

OBJECTIVE: To assist in determining the nature, timing and extent of further audit procedures for this account balance, transaction class, or disclosure, and related assertions, to reduce audit risk to an acceptably low level and in such a way that will enable us, at the completion of the audit, to express an opinion on the financial statements taken as a whole at the opinion units level.

Management’s Assertions and Related Audit Objectives:

Assertions	Potential Misstatements (Caused by Errors or Fraud)	Audit Objectives
Existence Occurrence Accuracy Rights and obligations Cutoff Valuation or allocation	<ul style="list-style-type: none"> • Recorded assets or liabilities do not exist as of a given date. • Recorded transactions do represent economic (or cash basis) events that have actually occurred. • Transactions are not recorded in the appropriate period. • Transactions are not summarized or recorded in correct amounts. • Recorded assets are owned by others or pledged where entity has no rights. • The entity does not have an obligation for recorded liabilities. • Assets or liabilities are valued on an inappropriate basis. • Revenues or expenses are measured inappropriately. 	1. To obtain sufficient evidence to conclude, with reasonable assurance that the account balances or transaction class amounts are not materially overstated from errors or fraud.
Completeness Cutoff Accuracy Valuation and allocation	<ul style="list-style-type: none"> • Assets and liabilities exist but are not recorded. • Valid transactions are not recorded. • Transactions are not recorded in the appropriate period. • Transactions are not summarized or recorded in correct amounts. • Assets or liabilities are valued on an inappropriate basis. • Revenues or expenses are measured inappropriately. 	2. To obtain sufficient evidence to conclude, with reasonable assurance, that the account balances or transaction class amounts are not materially understated from errors or fraud.
Occurrence Rights and Obligations Completeness Classification Understandability Accuracy Valuation	<ul style="list-style-type: none"> • Accounts are not properly classified (such as current and non-current, restricted or unrestricted). • Accounts or transactions are recorded in an inappropriate fund or reporting unit. • Required information is not disclosed in the statements or footnotes. • Disclosed events or transactions have not occurred or are in wrong amounts. • Disclosures are not understandable. • Undisclosed inconsistent application of accounting principles. • Undisclosed material instances of noncompliance. 	3. To obtain sufficient evidence to conclude, with reasonable assurance, that all material events and transaction related to the account balances or transaction class information is properly and fully presented and disclosed .

Risk Identification Processes

This risk identification processes involve the gathering and considering of various risks that a material misstatement could occur in an assertion of this account balance or transaction class whether caused by error or fraud. Particular attention is given to fraud risks since these risks involve intent to conceal.

Inherent Risk (*risk that the audit objective(s) will not be achieved, disregarding the effect of internal controls*)

(Highlight any of the factors below that would indicate an increased risk of material misstatement for this account / class.)

<p>Inherent Risk and Control Environment Factors</p> <p>Organizational/Business Risk Factors: Changes in the operations Changes in personnel Competency of current personnel Changes in systems / capability of current systems Level of supervision or oversight Changes in or effectiveness of policies and procedures New mandates from public or third parties Declining population, industry, tax base or economy Level of internal audit / monitoring over the account</p> <p>Nature of Account Risk Factors: Materiality to financial statement materiality units Complexity of transactions or calculations Number of transactions Significant estimates required Complexity of GAAP Complex compliance requirements affect account balance</p> <p>Prior History Risk Factors: Unrecorded off-books activity Year-end conversion required Unrecorded updates to account balances Errors in recording transactions Errors in applying GAAP Known history of noncompliance Past history of fraud</p> <p>Fraud Risk Factors – Misappropriation/Theft: Susceptibility of assets to misappropriation Opportunities available for misappropriation Misappropriation pressures present</p> <p>Fraud Risk Factors – Fraudulent Financial Reporting: Questionable management style and characteristics Presence of political factors or pressures Pressure from outside influences Continued disregard of legal requirements Unrealistic financial targets or projections Bonuses or continued employment tied to aggressive goals Threats of funding losses Difficulty in meeting debt covenants Potential for questionable related party activity</p>
--

Process	Highlight Any Significant Risks Identified or “None”
----------------	---

