

**The Effect of Process Accountability on the Evaluation of Audit Evidence:
An Examination of the Audit Review Process**

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ABSTRACT

This dissertation examines the effect of accountability and client risk on auditor efficiency and effectiveness during an audit review task. I considered two types of accountability. The first type is outcome accountability, which represents the type of accountability in the current audit review process. The second type of accountability is process accountability, which is not currently utilized in the audit review process. I also examined two levels of client risk (high and low) because client risk has been shown to impact efficiency and effectiveness of the audit review process. An internet-based experimental instrument was utilized for this study. Participants were practicing auditors.

Findings indicate that process accountability improved performance by exhibiting both an increase in identification of errors and a decrease in likelihood of agreement with the preparer. Findings also show that process accountability decreases efficiency by increasing overall time to complete the study and the amount of information reviewed. These results suggest that process accountability, the act of documenting the process used to perform a task, may reduce the chances of audit failure, making the reduction in efficiency acceptable.

I also find that participants in the process accountability and high risk groups may have experienced information overload. Both high client risk and process accountability have been shown to increase attention to information and time spent on a task. A decrease in errors

identified by individuals in this group when compared to individuals in the process accountability and low risk group may indicate information overload. Also, attrition rates and followup responses from participants who did not complete the study indicate that information overload may have been an issue for participants in the process accountability/high risk group.

Dedication

Changing the world is good for those who want their names in books. But being happy, that is for those who write their names in the lives of others, and hold the hearts of others as the treasure most dear.

- Orson Scott Card

This dissertation is dedicated to Terry Glenn Reed and Caleb Harris Reed. Without Terry's support, love and encouragement, this dissertation would not exist. His unwavering belief in my ability to achieve anything that I set my mind to has only made me try all the harder to deserve that belief. Caleb's fortuitous arrival during the first year of the doctoral program changed my life forever, making this process more difficult, but also much more rewarding and meaningful. I love you both with all of my heart.

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Chapter One

Introduction

The audit review process is an integral part of a financial statement audit and can impact both the effectiveness and efficiency of the audit. During an audit review, experienced members of an audit team (hereafter referred to as reviewers) evaluate the work of subordinate team members (hereafter referred to as preparers) to determine whether the audit work was adequately performed and documented, and whether the audit evidence supports the opinion to be included in the final audit report (AICPA 2006c). Audit reviewers can increase the effectiveness of the audit process by identifying documentation deficiencies (i.e. preparer errors) within the audit, making the audit review process a major component of accounting firms' quality control systems (Gibbins and Trotman 2002; Rich, Solomon, and Trotman 1997a; Roebuck and Trotman 1992). When deficiencies are identified, reviewers typically request that preparers perform additional audit work, provide more documentation, and/or present further explanation (Roebuck and Trotman 1992). These requirements are aimed at aiding in the performance and documentation of sufficient audit procedures to support a given audit opinion (Rich et al. 1997a; Roebuck and Trotman 1992).

Previous experimental studies that examined the audit review process have found low to moderate levels of accuracy in detecting preparer errors, with error detection rates between 20% and 60% (Asare and McDaniel 1996) and between 20% and 44% (Asare, Haynes, and Jenkins 2007). These accuracy levels suggest that there may be audit errors that are not detected during the audit review process. Evidence that material audit errors do occur in actual audits and are not detected during the audit review process can be inferred from some of the Public Company Accounting Oversight Board (PCAOB) publicly-available inspection findings and the necessity

of some restatements (Palmrose, Richardson, and Scholz 2004).¹ The public portions of 2007 PCAOB inspection reports for all four of the Big 4 state that "...the Firm, at the time it issued its audit report, had not obtained sufficient competent evidential matter to support its opinion on the issuer's financial statements" (PCAOB 2007c, 2007d, 2007e, 2007f).

It is important for accounting firms and researchers to consider how the effectiveness of the audit review process can be improved, in order to reduce PCAOB findings and restatements. Psychology literature suggests that certain forms of accountability can reduce judgment error and increase accuracy. If this is the case, then some types of accountability may help reviewers increase the effectiveness of the audit review process by increasing the likelihood that reviewers will identify existing deficiencies within audit documentation.

This study uses the Flexible Contingency Model of Accountability (FCM) (Lerner and Tetlock 1999) to explore the potential effects of accountability on the efficiency and effectiveness of the audit review process. The FCM suggests that judgment can be improved by holding individuals accountable for the process of making the judgment instead of the final outcome alone (Lerner and Tetlock 1999). Therefore, the effectiveness of the audit review may be enhanced by the incremental use of process accountability (PA), as opposed to outcome accountability alone (OA). PA results in a more even-handed evaluation of alternatives (Simonson and Staw 1992) and encourages individuals to take more of the available information into account when making a judgment in comparison to outcome accountability (Siegel-Jacobs and Yates 1996). This could help reviewers in identifying risks that have not been addressed within an audit program, or other audit procedures that were not performed but may be necessary to manage audit risk appropriately. PA has resulted in increased cognitive effort and accuracy of

¹ Restatements occur when financial statements are found by management, the public auditor, the SEC, or the PCAOB, to be materially misstated in some way, subsequent to their issuance (Palmrose et al. 2004).

judgments in other research areas, such as managerial accounting and psychology (Libby and Luft 1993; Siegel-Jacobs and Yates 1996), but has not been examined in an audit review context.

In the audit review setting, client risk will affect the cognitive effort expended by reviewers and the accuracy of their judgment (Asare et al. 2007). Client risk factors have become more germane since the PCAOB approved Auditing Standard 5 (AS5) in July 2007, which requires that the auditor utilize a risk-based audit approach as a basis for their audit procedures (PCAOB 2007b). The PCAOB notes that auditors' "effort has appeared greater than necessary to conduct an effective audit" (PCAOB 2007a) prior to the release of AS5, indicating that audits lacked efficiency.

Because of AS5 and its increased focus on efficiency within an audit, it is also important to consider that the increased effort induced by PA will be detrimental to the efficiency of the audit, which would require a corresponding increase in effectiveness to maintain an appropriate balance between efficiency and effectiveness. It is therefore important to consider the possibility that the cost, in terms of less efficiency, may not result in sufficient benefits, in terms of effectiveness, to maintain this balance. This may occur in two ways. First, if PA results in increased effort, but no corresponding increase in accuracy, then PA has made the reviewer less efficient and no more effective than in other settings. Second, if PA and high client risk interact such that cognitive effort significantly increases the amount of information being attended to, information overload may result. Information overload has been shown to decrease decision accuracy (Chewning and Harrell 1990; Eppler and Mengis 2004; Schroder, Driver, and Streufert 1967). If PA can be utilized to increase effectiveness within an audit, it is important to understand how PA interacts with other factors within an audit. For instance, client risk also increases the amount of cognitive effort expended during an audit, so it is important to

understand the impact of PA on the balance of efficiency and effectiveness within the audit in conjunction with this factor.

Based on the previous discussion, this study addresses the following research question: How does process accountability affect the efficiency and effectiveness of the audit review process? This study examines the effect of process versus outcome accountability on the efficiency and effectiveness of the audit review process in varying client risk scenarios using an instrument based on the one developed by Asare, Haynes & Jenkins (2007). The participants for this study were recruited from several large public accounting firms and have audit review experience. Participants were asked to identify errors and evaluate audit documentation for accuracy and completeness. Participants within the process accountability group were also asked to document the review process that they followed in conducting the review.

Findings from this study indicate that PA resulted in a decrease in efficiency but an increase in effectiveness. These findings suggest that accounting firms may want to employ PA mechanisms to reduce audit deficiencies, which may offset the decrease in efficiency. Results also suggest that information overload may occur when participants encounter both PA and high client risk (HR). These results suggest that PA may be less effective in high client risk settings. Academically, this study is the first to examine PA in an audit review context.

The remainder of this dissertation is organized as follows: Chapter 2 provides a review of the current literature related to PA and client risk and the study's hypotheses development. Chapter 3 provides details on the research method, including subjects, research instrument and evaluation methods. Chapter 4 presents the results of the statistical analysis. Finally, Chapter 5 discusses the academic and practical implications of this study, as well as its limitations.

Chapter Two

Literature Review and Hypothesis Development

2.1 The Current Audit Environment

Discovery of material misstatements within financial statements subsequent to their issuance can impact the reputation of the company that issued those financial statements and the firm that performed the audit (Chaney and Philipich 2002) and usually requires that the issuer restate their financial statements to reflect the correction of those misstatements (Palmrose et al. 2004). Audit failure occurs when material misstatements are discovered after the audit is complete and the accounting firm has issued its opinion. The cost of audit failure to accounting firms can be significant, including a decrease in the firms' ability to attract new clients or retain existing ones (Chaney and Philipich 2002). Restatements can also impact overall investor confidence (GAO 2006). For these reasons, it is important that accounting firms prevent the need for restatements as much as possible.

The audit environment changed significantly with the creation of the PCAOB by the Sarbanes-Oxley Act of 2002 (SOX). Auditing standards for audits of public companies are now established by the PCAOB and auditors of publicly-traded companies are now inspected by PCAOB inspectors either annually or once every three years, depending on the number of audits of publicly-traded companies they perform.² The detailed PCAOB inspection reports are provided to the accounting firms and an abbreviated report is made available to the public.

The public portion of these reports indicates that accounting firms are, in some instances, not meeting the requirements for obtaining sufficient competent evidential matter to support their opinion on the financial statements (PCAOB 2007c, 2007d, 2007e, 2007f). The PCAOB

² Firms with 100 or fewer issuers are inspected at least once every three years. Firms with greater than 100 issuers are inspected once a year.

acknowledges that their inspection findings may make it necessary for an issuer to restate their financial statements (PCAOB 2004). PCAOB inspection findings for the Big 4 accounting firms state:

“In reviewing the audits, the inspection team identified matters that it considered to be audit deficiencies. Those deficiencies included failures by the Firm to identify or appropriately address errors in the issuer's application of GAAP, including, in some cases, errors that appeared likely to be material to the issuer's financial statements. In addition, the deficiencies included failures by the Firm to perform, or to perform sufficiently, certain necessary audit procedures.”
(PCAOB 2007c, 2007d, 2007e, 2007f)

Accounting firms seek to minimize the number of PCAOB inspection findings where possible, especially those findings that indicate material misstatements which require restatement of financial statements. They do this to reduce the negative impact on the reputation and earnings potential of the accounting firm, as well as to maintain high audit quality and maintain good relations with their clients.

The audit review process plays a vital role in improving the audit process and reducing the likelihood of PCAOB inspection findings. It is during this process that the more experienced members of an audit team identify audit deficiencies, inadequate audit procedures, and reduce the risk of judgment error (Roebuck and Trotman 1992). If an audit review is conducted properly, the likelihood of failing to identify audit deficiencies should be reduced, which will minimize PCAOB findings and restatements.

2.1.1 The Audit Review Process

According to current audit standards such as SAS 103 and SAS 108, a significant purpose of an audit review is to “determine whether it [the audit] was adequately performed and documented and to evaluate the results, relative to the conclusions to be presented in the

auditor's report" (AICPA 2006a, 2006c). The audit review process is utilized to ensure that audits meet applicable standards, including sufficiency and competency of audit evidence (Rich et al. 1997a; Rich, Solomon, and Trotman 1997b; Roebuck and Trotman 1992). The review process also allows accounting firms to manage risk associated with audits by adjusting the nature and extent of review in response to various risk factors, such as client risk, in order to achieve a certain level of acceptable audit risk (Asare et al. 2007; Rich 2004; Rich et al. 1997a).

Audit reviews occur at several stages in an audit and are performed by individuals with different levels of experience, from the senior (in-charge) level up to the partner level. Because the audit review process utilizes more senior personnel within an accounting firm, it is frequently viewed as a logical place to gain audit efficiencies (Rich et al. 1997b). The audit review process is usually a sequential and iterative process with many hierarchical layers of review (Rich et al. 1997b). Preparers perform and document the audit procedures to be performed and the conclusions reached based on the evidence within the workpapers. These workpapers are then sent to a reviewer, typically at a level higher than the preparer, for the first review. This review is fairly detailed and comprehensive. The reviewer will either accept the workpapers and conclusions as they stand or request that additional work be performed, such as additional audit procedures, modification of conclusions, improvement of documentation and/or responses to clarifying questions. Preparers then address the comments and return the workpapers for another review. This process is repeated until the reviewer is satisfied with the documentation and conclusions.

At this point, the workpapers are sent to the next level of the audit team hierarchy for review. This second review may be another detailed and comprehensive review or it may be a high-level review, depending on engagement circumstances and partner preference and may be

performed by either a manager or partner (Rich et al. 1997b). If it is performed by a manager, then the partner in charge of the engagement will also perform a review prior to issuing the opinion (Rich et al. 1997b). Audits of private and public companies also undergo an engagement quality review performed concurrently with the audit by a partner independent of the audit (Epps and Messier Jr. 2007; PCAOB 2008).³ Recently, the PCAOB proposed a new standard which provides additional guidelines on the qualifications of an engagement quality reviewer and the required components of the engagement quality review process. This standard will require, among other elements, that the engagement quality reviewer document who participated in the review and the workpapers that they utilized during the review (PCAOB 2009a). This is not currently required for lower levels of review.

Reviewers in the audit environment provide only limited documentation of the review process itself with review notes being destroyed once they have been adequately addressed (Roebuck and Trotman 1992). This lack of documentation of the audit review process appears to persist in the current audit environment and has resulted in the need for researchers to investigate this process utilizing questionnaires (Fargher, Mayorga, and Trotman 2005; Gibbins and Trotman 2002). Further, the lack of documentation results in reviewers being accountable for the final outcome of their review process - the audit workpapers and conclusions reached - and not the review process itself.

2.2 Accountability

2.2.1 The Flexible Contingency Model of Accountability

The Flexible Contingency Model of Accountability (FCM) (Lerner and Tetlock 1999) was developed to incorporate findings related to accountability from several different disciplines, such as psychology, business, education, health care, and politics, to understand how

³ Engagement quality review was previously referred to as concurring partner review.

accountability connects individuals to the authority relations which permeate personal and professional environments. In part, the FCM addresses the impact of various accountability ground rules on the thoughts, feelings and actions of individuals. The FCM examines many different types of accountability, including issues regarding to whom and for what we are accountable (process versus outcome) (Lerner and Tetlock 1999).⁴ In the accounting literature, researchers have examined outcome accountability and accountability to multiple audiences.

Accountability for outcome has been frequently studied within the accounting environment, with mixed results. Studies have shown that accountability can improve performance and reduce effort-related bias (DeZoort et al. 2006; Kennedy 1993; Libby and Luft 1993; Tan and Kao 1999). Tan and Kao (1999) note that accountability does not impact performance for a low-complexity task, but will improve performance for moderately complex tasks when the requisite knowledge is present, and will also improve performance for highly complex tasks when both the requisite knowledge and ability for the task are present. DeZoort et al. (2006) find that accountability can result in more conservative judgments with less variability and can increase the amount of time spent on a task, the length of the explanation, and consideration of qualitative factors.

On the other hand, some studies find that accountability can lead to sub-optimal decisions (Gaynor, McDaniel and Neal 2006), does not reduce data-related biases (Kennedy 1995), and can act as a bias-instigator instead of a bias-mitigator (Turner 2001). For instance, Gaynor et al. (2006) find that subjects acting in the role of audit committee members were less likely to provide pre-approval for a non-audit related service when public disclosure of the pre-approval would be required, even if the service would improve audit quality. Kennedy (1995) finds that

⁴ The FCM also discusses accountability to audiences with either known or unknown expectations, at different stages within the decision process (pre- versus post-decisional), and to audiences that are viewed as legitimate or illegitimate (Lerner and Tetlock 1999), but these areas are beyond the scope of this study.

while accountability may motivate additional cognitive effort, it does not necessarily lead to a less biased judgment in dealing with outcome information that is unrelated to the decision task. Turner (2001) finds that auditors who were told that their reviewer was concerned with time budget and lack of reliance on client-provided information spent less time and followed a more client-prompted search strategy than auditors who were told that their reviewers were concerned that auditors were not skeptical enough or were given no reviewer preference. The results from these studies indicate that accountability to an audience can have a negative impact on judgment when that audience increases the risk associated with the judgment or when the audience's preference may lead to a less-than-optimal judgment.

Accountability to multiple audiences has been studied in the audit and audit review setting (Bagley 2007; Bierstaker and Wright 2001; Gramling 1999, Rich 2004). Gramling (1999) and Bierstaker and Wright (2001) examine the accountability that auditors feel toward both a superior within the firm and to the client. Their findings suggest that auditors confronted with competing preferences will be more influenced by the client's preferences than by the superior's preferences (Bierstaker and Wright 2001; Gramling 1999). Bagley (2007) finds that auditors who are accountable to multiple superiors will experience negative affect in the form of evaluation apprehension. Rich (2004) examines accountability to multiple audiences in the audit review context and finds that reviewers are less likely to agree with the preparer's work when accountability to financial statement users is high (publicly traded) compared to when accountability is low (privately held). Because the PCAOB has authority only for those accounting firms that audit publicly traded companies, accountability to multiple audiences is not included as a part of this study. The focus of this study is on what an individual is accountable for, specifically either the process or the outcome of the audit review.

2.2.2 Accountability for Process versus Outcome

Accountability is defined as the pressure to justify one's judgments to others (Lerner and Tetlock, 1999; Libby and Luft, 1993). Outcome accountability (OA) focuses on the quality of the outcomes of an action (Siegel-Jacobs and Yates 1996). In the audit review context, the outcomes of the audit review would include the review notes produced and the agreement or disagreement with the preparer's conclusions on the area being tested. The FCM suggests that OA increases commitment to a prior course of action (Simonson & Staw 1992) and decision stress, leading to an increase in judgmental inconsistency (Siegel-Jacobs and Yates 1996). In an audit review setting, this suggests that reviewers may be committed to existing audit procedures and be less likely to consider alternative or omitted procedures.

Process accountability (PA) focuses on the procedures used to arrive at an action (Siegel-Jacobs and Yates 1996). It may be difficult in some situations to eliminate an individuals' OA and replace it with PA alone. This is particularly true for this study because PA is not currently utilized in an audit review context and individuals may feel accountable for the outcome as well as the process. For this reason, this study examines the incremental impact of PA in the audit review process, in addition to the OA already present. PA leads to a more even-handed evaluation of alternatives and decreases the need for self-justification (Simonson and Staw 1992) and decreases decision stress, causing improved judgment accuracy (Siegel-Jacobs and Yates 1996). PA also encourages individuals to take more of the available information into account (Siegel-Jacobs and Yates 1996). In an audit review setting, this suggests that reviewers in a PA setting may be more likely to consider alternative or omitted procedures and request that those procedures be performed. They may also attend more to the information presented and

incorporate that information into their judgments regarding the sufficiency and appropriateness of audit evidence.

2.2.3 Hypotheses I_A , I_B & I_C : The Effect of Accountability on Review Performance

Within the accounting literature, Libby and Luft (1993) find that managers increased their use of unique measures within a balanced scorecard task related to performance evaluations when process accountability was invoked. Other accounting research has found that reviewers that do not consider alternative explanations for errors are more likely to agree with preparers in prior literature (Rich et al. 1997a; Rich et al. 1997b). Based on reasoning similar to these prior studies, reviewers in an OA setting would be less likely to consider all alternatives when conducting an audit review, resulting in less accurate judgments and a higher likelihood that they will agree with the preparer, as opposed to individuals in a PA setting. Reviewers in an OA setting will also be more committed to prior courses of action within the audit process, such as the selection of audit procedures and audit documentation even if the audit procedures and documentation were decided on and compiled by a different person. They will be more likely to support the judgments made by the preparer, rather than challenge the preparer's opinion. Reviewers in a PA setting will be more likely to challenge the audit procedures as established and the sufficiency and adequacy of the evidence collected to support the audit opinion. They will take more of the available information into account when making their judgment. This leads to the following hypotheses:

H1_A: Outcome accountability will result in the identification of fewer workpaper deficiencies than process accountability.

