

*Office of Internal Audit*  
**Publishing House**  
**PRELIMINARY AUDIT PROGRAM**

Prepared By: \_\_\_\_\_

Date: \_\_\_\_\_

Reviewed By: \_\_\_\_\_

Date: \_\_\_\_\_

AUDIT PROCEDURES

	<u>Audit Step Completed</u>		Workpaper Reference
	Yes	No	
1. Planning & Inquiry			
a. Review the prior audit workpapers and related audit report, and document any items requiring follow-up.	<input type="checkbox"/>	<input type="checkbox"/>	_____
b. Review Annual Report to the Board of Trustees for the area audited.	<input type="checkbox"/>	<input type="checkbox"/>	_____
c. Inquire of the Controller's Office as to concerns related to internal controls involving the area audited.	<input type="checkbox"/>	<input type="checkbox"/>	_____
d. Perform an evaluation of the controls, using the corresponding internal/management controls questionnaire.	<input type="checkbox"/>	<input type="checkbox"/>	_____
e. Perform necessary follow-up on audit exceptions disclosed during execution of of questionnaire, as well as prior audit report items.	<input type="checkbox"/>	<input type="checkbox"/>	_____
f. Interview area managers and Vice-president.	<input type="checkbox"/>	<input type="checkbox"/>	_____

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g. Obtain & review information supplied by area involved in audit. (e.g. org. chart, & manuals)	<input type="checkbox"/>	<input type="checkbox"/>	_____
h. Prepare preliminary audit program.	<input type="checkbox"/>	<input type="checkbox"/>	_____
h. Perform walkthroughs on major tasks as necessary.	<input type="checkbox"/>	<input type="checkbox"/>	_____
i. By interviewing Info. Sys. staff, reviewing available documentation, and other means, obtain an understanding of the computerized data processing systems related to the audit area.	<input type="checkbox"/>	<input type="checkbox"/>	_____
j. Inquire with external auditors about concerns they may have relating to publisher.	<input type="checkbox"/>	<input type="checkbox"/>	_____
k. Document the objectives of the audit.	<input type="checkbox"/>	<input type="checkbox"/>	_____
l. Prepare a preliminary assessment of audit risk.	<input type="checkbox"/>	<input type="checkbox"/>	_____
m. Revise preliminary audit program as necessary as audit progresses.	<input type="checkbox"/>	<input type="checkbox"/>	_____
<b>2. Organization &amp; Administration</b>			
a. Evaluate the adequacy of the current org. chart for the publishing division.	<input type="checkbox"/>	<input type="checkbox"/>	_____
b. Verify that an adequate and current job description exists for all key positions.	<input type="checkbox"/>	<input type="checkbox"/>	_____
c. Perform a balance sheet and income statement analysis (including current budget-to-actual comparisons) for the purpose of identifying opportunities for savings and increased familiarization with the areas being audited.	<input type="checkbox"/>	<input type="checkbox"/>	_____
<b>3. Accounts Payable</b>			
a. Prepare or obtain from publisher a listing of trade accounts payable as of the balance sheet date and perform the following	<input type="checkbox"/>	<input type="checkbox"/>	_____

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procedures:			
1. Test the arithmetical accuracy of the listing and reconcile the total to the general ledger.	<input type="checkbox"/>	<input type="checkbox"/>	_____
2. Review the listing for large debit balances, and determine their nature. Consider confirming with vendors.	<input type="checkbox"/>	<input type="checkbox"/>	_____
3. Review the listing for past due amounts and discuss old and disputed balances with publishing mgmt.	<input type="checkbox"/>	<input type="checkbox"/>	_____
4. Review the listing for any related party transactions.	<input type="checkbox"/>	<input type="checkbox"/>	_____
b. Perform a search for unrecorded liabilities covering the period from the balance sheet date to the completion of field work as follows:	<input type="checkbox"/>	<input type="checkbox"/>	_____
1. Review the cash disbursements journal for all payments over an established dollar amount (\$ _____), and examine the supporting documentation for such disbursements (e.g. vendor's invoice). If the goods or services were received prior to the balance sheet date, determine that the liability is recorded as of the balance sheet date. If the goods or services were received subsequent to the balance sheet date, determine that the related amount is properly excluded from A/P as of the balance sheet date.	<input type="checkbox"/>	<input type="checkbox"/>	_____
2. Obtain from the client the files for all unprocessed invoices as of the date of field work and for all invoice amounts over an established dollar amount (\$ _____), and determine whether the invoice is properly included or excluded from A/P as of the balance sheet date.	<input type="checkbox"/>	<input type="checkbox"/>	_____
3. Obtain from the client the files for all receiving reports unmatched with vendor invoices and determine	<input type="checkbox"/>	<input type="checkbox"/>	_____