<p>Brainstorming Session – Planning Phase How and where this account balance or transaction class might be materially misstated due to errors or fraud. Consider the results of prior audits also.</p>	<p>Increased risk of material overstatement. Increased risk of material understatement. Increased risk of material presentation or disclosure misstatements or omissions. None</p>
<p>Analytical Review – Planning Phase Unusual relationships identified from year-to-date financial statements and information related to this account balance or transaction class.</p>	<p>Increased risk of material overstatement. Increased risk of material understatement. Increased risk of material presentation or disclosure misstatements or omissions. None</p>
<p>Inquiries of Management and Others Interview results that indicate the potential for material misstatements due to errors or fraud, including questionable or conflicting responses to inquiries.</p>	<p>Increased risk of material overstatement. Increased risk of material understatement. Increased risk of material presentation or disclosure misstatements or omissions. None</p>
<p>Consideration of Inherent Risks The susceptibility of an assertion of the account balance or transaction class to material misstatement, assuming no internal controls.</p>	<p>Increased risk of material overstatement. Increased risk of material understatement. Increased risk of material presentation or disclosure misstatements or omissions. None</p>
<p>Consideration of Management Override The risk that the account balance or transaction class could be materially misstated as a result of management override of internal controls, including questionable or unsupported journal entries or accounting estimates.</p>	<p>Increased risk of material overstatement. Increased risk of material understatement. Increased risk of material presentation or disclosure misstatements or omissions. None</p>

Assessment of Inherent Risks

<p><i>Inherent Risk Assessment</i> <i>(Highlight assessed risk)</i></p>	<p>Material Overstatement</p>	<p>Material Understatement</p>	<p>Presentation or Disclosure Deficiency</p>
<p><i>(H=High, M= Moderate, L = Low)</i></p>	<p>H M L</p>	<p>H M L</p>	<p>H M L</p>

The Entity's Internal Control Processes

This risk assessment process considers the entity's internal control programs and control procedures/activities for the assessment of "control risk" – the risk that a material misstatement that could occur in an assertion of this account balance or transaction class will not be prevented or detected on a timely basis by the entity's internal controls. The fundamental question to ask is *"Do the entity's internal controls mitigate, exacerbate or have no effect on the identified risks of material misstatements?"*

Significant Internal Control Programs and Control Procedures/Activities (or their absence) That Affect the Identified Inherent Risks <i>(Indicate whether the specific controls or lack thereof mitigate or exacerbate the risk of material misstatements by highlighting the appropriate response in the column to the right.)</i>	Effect on the Identified Risks of Material Misstatements
Control environment programs, including tone from the top, and design and implementation of government-wide code of ethics or ethical culture and policies for reporting and acting on complaints or allegations.	Mitigates Risks Exacerbates Risks No Effect on Risk
Business risk management policies and processes such as compliance with material regulatory requirements, responding to constituent mandates, managing growth or decline in population, and competition from other governments or non-government entities.	Mitigates Risks Exacerbates Risks No Effect on Risk
Information system capability and reliability to produce sufficient and accurate financial information output or reports.	Mitigates Risks Exacerbates Risks No Effect on Risk
Segregation of duties present in processing the transaction of this account or transaction class. (See below.)	Mitigates Risks Exacerbates Risks No Effect on Risk
Physical controls designed and in operation over the assets of information related to this account or transaction class. (See below.)	Mitigates Risks Exacerbates Risks No Effect on Risk
Information processing controls designed and in operation over the information related to this account or transaction class. (See below.)	Mitigates Risks Exacerbates Risks No Effect on Risk
Performance review controls designed and in operation over the information related to this account or transaction class. (See below.)	Mitigates Risks Exacerbates Risks No Effect on Risk
<i>Note: Any internal controls to be relied upon in the design of substantive audit tests must be tested to obtain evidence of their effectiveness.</i>	

Example Control Procedures or Activities:

Segregation of duties: Custody or access Authorization Processing or accounting Reconciliation	Physical controls: Limited access to assets, blank checks, etc. Computer system access or security controls Numbered sequence control Supervision over remote locations	Information processing: Journals used and summarized Edit checks of input data Manual follow-up of exceptions Independent approval of adjustments	Performance reviews: Periodic physical inventories or other verification Timely and complete reconciliation of detail to control totals Independent review of output or reports
---	--	--	---

Basis for Control Risk Assessments:

Control risk assessed *at the maximum or high* (required for controls significantly dependent upon computerized systems):

- A. The design and/or operation of the controls are deemed ineffective.
- B. It is considered inefficient to test controls.