H1_B: Outcome accountability will result in an increased likelihood of agreement with preparer's judgment than process accountability.

H1c: Outcome accountability will result in less attention to information provided than process accountability.

Accountability may impact the audit review setting by increasing cognitive effort and improving effectiveness, but other factors which influence the audit review process have also been found to increase cognitive effort and improve effectiveness, such as client risk (Asare et al. 2007). It is useful to understand how accountability interacts with other integral factors of the audit review process.

2.3 Client Risk

2.3.1 The Audit Risk Model

In this study, the audit risk model (ARM), as described in *SAS 107: Audit Risk and Materiality in Conducting an Audit* (AICPA 2006b), is utilized. Audit risk (AR) is defined as the “risk that the auditor may unknowingly fail to appropriately modify his or her opinion on financial statements that are materially misstated” (AICPA 2006b). In this model, the risk of material misstatement (RMM) consists of those risk factors that exist independent of the financial statement audit, namely inherent risk (IR) and control risk (CR). IR is defined as the susceptibility of a relevant assertion⁵ to a misstatement that could be material, assuming there are no related controls. IR may be due to characteristics of a transaction, such as complexity, or amounts derived from estimates, but may also be due to broader characteristics of the entity and its environment, such as industry, management characteristics, or corporate governance structure. CR is defined as the risk that a misstatement that could occur will not be prevented or detected on a timely basis by the entity’s internal controls. The ARM also includes detection risk (DR), which is defined as the risk that the auditor/reviewer will not detect a misstatement that exists. DR is a function of the effectiveness of the audit program and its application by the auditor.

⁵ IR may also be related to a class of transactions, account balances, or disclosures (AICPA 2006b).

Audit reviewers can minimize DR by identifying audit deficiencies and errors during the review process, thereby reducing the likelihood that a material misstatement will not be discovered during the audit.

Previous research has included both client risk and preparer risk as components of DR.⁶ Gibbins and Trotman (2002) noted that managers who participated in their field study identified client risk and preparer competence as key factors in the extent of review. Preparer competence is a component of preparer risk. The two factors have an inverse relationship such that as preparer competence increases, preparer risk would decrease and vice versa. There has been an interaction noted between client risk and preparer risk (Asare et al. 2007). Client risk in an audit review setting has been shown to affect effort regardless of preparer risk, but preparer risk did not affect effort. However, there is an impact on accuracy between client risk settings when preparer risk is high, but not when preparer risk is low. It is possible that reviewers expect that highly competent preparers (low preparer risk) will find most errors and correct them before the review process, and therefore use low preparer risk to compensate for high client risk.

2.3.2 Hypotheses 2_A, 2_B & 2_C: The Effect of Client Risk on Review Performance

The ARM itself, found in AU 312.26 (AICPA 2006b), is $AR = RMM \times DR$. AR is typically set by accounting firms for each audit and does not vary. RMM will vary based on evaluation of client risk factors. Based on this model, the only factor that the reviewer can influence by his/her own actions is DR, which he/she can influence through exertion of additional effort. It is expected that as client risk varies, the reviewers will attempt to maintain a constant level of AR by adjusting the amount of effort they expend (Asare et al. 2007). When client risk is high, DR will need to be set low, resulting in more effort by the reviewer to

⁶ Preparer risk is defined as the “risk that material misstatements are not identified, investigated, and resolved by the workpaper preparer” (Asare et al. 2007).

maintain a constant level of AR. More effort should result in the identification of more errors and lower the likelihood that the reviewer will agree with the preparer's judgment on the sufficiency and competency of evidential matter. Conversely, when client risk is low, DR will need to be high, resulting in less effort by the reviewer. Less effort should result in identification of fewer errors and increase the likelihood that the reviewer will agree with the preparer's judgment on the sufficiency and competence of evidential matter. This leads to the second set of hypotheses:

- H2_A:** High client risk will result in the identification of more workpaper deficiencies than low client risk.
- H2_B:** High client risk will result in a decreased likelihood of agreement with a preparer's judgments than low client risk.
- H2_C:** High client risk will result in more attention to information provided than low client risk.

Because client risk factors are integral in directing the effort within an audit, they are important factors when considering audit efficiency. For PA to be utilized effectively and efficiently in the audit review process, reviewers must have the capacity to process additional information when cognitive effort is affected by multiple variables within the audit. Therefore, it is necessary to examine the interaction between PA and client risk.

2.4 The Interaction of Accountability and Client Risk

2.4.1 Information Overload

PA has not been examined in an audit review context or in conjunction with client risk factors in previous literature. If both accountability and the consideration of client risk factors improve performance and increase cognitive effort, then it is important to consider how this increase in cognitive effort will affect decision judgment and efficiency within the audit.

Increases in cognitive effort result in an increased attention to information (Siegel-Jacobs and Yates 1996). It is possible that individuals will reach some peak in information processing capacity, after which point they will no longer incorporate additional information into their decision process and the accuracy of their decisions may decrease. The concept of information overload has been discussed in many contexts, such as psychology, management, marketing and accounting (Eppler and Mengis 2004). Schroder, Driver and Streufert (1967) depict this concept as an inverted U-curve, where decision accuracy increases as the information load increases up to a certain point, defined as the information overload point. After this point, additional information will cause a decline in decision accuracy. See Figure 1 for a graphical representation of this concept.

Information overload has been defined in several ways, including both objective and subjective measures of the information overload point. Subjectively, studies have defined information overload as the point at which subjects estimate that they have to handle more information than they can use (Iselin 1993). Objectively, studies have defined information overload as the point where additional information is no longer incorporated into the decision process (Chewning and Harrell 1990; Swain and Haka 2000), where there is too much information to process in the time available (Schick, Gordon and Haka 1990; Tuttle and Burton 1999), where the information available exceeds human processing capacity (Malhotra 1982; Meyer 1998), and where the information processing requirements exceed the information processing capacity (Owen 1992; Iselin 1993).

It is the latter definition which is utilized in this study, because the amount of information available and time allocated are not being investigated. Instead, the concern here is that increased cognitive effort will increase the information processing requirements of the review

process, which will result in exceeding the information processing capacity of the reviewer. According to the framework developed by Eppler and Mengis (2004), information processing capacity (IPC) is influenced by personal characteristics, and information processing requirements (IPR) are determined by the nature of the task or process. IPC may be limited by personal skills, the level of experience, and the motivation of the person (Owen 1992; Swain and Haka 2000). IPR will increase the information load and tighten time pressure when the process is more complex and based less on recurring routines (Grise & Gallup 2000). The audit review process is a complex process (Rich et al. 1997a; 1997b) and increased cognitive effort will result in an even greater complexity of the audit review process as more information is considered.

2.4.2 Hypotheses 3_A, 3_B & 3_C: The Effect of Client Risk and Accountability on Efficiency

It is possible that there will be no significant difference between client risk groups when PA is utilized. This would occur if, due to information overload, individuals have reached or exceeded their processing capacity and have identified as many errors as their knowledge, experience, and IPC allow while still increasing the effort expended. If this is the case, then it may indicate that PA reduces the efficiency of the audit. It is expected that auditors who are accountable for the process they follow and who are reviewing the audit of a high-risk client will expend the greatest amount of effort. Conversely, auditors who are accountable for the outcome of their audit review and who are reviewing the audit of a low-risk client will expend the least amount of effort. This leads to the first part of the third set of hypotheses:

H3A: Process accountability and high client risk will result in more attention to information provided than all other scenarios.

H3B: Outcome accountability and low client risk will result in less attention to information provided than all other scenarios.

Prior literature has not addressed which of these variables, accountability or client risk, is likely to have a greater effect on effort, so it is difficult to posit which of these last two groups will expend a greater amount of effort or if their effort will be statistically different. Because both variables have been shown in prior research to increase effort (Asare et al. 2007; Libby and Luft 1993), it is possible that there will be no difference between these two groups. This leads to the remainder of the third set of hypotheses:

H3C: Process accountability and low client risk will result in the same amount of attention to information provided as outcome accountability and high client risk.

2.4.3 Research Question 1: Do Reviewers Experience Information Overload?

As individuals exert more cognitive effort, the IPR of the audit review task become greater because they feel a need to attend to more information and incorporate that information into the review process. At some point, individuals will reach the peak of their IPC, at which point less information will be incorporated into the audit review and decision accuracy will begin to decrease. If the information overload point is reached when both PA and high client risk are present, individuals subject to PA will have a smaller incremental increase in decision accuracy than individuals subject to OA while still exerting more effort. Figure 2 depicts the expected findings related to the interaction between accountability and client risk if the information overload point is reached with PA and high client risk. If the results of this study show that there is no difference in the incremental increase in decision accuracy between PA and OA, then the information overload point has not been reached and the increase in effectiveness may be sufficient to offset the decreased efficiency due to PA. This leads to the following supplemental research question:

RQ1: Does process accountability induce information overload in high client risk settings?

Chapter Three

Research Methodology

This chapter discusses the research methodology utilized in this study to examine the hypotheses, starting with a description of the participants. The second section describes the experimental instrument and task. The third section discusses the research design and variables within the study.

3.1 Participants

Participants for this study included 48 professional auditors⁷ with a minimum of three years of audit experience and with previous reviewer responsibility. Professionals were recruited from several local, regional and international accounting firms. Experience levels were measured by asking participants to self-identify their position within the firm, months of experience in public accounting, their months of experience as an auditor, and the percentage of time they spend as a reviewer.

3.2 Instrument and Task Description

This study was administered online using a custom-developed instrument based on the research instrument developed by Asare et al. (2007), modified to include the accountability manipulation discussed below. The Asare et al. (2007) instrument is based on actual audit workpapers of a Big 4 accounting firm, edited to remove any client-specific and firm-specific formatting. The account utilized for this instrument is related to the sales and collection cycle of a medium-sized manufacturing company. The workpapers were reviewed to ensure that they were error-free, then 11 errors were seeded into the instrument, including one conceptual error (early revenue recognition) and 10 mechanical errors. The mechanical errors are listed in Table

⁷ Seventy-nine auditors began the experiment, but thirty-one individuals did not complete the study. The individuals who did not complete the study came from LR/PA (4), HR/PA (12), LR/OA (9), and HR/OA (6).

1. The conceptual error relates to the purchase of raw materials from a supplier which was shipped to another company that assembled the final product and shipped the finished product back for sale to customers. The client recorded the original transfer of goods as a sale instead of to work-in-process inventory. The workpaper preparer noted that the transaction should have been recorded as an accumulation of work-in-process inventory cost, but does not correct the erroneous entry. Instead, she removed the cost from Accounts Receivable and reclassified it to Advances to Suppliers. This transaction should not be recorded as a sale because revenue has not been realized or earned (FASB 1984). Errors identified by subjects were compared to this list of 11 errors and were only counted for analysis if they represent actual errors. Review notes that include comments on stylization or reviewer preferences were not counted.

Participants were provided with a brief description of the research experiment and all required Institutional Review Board disclosures and asked to log in with their email address (Appendix A). They were asked to provide their name and phone number and presented with the accountability manipulation, either emphasizing outcome or process (Appendix B). They were then given a detailed explanation of the task to be performed (Appendix C). Participants were provided an engagement history, which included either the high-risk or low-risk client risk factors described below (Appendix D). The next three screens provide client information which is the same for all groups, including the client description, interim work and results, and engagement staffing details (Appendix E). Participants in the PA groups were then provided instructions on how to document their process and asked to enter at least one process before being allowed to continue (Appendix F). All participants were asked three pre-experimental questions related to preparer competence, expectations of whether accounts receivable would be fairly stated, and assessment of client risk (Appendix G).

The next screen provides users with the ability to navigate within the experimental instrument at will, and provides them with a list of workpapers where the participant has not indicated either agreement or disagreement with the preparer (Appendix H). Participants also have access to additional client information such as income and stock price data and the year-end audit program (Appendix I). All nine workpapers and the overall conclusion (Appendix J) must be completed before access to the post-experimental questionnaire is provided (Appendix K). Participants who disagree with the preparer but have not included review comments are prompted but not required to document their reasons for disagreement. The post-experimental questionnaire captures demographic information such as age, experience, gender, and industry specialization (Appendix L). During the study, subjects also have access to supporting documents, but are not required to view these documents (Appendix M). These supporting documents include the confirmations, reconciliations, aged balances by customer, and notes to certain audit procedures. Participants in the PA manipulation are required to document at least one process for each agreement/disagreement with the preparer and are prevented from continuing until they document the process by which they reached their conclusion.

3.3 Research Design and Variables

3.3.1 Research Design

The experimental design is a 2x2 between-subjects design, with the variables of interest being the type of accountability emphasized, either PA or OA, and client risk, either high or low risk. The independent variable manipulations are described first, followed by a description of the dependent variables.

3.3.2 Accountability

PA was operationalized through the use of a process listing. Participants in the PA groups were given a process listing explanation, a short example and were asked to enter one test entry into the process listing box prior to advancing to the next slide, to ensure that they were familiar with what was expected of them. They also received the following instructions:

This study is part of an important effort to enhance the effectiveness and efficiency of the audit review process. We are interested in learning about the audit review process that audit reviewers at your level of experience utilize, and in assessing the quality of the audit review process that is followed. Your process listing will be reviewed and may be selected for a follow-up conference. If you are selected for this conference, you will be asked to explain your audit review process. Please enter your name, phone number, and email in the space provided so that we can contact you. Thank you for your cooperation.

Participants within the PA manipulation were asked to identify errors found in each stage of the audit program and asked if they agreed with the preparers' final evaluation of this cycle, but were not told that they are accountable for these outcomes.

OA was operationalized by asking participants to identify errors found in each stage of the audit program and whether they agreed with the preparers' final evaluation of this account. Participants in the OA groups did not receive the process listing example, but were provided with the following information:

This study is part of an important effort to enhance the effectiveness and efficiency of the audit review. We are interested in learning about the quality of judgment that audit reviewers at your level of experience make. Your review notes will be reviewed and may be selected for a follow-up conference. If you are selected for this conference, you will be asked to explain the outcome of your audit review as represented by your review notes. Please enter your name, phone number and email in the space provided so that we can contact you. Thank you for your cooperation.

This method of inducing accountability is similar to that utilized by past studies (Kennedy 1993; Siegel-Jacobs and Yates 1996; Simonson and Staw 1992; Tan & Kao 1999).

3.3.3 *Client Risk*

Client risk, specifically client engagement history, was manipulated within the client description that prefaced the instrument. The client risk manipulation was adapted from Asare et al. (2007), with an adjustment to make them similar in length. Participants assigned to the low client risk condition were told that “management’s accounting policies and estimates are conservative relative to typical manufacturing clients. Over the past five years, there have been only a few audit adjustments, all of which have been due to year-end cutoff errors. However, these adjustments have not been isolated to any particular account. The internal control structure has always been evaluated as effective (i.e., control risk has always been assessed as low). Further, there have been no material weaknesses discovered or reported.”

Participants in the high client risk condition were told that “management’s accounting policies and estimates are aggressive relative to typical manufacturing clients. Over the past five years, there have been several audit adjustments in various accounts, including accounts receivable. While the control structure has improved over time, key controls are not always implemented. There are currently two material weaknesses of internal controls over financial reporting related to segregation of duties within Payroll and IT Security, but no material weaknesses have been identified related to Accounts Receivable.” With the passage of SOX, control risk assessment has been integrated with the audit process (PCAOB 2007b) and manipulation of CR factors related to Accounts Receivable may influence participants to fixate on control risks and procedures in their analysis of the audit. All participants were told that controls for Accounts Receivable were tested and found to be reliable.

3.3.4 Dependent Variables

There are several different dependent variables measured within this study. The first dependent variable measures the number of errors identified within the audit program.

Hypothesis 1A compares the mean total number of errors found for the PA and OA groups.

Hypothesis 2A compares the mean total number of errors found for the high and low risk groups.

Supplemental research question 1 tests the interaction of accountability and client risk related to the mean total number of errors found by examining the incremental number of errors found between the various settings.

The second dependent variable is related to the first and second set of hypotheses and measures the participants' agreement or disagreement with the preparer's judgment on each audit procedure. Hypothesis 1B compares the percentage of participants who agree with the preparer between the PA and OA groups. Hypothesis 2B compares the percentage of participants who agree with the preparer between high and low client risk groups. A disagreement with the preparer was counted as an agreement when the review note indicated that disagreement was based on requests for cosmetic changes to the workpaper only, to ensure consistency in reporting agreement or disagreement with the preparer.

The third dependent variable measures effort and is related to all three sets of hypotheses. Data related to items viewed and time spent on each page was collected automatically by the instrument. Items viewed refers to which workpapers and supporting schedules were selected by participants during the study, such as individual confirmations, aged accounts receivable balances by customer, reconciliation schedules, etc. This data was used in hypotheses 1C, 2C, 3A, 3B and 3C to compare the average time spent to complete the instrument and number of pages accessed for each of the four experimental groups.

Chapter Four

Analysis of Results

This chapter is divided into five sections. The first section discusses the manipulation checks performed. The second section describes the preliminary analysis performed to ensure that the appropriate statistical models were used for analysis of the experimental data. The third, fourth and fifth sections describe the results of the statistical analysis for the first, second and third sets of hypotheses, as well as the research question.

4.1 Manipulation Checks

To ensure the salience of the client risk manipulation, participants were asked to assess client risk on a scale of 1 (high client risk) to 7 (low client risk). It was expected that participants in the high risk group would assess client risk at a higher level than those in the low risk group (meaning they will have a lower average score on this measure). This question was asked after the participant read the client background information but before they reviewed the audit program documentation. Results from this question indicate that participants in the HR group did assess risk as higher ($\mu = 3.30$, $t = -5.741$, $p = 0.000$) than participants in the LR group ($\mu = 4.88$).

To ensure that the accountability manipulation was salient, participants were asked two questions. The first question asked participants to identify which they felt more accountable for, either the process they followed while conducting their review or their final review findings and comments. The second question asked them to what extent they felt accountable for their choice for the first question on a scale of 1 (not accountable at all) to 7 (extremely accountable). These questions were asked after the audit review was complete and were included as a part of the demographics questionnaire given at the end of the experiment. The first manipulation check

question was answered incorrectly by 4 participants in the OA group and 15 participants in the PA group. To assess whether the level of accountability the 15 participants felt toward outcome was less due to the PA manipulation, I compared the scores on the second question, to what extent they felt accountable, to participants in the OA group that answered the first question correctly. Since both groups indicated that they felt accountable for outcome, the manipulation check could still be considered successful if participants in the OA group felt more accountable for outcome than participants in the PA group. There was no statistical difference between the level of accountability felt toward outcome between the PA error group ($\mu = 5.00$, $t = -0.212$, $p = 0.833$) and the OA correct group ($\mu = 4.90$).

The failure of this manipulation check is less of a concern, however, due to changes in the instrument. During the first pilot test, problems arose when participants in the PA groups did not document their process. Alterations to the instrument were made that forced participants in the PA group to document process at least one time per agreement/disagreement with the preparer for each audit procedure, including the overall assessment. This change in instrument forced the process manipulation, regardless of whether participants were aware of the manipulation or not. Results also indicate that accountability did impact efficiency and effectiveness.