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whether the goods or services were received as of the balance sheet date. If so, determine that the liability is recorded. If a vendor's invoice has not been received, refer to the client's purchase order, prior invoices for similar items, or consider calling the vendor.	<input type="checkbox"/>	<input type="checkbox"/>	_____
4. Ask the client's accounting personnel about their knowledge of unrecorded liabilities.	<input type="checkbox"/>	<input type="checkbox"/>	_____
5. Scan the trade accounts payable listing as of the end of the current period and compare it to the listing of the prior period, and determine whether any individually significant items were included in the prior period but not in the current period. Investigate whether any of these items should be included in A/P as of the balance sheet date.	<input type="checkbox"/>	<input type="checkbox"/>	_____
6. Ask the client about any amounts included in trade accounts payable that have specified payment terms. If so, consider reclassifying to notes payable.	<input type="checkbox"/>	<input type="checkbox"/>	_____
7. Ask the client's accounting personnel about any assets that are pledged as collateral on accounts payable.	<input type="checkbox"/>	<input type="checkbox"/>	_____
8. Perform analytical procedures and review pertinent relationships, such as (a) A/P turnover, (b) days outstanding in A/P, (c) ratio of A/P to current liabilities, (d) ratio of purchase returns and allowances to purchases.	<input type="checkbox"/>	<input type="checkbox"/>	_____
4. Accounts Receivable			
a. Prepare or obtain from the client an aged trial balance of trade accounts receivable and perform the following:	<input type="checkbox"/>	<input type="checkbox"/>	_____

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	Yes	No	
1. Test the arithmetical accuracy of the aged trial balance and the aging categories.	<input type="checkbox"/>	<input type="checkbox"/>	_____
2. Reconcile the total balance to the G/L.	<input type="checkbox"/>	<input type="checkbox"/>	_____
3. Note and investigate any unusual entries.	<input type="checkbox"/>	<input type="checkbox"/>	_____
4. On a selective basis, trace individual account balances in the aged trial balance to individual subsidiary ledgers and vice versa.	<input type="checkbox"/>	<input type="checkbox"/>	_____
5. Note any significant related party transactions.	<input type="checkbox"/>	<input type="checkbox"/>	
b. Select customer accounts from the aged trial balance for confirmation procedures and perform the following:	<input type="checkbox"/>	<input type="checkbox"/>	_____
1. Arrange for confirmation requests to be mailed directly by the auditor and maintain control over the confirmation process at all times.	<input type="checkbox"/>	<input type="checkbox"/>	_____
2. Trace balances included in individual confirmation requests to subsidiary accounts.	<input type="checkbox"/>	<input type="checkbox"/>	_____
3. Mail confirmations using envelopes with the auditor's return address.	<input type="checkbox"/>	<input type="checkbox"/>	_____
4. Prepare confirmation statistics.	<input type="checkbox"/>	<input type="checkbox"/>	_____
5. Obtain new addresses for confirmations returned by mail, and remail.	<input type="checkbox"/>	<input type="checkbox"/>	_____
6. Send second requests for positive confirmations on which there is no reply.	<input type="checkbox"/>	<input type="checkbox"/>	_____
c. Process the confirmation replies and summarize the results of confirmation procedures as follows:			
1. For positive confirmation requests to which no reply was received and accounts exempted from confirmation at the client's request, perform alternative procedures for those customers by examining cash receipts subsequent to the confirmation date, and, if no cash has been received, examining sales invoices and corresponding shipping documents.	<input type="checkbox"/>	<input type="checkbox"/>	_____

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2. Indicate the total accounts and balances confirmed without exceptions, confirmations reconciled, and nonreplies or exempted accounts with alternative procedures performed.	<input type="checkbox"/>	<input type="checkbox"/>	_____
d. Test the adequacy of the allowance for doubtful accounts, as follows:	<input type="checkbox"/>	<input type="checkbox"/>	_____
1. Review subsequent cash collections of account balances.	<input type="checkbox"/>	<input type="checkbox"/>	_____
2. Review accounts written off during the period.	<input type="checkbox"/>	<input type="checkbox"/>	_____
3. Determine if writeoffs have been properly authorized and examine related supporting documentation.	<input type="checkbox"/>	<input type="checkbox"/>	_____
4. Perform and review ratio analyses for relationships such as (a) A/R Turnover, (b) Allow. For Doubtful Accts to A/R (c) Allow. For Doubtful Accts to Sales.	<input type="checkbox"/>	<input type="checkbox"/>	_____
5. Cash Management	<input type="checkbox"/>	<input type="checkbox"/>	
a. Prepare bank confirmation forms for all bank accounts used during the period under audit.	<input type="checkbox"/>	<input type="checkbox"/>	_____
b. Obtain the bank reconciliation for the end of the audit period and perform the following:	<input type="checkbox"/>	<input type="checkbox"/>	_____
1. Trace balance per bank to bank statement and returned confirmation.	<input type="checkbox"/>	<input type="checkbox"/>	_____
2. Trace balance per books to the G/L.	<input type="checkbox"/>	<input type="checkbox"/>	_____
3. Test the arithmetical accuracy of the bank reconciliation.	<input type="checkbox"/>	<input type="checkbox"/>	_____
4. Trace deposits in transit amounts to the subsequent month's bank statement	<input type="checkbox"/>	<input type="checkbox"/>	_____
5. Investigate other reconciling items over \$ _____ and determine propriety and reasonableness.	<input type="checkbox"/>	<input type="checkbox"/>	_____
6. Trace selected significant outstanding checks from bank reconciliation at end	<input type="checkbox"/>	<input type="checkbox"/>	_____