Control risk assessed *at less than the maximum or high* (for all such assessments):

- C. Based on results from prior years' testing and no current year changes detected.
- D. Based on results of current year controls testing. (Documentation Reference: _____)

<i>Control Risk Assessment</i>	Material Overstatement	Material Understatement	Presentation or Disclosure Deficiency
(H=High, M= Moderate, L = Low) (Highlight assessed risk)	H M L	H M L	H M L
<i>Basis for Risk Assessment (A, B, C, or D)</i> (Highlight basis)	A B C D	A B C D	A B C D

Auditor Response to the Identified and Assessed Risks of Material Misstatement

Detection Risk

Detection risk is the risk that we will not detect a material misstatement that exists in an assertion of this account balance or transaction class. Detection risk is a function of the effectiveness of the audit procedures and their application by us. Detection risk is disaggregated into two risk components: substantive analytical procedures (AP) and tests of details (TD). This model indicates the general relationship between these various risk components as they related to all assertions of this account balance or transaction class:

$$\text{Audit risk (AR) is expressed by the model "AR = RMM x DR."}$$

AR – represents acceptable audit risk

Risk of Material Misstatement (RMM) - represents combined assessment of inherent risk (IR) and control risk (CR)

Detection Risk (DR) – represents the product of substantive analytical procedures (AP) and tests of details (TD)

Any further audit procedures to be applied to the applicable assertions of this account balance or transaction class should be designed based upon the concepts of this risk model. For example, when RMM (combined inherent and control risk) is high, at least one of the components of detection risk must provide a low risk of failing to detect material misstatements in the assertions. On the other hand, when RMM is low, a higher detection risk would be allowable.

			Presentation
--	--	--	---------------------

Detection Risk Determination:	Material Overstatement	Material Understatement	or Disclosure Deficiency
Inherent Risk Assessment (IR) from page 3	L	H	L
Control Risk Assessment (CR) from page 5	H	H	H
RMM (Combined Inherent and Control Risk) (1)	L	H	L
Detection Risk Assessment – Analytical Procedures (AP)	M	M	M
Detection Risk Assessment – Test of Details (TD)	H	L	H
DR (Combined AP and TD Risk) (1)	M	L	M
Desired Level of Audit Risk (RMM x DR) (2)	L	L	L

(1) If one of two elements is Low risk (L) then combined risk is considered low

(2) To achieve a low (L) level of audit risk, at least one element of the two risk elements (RMM or DR) must be low (L)

General Guidance for Consideration of Audit Evidence in Response to Detection Risk Determinations:

Generally, the lower the detection risk needs to be to achieve an acceptably low level of audit risk, the more persuasive and reliable the evidence needs to be. The following general guidance is to be considered in determining the nature, timing and extent of audit procedures and evidence.

Nature of Evidence (Source)	Timing of Evidence (When)	Extent of Evidence (How Much)
<p><i>More Persuasive and Reliable When:</i></p> <ul style="list-style-type: none"> Directly Obtained by the Auditor Obtained from Independent and Knowledgeable Outside Sources Internally Obtained When Controls are Effective Exists in Documentary Form Rather Than Oral Representation Provided by Original Documents Rather Than Photocopies or Facsimiles 	<p><i>More Persuasive and Reliable When:</i></p> <ul style="list-style-type: none"> Obtained Closer to the Time of the Transactions or Valuations Obtained On an Unannounced or Surprise Basis Obtained Though Use of Cut-off Periods Obtained Throughout the Audited Period for Sampling Procedures 	<p><i>More Persuasive and Reliable When:</i></p> <ul style="list-style-type: none"> Testing Involves More Individually Significant Items Larger Sample Sizes Are Used Lower Acceptable Analytical Variances Are Established More Disaggregation is Used in Analytical Procedures Inquiries or Confirmations Are Corroborated

Auditor Response to the Identified and Assessed Risks of Material Misstatement, (Continued)

Based on the detection risk determinations above as to substantial analytical procedures risk and test of details risk, develop an appropriate auditor response in the form of further audit procedures over this account balance or transaction class.