4.2 Preliminary Analysis

I originally planned to use an analysis of variance (ANOVA) model to test each part of the three research hypotheses, because it is appropriate when investigating the differences in a dependent variable associated with changes in an independent variable(s) (Whitley, 2002). The ANOVA model makes three assumptions, however: error terms are independent, error terms are normally distributed, and variance is homoscedastic (Keppel, 1991).

The first assumption, independent error terms, held true for all data, as participants were randomly assigned to an experimental treatment based on when they logged into the study. The second assumption, normal distribution, was tested using the Kolmogorov-Smirnov test for normality (KS test) (Conover, 1999). For the KS test, a non-significant p-value indicates that the population is normally distributed. For the dependent variable total time, this test indicated a normal distribution (KS = 0.113, p = 0.159). For all other dependent variables, the KS test indicates non-normal distribution: errors identified (KS = 0.147, p = 0.011), agreement with preparer (KS = 0.183, p = 0.000), and pages viewed (KS = 0.246, p = 0.000).

To test the third assumption, homoscedastic variance, the Levene's statistic was calculated to determine the relative equality of variance for the dependent variable, total time. For Levene's statistic, a non-significant result indicates equality of variance (F = 0.015, p = 0.904). Based on these results, ANOVA is appropriate for testing the total time variable for H1_C, H2_C, and H3.

For all other dependent variables, a Mann-Whitney U test is used, which compares median scores by converting the scores to ranks across both groups. It then evaluates whether the ranks of the two groups differ significantly (Conover, 1999).

Standard regression is utilized for all hypotheses to determine the robustness of results while controlling for firm size and audit experience. First, firms participating in the study were categorized as either small or large based on relative size. Experience was measured in five ways in the post-experimental questions: age, audit experience, expertise in the revenue cycle (Likert scale of 1-7), firm rank, and percentage of time spent reviewing.

Regression analysis relies on seven assumptions: sample size, lack of multicollinearity, lack of outliers, normality, linearity, homoscedasticity, and independence of residuals.

According to Stevens (1996), about 15 participants per predictor are needed for a reliable equation. This assumption is met with hypotheses 1 and 2, with the lowest participants per predictor at twenty-three. This assumption is not met for hypothesis 3 for two of the groups, with group sizes of eight and ten. The other two groups have fifteen participants per group. Multicollinearity is assessed by verifying four items: no bivariate correlations exceed 0.70, independent variables show some relationship with the dependent variable (close to 0.30 or above), tolerance is greater than 0.10, and variance inflation factor (VIF) is below 10. This assumption is met for all hypotheses.

The third through seventh assumptions can be assessed by reviewing the normal probability plot of the regression standardized residual and the scatterplot. In the normal probability plot, points should lie in a reasonably straight diagonal line from bottom left to top right. This is a reasonable description of the plots for all hypotheses. The scatterplots for all hypotheses are relatively rectangular in shape with no noticeable curvilinearity or skewed distribution of points. No standardized residuals are above 3.3 or below -3.3 in the scatterplot. The maximum Mahalanobis distances do not exceed the criteria established by Tabachnick & Fidell (2007) of 16.27 for models with 3 independent variables or 18.47 for 4 independent variables. There are no residuals which exceed three standard deviations for any hypothesis. The maximum Cook's distance is also evaluated to ensure that it is below 1. This criterion is met for all hypotheses. Together, these results suggest that assumptions three through seven are met for all hypotheses and that regression is appropriate in these cases.

4.3 Hypothesis One

Tables 3, 4 and 6 present the Mann-Whitney U Tests and standard regression results for the effects of accountability on errors identified (effectiveness), agreement with preparer

(effectiveness) and pages viewed (efficiency). Table 5 presents the ANOVA and standard regression results for the effects of accountability on total time spent (efficiency). The first set of hypotheses are directional and are therefore evaluated with one-tailed tests.

4.3.1 Hypothesis 1_A

H1_A: Outcome accountability will result in the identification of fewer deficiencies than process accountability.

Hypothesis 1_A predicted that outcome accountability will result in fewer errors identified than process accountability during the audit task. This hypothesis is assessed using the Mann-Whitney U test. Table 3 shows that error identification was statistically significantly different for participants in OA ($\mu = 2.24$) and PA ($\mu = 3.42$, $Z = -2.160$, $p = 0.0155$). Therefore, H1_A is supported.

When controlling for firm size and audit experience, accountability is found to statistically significantly affect identification of errors ($\beta = -0.320$, $T = -2.307$, $p = 0.013$). These results provide further support for H1_A.

4.3.2 Hypothesis 1_B

H1_B: Outcome accountability will result in an increased likelihood of agreement with preparer's judgment than process accountability.

Hypothesis 1_B predicted that outcome accountability will result in greater agreement with the preparer than process accountability during the audit task. This hypothesis is assessed using the Mann-Whitney U test. Table 4 shows that agreement with the preparer was significantly different for participants in OA ($\mu = 7.84$) and PA ($\mu = 6.96$, $Z = -1.823$, $p = 0.034$). Therefore, H1_B is supported.

When controlling for firm size and audit experience, accountability is found to significantly affect agreement with the preparer ($\beta = 0.817$, $T = 1.866$, $p = 0.0345$). These results provide further support for $H1_B$.

4.3.3 Hypothesis 1_C – Total Time

H1_C: Outcome accountability will result in less attention to information provided than process accountability.

Hypothesis 1_C is analyzed using two different independent variables: total time utilized for the task and number of pages reviewed. $H1_C$ predicted that outcome accountability will result in less attention to information (less time) than process accountability during the audit task. This hypothesis is assessed using ANOVA. Table 5 shows that time spent on the audit task was statistically significantly different for participants in OA ($\mu = 51.137$) and PA ($\mu = 65.491$, $F = 4.151$, $p = 0.0235$). Therefore, $H1_C$ is supported.

When controlling for firm size and audit experience, accountability is found to statistically significantly affect total time spent on the task ($\beta = -0.309$, $T = -2.195$, $p = 0.0165$). These results provide further support for $H1_C$.

4.3.4 Hypothesis 1_C – Pages Viewed

H1_C: Outcome accountability will result in less attention to information provided than process accountability.

$H1_C$ predicted that outcome accountability will result in less attention to information (number of pages viewed) than process accountability during the audit task. This hypothesis is assessed using the Mann-Whitney U test. Table 6 shows that number of pages viewed during the audit task was significantly different for participants in OA ($\mu = 31.44$) and PA ($\mu = 34.87$, $Z = -1.683$, $p = 0.046$). Therefore, $H1_C$ is supported.

When controlling for firm size and audit experience, accountability is found to statistically significantly affect number of pages viewed ($\beta = -2.640$, $T = -1.953$, $p = 0.0285$).

These results provide further support for $H1_C$.

4.4 Hypothesis Two

Tables 7, 8 and 10 present the Mann-Whitney U Tests and standard regression results for the effects of client risk on errors identified (effectiveness), agreement with preparer (effectiveness) and pages viewed (efficiency). Table 9 presents the ANOVA and standard regression results for the effects of client risk on total time spent (efficiency). The second set of hypotheses are directional, but results are opposite of expectation and are therefore evaluated with two-tailed tests.

4.4.1 Hypothesis 2_A

H2_A: High client risk will result in the identification of more deficiencies than low client risk.

Hypothesis 2_A predicted that low client risk will result in fewer errors identified than high client risk during the audit task. This hypothesis is assessed using the Mann-Whitney U test. Table 7 shows that error identification was statistically significantly different for participants in LR ($\mu = 3.48$) and HR ($\mu = 2.09$, $Z = -2.727$, $p = 0.006$), however the direction of the means is opposite of what is expected. Therefore, H2_A is not supported.

When controlling for firm size and audit experience, client risk is found to marginally significantly affect identification of errors ($\beta = 0.256$, $T = 1.866$, $p = 0.069$), but as stated above, the direction of difference is opposite of what is expected. These results also do not support H2_A.

4.4.2 Hypothesis 2_B

H2_B: High client risk will result in a decreased likelihood of agreement with a preparer's judgments than low client risk.

Hypothesis 2_B predicted that low client risk will result in greater agreement with the preparer than high client risk during the audit task. This hypothesis is assessed using the Mann-Whitney U test. Table 8 shows that agreement with the preparer was not statistically significantly different for participants in LR ($\mu = 7.12$) and HR ($\mu = 7.74$, $Z = -1.465$, $p = 0.143$). Therefore, H2_B is not supported.

When controlling for firm size and audit experience, client risk is found not to significantly affect agreement with the preparer ($\beta = -0.176$, $T = -1.253$, $p = 0.217$). These results also do not support H2_B.

4.4.3 Hypothesis 2_C – Total Time

H2_C: High client risk will result in more attention to information provided than low client risk.

Hypothesis 2_C is analyzed using two different independent variables: total time utilized for the task and number of pages reviewed. H2_C predicted that low client risk will result in less attention to information (less time) than high client risk during the audit task. This hypothesis is assessed using ANOVA. Table 9 shows that time spent on the audit task was marginally significantly different for participants in LR ($\mu = 64.451$) and HR ($\mu = 51.018$, $F = 3.595$, $p = 0.064$). However, the means are in the opposite direction than was hypothesized. Therefore, H2_C is not supported.

When controlling for firm size and audit experience, client risk is found to statistically significantly affect time spent on the task ($\beta = 0.297$, $T = 2.097$, $p = 0.042$). However, as stated

above, the direction of the difference is the opposite of what was expected. Therefore, these results do not support H2_C.

4.4.4 Hypothesis 2_C – Pages Viewed

H2_C: High client risk will result in more attention to information provided than low client risk.

H2_C predicted that low client risk will result in less attention to information (number of pages viewed) than high client risk during the audit task. This hypothesis is assessed using the Mann-Whitney U test. Table 10 shows that number of pages viewed during the audit task was marginally significantly different for participants in LR ($\mu = 34.52$) and HR ($\mu = 31.52$, $Z = -1.808$, $p = 0.071$). However, the means are in the opposite direction than hypothesized. Therefore, H2_C is not supported.

When controlling for firm size and audit experience, client risk is found to marginally significantly affect number of pages viewed ($\beta = 2.194$, $T = 1.796$, $p = 0.079$). However, as mentioned above, the direction of the difference is opposite of what was hypothesized. These results do not support H2_C.

4.5 Hypothesis Three and Research Question

Tables 11 through 16 present the Mann-Whitney test, ANOVA and standard regression results for the effects of the interaction of client risk and accountability on time spent/pages viewed (efficiency) and errors identified (effectiveness).

Table 11 presents ANOVA and standard regression results related to total time for H3. ANOVA results do not indicate any statistically significant main effect for either client risk ($F = 2.137$, $p = 0.151$) or for accountability ($F = 2.511$, $p = 0.120$). The interaction effect ($F = 0.110$,

$p = 0.742$) is also not statistically significant. When controlling for firm size and audit experience, accountability is found to marginally significantly affect total time ($\beta = -0.253$, $T = -1.778$, $p = 0.082$). Client risk does not significantly affect total time ($\beta = 0.237$, $T = 1.663$, $p = 0.104$).

Table 12 presents ANOVA and standard regression results related to pages viewed for H3. ANOVA results do not indicate any statistically significant main effect for either client risk ($F = 0.818$, $p = 0.371$) or for accountability ($F = 1.474$, $p = 0.231$). The interaction effect ($F = 0.263$, $p = 0.611$) is also not statistically significant. When controlling for firm size and audit experience, neither accountability ($\beta = -0.218$, $T = -1.585$, $p = 0.120$) nor client risk ($\beta = 0.193$, $T = 1.397$, $p = 0.170$) is found to significantly affect pages viewed. The third set of hypotheses are directional, but results for client risk are opposite of expectation and are therefore evaluated with two-tailed tests.

4.5.1 Hypothesis 3_A

H3_A: Process accountability and high client risk will result in more attention to information provided than all other scenarios.

Hypothesis 3_A predicted that individuals within the PA/HR group would exert the most effort on the task when compared to other groups. Results, found in Table 13 indicate that the PA/HR group spent the second-highest amount of time on the task ($\mu = 56.971$). The highest average time was spent by the PA/LR group ($\mu = 70.034$). Independent samples t-test results indicate that there is a statistically significant difference between the PA/LR and OA/HR groups ($T = 2.134$, $p = 0.042$), but not between the PA/HR group and any of the other groups.

Effort as measured by pages viewed reflect the same relationships as time spent. Results, found in Table 14 indicate that the PA/HR group viewed the second-highest number of pages (μ

= 34.25). The highest average pages viewed was by the PA/LR group ($\mu = 35.20$). Mann-Whitney test results indicate that there is a statistically significant difference between the PA/LR and OA/HR groups ($Z = -2.157, p = 0.031$), but not between the PA/HR group and any other groups. Therefore, $H3_A$ is not supported.

4.5.2 Hypothesis 3_B

H3B: Outcome accountability and low client risk will result in less attention to information provided than all other scenarios.

Hypothesis 3_B predicted that individuals within the OA/LR group would exert the least amount of effort on the task when compared to other groups. Results, found in Table 13 indicate that the OA/HR group spent the least amount of time on the task ($\mu = 47.843$), followed by the OA/LR group ($\mu = 56.077$). Independent samples t-test results indicate that there is a statistically significant difference between the PA/LR and OA/HR groups ($T = 2.134, p = 0.042$), but not between the OA/LR group and any of the other groups.

Results found in Table 14 regarding pages viewed indicate that the OA/HR group viewed the least number of pages during the task ($\mu = 30.07$), followed by the OA/LR group ($\mu = 33.50$). Mann-Whitney test results indicate that there is a statistically significant difference between the PA/LR and OA/HR groups ($Z = -2.157, p = 0.031$), but not between the OA/LR group and any other groups. Therefore, $H3_B$ is not supported.

4.5.3 Hypothesis 3_C

H3C: Process accountability and low client risk will result in the same amount of attention to information provided as outcome accountability and high client risk.

Hypothesis 3_C predicted that individuals within the PA/LR group and the OA/HR would exert the same amount of effort during the task. Results, found in Table 13 indicate that the PA/LR group spent the highest average time on the task ($\mu = 70.034$). The OA/HR group spent the least amount of time on the task ($\mu = 47.843$). Independent samples t-test results indicate that there is a statistically significant difference between the PA/LR and OA/HR groups ($T = 2.134, p = 0.042$), but not between any other groups.

Results, found in Table 14 indicate that the PA/LR group viewed the highest average pages ($\mu = 35.20$). The OA/HR group viewed the least number of pages during the task ($\mu = 30.07$). Mann-Whitney test results indicate that there is a statistically significant difference between the PA/LR and OA/HR groups ($Z = -2.157, p = 0.031$), but not between the other groups. Therefore, H3_C is not supported.

4.4.4 Research Question 1

RQ1: Does process accountability induce information overload in high client risk settings?

Research question 1 anticipated that participants may experience information overload due to the presence of both PA and HR, leading to a decrease in performance. However, because the risk manipulation results are opposite of what is expected, comparing the incremental differences in performance between the PA groups (PA/HR – PA/LR) and the OA groups (OA/HR – OA/LR) is not meaningful. Therefore, a comparison of the means between all groups in pairs of two was performed. This research question is assessed using the Mann-Whitney U test. Table 15 shows that errors identified during the audit task were statistically significantly different for participants in PA/LR ($\mu = 3.87$) and OA/HR ($\mu = 1.80, Z = -3.063, p = 0.002$). It

was marginally significant for participants in OA/LR ($\mu = 2.90$) and OA/HR ($\mu = 1.80$, $Z = -1.681$, $p = 0.093$). For all other comparisons, results were not significant.

Table 16 presents ANOVA and standard regression results for RQ1. ANOVA results indicate a statistically significant main effect for client risk ($F = 5.390$, $p = 0.025$) and a marginally significant main effect for accountability ($F=3.156$, $p = 0.083$). The interaction effect ($F = 0.020$, $p = 0.889$) is not statistically significant. When controlling for firm size and audit experience, client risk is found to statistically significantly affect errors identified ($\beta = 0.322$, $T = 2.369$, $p = 0.022$). Accountability is found to marginally affect errors identified ($\beta = -0.243$, $T = -1.791$, $p = 0.080$). The research question is evaluated with a two-tailed test.

Chapter Five

Discussion, Implications and Limitations

This chapter is divided into three sections. The first section discusses the implications of the results of this study and the results of the hypothesis testing in Chapter Four. The second section discusses possible avenues for future research. The final section discusses the limitations of this study.

5.1 Discussion and Implications

The purpose of this dissertation is to examine the effects of accountability and client risk on the efficiency and effectiveness of the audit review process. This study contributes to the accounting literature by further extending the application of an established theory, the Flexible Contingency Model (FCM), from the psychology literature to accounting research, specifically in an audit review context. The results of this study support the possibility that a difference in focus for reviewers from OA to PA may lead to a decrease in the need for self-justification of judgments and an improvement in judgment accuracy. A change from OA to PA appears to increase the consideration of alternative explanations and result in more accurate judgments. Accounting firms should consider the practicality in utilizing some form of PA within their audit review procedures.

Client risk factors are an intrinsic part of the client environment and reviewers should adjust the amount of effort exerted in an audit review based on the level of client risk. Results related to client risk were in the opposite direction than expected for errors identified, agreement with the preparer and effort. Follow-up with participants who did not complete the study indicates that process accountability paired with high risk appeared to make participants less likely to complete the study, citing time required, desire to do an adequate job and depth of task

as issues, which may indicate information overload. Participants in other groups that did not complete the study exclusively cited schedule conflicts and time required. These findings may impact the cost/benefit decision related to PA, because reviewers need to be concerned with both efficiency and effectiveness within the audit review process. Results indicate that PA may be more beneficial for low risk clients and less beneficial for high risk clients.

This study makes a timely contribution to research because of a recently implemented PCAOB standard related to engagement partner reviews. The standard, Auditing Standard 7: Engagement Quality Review (AS7) related to engagement partner reviews requires that reviewers document who participated in the review and what documents were reviewed (PCAOB, 2009a). This standard represents the first change from a strictly OA review process to including some aspects of PA in documenting the workpapers that were reviewed. The originally proposed standard included additional aspects of PA, such as documentation of the procedures that were performed during the review, as well as the results of those procedures (PCAOB, 2008). These requirements were removed in the final standard based on comments that the requirement was “unnecessarily burdensome” (PCAOB, 2009b). The comments from non-completers in this study appear to confirm the sentiment that this documentation process may be viewed by practitioners as burdensome and time-consuming. While documentation of workpapers reviewed is not currently required at other levels of the audit review process, improvements in effectiveness suggest that the voluntary incorporation of PA within other levels of the review process may be beneficial.

5.1.1 Hypothesis 1

Hypothesis 1 was primarily concerned with the effects of PA and OA on audit effectiveness and efficiency. The *a priori* expectation was that PA would improve an

individual's performance in identifying audit errors, make them less likely to agree with the preparer, and decrease their efficiency by causing them to exert more effort.

I find statistical evidence to support the hypothesis that PA improves effectiveness by increasing the number of audit errors discovered during the review process (Table 3). These findings confirm that PA increases effectiveness within an audit review, decreasing the chance that audit failure will occur.

There is statistical evidence that PA increases the likelihood that the reviewer will disagree with the preparer's judgment (Table 4). Because auditors should be willing to consider alternative audit procedures or explanations, these findings confirm that PA can improve the effectiveness of the audit review process.