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of audit period to subsequent bank statement for clearance.			
c. Determine all petty cash funds that should be counted and perform the following:	<input type="checkbox"/>	<input type="checkbox"/>	_____
1.Count petty cash funds in the presence of Retail employee.	<input type="checkbox"/>	<input type="checkbox"/>	_____
2.Summarize cash counted by denomination. Include other items such as vouchers, stamps, etc.	<input type="checkbox"/>	<input type="checkbox"/>	_____
3.Reconcile the balance per the custodian to the G/L.	<input type="checkbox"/>	<input type="checkbox"/>	_____
6. Inventory			
a.Perform test counts of selected inventory items noting the description, inventory category, location and sales amount and tie to the Global inventory listing. Investigate any differences.	<input type="checkbox"/>	<input type="checkbox"/>	_____
b.Tour the entire publisher warehouse, including shipping and receiving areas, and determine whether any inventory appears to be obsolete, slow moving, damaged, very old, and/or held for return to vendor. Review any available reports on the aging of inventory. Assess the significance of these items. (Determine how long some of these items have been held in inventory.) Note observations.	<input type="checkbox"/>	<input type="checkbox"/>	_____
c.Reconcile the detailed inventory listing with the general ledger.	<input type="checkbox"/>	<input type="checkbox"/>	_____
d.Select a sample of inventory items to test unit costs for accuracy in calculation and consistency in application.	<input type="checkbox"/>	<input type="checkbox"/>	_____
e.Select a sample of inventory items to test unit quantities against past sales for obsolete or slow-moving stock.	<input type="checkbox"/>	<input type="checkbox"/>	_____
f.Review inventory turnover for reasonableness; and review inventory write-down policy for consistency, accurate application, and adequacy of provision for inventory write-down.	<input type="checkbox"/>	<input type="checkbox"/>	_____

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g. Review selected items in Work-In-Process to ensure that titles are indeed in process and determine if any balances represent discontinued publications that should be written off.	<input type="checkbox"/>	<input type="checkbox"/>	_____
h. Compare inventory turnover ratio and gross profit % of the current period to prior periods. items.	<input type="checkbox"/>	<input type="checkbox"/>	_____
<b>7. Publications</b>			
a. Obtain an understanding of the publishing process and select a sample of published books to determine the following:	<input type="checkbox"/>	<input type="checkbox"/>	_____
1. Was the process of performing due diligence on new book proposals properly followed?	<input type="checkbox"/>	<input type="checkbox"/>	_____
2. Review minutes of Publication Committee to confirm that process was followed properly.	<input type="checkbox"/>	<input type="checkbox"/>	_____
<b>8. Price Discrimination</b>			
a. Review policies on pricing for customers.	<input type="checkbox"/>	<input type="checkbox"/>	_____
b. Select a sample of customers and compare pricing on the same items.	<input type="checkbox"/>	<input type="checkbox"/>	_____
<b>9. Royalties</b>			
a. Obtain a listing of Advanced Royalties and tie it to the general ledger balance. Investigate significant differences.	<input type="checkbox"/>	<input type="checkbox"/>	_____
b. Agree a sample of individual items on listing of Advanced Royalties to the Global Royalty Product Summary Report – Detail. Investigate any significant differences.	<input type="checkbox"/>	<input type="checkbox"/>	_____
c. Review Global Royalty Product Summary Report – Detail for any significant negative balances on ISBNs that have already earned out for possible large returns.	<input type="checkbox"/>	<input type="checkbox"/>	_____
d. Select sample of Advanced Royalties and verify that advance is being accrued and paid in accordance with royalty agreement.	<input type="checkbox"/>	<input type="checkbox"/>	_____
e. Agree royalty accrual and payments agree to	<input type="checkbox"/>	<input type="checkbox"/>	_____

royalty statements.

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f. Review royalty earnings for period and and compare to change in Accrued Royalty Liability on balance sheet for reasonableness.	<input type="checkbox"/>	<input type="checkbox"/>	_____
g. Consider vouching a sample of royalty earnings reported in Global Royalty Product Summary Report –Detail for validity.	<input type="checkbox"/>	<input type="checkbox"/>	_____
h. Review aging of advanced royalties and write-off history to determine if provision for advanced royalty write-offs is adequate.	<input type="checkbox"/>	<input type="checkbox"/>	_____