Further Audit Procedures Based on Detection Risk Assessments	Documentation Reference	Done By
<i>Normal Procedures Regardless of Risks:</i>		
Obtain evidence of authorized rates and compare to rates within the billing system.	F-1	JP
Perform analytical reviews as noted on the Analytical Review Worksheets for all material types of exchange revenues.	F-2 - F-11	JP JL AC
Determine that exchange revenue and receivables are reported in the proper accounts and funds.	F-12	DC
Reviewed aged accounts receivable reports and determine the appropriateness of the allowance for uncollectible accounts.	F-13 – F-20	KW
Test ending accounts receivable through comparison to subsequent collections and cut-off notices.	F-21	KW
<i>Procedures Added Due To Fraud Risks:</i>		
Print and carefully review account histories for evidence of fraud on large customers, customers related to the utility staff, and a sample of other accounts.	F-22 – F-32	PC
Print and review the aged accounts receivable trial balance. Sceptically question any material receivables over 30 days old.	F-33 – F-35	KW
Reconcile revenue and receivables for the audit period and sceptically review adjustments or credits.	F-36 – F-38	MT
Confirm monthly payments for the entire audit period and the ending receivable balance with the largest customers and any other customers with unusual account histories.	F-39 – F-50	PC
For a randomly selected 2 days during the audit period compare the detail make-up of cash and checks per the daily cash receipts reports to the corresponding deposit slips and bank teller tapes.	F-51 – F-55	DC

Evaluation of Audit Evidence

Evaluate the audit evidence obtained and analyzed to this point as to whether the evidence indicates a material misstatement due to errors or fraud, or indicates a previously unidentified risk that needs additional response.

Audit Results	Need for Further Response? (Highlight)	Documentation Reference that Indicates Need for Further Response
Results of Audit Tests - Errors Do the results of the audit procedures performed to this point provide any indication of material misstatement resulting from errors?	Yes No	
Results of Audit Tests - Fraud Do the results of the audit procedures performed to this point provide any indication of material misstatement resulting from fraud?	Yes No	F-25 F-35 F-38 F-49-50
Analytical Review – Overall Review Phase Are there any unusual relationships identified from the final financial statement amounts related to this account balance or transaction class?	Yes No	
Evidence of Management Override – Overall Review Phase Is there any evidence that the account balance or transaction class is materially misstated as a result of management override of internal controls, including questionable or unsupported journal entries or accounting estimates?	Yes No	
Evidence of Fraud Risk Factors - Overall Review Phase Is there evidence of any previously unidentified fraud risk factors related to incentives/pressures, opportunities, or rationalizations that could affect this account balance or transaction class?	Yes No	F-56

Response to Evaluation of Audit Evidence (if any)

Based on the detection risk determinations above as to substantial analytical procedures risk and test of details risk, develop an appropriate auditor response in the form of further audit procedures over this account balance or transaction class.

Further Audit Procedures Based on Evaluation of Audit Evidence	Documentation Reference	Done By
Report indication of possible fraud to upper management and discuss methods of follow up and additional responses.	F-57	MC
Expand confirmation of utility payments to other likely accounts that could be misappropriated.	F-58 – F-78	MT DC
Expand review of customer account histories.	F-79 – F-99	PC
Report instances of possible fraud to audit committee or governing body.	F-100	MC

Conclusions Related to Audit Objectives

Conclusions should be made as to whether the evidence obtained and evaluated as a result of performing the above noted audit procedures sufficiently support the achievement of the audit objectives for this account balance or transaction class.

Audit Objective	Objective Achieved? (Highlight Yes/No)	If NO, Explain
1. To obtain sufficient evidence that the account balances or transaction class amounts are not materially overstated .	<p style="text-align: center;">Yes</p> <p style="text-align: center;">No</p>	
2. To obtain sufficient evidence that the account balances or transaction class amounts are not materially understated .	<p style="text-align: center;">Yes</p> <p style="text-align: center;">No</p>	Evidence indicates that amounts reported are understated resulting from possible embezzlement. Unable to quantify accurately due to unreliable reports, qualified opinion needed due to scope limitation.
3. To obtain evidence that all material events or transactions related to the account balances or transaction class are presented and disclosed properly and fully .	<p style="text-align: center;">Yes</p> <p style="text-align: center;">No</p>	See above.

Completed By: _____

Reviewed By: _____