Efficiency is an important consideration in any audit. This study finds statistical support that PA will decrease efficiency based on time spent on the audit review task (Table 5). There is also statistical support that PA decreases efficiency based on amount of information viewed (Table 6). These findings confirm the expectation that PA, while increasing effectiveness, will cause a decrease in efficiency.

5.1.2 Hypothesis 2

Hypothesis 2 examined the effect of client risk on audit effectiveness and efficiency. It was expected that high client risk would increase effectiveness through identification of more errors and a higher likelihood of disagreement with the preparer. It was also expected that high client risk would decrease efficiency by increasing the time spent on the audit review task and result in more attention to information.

Contrary to expectations, high client risk participants identified statistically fewer errors than low client risk participants. This difference becomes only marginally significant when

controlling for firm size and audit experience. In examining the data, I noted that the two highest numbers of errors identified were within the PA/LR group (eight and seven errors identified). The next highest number is found within both the PA/HR and OA/LR group (six errors identified). The OA/HR group's highest number of identified errors is four. Also, the PA/HR group has one score of zero and the OA/HR group has three zeros. It appears that the findings may be driven by the two high numbers in the PA/LR group and the fact that the OA/HR group has multiple zero scores, as well as the lowest high score of all groups. It is possible that some of these findings are also being caused by the low number of respondents within the PA/HR group.

Agreement with the preparer is found to be marginally significant, but also in the opposite direction than expected (Table 8). However, after controlling for firm size and audit experience, this difference becomes insignificant. There is no statistical difference between LR and HR related to agreement with the preparer. Therefore, no statistical evidence is found to support the hypothesis that LR will result in a greater likelihood of agreement with the preparer.

Also contrary to expectations, the effort expended in time (Table 9) and pages viewed (Table 10) was marginally statistically in the opposite direction than expected. Pages viewed remains marginally significant when controlling for firm size and audit experience. However, total time becomes statistically significant when controlling for these same variables. There is no statistical support for the hypothesis that LR will increase efficiency.

5.1.3 Hypothesis 3

Hypothesis 3 was concerned with the level of effort exerted within the study between groups. It was expected that the greatest effort would be exerted by the PA/HR group and the lowest effort by the OA/LR group. However, the client risk results, as mentioned above, were

opposite my expectations. This resulted in a statistical difference in effort between the PA/LR and OA/HR groups, measured both in total time (Table 13) and pages viewed (Table 14). There is no statistical support for the hypothesis that PA and HR will result in the greatest effort/ lowest efficiency.

5.1.4 Research Question 1

Research question 1 investigates the interaction of accountability and client risk. Specifically, it asks whether efficiency and effectiveness are impacted when both PA and HR are present due to information overload. In comparing means between each individual group related to errors identified (Table 15), there is a statistical difference between the PA/LR group and the OA/HR group and a marginal difference between the OA/HR group and the OA/LR group. These results suggest that information overload may have occurred in the PA/HR group, as this group did not identify more errors than the lowest performing group, OA/HR, while the PA/LR group did. The presence of both high risk and process accountability may have resulted in the decrease in effectiveness seen here.

In addition to this analysis, participants who dropped out of the study were questioned related to the reasons for not completing the study. It is possible that information overload may have affected the dropout rate within the PA/HR group, as this group experienced the highest percentage dropout at 55%.⁸ Follow-up questions posed to participants who did not complete the study indicate that while all subjects mentioned time constraints and length of the study as reasons for incompleteness, participants within the PA/HR group also mentioned reasons related to the complexity of the task or the desire to provide quality answers that were not mentioned by participants in the other groups. Participants in the PA/HR group mentioned “the depth of the questions”, “it appeared very involved”, or “I would...probably not give adequate or useful

⁸ Other groups experienced the following dropout rates: PA/LR = 21.1%, OA/LR = 37.5%, OA/HR = 25%

answers” as some of the reasons for not completing the study. These findings suggest that participants in the PA/HR group viewed the task as being more complex than participants in other groups and may have experienced information overload.

5.2 Future Research

There are several opportunities for future research. First, the role of information overload in relation to process accountability needs to be further explored. Findings from this study indicate that this may be a concern during an audit review when both high client risk and process accountability are present. If that is in fact true, this may impact the usefulness of PA in some settings. Second, reviewers, PCAOB inspectors, and peer-reviewers are accountable to multiple audiences, such as financial statement users, firms being audited, lenders, and accounting firms. Each of these groups is likely to feel more or less accountable to different audiences than the other groups. Having PCAOB inspectors and peer-reviewers complete this research instrument may provide insight into how accountability to different audiences affects results. Third, process accountability may also affect effectiveness at other levels within the audit process, such as the preparer level or at the partner review stage or firm quality control review stage. Fourth, other types of accountability may be investigated. For example, it would be interesting to use the FCM in relation to legitimate versus illegitimate audiences to investigate the effect of auditors’ opinions on legitimacy of PCAOB inspectors on their reaction to PCAOB findings.

5.3 Limitations

There are several limitations to this study which may limit the generalizability of results. First, although use of actual workpapers as a basis for the research instrument increases external validity, participants only reviewed workpapers related to a single account balance, instead of for an entire audit. This is not representative of what reviewers typically see when conducting a

review. It also limited the auditor from utilizing review strategies that may utilize the interconnectivity of information between accounts. However, a review of multiple accounts would take a much longer period of time for participants to complete, making it much harder to obtain a sufficient number of participants. Second, accountability was induced by requiring reviewers to identify themselves and informing them that they may be contacted to explain either their process or their comments and findings. This manipulation lacks external validity in that, in the public accounting realm, other things, such as performance evaluation, salary, and personal reputation would induce accountability. Third, while the question of whether the PCAOB is correct in their findings related to sufficiency and competence of evidential matter is an interesting one, it is beyond the scope of this paper and, at the end of the day, whether they are correct or not is a moot point, since they are the final judge on this issue.

FIGURES

Figure 1: Information Overload as the inverted U-curve (Schroder et al., 1967)

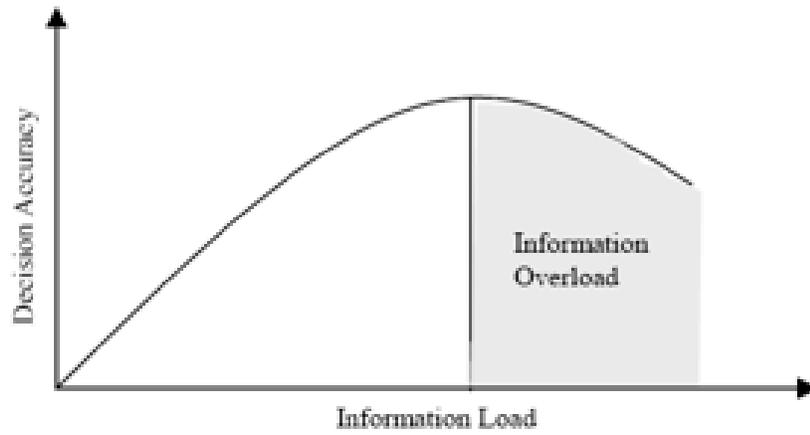


Figure 2: Expected Findings of the Interaction between Accountability and Client Risk

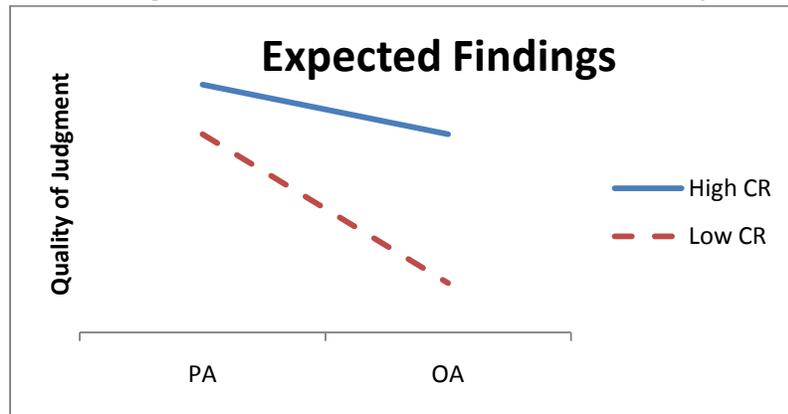
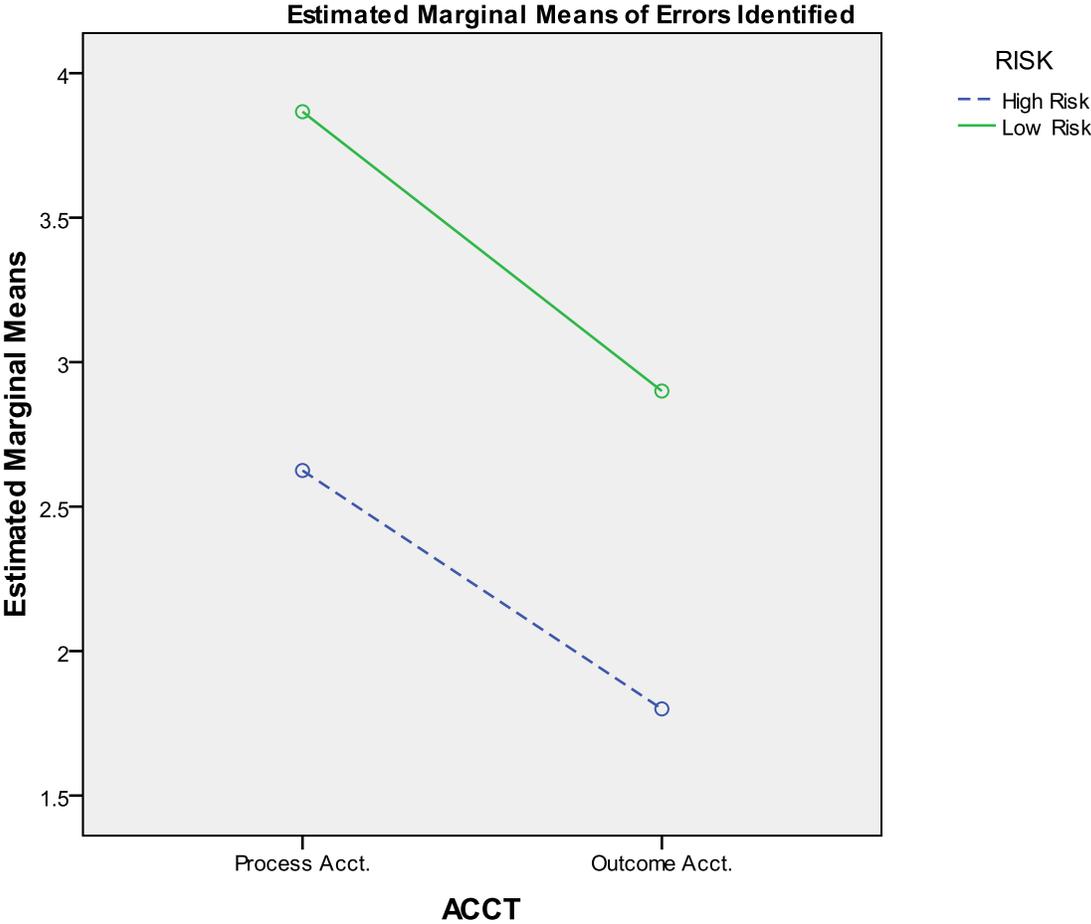


Figure 3: Actual Findings of the Interaction between Accountability and Client Risk



TABLES

Table 1: Summary of Seeded Mechanical Errors

Error #	Found on Workpaper	Error
1	AR-4, Appendix D, Note C	Note reports that one customer's entire balance was confirmed; however, only the current portion of the balance was actually confirmed.
2	AR-4	Calculation of "Write-offs as a Percent of Sales" uses incorrect formula.
3	AR-7	Preparer included one invoice listed as "FOB destination" in the wrong period.
4	AR-8 & Appendix A	Summary of A/R confirmations lists a customer balance as confirmed; however, no accompanying confirmation exists.
5	AR-8 & Appendix A	A confirmation from a customer is provided but is not listed in the summary of A/R confirmations.
6	AR-8 & Appendix A	A customer's balance recorded in the summary of A/R confirmations does not equal the balance shown on the actual confirmation.
7	AR-8, Note B	Discussion of a customer's confirmation refers to additional work performed elsewhere; however, the additional work does not exist.
8	AR-9 & Appendix E	Workpapers report that all A/R balances over 60 days old and over \$30,000 were investigated. Three such balances noted; however, the aging report includes a fourth balance that meets the criteria but was not investigated.
9	AR-9, Note A, AR-4	Allowance for Doubtful Accounts should have been calculated using 1/2 percent of sales; however, 1/4 percent was used in actual calculation.
10	AR-10 & Appendix F	Warranty Reserve was calculated incorrectly; adjusting journal entry included incorrect calculation.

Table 2: Demographic Data

Panel A: Continuous Measures						
<i>Attribute</i>	<i>Scale</i>	<i>N</i>	<i>Mean</i>	<i>Median</i>	<i>Std. Dev.</i>	
Age – Total	Months	48	370.08	349.50	59.14	
PA/LR		15	359.80	346.00	39.56	
PA/HR		8	350.75	343.00	28.86	
OA/LR		10	375.30	346.50	72.92	
OA/HR		15	387.20	367.00	75.37	
Audit Experience	Months	48	74.52	63.50	42.22	
PA/LR		15	68.73	64.00	30.25	
PA/HR		8	70.13	61.50	31.33	
OA/LR		10	68.73	64.00	30.25	
OA/HR		15	86.33	84.00	49.57	
Expertise: Revenue Cycle	Likert (1-7)	48	5.46	6.00	1.75	
PA/LR		15	6.00	7.00	1.00	
PA/HR		8	6.00	6.00	1.00	
OA/LR		10	5.00	6.00	2.00	
OA/HR		15	5.00	5.00	2.00	
Expertise: Time reviewing	Percentage	48	39.19	30.00	26.07	
PA/LR		15	34.00	30.00	25.00	
PA/HR		8	30.00	28.00	16.00	
OA/LR		10	35.00	30.00	24.00	
OA/HR		15	52.00	60.00	30.00	
Panel B: Discrete Measures						
<i>Attribute</i>	<i>N</i>	<i>Percentage</i>	<i>PA/LR</i>	<i>PA/HR</i>	<i>OA/LR</i>	<i>OA/HR</i>
Gender	48	100	15	8	10	15
Male	28	58.3	10	3	6	9
Female	20	41.7	5	5	4	6
Firm Rank	48	100	15	8	10	15
Senior	25	52.1	8	5	8	4
Manager	16	33.3	5	3	1	7
Senior Manager	7	14.6	2	0	1	4
Partner	0	0	0	0	0	0
Note. PA = process accountability; OA = outcome accountability; LR = low client risk; HR = high client risk						

Table 3: Mann-Whitney U Test and Regression Results–
Accountability and Errors Identified (H1_A)

Panel A: Descriptive Statistics for Dependent Variable - Errors Identified						
	<i>N</i>	<i>Mean</i>	<i>Standard Dev.</i>	<i>Median</i>	<i>Min</i>	<i>Max</i>
Process Accountability	23	3.43	1.996	3	0	8
Outcome Accountability	25	2.24	1.480	2	0	6
Total	48	2.81	1.830	3	0	8

Panel B: Mann-Whitney U Test Results for Dependent Variable - Errors Identified					
	<i>N</i>	<i>Mean Rank</i>	<i>Sum of Ranks</i>	<i>Z</i>	<i>Asymp. Sig.</i>
Process Accountability	23	28.98	666.50	-2.160	0.0155
Outcome Accountability	25	20.38	509.50		
Total	48				

Panel C: ANOVA Regression Results for Dependent Variable - Errors Identified					
<i>Source of Variation</i>	<i>df</i>	<i>Sum of Squares</i>	<i>Mean Square</i>	<i>F</i>	<i>p</i>
Regression	3	26.717	8.906	3.000	0.0205
Residual	44	130.596	2.968		
Total	47	157.313			

Panel D: Coefficients Regression Results for Dependent Variable - Errors Identified					
	<i>B</i>	<i>Standard Error</i>	<i>Beta</i>	<i>T</i>	<i>p</i>
Intercept	2.828	0.642		4.405	0.000
Accountability	-1.158	0.502	-0.320	-2.307	0.013
Firm Size	0.911	0.506	0.248	1.800	0.0395
Audit Experience	0.001	0.006	0.018	0.127	0.450

Table 4: Mann-Whitney U Test and Regression Results –
Accountability and Agreement with Preparer (H1_B)

Panel A: Descriptive Statistics for Dependent Variable - Agreement with Preparer						
	<i>N</i>	<i>Mean</i>	<i>Standard Dev.</i>	<i>Median</i>	<i>Min</i>	<i>Max</i>
Process Accountability	23	6.96	1.745	7	4	10
Outcome Accountability	25	7.84	1.375	8	4	10
Total	48	7.42	1.609	8	4	10

Panel B: Mann-Whitney U Test Results for Dependent Variable - Agreement with Preparer					
	<i>N</i>	<i>Mean Rank</i>	<i>Sum of Ranks</i>	<i>Z</i>	<i>Asymp. Sig.</i>
Process Accountability	23	20.74	477.00	-1.823	0.034
Outcome Accountability	25	27.96	699.00		
Total	48				

Panel C: ANOVA Regression Results for Dependent Variable - Agreement with Preparer					
<i>Source of Variation</i>	<i>df</i>	<i>Sum of Squares</i>	<i>Mean Square</i>	<i>F</i>	<i>p</i>
Regression	3	22.232	7.411	3.279	0.015
Residual	44	99.435	2.260		
Total	47	121.667			

Panel D: Coefficient Regression Results for Dependent Variable - Agreement with Preparer					
	<i>B</i>	<i>Standard Error</i>	<i>Beta</i>	<i>T</i>	<i>p</i>
Intercept	7.481	0.560		13.356	0.000
Accountability	0.817	0.438	0.256	1.866	0.0345
Firm Size	-1.036	0.441	-0.321	-2.348	0.0115
Audit Experience	0.002	0.005	0.040	0.294	0.385

Table 5: ANOVA Test and Regression Results – Accountability and Total Time (H1_C)

Panel A: Descriptive Statistics for Dependent Variable - Total Time in Minutes						
	<i>N</i>	<i>Mean</i>	<i>Standard Dev.</i>	<i>Median</i>	<i>Min</i>	<i>Max</i>
Process Accountability	23	65.491	25.963	59.200	37.43	147.07
Outcome Accountability	25	51.137	22.844	52.800	20.17	105.90
Total	48	58.015	25.190	54.942	20.17	147.07

Panel B: ANOVA Results for Dependent Variable - Total Time in Minutes					
<i>Source of Variation</i>	<i>df</i>	<i>Sum of Squares</i>	<i>Mean Square</i>	<i>F</i>	<i>p</i>
Between Groups	1	2468.127	2468.127	4.151	0.0235
Within Groups	46	27353.988	594.652		
Total	47	29822.115			

Panel C: ANOVA Regression Results for Dependent Variable - Total Time in Minutes					
<i>Source of Variation</i>	<i>df</i>	<i>Sum of Squares</i>	<i>Mean Square</i>	<i>F</i>	<i>p</i>
Regression	3	4240.885	1413.628	2.431	0.039
Residual	44	25581.229	581.392		
Total	47	29822.115			

Panel D: Coefficient Regression Results for Dependent Variable - Total Time in Minutes					
	<i>B</i>	<i>Standard Error</i>	<i>Beta</i>	<i>T</i>	<i>p</i>
Intercept	52.696	8.984		5.865	0.000
Accountability	-15.421	7.025	-0.309	-2.195	0.0165
Firm Size	5.899	7.081	0.117	0.833	0.2045
Audit Experience	0.133	0.084	0.223	1.582	0.0605

