p>B. Evaluate whether adequate evidence can be obtained to reach a conclusion regarding material amounts recorded by the client, considering such factors as the investee's historical record for stability of net income, seasonal factors affecting the investee's industries, contingencies disclosed in the most recent interim or audited (if any) financial statements and qualifications or exceptions in the most recent auditors' report (if any).</p> <p>C. If adequate evidence cannot be obtained in this manner, consider whether we or the auditors of the investee need to apply procedures to the unaudited interim financial statements and, if not possible, consider the need for qualification in the audit report for a limitation on the scope of the audit.</p> <p>2. If any of these affiliates have a different fiscal year from that of the client and the client does not estimate its equity in the affiliates' income or losses for periods between their respective year-ends and the audit date, perform the following:</p> <p>A. Determine whether the practice is consistent with procedures followed in the preceding period.</p> <p>B. Evaluate the materiality of the client's equity in the affiliates' income or losses for the periods not recognized in the client's financial statements, based upon the most recent fiscal and interim financial statements available from the investees and other factors known of the affiliates' businesses.</p> <p>3. Review the method of accounting for differences in basis for propriety and consistency with prior periods.</p> <p>4. Recompute the excess of the cost of the investment over the value of the underlying equity in the net assets of the investee in the year of acquisition of the investment and subsequent increases or decreases in the excess costs due to increases or decreases in the investment. Note that excess cost from the initial purchase and incremental excess cost should be amortized separately.</p>					
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<p>A. Review the amortization period for reasonableness and conformity with generally accepted accounting principles and test the calculations of amortization for the current period.</p> <p>B. Evaluate the ability of the investor to realize its investment and determine if it may be necessary to write off, write down or alter the amortization of the excess cost.</p> <p>i. Cross-reference appropriate amounts to the consolidation entries.</p>					
<p>3) PREPAYMENTS</p> <p>a. Discuss with appropriate personnel the accounting policies that affect prepayments. Consider the acceptability of the stated policies. Evaluate any changes in policies as to whether they constitute a change in accounting principles or otherwise require disclosure in the financial statements.</p> <p>b. Have the subsidiary prepare an analysis of activity for the current period for each significant prepayment account and reconcile it to the general ledger control accounts. Include the following information:</p> <ul style="list-style-type: none"> ▪ Description and period covered by each prepayment. ▪ Balance at the beginning and end of the period. ▪ Additions. ▪ Amounts expensed. ▪ Other activity. <p>1. Verify the clerical accuracy of the analysis. Trace beginning balances to the prior period's working papers and cross-reference ending balances and amounts expensed to the appropriate lead schedules.</p> <p>2. Examine critical forms and documents () to verify significant additions and other activity. Scope:()</p> <p>3. Test the subsidiary's calculations of amounts expensed.</p> <p>4. Determine that the ending balances represent amounts properly chargeable to future operations.</p> <p>5. Confirm significant deposits and other assets held by others. Scope:()</p>					
<p>4) ANSWER INTERNAL CONTROL QUESTIONNAIRES</p>					
<p>5) SUPERVISION, REVIEW AND CONCLUSIONS</p>					

<ul style="list-style-type: none"> a) Conclude responsive to the audit objectives. b) Prepare points regarding internal controls and other business matters. c) Perform senior review and supervision. d) Clear senior review points. e) Clear manager review points. 					
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PERFORMED BY:

REVIEWED BY:

Audit Assistant

Audit Supervisor