Materiality, Risk, and Audit Strategy

In the case of the investing cycle, inherent risk is influenced by:

1. volume of transactions
2. theft of securities
3. proper classification of an investment
   --this may be contentious
   --it affects valuation method, income effects and disclosure requirements
The following procedures may also be useful to determine whether all retirements have been recorded:

--analyze the miscellaneous revenue accounts for proceeds from sales of plant assets
--investigate the disposition of facilities associated with discontinued product lines
--trace retirement work orders and authorizations for retirements
--review insurance policies for terminations of coverage
Tests of Details of Balances

There are various procedures or substantive tests that should be considered. These are:

1. inspect plant assets—look for additions or retirements not listed on the schedules. This relates to the completeness and E or O assertions.
2. examine title documents and contracts—ownership of vehicles may be established by examining certificates of title. For equipment, furniture, and fixtures, the paid invoice is acceptable evidence of ownership.
3. tests of accounting estimates for depreciation and asset impairment—here the auditor needs evidence on the reasonableness and accuracy of depreciation charges. The auditor must look closely at last year’s depreciation expense, EULs, and do recalculations.
Vouch Entries to Retained Earnings

Vouching enables the auditor to ascertain whether (1) a proper distinction has been made between paid-in capital and retained earnings (2) legal and contractual requirements have been met.