Table 6: Mann-Whitney U Test and Regression Results –
Accountability and Pages Viewed (H1c)

Panel A: Descriptive Statistics for Dependent Variable - Pages Viewed						
	<i>N</i>	<i>Mean</i>	<i>Standard Dev.</i>	<i>Median</i>	<i>Min</i>	<i>Max</i>
Process Accountability	23	34.87	7.858	40	20	42
Outcome Accountability	25	31.44	8.165	29	21	41
Total	48	33.08	8.121	37.5	20	42

Panel B: Mann-Whitney U Test Results for Dependent Variable - Pages Viewed					
	<i>N</i>	<i>Mean Rank</i>	<i>Sum of Ranks</i>	<i>Z</i>	<i>Asymp. Sig.</i>
Process Accountability	23	28.02	644.50	-1.683	0.046
Outcome Accountability	25	21.26	531.50		
Total	48				

Panel C: ANOVA Regression Results for Dependent Variable - Pages Viewed					
<i>Source of Variation</i>	<i>df</i>	<i>Sum of Squares</i>	<i>Mean Square</i>	<i>F</i>	<i>p</i>
Regression	3	644.669	214.890	3.851	0.008
Residual	44	2454.998	55.795		
Total	47	3009.667			

Panel D: Coefficient Regression Results for Dependent Variable - Pages Viewed					
	<i>B</i>	<i>Standard Error</i>	<i>Beta</i>	<i>T</i>	<i>p</i>
Intercept	29.997	2.783		10.778	0.000
Accountability	-4.251	2.176	-2.64	-1.953	0.0285
Firm Size	-0.757	2.193	-0.046	-0.345	0.366
Audit Experience	0.077	0.026	0.401	2.959	0.0025

Table 7: Mann-Whitney U Test and Regression Results – Client Risk and Errors Identified (H2_A)

Panel A: Descriptive Statistics for Dependent Variable - Errors Identified						
	<i>N</i>	<i>Mean</i>	<i>Standard Dev.</i>	<i>Median</i>	<i>Min</i>	<i>Max</i>
Low Client Risk	25	3.48	1.806	3	1	8
High Client Risk	23	2.09	1.593	2	0	6
Total	48	2.81	1.830	3	0	8

Panel B: Mann-Whitney U Test Results for Dependent Variable - Errors Identified					
	<i>N</i>	<i>Mean Rank</i>	<i>Sum of Ranks</i>	<i>Z</i>	<i>Asymp. Sig.</i>
Low Client Risk	25	29.70	742.50	-2.727	0.006
High Client Risk	23	18.85	433.50		
Total	48				

Panel C: ANOVA Regression Results for Dependent Variable - Errors Identified					
<i>Source of Variation</i>	<i>df</i>	<i>Sum of Squares</i>	<i>Mean Square</i>	<i>F</i>	<i>p</i>
Regression	3	22.232	7.411	3.279	0.030
Residual	44	99.435	2.260		
Total	47	121.667			

Panel D: Coefficients Regression Results for Dependent Variable - Errors Identified					
	<i>B</i>	<i>Standard Error</i>	<i>Beta</i>	<i>T</i>	<i>p</i>
Intercept	7.481	0.560		13.356	0.000
Client Risk	0.817	0.438	0.256	1.866	0.069
Firm Size	-1.036	0.441	-0.321	-2.348	0.023
Audit Experience	0.002	0.005	0.040	0.294	0.770

Table 8: Mann-Whitney U Test and Regression Results –
Client Risk and Agreement with Preparer (H2_B)

Panel A: Descriptive Statistics for Dependent Variable - Agreement with Preparer						
	<i>N</i>	<i>Mean</i>	<i>Standard Dev.</i>	<i>Median</i>	<i>Min</i>	<i>Max</i>
Low Client Risk	25	7.12	1.536	7	4	9
High Client Risk	23	7.74	1.657	8	4	10
Total	48	7.42	1.609	8	4	10

Panel B: Mann-Whitney U Test Results for Dependent Variable - Agreement with Preparer					
	<i>N</i>	<i>Mean Rank</i>	<i>Sum of Ranks</i>	<i>Z</i>	<i>Asymp. Sig.</i>
Low Client Risk	25	21.72	543.00	-1.465	0.143
High Client Risk	23	27.52	633.00		
Total	48				

Panel C: ANOVA Regression Results for Dependent Variable - Agreement with Preparer					
<i>Source of Variation</i>	<i>df</i>	<i>Sum of Squares</i>	<i>Mean Square</i>	<i>F</i>	<i>p</i>
Regression	3	18.060	6.020	2.557	0.067
Residual	44	103.606	2.355		
Total	47	121.667			

Panel D: Coefficient Regression Results for Dependent Variable - Agreement with Preparer					
	<i>B</i>	<i>Standard Error</i>	<i>Beta</i>	<i>T</i>	<i>p</i>
Intercept	8.194	0.607		13.506	0.000
Client Risk	-0.562	0.448	-0.176	-1.253	0.217
Firm Size	-1.056	0.450	-0.327	-2.345	0.024
Audit Experience	0.002	0.005	0.046	0.328	0.744

Table 9: ANOVA Test and Regression Results – Client Risk and Total Time (H2C)

Panel A: Descriptive Statistics for Dependent Variable - Total Time in Minutes						
	<i>N</i>	<i>Mean</i>	<i>Standard Dev.</i>	<i>Median</i>	<i>Min</i>	<i>Max</i>
Low Client Risk	25	64.451	24.667	57.533	27.45	147.07
High Client Risk	23	51.018	23.209	46.433	20.17	105.90
Total	48	58.015	25.190	54.942	20.17	147.07

Panel B: ANOVA Results for Dependent Variable - Total Time in Minutes					
<i>Source of Variation</i>	<i>df</i>	<i>Sum of Squares</i>	<i>Mean Square</i>	<i>F</i>	<i>p</i>
Between Groups	1	2161.658	2161.658	3.595	0.064
Within Groups	46	27660.457	601.314		
Total	47	29822.115			

Panel C: ANOVA Regression Results for Dependent Variable - Total Time in Minutes					
<i>Source of Variation</i>	<i>df</i>	<i>Sum of Squares</i>	<i>Mean Square</i>	<i>F</i>	<i>p</i>
Regression	3	4019.159	1339.720	2.285	0.092
Residual	44	25802.956	586.431		
Total	47	29822.115			

Panel D: Coefficient Regression Results for Dependent Variable - Total Time in Minutes					
	<i>B</i>	<i>Standard Error</i>	<i>Beta</i>	<i>T</i>	<i>p</i>
Intercept	36.575	9.574		3.820	0.000
Client Risk	14.830	7.071	0.297	2.097	0.042
Firm Size	6.156	7.107	0.122	0.866	0.391
Audit Experience	0.136	0.085	0.228	1.605	0.116

Table 10: Mann-Whitney U Test and Regression Results – Client Risk and Pages Viewed (H2C)

Panel A: Descriptive Statistics for Dependent Variable - Pages Viewed						
	<i>N</i>	<i>Mean</i>	<i>Standard Dev.</i>	<i>Median</i>	<i>Min</i>	<i>Max</i>
Low Client Risk	25	34.52	7.355	39	22	42
High Client Risk	23	31.52	8.774	28	20	41
Total	48	33.08	8.121	37.5	20	42

Panel B: Mann-Whitney U Test Results for Dependent Variable - Pages Viewed					
	<i>N</i>	<i>Mean Rank</i>	<i>Sum of Ranks</i>	<i>Z</i>	<i>Asymp. Sig.</i>
Low Client Risk	25	27.98	699.50	-1.808	0.071
High Client Risk	23	20.72	476.50		
Total	48				

Panel C: ANOVA Regression Results for Dependent Variable - Pages Viewed					
<i>Source of Variation</i>	<i>df</i>	<i>Sum of Squares</i>	<i>Mean Square</i>	<i>F</i>	<i>p</i>
Regression	3	614.057	204.686	3.623	0.020
Residual	44	2485.610	56.491		
Total	47	3009.667			

Panel D: Coefficient Regression Results for Dependent Variable - Pages Viewed					
	<i>B</i>	<i>Standard Error</i>	<i>Beta</i>	<i>T</i>	<i>p</i>
Intercept	25.645	2.971		8.630	0.000
Client Risk	3.942	2.194	0.245	1.796	0.079
Firm Size	-0.683	2.206	-0.042	-0.309	0.758
Audit Experience	0.078	0.026	0.404	2.954	0.005

Table 11: ANOVA Test and Regression Results –
Client Risk, Accountability and Total Time (H3_{A,B,C})

Panel A: Descriptive Statistics for Dependent Variable – Total Time						
	<i>N</i>	<i>Mean</i>	<i>Standard Dev.</i>	<i>Median</i>	<i>Min</i>	<i>Max</i>
PA/LR	15	70.034	30.022	59.2	39.6	147.1
PA/HR	8	56.971	13.735	58.1	37.4	79.9
OA/LR	10	56.077	14.991	57.1	27.5	72.1
OA/HR	15	47.843	26.853	42.1	20.1	105.9
Total	48	58.015	25.190	54.9	20.1	147.1

Panel B: ANOVA Results for Dependent Variable - Total Time					
<i>Source of Variation</i>	<i>df</i>	<i>Sum of Squares</i>	<i>Mean Square</i>	<i>F</i>	<i>p</i>
Corrected Model	3	3765.244	1255.081	2.119	0.111
Intercept	1	148818.085	148818.085	251.30	0.000
Accountability	1	1487.247	1487.247	2.511	0.120
Risk	1	1265.749	1265.749	2.137	0.151
Accountability x Risk	1	65.112	65.112	0.110	0.742
Error	44	26056.871	592.202		
Total	48	191375.318			
Corrected Total	47	29822.115			

Panel C: ANOVA Regression Results for Dependent Variable - Total Time					
<i>Source of Variation</i>	<i>df</i>	<i>Sum of Squares</i>	<i>Mean Square</i>	<i>F</i>	<i>p</i>
Regression	4	5786.300	1446.575	2.588	0.050
Residual	43	24035.814	558.972		
Total	47	29822.115			

Panel D: Coefficients Regression Results for Dependent Variable - Total Time					
	<i>B</i>	<i>Standard Error</i>	<i>Beta</i>	<i>T</i>	<i>p</i>
Intercept	44.013	10.241		4.298	0.000
Accountability	-12.611	7.092	-0.253	-1.778	0.082
Client Risk	11.818	7.108	0.237	1.663	0.104
Firm Size	5.704	6.944	0.113	0.822	0.416
Audit Experience	0.149	0.083	0.249	1.793	0.080

Note. PA = process accountability; OA = outcome accountability; LR = low client risk;
HR = high client risk

Table 12: ANOVA Test and Regression Results –
Client Risk, Accountability and Pages Viewed (H3_{A,B,C})

Panel A: Descriptive Statistics for Dependent Variable – Pages Viewed						
	<i>N</i>	<i>Mean</i>	<i>Standard Dev.</i>	<i>Median</i>	<i>Min</i>	<i>Max</i>
PA/LR	15	35.20	7.785	39	22	42
PA/HR	8	34.25	8.498	40	20	41
OA/LR	10	33.50	6.932	34	24	41
OA/HR	15	30.07	8.852	24	21	41
Total	48	33.08	8.121	37.5	20	42

Panel B: ANOVA Results for Dependent Variable - Pages Viewed					
<i>Source of Variation</i>	<i>df</i>	<i>Sum of Squares</i>	<i>Mean Square</i>	<i>F</i>	<i>p</i>
Corrected Model	3	216.333	72.111	1.100	0.359
Intercept	1	49377.024	49377.024	753.50	0.000
Accountability	1	96.596	96.596	1.474	0.231
Risk	1	53.619	53.619	0.818	0.371
Accountability x Risk	1	17.210	17.210	0.263	0.611
Error	44	2883.333	65.530		
Total	48	55636.000			
Corrected Total	47	3099.667			

Panel C: ANOVA Regression Results for Dependent Variable - Pages Viewed					
<i>Source of Variation</i>	<i>df</i>	<i>Sum of Squares</i>	<i>Mean Square</i>	<i>F</i>	<i>p</i>
Regression	4	751.215	187.804	3.439	0.016
Residual	43	2348.452	54.615		
Total	47	3099.667			

Panel D: Coefficients Regression Results for Dependent Variable - Pages Viewed					
	<i>B</i>	<i>Standard Error</i>	<i>Beta</i>	<i>T</i>	<i>p</i>
Intercept	27.717	3.201		8.659	0.000
Accountability	-3.513	2.217	-0.218	-1.585	0.120
Client Risk	3.103	2.222	0.193	1.397	0.170
Firm Size	-0.808	2.170	-0.050	-0.372	0.711
Audit Experience	0.081	0.026	0.422	3.131	0.003

Note. PA = process accountability; OA = outcome accountability; LR = low client risk;
HR = high client risk

Table 13: Independent Samples T-Test – Client Risk, Accountability and Total Time (H3_{A,B,C})

Panel A: Descriptive Statistics for Dependent Variable - Errors Identified						
	<i>N</i>	<i>Mean</i>	<i>Standard Dev.</i>	<i>Median</i>	<i>Min</i>	<i>Max</i>
PA/LR	15	70.034	30.022	59.2	39.6	147.1
PA/HR	8	56.971	13.735	58.1	37.4	79.9
OA/LR	10	56.077	14.991	57.1	27.5	72.1
OA/HR	15	47.843	26.853	42.1	20.1	105.9
Total	48	58.015	25.190	54.9	20.1	147.1

Panel B: Independent Samples T- Test Results for Dependent Variable – Total Time						
	<i>Group</i>	<i>Mean</i>	<i>Standard Dev.</i>	<i>df</i>	<i>T</i>	<i>p</i>
1	PA/LR	70.034	30.022	21	1.158	0.260
	PA/HR	56.971	13.735			
2	PA/LR	70.034	30.022	23	1.355	0.189
	OA/LR	56.077	14.991			
3	PA/LR	70.034	30.022	28	2.134	0.042
	OA/HR	47.843	26.853			
4	PA/HR	56.971	13.735	16	0.130	0.898
	OA/LR	56.077	14.991			
5	PA/HR	56.971	13.735	21	0.894	0.381
	OA/HR	47.843	26.853			
6	OA/LR	56.077	14.991	23	0.879	0.389
	OA/HR	47.843	26.853			

Note. PA = process accountability; OA = outcome accountability; LR = low client risk; HR = high client risk

Table 14: Mann-Whitney U Test – Client Risk, Accountability and Pages Viewed (H3_{A,B,C})

Panel A: Descriptive Statistics for Dependent Variable - Pages Viewed						
	<i>N</i>	<i>Mean</i>	<i>Standard Dev.</i>	<i>Median</i>	<i>Min</i>	<i>Max</i>
PA/LR	15	35.20	7.785	39	22	42
PA/HR	8	34.25	8.498	40	20	41
OA/LR	10	33.50	6.932	34	24	41
OA/HR	15	30.07	8.852	24	21	41
Total	48	33.08	8.121	37.5	20	42

Panel B: Mann-Whitney U Test Results for Dependent Variable - Pages Viewed						
	<i>Group</i>	<i>N</i>	<i>Mean Rank</i>	<i>Sum of Ranks</i>	<i>Z</i>	<i>Asymp. Sig.</i>
1	PA/LR	15	12.83	192.50	-0.814	0.428
	PA/HR	8	10.44	83.50		
	Total	23				
2	PA/LR	15	14.17	212.50	-0.980	0.327
	OA/LR	10	11.25	112.50		
	Total	25				
3	PA/LR	15	18.93	284.00	-2.157	0.031
	OA/HR	15	12.07	181.00		
	Total	30				
4	PA/HR	8	9.56	76.50	-0.045	0.964
	OA/LR	10	9.45	94.50		
	Total	18				
5	PA/HR	8	13.44	107.50	-0.753	0.452
	OA/HR	15	11.23	168.50		
	Total	23				
6	OA/LR	10	15.35	153.50	-1.323	0.186
	OA/HR	15	11.43	171.50		
	Total	25				

Note. PA = process accountability; OA = outcome accountability; LR = low client risk;
HR = high client risk

Table 15: Mann-Whitney U Test – Client Risk, Accountability and Errors Identified (RQ1)

Panel A: Descriptive Statistics for Dependent Variable - Errors Identified						
	<i>N</i>	<i>Mean</i>	<i>Standard Dev.</i>	<i>Median</i>	<i>Min</i>	<i>Max</i>
PA/LR	15	3.87	1.922	4	1	8
PA/HR	8	2.63	1.996	2	0	6
OA/LR	10	2.90	1.524	3	1	6
OA/HR	15	1.80	1.320	2	0	4
Total	48	2.81	1.830	3	0	8

Panel B: Mann-Whitney U Test Results for Dependent Variable - Errors Identified						
	<i>Group</i>	<i>N</i>	<i>Mean Rank</i>	<i>Sum of Ranks</i>	<i>Z</i>	<i>Asymp. Sig.</i>
1	PA/LR	15	13.47	202.00	-1.437	0.169
	PA/HR	8	9.25	74.00		
	Total	23				
2	PA/LR	15	14.63	219.50	-1.388	0.165
	OA/LR	10	10.55	105.50		
	Total	25				
3	PA/LR	15	20.33	305.00	-3.063	0.002
	OA/HR	15	10.67	160.00		
	Total	30				
4	PA/HR	8	8.75	70.00	-0.543	0.587
	OA/LR	10	10.10	101.00		
	Total	18				
5	PA/HR	8	13.50	108.00	-0.791	0.429
	OA/HR	15	11.20	168.00		
	Total	23				
6	OA/LR	10	15.95	159.50	-1.681	0.093
	OA/HR	15	11.03	165.50		
	Total	25				

Note. PA = process accountability; OA = outcome accountability; LR = low client risk; HR = high client risk

Table 16: ANOVA Test and Regression Results –
Client Risk, Accountability and Errors Identified (RQ1)

Panel A: Descriptive Statistics for Dependent Variable - Errors Identified						
	<i>N</i>	<i>Mean</i>	<i>Standard Dev.</i>	<i>Median</i>	<i>Min</i>	<i>Max</i>
PA/LR	15	3.87	1.922	4	1	8
PA/HR	8	2.63	1.996	2	0	6
OA/LR	10	2.90	1.524	3	1	6
OA/HR	15	1.80	1.320	2	0	4
Total	48	2.81	1.830	3	0	8

Panel B: ANOVA Results for Dependent Variable - Errors Identified					
<i>Source of Variation</i>	<i>df</i>	<i>Sum of Squares</i>	<i>Mean Square</i>	<i>F</i>	<i>p</i>
Corrected Model	3	32.404	10.801	3.805	0.016
Intercept	1	349.544	349.544	123.13	0.000
Accountability	1	8.958	8.958	3.156	0.083
Risk	1	15.303	15.303	5.390	0.025
Accountability x Risk	1	0.056	0.056	0.020	0.889
Error	44	124.908	2.839		
Total	48	537.000			
Corrected Total	47	157.313			

Panel C: ANOVA Regression Results for Dependent Variable - Errors Identified					
<i>Source of Variation</i>	<i>df</i>	<i>Sum of Squares</i>	<i>Mean Square</i>	<i>F</i>	<i>p</i>
Regression	4	41.798	10.449	3.890	0.009
Residual	43	115.515	2.686		
Total	47	157.313			

Panel D: Coefficients Regression Results for Dependent Variable - Errors Identified					
	<i>B</i>	<i>Standard Error</i>	<i>Beta</i>	<i>T</i>	<i>p</i>
Intercept	1.970	0.710		2.775	0.008
Accountability	-0.881	0.492	-0.243	-1.791	0.080
Client Risk	1.167	0.493	0.322	2.369	0.022
Firm Size	0.891	0.481	0.243	1.852	0.071
Audit Experience	0.002	0.006	0.054	0.403	0.689

Note. PA = process accountability; OA = outcome accountability; LR = low client risk;
HR = high client risk

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APPENDICES

Appendix A – The Experimental Introduction

Confirmation

The purpose of the project is to gain knowledge and insight into the audit review process. Therefore, you will be asked to review the workpapers prepared by a subordinate and make review comments. You will be asked to perform a partial audit review, providing review comments and agreement/disagreement with conclusions on nine audit tasks and the overall audit conclusion. We only ask that your responses reflect those you would make in practice. As you know, reviews can affect the efficiency and effectiveness of an audit. Please bear these issues in mind as you provide your responses.

