

working papers

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AUDIT WORKING PAPERS

Their Function, Preparation and Content

BY MAURICE E. PELOUBET



The public accountant must be ever alert to adapt his methods to the changing conditions of modern practice. Clients call now for financial statements in forms which a few years ago had not been imagined. In addition to statements for stockholders, for management, for creditors and for income-tax purposes, there are now reports for the numerous agencies of the state and Federal governments which control or regulate business enterprises. Business, it is said, has been burdened by these new requirements. The burden is shared by the public accountant. Indeed, without thorough understanding of the uses of working papers the public accountant is hard pressed to discharge his new responsibilities and realize upon his new opportunities.

Audit Working Papers, by J. Hugh Jackson, has proven to be one of the most valuable books offered by the American Institute Publishing Co., Inc. We now take pleasure in announcing that a new work on this subject has been written in the light of present-day conditions by Maurice E. Peloubet, and is expected to be available for distribution by March 1, 1937.

Mr. Peloubet is widely known not only as an outstanding practitioner, but as a frequent contributor to *THE JOURNAL OF ACCOUNTANCY*. His experience qualifies him to speak with authority on the subject of the function, preparation and content of audit working papers.

Audit Working Papers is based on the premise that the multiform financial statements required by each business enterprise, being drawn from one set of books, should require only one set of working papers. Naturally, if the economy of this procedure is to be realized, great care and skill must go into the preparation of the working papers. Mr. Peloubet's book not only discusses these matters exhaustively, but presents examples of the working papers necessary for a report to shareholders, a comprehensive report to management and a report to the Securities and Exchange Commission for a typical manufacturing enterprise. Working papers of the parent-operating company and the consolidated working papers necessary to produce consolidated statements are included.

The bulletin of the American Institute of Accountants, *Examination of Financial Statements by Independent Public Accountants*, has been accepted throughout as the standard to which the audit procedure and resulting working papers should conform.

One of the most perplexing questions in planning an audit is the extent to which the auditor may rely on the sufficiency of the client's system of internal check and the efficiency of the client's internal audit staff. Systematic methods for making and recording the investigation necessary to determine the extent to which the auditor may rely on the company's internal check and internal audit are discussed, and two examples of types of papers covering this work used by representative accounting firms are shown.

When a tax return is discussed with a revenue agent, clear and concise working papers are essential if the transactions are at all complicated or difficult, especially if the taxpayer is an individual dealing in securities or other property the basis for which must be established. An entire chapter is devoted to records and working papers for income-tax returns of individuals. The records illustrated and the methods described have been in successful use for many years by estates, trusts and individual taxpayers of substantial means and have reduced controversies with the taxing authorities to questions of theory and principle, the facts being so clearly shown as generally to be beyond dispute.

A chapter devoted to working papers for large consolidations illustrates methods for saving time and labor and facilitating analysis and checking in the consolidation of a large number of companies into one set of accounts.

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