Because this study is concerned with individual judgments, **it is important that you work independently of other members of your firm who are participating in the study.** If you would like to receive a copy of the results of the study, please indicate so at the end of this study when asked.

Virginia Tech's and Appalachian State University's Institutional Review Boards have approved this experiment. Your participation is completely voluntary and you may cease to participate at any time. Your answers will only be used for research purposes. No one from your firm will be notified of who participated or of individual performance on this task. Identifying data will only be maintained separately from performance data until the study is complete. Performance data will be maintained indefinitely.

As an incentive for participation in the study, each participant will be entered into a drawing to win one of three \$100 cash prizes. Chances to win are dependent on the number of auditors from all firms that participate. The drawing for the winners will occur once all subjects have completed the experiment. There are no anticipated risks related to this study.

You should be able to complete this experiment in approximately one hour. We realize that your time is valuable, but your assistance with this project will shed light on this important audit area.

If you have any questions, please contact Tracy Reed at treed@vt.edu. Should you have any questions about this research or its conduct, you may contact: IRB Administrator at 828-262-2130 or email: irb@appstate.edu, Appalachian State University, Graduate School and Research and Sponsored Programs, Boone, NC 28608.

I agree to participate

I do not agree to participate

Welcome!

Please login with your email!

Login

Appendix B – Documentation Requirements (Accountability Manipulation)

Outcome Accountability:

Logout	Documentation Requirements
Email: ca@auditquality.org	<p>This study is part of an important effort to enhance the effectiveness and efficiency of the audit review. We are interested in learning about the quality of judgment that audit reviewers at your level of experience make. Your review notes will be reviewed and may be selected for a follow-up conference. If you are selected for this conference, you will be asked to explain the outcome of your audit review as represented by your review notes. Please type your name, phone number, and email in the space provided so that we can contact you. Thank you for your cooperation.</p> <p>Name <input type="text"/></p> <p>Phone Number <input type="text"/></p> <p><input type="button" value="Submit"/></p>

Process Accountability:

Logout	Documentation Requirements
Email: ca@auditquality.org	<p>This study is part of an important effort to enhance the effectiveness and efficiency of the audit review process. We are interested in learning about the audit review process that audit reviewers at your level of experience utilize, and in assessing the quality of the audit review process that is followed. Your process listing will be reviewed and may be selected for a follow-up conference. If you are selected for this conference, you will be asked to explain your audit review process. Please type your name, phone number, and email in the space provided so that we can contact you. Thank you for your cooperation.</p> <p>Name <input type="text"/></p> <p>Phone Number <input type="text"/></p> <p><input type="button" value="Submit"/></p>

Appendix C – Task Description

<p>Logout</p>	<h3>Your Review Task</h3>
<p>Name: [Redacted] Email: [Redacted] Phone: [Redacted]</p>	<p>You have been assigned as the in-charge auditor for the Johnson Manufacturing, Inc. (JMI) audit for the year ended 12/31/07. The attached workpapers represent work completed by Jane Smith, staff auditor, to determine whether JMI's Accounts Receivable, Allowance for Doubtful Accounts and related Bad Debt Expense are fairly stated as of, and for the year ended, December 31, 2007.</p> <p>Assume that today is January 20, 2008 and Jane's work is ready for review. Your time budget for reviewing the workpapers is 30 minutes. However, as is true in practice, you may spend as much or as little time reviewing the workpapers as you believe is necessary. Please keep in mind that the time you spend on this case will be recorded automatically.</p> <p>For each audit procedure (AR-2 through AR-10), indicate whether you agree or disagree with Jane Smith's work. If you disagree with her work, please make review comments within the "Review Notes" box at the bottom of each audit procedure screen. Finally, indicate whether you agree or disagree with Jane's overall conclusions and the reasons for your assessment (Overall Conclusion). Once you have indicated either agreement or disagreement on all audit procedures and the overall conclusion, a link to a post-study questionnaire will appear on the "Home" screen. Select this link when you have completed the audit review task to complete the demographic questions.</p> <p>Do not be concerned about any workpapers that are not included in the case study. You should assume that those workpapers have been properly prepared, reviewed and signed off. For convenience, the reviewed workpapers not included in this case study will be referred to as workpapers from the L series. You will first be presented with details related to the engagement history and a description of the client. After reading this information, you will find links to the audit procedures, supporting documents, and background information on the left hand side of the screen and can access any section at any time by clicking on the appropriate link. A listing of audit procedures left to review will be provided each time you submit a conclusion or by clicking on the "Home" link. You will also be asked some demographics questions upon completion of this project. You can access these instructions using a link labeled "Review Task Details" from within the study at any time.</p> <p style="text-align: center;"></p>

Appendix D – Engagement History (Risk Manipulation)

Low Client Risk

Logout	Engagement History
Name: Tracy Harmon Email: r.harmon@donaldson.com Phone: 952-444-1100	<p>Your firm, Donaldson, Connors, and Harmon, LLP (DCH), has audited JMI since 1990. JMI management's accounting policies and estimates are conservative relative to typical manufacturing clients. Over the past five years, there have been only a few audit adjustments, all of which have been due to year-end cutoff errors. However, these adjustments have not been isolated to any particular account. The internal control structure has always been evaluated as effective (i.e., control risk has always been assessed as low). Further, there have been no material weaknesses discovered or reported.</p> <p style="text-align: center;"></p>

High Client Risk

Logout	Engagement History
Name: Tracy Harmon Email: r.harmon@donaldson.com Phone: 952-444-1100	<p>Your firm, Donaldson, Connors, and Harmon, LLP (DCH), has audited JMI since 1990. JMI management's accounting policies and estimates are aggressive relative to typical manufacturing clients. Over the past five years, there have been several audit adjustments in various accounts, including accounts receivable. While the control structure has improved over time, key control are not always implemented. There are currently two material weaknesses of internal controls over financial reporting related to segregation of duties within Payroll and IT Security, but no material weaknesses have been identified related to Accounts Receivable.</p> <p style="text-align: center;"></p>

Appendix E – Client Information

Logout	Client Description
Name: Tracy Bennett Email: rbennett@bryantnixon.com Phone: 404-333-9999	<p>JMI manufactures and markets a variety of products and parts for automobiles, from starters, alternators and brakes to complete replacement interiors. The company sells its products primarily to independent and chain auto parts retailers in the southeast. Most of the products in the company's line are either rebuilt from scrapped parts or manufactured by JMI to meet original equipment specifications. The company also sells parts and accessories manufactured by offshore suppliers.</p> <p>Competition is very intense in the industry and there is very little to distinguish one supplier from another. JMI stresses its distribution system and its prompt delivery as its competitive advantage. In addition, JMI holds a patent on a "Magic Car Seat" which allows the back seats in minivans to disappear (and reappear) at the touch of a button to create additional space.</p> <p>JMI has been well received by the financial markets and the stock trades on NASDAQ at an attractive multiple. Earnings data and stock price activity for the period 2003 to 2007 are detailed in Exhibit 1. Selected comparative ratio analyses are presented in Exhibit II. Comparative revenue cycle balances are presented in Exhibit III.</p> <p style="text-align: center;"></p>

Logout	Interim Work and Results
Name: Tracy Bennett Email: rbennett@bryantnixon.com Phone: 404-333-9999	<p>Based on JMI's strong financial position and internal control structure, planning materiality has been set at \$650,000, which is 5% of the \$13 million income before taxes. Tolerable error for any account is \$325,000 (50% of planning materiality).</p> <p>There have been few large or unusual transactions for the current year. Perhaps, the most significant change is a 40% increase in the amount of trade receivables. The year-end audit program presented in Exhibit IV was designed after considering the inherent risk and the results of tests of controls and transactions performed during interim testing. The remaining tests and updates of the interim work are documented in the attached papers for your review. The client has requested a closing meeting on January 25, 2008, with a public earnings announcement shortly thereafter.</p> <p style="text-align: center;"></p>

Logout	Engagement Staffing
Name: Tracy Bennett Email: rbennett@bryantnixon.com Phone: 404-333-9999	<p>Staffing of the JMI engagement included Jane Smith who has done most of the year end work on receivables and the related accounts. This is Jane Smith's second year with your firm and her second year on JMI's engagement. As is common practice with your firm, Jane has also been assigned to several engagements in the same industry which has allowed her to work on different engagement teams and for various in-charge auditors. The consensus among the in-charge auditors is that Jane is very competent. They also agree that she has an uncommon grasp of accounting and auditing, performs procedures carefully, is a good thinker and generally reaches justifiable conclusions. Jane's ranking relative to staff accountants in your office is in the top 5%. Considering your previous experiences with Jane, you agree with this assessment.</p> <p style="text-align: center;"></p>

Appendix F – Process Listing Instructions and Training

Logout

Name: Tracy Tapp
Email: ttapp@hagaplanet.com
Phone: 301-844-8444

Process Listing Instructions

The purpose of the project is to gain knowledge and insight into the audit review process. In order to gather information about the audit review process, you are being asked to document your process in a process listing. This is different than review notes in that you are being asked to detail the steps that you take while performing your review in addition to providing review notes. The process listing should include details related to documents you review, items within documents that you review in detail, calculations or recalculations that you make, and comparisons you make between documents. You are not being asked to make judgments within the process listing. Rather, the process listing should be an objective listing of what steps you took in performing the audit review. Any critical thoughts should be recorded in the review notes.

Your process listing screen can be found at the bottom of the screen once you begin the project. The system will automatically separate each entry. Please type your process step in the available box, and then click "Enter process" for each step in your process.

The following is an example of what entries in the process listing might look like for an audit review of the payroll process.

1. Reviewed audit procedures listed in the audit program.

5. Reviewed workpaper PR-3, procedures related to withholding calculations.

6. Recalculated net pay for two paychecks included in appendix C.

14. Reviewed workpaper PR-6, procedures related to timing of payroll transactions.

15. Compared dates on workpaper PR-6 to dates on cancelled checks (appendix F) and time reports (appendix G).

Please enter "Reviewed process listing instructions" in the process listing box on the bottom of the screen, click "Enter Process", then click the blue arrows to continue.

Enter process

History: No processes saved.

Appendix G – Pre-experimental Questions

Logout	Assessment Questions
Name: [Redacted] Email: [Redacted] Phone: [Redacted]	<p>1. Based on the background information only, what is your assessment of Jane Smith's competence?</p> <p>1 <input type="radio"/> 2 <input type="radio"/> 3 <input type="radio"/> 4 <input type="radio"/> 5 <input type="radio"/> 6 <input type="radio"/> 7 <input type="radio"/></p> <p>Incompetent Highly Competent</p> <p>2. Based on the background information, what are your expectations of whether accounts receivable will be fairly stated?</p> <p>1 <input type="radio"/> 2 <input type="radio"/> 3 <input type="radio"/> 4 <input type="radio"/> 5 <input type="radio"/> 6 <input type="radio"/> 7 <input type="radio"/></p> <p>Not Fairly Stated Fairly Stated</p> <p>3. Based on the background information, what is your assessment of client risk?</p> <p>1 <input type="radio"/> 2 <input type="radio"/> 3 <input type="radio"/> 4 <input type="radio"/> 5 <input type="radio"/> 6 <input type="radio"/> 7 <input type="radio"/></p> <p>High Client Risk Low Client Risk</p> <p style="text-align: center;"><input type="button" value="Submit"/></p>

Appendix H – Initial Screen

<p style="text-align: center;">Logout</p> <hr/> <p>Name: Tanya Nelson Email: tanya.nelson@deloitte.com Phone: (800) 888-8888</p> <hr/> <p>Home Review Task Details</p> <p>Background Information</p> <ul style="list-style-type: none">Engagement HistoryClient DescriptionIncome and Stock Price DataInterim Work and ResultsEngagement StaffingYear-end Audit Program <p>The Accounts Receivables Workpapers</p> <ul style="list-style-type: none">AR-2AR-3AR-4AR-5AR-6AR-7AR-8AR-9AR-10Overall Conclusion <p>Supporting Schedules</p> <ul style="list-style-type: none">Appendix A: A/R ConfirmationsAppendix B: Reconciliation of Discount Auto A/R BalanceAppendix C: Aged A/R Balances by CustomerAppendix D: Notes to A/R Schedule & Analysis at AR-4Appendix E: Notes to Uncollectible Analysis at AR-9Appendix F: Analysis of Credit Memo Details at AR-10	<h3>Audit Review</h3> <p>Please click through the Accounts Receivable Workpapers to review audit preparer conclusions.</p> <p>You have not reviewed the following workpapers:</p> <ul style="list-style-type: none">Workpaper AR2Workpaper AR3Workpaper AR4Workpaper AR5Workpaper AR6Workpaper AR7Workpaper AR8Workpaper AR9Workpaper AR10Overall Conclusion
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Appendix I – Additional Client Information

Logout	Income and Stock Price Data																																																																																																	
<p>Name: Tara Tapp</p> <p>Email: tara.tapp@jmi.com</p> <p>Phone: (951) 955-1000</p> <hr/> <p>Home</p> <p>Review Task Details</p> <p>Background Information</p> <ul style="list-style-type: none"> • Engagement History • Client Description • Income and Stock Price Data • Interim Work and Results • Engagement Staffing • Year-end Audit Program <p>The Accounts Receivables Workpapers</p> <ul style="list-style-type: none"> • AR-2 • AR-3 • AR-4 • AR-5 • AR-6 • AR-7 • AR-8 • AR-9 • AR-10 • Overall Conclusion <p>Supporting Schedules</p> <ul style="list-style-type: none"> • Appendix A: A/R Confirmations • Appendix B: Reconciliation of Discount Auto A/R Balance • Appendix C: Aged A/R Balances by Customer • Appendix D: Notes to A/R Schedule & Analysis at AR-4 • Appendix E: Notes to Uncollectible Analysis at AR-9 • Appendix F: Analysis of Credit Memo Details at AR-10 	<p>Exhibit I JMI FIVE YEAR INCOME AND STOCK PRICE DATA (000s omitted)</p> <table border="1" style="width: 100%; border-collapse: collapse; text-align: center;"> <thead> <tr> <th></th> <th>2007*</th> <th>2006</th> <th>2005</th> <th>2004</th> <th>2003</th> </tr> </thead> <tbody> <tr> <td>Gross Sales</td> <td>\$56,000</td> <td>\$36,000</td> <td>\$31,000</td> <td>\$24,000</td> <td>\$19,500</td> </tr> <tr> <td>Cost of sales</td> <td>\$29,500</td> <td>\$19,000</td> <td>\$16,000</td> <td>\$12,500</td> <td>\$ 9,500</td> </tr> <tr> <td>Expenses</td> <td>\$13,500</td> <td>\$ 9,000</td> <td>\$ 8,500</td> <td>\$ 7,200</td> <td>\$ 6,000</td> </tr> <tr> <td>Pretax earnings</td> <td>\$13,000</td> <td>\$ 8,000</td> <td>\$ 6,500</td> <td>\$ 4,300</td> <td>\$ 4,000</td> </tr> <tr> <td>After tax earnings</td> <td>\$ 8,450</td> <td>\$ 4,900</td> <td>\$ 3,900</td> <td>\$ 2,500</td> <td>\$ 2,300</td> </tr> <tr> <td>EPS</td> <td>\$ 0.085</td> <td>\$ 0.049</td> <td>\$ 0.039</td> <td>\$ 0.025</td> <td>\$ 0.023</td> </tr> <tr> <td>Middle of stock price range (multiple)</td> <td>\$2.03 (24)</td> <td>\$1.33 (27)</td> <td>\$1.11 (28)</td> <td>\$0.77 (31)</td> <td>\$0.61 (27)</td> </tr> </tbody> </table> <p style="text-align: center;">*Unaudited</p> <p style="text-align: center;">Exhibit II JMI Comparative Ratio Analysis</p> <table border="1" style="width: 100%; border-collapse: collapse; text-align: center;"> <thead> <tr> <th rowspan="2"></th> <th colspan="2">JMI</th> <th colspan="2">Industry Averages</th> </tr> <tr> <th>2007</th> <th>2006</th> <th>2007</th> <th>2006</th> </tr> </thead> <tbody> <tr> <td>Return on sales %</td> <td>15.09%</td> <td>13.6%</td> <td>11.8%</td> <td>10.7%</td> </tr> <tr> <td>Asset turnover</td> <td>.58</td> <td>.54</td> <td>.66</td> <td>.58</td> </tr> <tr> <td>Days sales outstanding</td> <td>55</td> <td>63</td> <td>41</td> <td>55</td> </tr> <tr> <td>Inventory turnover</td> <td>.70</td> <td>.65</td> <td>.82</td> <td>.74</td> </tr> </tbody> </table> <p style="text-align: center;">*Unaudited</p> <p style="text-align: center;">Exhibit III JMI Comparative Revenue Cycle Balances (000 omitted)</p> <table border="1" style="width: 100%; border-collapse: collapse; text-align: center;"> <thead> <tr> <th></th> <th>2007</th> <th>2006</th> <th>2005</th> </tr> </thead> <tbody> <tr> <td>Gross Receivables</td> <td>10,052</td> <td>8,738</td> <td>5,529</td> </tr> <tr> <td>Allowance for Bad Debts</td> <td>269</td> <td>234</td> <td>168</td> </tr> <tr> <td>A/R Writeoffs</td> <td>113</td> <td>206</td> <td>273</td> </tr> </tbody> </table> <p style="text-align: center;">*Unaudited</p>						2007*	2006	2005	2004	2003	Gross Sales	\$56,000	\$36,000	\$31,000	\$24,000	\$19,500	Cost of sales	\$29,500	\$19,000	\$16,000	\$12,500	\$ 9,500	Expenses	\$13,500	\$ 9,000	\$ 8,500	\$ 7,200	\$ 6,000	Pretax earnings	\$13,000	\$ 8,000	\$ 6,500	\$ 4,300	\$ 4,000	After tax earnings	\$ 8,450	\$ 4,900	\$ 3,900	\$ 2,500	\$ 2,300	EPS	\$ 0.085	\$ 0.049	\$ 0.039	\$ 0.025	\$ 0.023	Middle of stock price range (multiple)	\$2.03 (24)	\$1.33 (27)	\$1.11 (28)	\$0.77 (31)	\$0.61 (27)		JMI		Industry Averages		2007	2006	2007	2006	Return on sales %	15.09%	13.6%	11.8%	10.7%	Asset turnover	.58	.54	.66	.58	Days sales outstanding	55	63	41	55	Inventory turnover	.70	.65	.82	.74		2007	2006	2005	Gross Receivables	10,052	8,738	5,529	Allowance for Bad Debts	269	234	168	A/R Writeoffs	113	206	273
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A/R Writeoffs	113	206	273																																																																																															

Appendix I – Additional Client Information (continued)

Logout	Year-end Audit Program	
<p>Name: Terry J. Wilson Email: twilson@truggapatterson.com Phone: (501) 325-5555</p> <p>Home Review Task Details</p> <p>Background Information</p> <ul style="list-style-type: none"> • Engagement History • Client Description • Income and Stock Price Data • Interim Work and Results • Engagement Staffing • Year-end Audit Program <p>The Accounts Receivables Workpapers</p> <ul style="list-style-type: none"> • AR-2 • AR-3 • AR-4 • AR-5 • AR-6 • AR-7 • AR-8 • AR-9 • AR-10 • Overall Conclusion <p>Supporting Schedules</p> <ul style="list-style-type: none"> • Appendix A: A/R Confirmations • Appendix B: Reconciliation of Discount Auto A/R Balance • Appendix C: Aged A/R Balances by Customer • Appendix D: Notes to A/R Schedule & Analysis at AR-4 • Appendix E: Notes to Uncollectible Analysis at AR-9 • Appendix F: Analysis of Credit Memo Details at AR-10 	<p>Exhibit IV JMI</p> <hr/> <p>AUDIT PROGRAM FOR YEAR END 12/31/07 AUDIT OF JMI RECEIVABLES, ALLOWANCE FOR DOUBTFUL ACCOUNTS AND RELATED BAD DEBT EXPENSE</p>	
	Work Performed at:	Performed by/Date
Obtain and test the mathematical accuracy of JMI's accounts receivable (A/R) aging schedule and agree aging balance to the general ledger (G/L).	AR-2	jas/ 1/4/08
Update understanding of JMI's controls over the revenue and cash receipt cycle and perform tests of controls as deemed necessary.	AR-3	jas/ 1/5/08
Prepare a schedule and analysis of receivables and related balances as compared to prior years and agree all balances to the general ledger.	AR-4	jas/ 1/5/08
Perform comparative analytical procedures on JMI's A/R related ratios.	AR-5	jas/ 1/6/08
Inquire of client regarding the existence of sales booked in which JMI must perform additional services (e.g., bill and hold sales).	AR-6	jas/ 1/6/08
Evaluate cutoff by obtaining the Daily Shipment Logs for 12/28/07 to 1/5/08 and review all sales recorded on these days.	AR-7	jas/ 1/7/08
Judgmentally select a sample of invoices and customer balances and confirm these items.	AR-8	jas/ 1/13/08
Evaluate adequacy of JMI's allowance for uncollectibles using both historical trends and the aging analysis.	AR-9	jas/ 1/14/08
Review credit memo transactions for reasonableness.	AR-10	jas/ 1/18/08

Appendix J – Audit Procedure Workpapers 2-10 and Overall Conclusion

Logout	Accounts Receivables Workpaper 2																																														
Name: [Redacted] Email: [Redacted] Phone: [Redacted]	AR-2: 1/4/2008 Prepared by: jas																																														
Home Review Task Details	Procedure: Obtain and test the mathematical accuracy of JMI's A/R aging schedule and agree aging balance to the G/L.																																														
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	<p>*Unaudited</p> <p>A sample of 30 entries in the aging schedule were traced to the master file (see Appendix C) without exception. Also, the overall balance in the schedule agrees with the receivables accounts in the G/L. DCH noted a significant decline in the > 90 days bucket. Further explanation of this fluctuation is shown at AR-9.</p>																																														
	<p>Based on your review, please provide your opinion on the preparer's conclusions on this audit step (check one):</p> <p><input type="radio"/> Agree with preparer</p> <p><input type="radio"/> Disagree with preparer</p>																																														
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	<input type="button" value="Submit"/>																																														

Appendix J – Audit Procedure Workpapers 2-10 and Overall Conclusion (continued)

Logout	Accounts Receivables Workpaper 3
Name: [redacted] Email: [redacted] Phone: [redacted]	AR-3: 12/22/07 Prepared by: jas
Home Review Task Details	Procedure: Update understanding of JMI's controls over the revenue and cash receipt cycle and perform tests of controls as deemed necessary.
Background Information <ul style="list-style-type: none">Engagement HistoryClient DescriptionIncome and Stock Price DataInterim Work and ResultsEngagement StaffingYear-end Audit Program	Work Performed: Based on understanding and tests of controls, as documented in workpaper L1, DCH concludes that controls are effective to support assessment of control risk at low level and to support planned reduction in substantive tests.
The Accounts Receivables Workpapers <ul style="list-style-type: none">AR-2AR-3AR-4AR-5AR-6AR-7AR-8AR-9AR-10Overall Conclusion	Based on your review, please provide your opinion on the preparer's conclusions on this audit step (check one): <input type="radio"/> Agree with preparer <input type="radio"/> Disagree with preparer
Supporting Schedules <ul style="list-style-type: none">Appendix A: A/R ConfirmationsAppendix B: Reconciliation of Discount Auto A/R BalanceAppendix C: Aged A/R Balances by CustomerAppendix D: Notes to A/R Schedule & Analysis at AR-4Appendix E: Notes to Uncollectible Analysis at AR-9Appendix F: Analysis of Credit Memo Details at AR-10	Review Notes: <div style="border: 1px solid black; height: 60px; width: 100%;"></div> <input type="button" value="Submit"/>

Appendix J – Audit Procedure Workpapers 2-10 and Overall Conclusion (continued)

Account	12/31/05 (Audited)	12/31/06 (Audited)	12/31/07 (Unaudited)
A/R – Domestic Commercial	\$ 3,799,568	\$ 4,518,271	\$ 6,275,086
A/R – Foreign Commercial	\$ 1,663,303	\$ 2,379,139	\$ 3,355,871
Total Trade A/R (see note A in Appendix D)	\$5,462,871	^e\$6,897,410	^f\$9,630,957
Employee Receivables (see note B in Appendix D)	\$2,832	\$419	\$7,460
Advances to Suppliers (see note C in Appendix D)	\$63,591	\$1,839,829	\$ 413,200
Total Other A/R	\$ 66,423	\$1,840,248	\$ 420,660
Total Gross A/R	\$5,529,295	\$8,737,658	\$10,051,617
Allowance for Doubtful Acct	\$(168,190)	\$(233,595)	^j \$(268,999)
Total Net A/R	\$5,361,105	\$8,504,063	\$9,782,618
Sales	\$30,592,817	\$35,959,659	^d \$56,275,810
Trade A/R as a % of Sales	17.9%	19.2%	17.1%
A/R Turnover (using 2 yr. avg. A/R)	5.29	5.82	^g 6.81
Days Sales Outstanding (DSO)	69	63	54
A/R Writeoffs	\$272,492	\$206,309	^h \$112,632
Writeoffs as a % of Sales	4.99%	3.00%	ⁱ 1.17%
Allowance as a % of Total Trade A/R	3.08%	3.39%	^k 2.79%
Allowance as a % of Sales	0.55%	0.65%	0.48%

g 6.81 = $d / ((e + f)/2)$

i 0.20% = h/f

k 2.79% = j/f

Based on your review, please provide your opinion on the preparer's conclusions on this audit step (check one):

Agree with preparer

Disagree with preparer

Review Notes:

Appendix J – Audit Procedure Workpapers 2-10 and Overall Conclusion (continued)

Logout	Accounts Receivables Workpaper 5
Name: [REDACTED] Email: [REDACTED] Phone: [REDACTED]	AR-5: 1/6/08 Prepared by: jas
Home Review Task Details	Procedure: Perform comparative analytical procedures on JMI's A/R related ratios.
Background Information <ul style="list-style-type: none">Engagement HistoryClient DescriptionIncome and Stock Price DataInterim Work and ResultsEngagement StaffingYear-end Audit Program	Work Performed: <p>As shown in the "Comparative A/R Schedule and Analysis" at AR-4, DCH compared the client's A/R related ratios (A/R as a % of Sales, A/R turnover, Days Sales Outstanding [DSO]) over the period 12/31/05 – 12/31/07. Upon review of the ratios over the three year period, DCH noted that the client's A/R turnover and DSO improved in the current year.</p> <p>Per discussion with Janice McCann, A/R Clerk, the client implemented a standardized collection process in the current year which was not in-place in the prior year. Per Janice, a domestic customer is contacted via telephone 10 days after an invoice becomes overdue (standard payment terms are net 30 days) while foreign customers are contacted via facsimile. This procedure is repeated on a weekly basis until receipt of customer payment with levels of contact going to customer management as balances become further past due.</p> <p>The A/R Dept. also includes the customer's sales rep. in the collection procedures as balances become further past due. See additional documentation related to the client's A/R collection procedures in the L-4 series. The A/R writeoff as a % of sales and allowance as a % of A/R are tested as part of evaluating the adequacy of the allowance for uncollectible accounts (see AR-9). Based on the above discussion, the noted 2% decrease in A/R as a % of sales and the improvement in DSO in the current year appear reasonable.</p>
The Accounts Receivables Workpapers <ul style="list-style-type: none">AR-2AR-3AR-4AR-5AR-6AR-7AR-8AR-9AR-10Overall Conclusion	<hr/> <p>Based on your review, please provide your opinion on the preparer's conclusions on this audit step (check one):</p> <p><input type="radio"/> Agree with preparer <input type="radio"/> Disagree with preparer</p> <p>Review Notes:</p> <div style="border: 1px solid black; height: 60px; width: 100%;"></div> <p style="text-align: center;"><input type="button" value="Submit"/></p>
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Appendix J – Audit Procedure Workpapers 2-10 and Overall Conclusion (continued)

Logout	
Name: [redacted] Email: [redacted] Phone: [redacted]	Accounts Receivables Workpaper 6
Home Review Task Details	AR-6: 1/6/08 Prepared by: jas
Background Information <ul style="list-style-type: none">Engagement HistoryClient DescriptionIncome and Stock Price DataInterim Work and ResultsEngagement StaffingYear-end Audit Program	Procedure: Inquire of client regarding the existence of sales booked in which JMI must perform additional services (e.g., bill and hold sales). Work Performed: DCH inquired of the controller, Bob Ross, regarding the existence of bill and hold sales, trade loading (i.e., channel stuffing) sales, and sales booked in which the client must perform significant additional services. No such arrangements were noted.
The Accounts Receivables Workpapers <ul style="list-style-type: none">AR-2AR-3AR-4AR-5AR-6AR-7AR-8AR-9AR-10Overall Conclusion	Based on your review, please provide your opinion on the preparer's conclusions on this audit step (check one): <input type="radio"/> Agree with preparer <input type="radio"/> Disagree with preparer
Supporting Schedules <ul style="list-style-type: none">Appendix A: A/R ConfirmationsAppendix B: Reconciliation of Discount Auto A/R BalanceAppendix C: Aged A/R Balances by CustomerAppendix D: Notes to A/R Schedule & Analysis at AR-4Appendix E: Notes to Uncollectible Analysis at AR-9Appendix F: Analysis of Credit Memo Details at AR-10	Review Notes: <div style="border: 1px solid black; height: 60px; width: 100%;"></div> <input type="button" value="Submit"/>

Appendix J – Audit Procedure Workpapers 2-10 and Overall Conclusion (continued)

Logout	Accounts Receivables Workpaper 7					
Name: [redacted]	AR-7: 1/7/08					
Email: [redacted]	Prepared by: jas					
Phone: [redacted]						
Home	Procedure: Evaluate cutoff by obtaining the daily shipment logs for 12/28/07 to 1/5/08 and review all sales recorded on these days.					
Review Task Details	Work Performed:					
Background Information	DCH obtained the Daily Shipment Logs for 12/28/07 - 1/5/08 and reviewed all sales recorded on these days. No unusual sales or shipments were noted.					
<ul style="list-style-type: none"> Engagement History Client Description Income and Stock Price Data Interim Work and Results Engagement Staffing Year-end Audit Program 						
The Accounts Receivables Workpapers						
<ul style="list-style-type: none"> AR-2 AR-3 AR-4 AR-5 AR-6 AR-7 AR-8 AR-9 AR-10 Overall Conclusion 						
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	Customer	Invoice #	Invoice Date	Shipping Terms	Sales Journal Date	
	Central Fabrications	059602	12/28/07	FOB shipping	12/28/07	✓
	Central Fabrications	059603	12/28/07	FOB shipping	12/28/07	✓
	Central Fabrications	059604	12/29/07	Drop Ship from Ace	12/29/07	✓
	BBC Brake & Muffler	059605	12/30/07	FOB destination	1/4/08	✓
	Professional Body Repair	059606	12/30/07	FOB destination	12/30/07	✓
	VOID	059607				
	VOID	059608				
	City Transmission	059609	1/4/08	FOB destination	1/5/08	✓
	Collision Specialists	059610	1/4/08	FOB shipping	1/4/08	✓
	C & R Automotive, Inc.	059611	1/4/08	FOB shipping	1/4/08	✓
	Franklin Repair Shop	059612	1/4/08	FOB destination	1/7/08	✓
	Exotic Auto Sales	059613	1/4/08	FOB destination	1/8/08	✓
	VOID	059614				
	City Transmission & Re	059615	1/5/08	FOB shipping	1/5/08	✓
	Alpha Auto Parts	059616	1/5/08	FOB destination	1/15/08	✓
	Executive Used Cars	059617	1/5/08	FOB shipping	1/5/08	✓
	Moore Automotive Parts	059618	1/5/08	FOB shipping	1/5/08	✓
	Acme Auto Electric	059619	1/5/08	FOB shipping	1/5/08	✓
	Grant Auto Supply	059620	1/5/08	FOB shipping	1/5/08	✓
	B & T Motorsports	059621	1/5/08	FOB shipping	1/5/08	✓
	✓ recorded in the proper period					
Based on your review, please provide your opinion on the preparer's conclusions on this audit step (check one):						
<input type="radio"/> Agree with preparer <input type="radio"/> Disagree with preparer						
Review Notes:						
<input type="button" value="Submit"/>						

Appendix J – Audit Procedure Workpapers 2-10 and Overall Conclusion (continued)

Logout	Accounts Receivables Workpaper 8																																																																																																																																						
Name: Tracy Nelson	AR-8: 1/13/08																																																																																																																																						
Email: tracy.nelson@deloitte.com	Prepared by: jas																																																																																																																																						
Phone: (503) 253-3333																																																																																																																																							
Home Review Task Details Background Information <ul style="list-style-type: none"> • Engagement History • Client Description • Income and Stock Price Data • Interim Work and Results • Engagement Staffing • Year-end Audit Program The Accounts Receivables Workpapers <ul style="list-style-type: none"> • AR-2 • AR-3 • AR-4 • AR-5 • AR-6 • AR-7 • AR-8 • AR-9 • AR-10 • Overall Conclusion Supporting Schedules <ul style="list-style-type: none"> • Appendix A: A/R Confirmations • Appendix B: Reconciliation of Discount Auto A/R Balance • Appendix C: Aged A/R Balances by Customer • Appendix D: Notes to A/R Schedule & Analysis at AR-4 • Appendix E: Notes to Uncollectible Analysis at AR-9 • Appendix F: Analysis of Credit Memo Details at AR-10 	<p>Procedure: Judgmentally select a sample of invoices and customer balances and confirm these items.</p> <p>Work Performed: DCH selected 13 invoices (with balances > \$40K) and 2 balances (> \$100K) for confirmation. Per summary, 1 confirmation was not returned (see note B below) and one had an immaterial discrepancy of \$680 (see Appendix B). No significant or unusual discrepancies were noted.</p> <p>A/R Confirmations Summary 12/31/07 Final Testwork</p> <table border="1"> <thead> <tr> <th>Customer</th> <th>Invoice #</th> <th>Amt. per invoice</th> <th>Confirmed w/o exception (see note A below)</th> <th>Confirmation not received (see note B below)</th> <th>Confirmed w/Exception (see note C below)</th> <th>Reconciled diff.(see Appen B)</th> <th>Unreconciled diff (see Appen B)</th> </tr> </thead> <tbody> <tr> <td>Central Fabrication</td> <td>Total bal</td> <td>\$ 413,200</td> <td>\$ 413,200</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Discount Auto</td> <td>Total bal</td> <td>164,434</td> <td></td> <td></td> <td>\$ 130,272</td> <td>\$33,482</td> <td>\$680</td> </tr> <tr> <td>Prof. Body Repair</td> <td>056874</td> <td>60,070</td> <td>60,070</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>A-1 Automotive</td> <td>057999</td> <td>55,314</td> <td>55,314</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Western General Parts</td> <td>058500</td> <td>45,000</td> <td>45,000</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>New Century Motors</td> <td>058338</td> <td>49,500</td> <td></td> <td>49,500</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Magic Imports</td> <td>056565</td> <td>40,500</td> <td>40,500</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Collision Spec, Inc.</td> <td>056940</td> <td>59,920</td> <td>59,920</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Great Northern Motors</td> <td>056585</td> <td>42,800</td> <td>42,800</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>BBC Brake & Muffler</td> <td>056960</td> <td>91,000</td> <td>91,000</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Harvard Body Works</td> <td>056660</td> <td>42,000</td> <td>42,000</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>BBC Brake & Muffler</td> <td>059605</td> <td>107,000</td> <td>107,000</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Western General Parts</td> <td>059606</td> <td>36,000</td> <td>36,000</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Pro-Sport Autos</td> <td>057260</td> <td>56,504</td> <td>56,504</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Ross Auto Restoration</td> <td>058824</td> <td>57,890</td> <td>57,890</td> <td></td> <td></td> <td></td> <td></td> </tr> </tbody> </table> <p>Tickmark Legend</p> <p>A. Confirmed w/o exception (see Appendix A for supporting confirmations)</p> <p>B. As confirmation was not obtained from this customer, DCH performed alternative procedures to test the existence of and client's rights in the selected balance. DCH obtained a copy of the subsequent payment and noted that the invoice number, customer name, and amount per the payment detail agreed to the information per our confirmation without exception (see Appendix B). Invoice was 100% collected.</p> <p>C. DCH reconciled the above difference at Appendix B</p> <p>Based on your review, please provide your opinion on the preparer's conclusions on this audit step (check one):</p> <p><input type="radio"/> Agree with preparer</p> <p><input type="radio"/> Disagree with preparer</p> <p>Review Notes:</p> <div style="border: 1px solid black; height: 60px; width: 100%;"></div> <p style="text-align: center;"><input type="button" value="Submit"/></p>							Customer	Invoice #	Amt. per invoice	Confirmed w/o exception (see note A below)	Confirmation not received (see note B below)	Confirmed w/Exception (see note C below)	Reconciled diff.(see Appen B)	Unreconciled diff (see Appen B)	Central Fabrication	Total bal	\$ 413,200	\$ 413,200					Discount Auto	Total bal	164,434			\$ 130,272	\$33,482	\$680	Prof. Body Repair	056874	60,070	60,070					A-1 Automotive	057999	55,314	55,314					Western General Parts	058500	45,000	45,000					New Century Motors	058338	49,500		49,500				Magic Imports	056565	40,500	40,500					Collision Spec, Inc.	056940	59,920	59,920					Great Northern Motors	056585	42,800	42,800					BBC Brake & Muffler	056960	91,000	91,000					Harvard Body Works	056660	42,000	42,000					BBC Brake & Muffler	059605	107,000	107,000					Western General Parts	059606	36,000	36,000					Pro-Sport Autos	057260	56,504	56,504					Ross Auto Restoration	058824	57,890	57,890				
Customer	Invoice #	Amt. per invoice	Confirmed w/o exception (see note A below)	Confirmation not received (see note B below)	Confirmed w/Exception (see note C below)	Reconciled diff.(see Appen B)	Unreconciled diff (see Appen B)																																																																																																																																
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Appendix J – Audit Procedure Workpapers 2-10 and Overall Conclusion (continued)

Logout	Accounts Receivables Workpaper 9								
Name: View Name Email: View Email Phone: View Phone	AR-9: 1/14/08 Prepared by: jas								
Home Review Task Details	Procedure: Evaluate adequacy of JMI's allowance for uncollectibles using both historical trends and aging analysis.								
Background Information <ul style="list-style-type: none"> • Engagement History • Client Description • Income and Stock Price Data • Interim Work and Results • Engagement Staffing • Year-end Audit Program 	Work Performed: Historical Trend Analysis: <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td>A/R Allowance @ 12/31/07</td> <td style="text-align: right;">\$ 233,595</td> </tr> <tr> <td>Additional Reserve (see note A at Appendix E)</td> <td style="text-align: right;">\$ 148,036</td> </tr> <tr> <td>Write-Offs (see note B at Appendix E)</td> <td style="text-align: right;">\$ (112,632)</td> </tr> <tr> <td>A/R Allowance @ 12/31/07</td> <td style="text-align: right;">\$ 268,999</td> </tr> </table>	A/R Allowance @ 12/31/07	\$ 233,595	Additional Reserve (see note A at Appendix E)	\$ 148,036	Write-Offs (see note B at Appendix E)	\$ (112,632)	A/R Allowance @ 12/31/07	\$ 268,999
A/R Allowance @ 12/31/07	\$ 233,595								
Additional Reserve (see note A at Appendix E)	\$ 148,036								
Write-Offs (see note B at Appendix E)	\$ (112,632)								
A/R Allowance @ 12/31/07	\$ 268,999								
The Accounts Receivables Workpapers <ul style="list-style-type: none"> • AR-2 • AR-3 • AR-4 • AR-5 • AR-6 • AR-7 • AR-8 • AR-9 • AR-10 • Overall Conclusion 	<p>Based on discussions with client management and test work performed at Appendix E, the client's allowance for doubtful accounts balance at 12/31/07 appears adequate to cover all balances identified as potentially uncollectible as well as other A/R balances not currently in dispute which may become bad debts.</p>								
Supporting Schedules <ul style="list-style-type: none"> • Appendix A: A/R Confirmations • Appendix B: Reconciliation of Discount Auto A/R Balance • Appendix C: Aged A/R Balances by Customer • Appendix D: Notes to A/R Schedule & Analysis at AR-4 • Appendix E: Notes to Uncollectible Analysis at AR-9 • Appendix F: Analysis of Credit Memo Details at AR-10 	<p>Based on your review, please provide your opinion on the preparer's conclusions on this audit step (check one):</p> <p><input type="radio"/> Agree with preparer</p> <p><input type="radio"/> Disagree with preparer</p> <p>Review Notes:</p> <div style="border: 1px solid black; height: 60px; width: 100%;"></div> <p style="text-align: center;"><input type="button" value="Submit"/></p>								

Appendix J – Audit Procedure Workpapers 2-10 and Overall Conclusion (continued)

Logout	Accounts Receivables Workpaper 10
Name: Tanya / Nelson	AR-10: 1/18/08
Email: tanya.nelson@deloitte.com	Prepared by: jas
Phone: (415) 555-1234	
Home	Procedure: Review credit memo transactions for reasonableness.
Review Task Details	Work Performed:
Background Information	See Appendix F
<ul style="list-style-type: none">Engagement HistoryClient DescriptionIncome and Stock Price DataInterim Work and ResultsEngagement StaffingYear-end Audit Program	Based on test work performed at Appendix F, the client's credit memo transactions appear reasonable.
The Accounts Receivables Workpapers	Based on your review, please provide your opinion on the preparer's conclusions on this audit step (check one):
<ul style="list-style-type: none">AR-2AR-3AR-4AR-5AR-6AR-7AR-8AR-9AR-10Overall Conclusion	<input type="radio"/> Agree with preparer
Supporting Schedules	<input type="radio"/> Disagree with preparer
<ul style="list-style-type: none">Appendix A: A/R ConfirmationsAppendix B: Reconciliation of Discount Auto A/R BalanceAppendix C: Aged A/R Balances by CustomerAppendix D: Notes to A/R Schedule & Analysis at AR-4Appendix E: Notes to Uncollectible Analysis at AR-9Appendix F: Analysis of Credit Memo Details at AR-10	Review Notes:
	<div style="border: 1px solid black; height: 60px; width: 100%;"></div>
	<input type="button" value="Submit"/>

Appendix J – Audit Procedure Workpapers 2-10 and Overall Conclusion (continued)

Logout	Accounts Receivables Overall Conclusion
Name: Tanya Wilson	Prepared by: jas
Email: tawilson@deloitte.com	
Phone: (312) 463-1000	
Home Review Task Details	OVERALL CONCLUSION:
Background Information	Based on the test work performed in the preceding workpapers, the client's sales and non-sales A/R, allowance for doubtful accounts, and related bad debts expense balances appear fairly stated as of, and for the year ended, 12/31/07.
<ul style="list-style-type: none">Engagement HistoryClient DescriptionIncome and Stock Price DataInterim Work and ResultsEngagement StaffingYear-end Audit Program	Based on your review, please provide your opinion on the preparer's conclusions on this audit step (check one):
The Accounts Receivables Workpapers	<input type="radio"/> Agree with preparer
<ul style="list-style-type: none">AR-2AR-3AR-4AR-5AR-6AR-7AR-8AR-9AR-10Overall Conclusion	<input type="radio"/> Disagree with preparer
Supporting Schedules	Review Notes:
<ul style="list-style-type: none">Appendix A: A/R ConfirmationsAppendix B: Reconciliation of Discount Auto A/R BalanceAppendix C: Aged A/R Balances by CustomerAppendix D: Notes to A/R Schedule & Analysis at AR-4Appendix E: Notes to Uncollectible Analysis at AR-9Appendix F: Analysis of Credit Memo Details at AR-10	<div style="border: 1px solid black; height: 60px; width: 100%;"></div>
	<input type="button" value="Submit"/>

Appendix K – Access Screen for Post-Experimental Questionnaire

<p style="text-align: center;">Logout</p> <hr/> <p>Name: [Redacted] Email: [Redacted] Phone: [Redacted]</p> <hr/> <p>Home Review Task Details</p> <p>Background Information</p> <ul style="list-style-type: none">• Engagement History• Client Description• Income and Stock Price Data• Interim Work and Results• Engagement Staffing• Year-end Audit Program <p>The Accounts Receivables Workpapers</p> <ul style="list-style-type: none">• AR-2• AR-3• AR-4• AR-5• AR-6• AR-7• AR-8• AR-9• AR-10• Overall Conclusion <p>Supporting Schedules</p> <ul style="list-style-type: none">• Appendix A: A/R Confirmations• Appendix B: Reconciliation of Discount Auto A/R Balance• Appendix C: Aged A/R Balances by Customer• Appendix D: Notes to A/R Schedule & Analysis at AR-4• Appendix E: Notes to Uncollectible Analysis at AR-9• Appendix F: Analysis of Credit Memo Details at AR-10	<h3>Audit Review</h3> <p>You have completed all necessary Accounts Receivable Workpapers.</p> <p>You may continue to review the workpapers and edit your responses or You may complete the study, by clicking here to access the post-study questionnaire.</p> <p>Thank you.</p>
--	--

Appendix L – Post-Experimental Questionnaire

Post-Experimental Information

As a final step, please provide us with the following information:

1. This question has two parts:

a. For which of the following were you accountable?

- The process you followed while conducting your review
- Your final review findings and comments

b. To what extent did you feel accountable?

2. Experience with revenue/receivables cycle?

3. What percentage of your time during the past year did you spend reviewing working papers? %

4. Your Position in the Firm

5. Gender

- Male
- Female

6. What is your age? Years Months

7. Years of Experience in Public Accounting: Years Months

8. Years of Audit Experience: Years Months

9. Industry Specialization(s):

years experience in industry.

years experience in industry.

10. Which do you have more experience with?

- Audits of Publicly-traded companies.
- Audits of Privately-held companies.

Check this box if you are interested in receiving a copy of the results from this study.

Thank you for your participation!

Appendix M – Supporting Documents

Logout	Appendix A
Name: Tracy Nelson Email: tracy@tracynelson.com Phone: 505-253-1111	A/R Confirmations
Home Review Task Details	<ul style="list-style-type: none">• Central Fabrication• Professional Body Repair• A-1 Automotive• Western General Parts• ABS Systems• Magic Imports• Collision Specialists, Inc• Great Northern Motors• BBS Brake & Muffler (1)• Harvard Body Works• BBS Brake & Muffler (2)• Ross Auto Restoration• Pro-Sport Auto• Discount Auto• New Century Motors
Background Information <ul style="list-style-type: none">• Engagement History• Client Description• Income and Stock Price Data• Interim Work and Results• Engagement Staffing• Year-end Audit Program	
The Accounts Receivables Workpapers <ul style="list-style-type: none">• AR-2• AR-3• AR-4• AR-5• AR-6• AR-7• AR-8• AR-9• AR-10• Overall Conclusion	
Supporting Schedules <ul style="list-style-type: none">• Appendix A: A/R Confirmations• Appendix B: Reconciliation of Discount Auto A/R Balance• Appendix C: Aged A/R Balances by Customer• Appendix D: Notes to A/R Schedule & Analysis at AR-4• Appendix E: Notes to Uncollectible Analysis at AR-9• Appendix F: Analysis of Credit Memo Details at AR-10	

Appendix M – Supporting Documents (continued)

<p>Logout</p> <hr/> <p>Name: Tracy Nelson Email: tracy@tracynelson.com Phone: (503) 333-3333</p> <hr/> <p>Home Review Task Details</p> <p>Background Information</p> <ul style="list-style-type: none"> • Engagement History • Client Description • Income and Stock Price Data • Interim Work and Results • Engagement Staffing • Year-end Audit Program <p>The Accounts Receivables Workpapers</p> <ul style="list-style-type: none"> • AR-2 • AR-3 • AR-4 • AR-5 • AR-6 • AR-7 • AR-8 • AR-9 • AR-10 • Overall Conclusion <p>Supporting Schedules</p> <ul style="list-style-type: none"> • Appendix A: A/R Confirmations • Appendix B: Reconciliation of Discount Auto A/R Balance • Appendix C: Aged A/R Balances by Customer • Appendix D: Notes to A/R Schedule & Analysis at AR-4 • Appendix E: Notes to Uncollectible Analysis at AR-9 • Appendix F: Analysis of Credit Memo Details at AR-10 	<p>A/R Confirmation: Professional Body Repair</p> <p><i>January 3, 2008</i></p> <p>Ladies and Gentlemen:</p> <p>In connection with the audit of our financial statements as of 12/31/07 and for the year then ended, our independent auditors wish to determine whether our records of your indebtedness to us at 12/31/07 agree with yours. According to our records, your indebtedness to us on that date included the following invoice(s):</p> <table border="1" style="width: 100%; border-collapse: collapse; margin-top: 10px;"> <thead> <tr style="background-color: #e0e0e0;"> <th style="text-align: left;">Invoice Number</th> <th style="text-align: left;">Invoice Date</th> <th style="text-align: left;">Amount</th> </tr> </thead> <tbody> <tr> <td>056874</td> <td>11/3/07</td> <td>\$60,070.00</td> </tr> </tbody> </table> <p>This is neither a request for payment, nor an indication of your total indebtedness to us.</p> <p>Please compare the above information to your records, complete the statement below, and send this letter directly to our independent auditors, DCH. An addressed envelope is enclosed for your convenience.</p> <p>The information stated above is (<input type="radio"/>) Correct (<input type="radio"/>) Not Correct</p> <p>Please give details of differences, if any.</p> <p>Company: <i>PROFESSIONAL BODY REPAIR</i> Signature: <i>Janice S. Tucker</i> Title: <i>A/P Supervisor</i> Date: <i>January 14, 2008</i></p> <p>NOTE: To return to the confirmation listings, please click on the Appendix A link on the left.</p>	Invoice Number	Invoice Date	Amount	056874	11/3/07	\$60,070.00
Invoice Number	Invoice Date	Amount					
056874	11/3/07	\$60,070.00					

<p>Logout</p> <hr/> <p>Name: Tracy Nelson Email: tracy@tracynelson.com Phone: (503) 333-3333</p> <hr/> <p>Home Review Task Details</p> <p>Background Information</p> <ul style="list-style-type: none"> • Engagement History • Client Description • Income and Stock Price Data • Interim Work and Results • Engagement Staffing • Year-end Audit Program <p>The Accounts Receivables Workpapers</p> <ul style="list-style-type: none"> • AR-2 • AR-3 • AR-4 • AR-5 • AR-6 • AR-7 • AR-8 • AR-9 • AR-10 • Overall Conclusion <p>Supporting Schedules</p> <ul style="list-style-type: none"> • Appendix A: A/R Confirmations • Appendix B: Reconciliation of Discount Auto A/R Balance • Appendix C: Aged A/R Balances by Customer • Appendix D: Notes to A/R Schedule & Analysis at AR-4 • Appendix E: Notes to Uncollectible Analysis at AR-9 • Appendix F: Analysis of Credit Memo Details at AR-10 	<p>A/R Confirmation: Central Fabrication</p> <p><i>January 3, 2008</i></p> <p>Ladies and Gentlemen:</p> <p>In connection with the audit of our financial statements as of 12/31/07 and for the year then ended, our independent auditors wish to determine whether our records of your indebtedness to us at 12/31/07 agree with yours. According to our records, your indebtedness to us on that date included the following invoice(s):</p> <table border="1" style="width: 100%; border-collapse: collapse; margin-top: 10px;"> <thead> <tr style="background-color: #e0e0e0;"> <th style="text-align: left;">Invoice Number</th> <th style="text-align: left;">Invoice Date</th> <th style="text-align: left;">Amount</th> </tr> </thead> <tbody> <tr> <td>Total Balance</td> <td>12/31/07</td> <td>\$354,709.30</td> </tr> </tbody> </table> <p>This is neither a request for payment, nor an indication of your total indebtedness to us.</p> <p>Please compare the above information to your records, complete the statement below, and send this letter directly to our independent auditors, DCH. An addressed envelope is enclosed for your convenience.</p> <p>The information stated above is (<input type="radio"/>) Correct (<input type="radio"/>) Not Correct</p> <p>Please give details of differences, if any.</p> <p>Company: <i>Central Fab</i> Signature: <i>Johnathan B. Baskins</i> Title: <i>CFD</i> Date: <i>1/10/08</i></p> <p>NOTE: To return to the confirmation listings, please click on the Appendix A link on the left.</p>	Invoice Number	Invoice Date	Amount	Total Balance	12/31/07	\$354,709.30
Invoice Number	Invoice Date	Amount					
Total Balance	12/31/07	\$354,709.30					

Appendix M – Supporting Documents (continued)

<div style="background-color: #e0e0e0; padding: 2px; text-align: center; font-weight: bold;">Logout</div> <p>Name: [Redacted] Email: [Redacted] Phone: [Redacted]</p> <hr/> <p>Home Review Task Details</p> <p>Background Information</p> <ul style="list-style-type: none"> • Engagement History • Client Description • Income and Stock Price Data • Interim Work and Results • Engagement Staffing • Year-end Audit Program <p>The Accounts Receivables Workpapers</p> <ul style="list-style-type: none"> • AR-2 • AR-3 • AR-4 • AR-5 • AR-6 • AR-7 • AR-8 • AR-9 • AR-10 • Overall Conclusion <p>Supporting Schedules</p> <ul style="list-style-type: none"> • Appendix A: A/R Confirmations • Appendix B: Reconciliation of Discount Auto A/R Balance • Appendix C: Aged A/R Balances by Customer • Appendix D: Notes to A/R Schedule & Analysis at AR-4 • Appendix E: Notes to Uncollectible Analysis at AR-9 • Appendix F: Analysis of Credit Memo Details at AR-10 	<p>A/R Confirmation: A-1 Automotive</p> <p><i>January 3, 2008</i></p> <p>Ladies and Gentlemen:</p> <p>In connection with the audit of our financial statements as of 12/31/07 and for the year then ended, our independent auditors wish to determine whether our records of your indebtedness to us at 12/31/07 agree with yours. According to our records, your indebtedness to us on that date included the following invoice(s):</p> <table border="1" style="width: 100%; border-collapse: collapse; margin-top: 10px;"> <thead> <tr> <th style="text-align: left;">Invoice Number</th> <th style="text-align: left;">Invoice Date</th> <th style="text-align: left;">Amount</th> </tr> </thead> <tbody> <tr> <td>057999</td> <td>12/1/07</td> <td>\$55,313.84</td> </tr> </tbody> </table> <p>This is neither a request for payment, nor an indication of your total indebtedness to us.</p> <p>Please compare the above information to your records, complete the statement below, and send this letter directly to our independent auditors, DCH. An addressed envelope is enclosed for your convenience.</p> <p>The information stated above is <input type="radio"/> Correct <input type="radio"/> Not Correct</p> <p>Please give details of differences, if any.</p> <p>Company: A-1 AUTOMOTIVE Signature: Mary Ann Little Title: ACCTS. PAYABLE CLERK Date: January 12, 2008</p> <p>NOTE: To return to the confirmation listings, please click on the Appendix A link on the left.</p>	Invoice Number	Invoice Date	Amount	057999	12/1/07	\$55,313.84
Invoice Number	Invoice Date	Amount					
057999	12/1/07	\$55,313.84					
<div style="background-color: #e0e0e0; padding: 2px; text-align: center; font-weight: bold;">Logout</div> <p>Name: [Redacted] Email: [Redacted] Phone: [Redacted]</p> <hr/> <p>Home Review Task Details</p> <p>Background Information</p> <ul style="list-style-type: none"> • Engagement History • Client Description • Income and Stock Price Data • Interim Work and Results • Engagement Staffing • Year-end Audit Program <p>The Accounts Receivables Workpapers</p> <ul style="list-style-type: none"> • AR-2 • AR-3 • AR-4 • AR-5 • AR-6 • AR-7 • AR-8 • AR-9 • AR-10 • Overall Conclusion <p>Supporting Schedules</p> <ul style="list-style-type: none"> • Appendix A: A/R Confirmations • Appendix B: Reconciliation of Discount Auto A/R Balance • Appendix C: Aged A/R Balances by Customer • Appendix D: Notes to A/R Schedule & Analysis at AR-4 • Appendix E: Notes to Uncollectible Analysis at AR-9 • Appendix F: Analysis of Credit Memo Details at AR-10 	<p>A/R Confirmation: Western General Parts</p> <p><i>January 3, 2008</i></p> <p>Ladies and Gentlemen:</p> <p>In connection with the audit of our financial statements as of 12/31/07 and for the year then ended, our independent auditors wish to determine whether our records of your indebtedness to us at 12/31/07 agree with yours. According to our records, your indebtedness to us on that date included the following invoice(s):</p> <table border="1" style="width: 100%; border-collapse: collapse; margin-top: 10px;"> <thead> <tr> <th style="text-align: left;">Invoice Number</th> <th style="text-align: left;">Invoice Date</th> <th style="text-align: left;">Amount</th> </tr> </thead> <tbody> <tr> <td>058500</td> <td>12/9/07</td> <td>\$45,000.00</td> </tr> </tbody> </table> <p>This is neither a request for payment, nor an indication of your total indebtedness to us.</p> <p>Please compare the above information to your records, complete the statement below, and send this letter directly to our independent auditors, DCH. An addressed envelope is enclosed for your convenience.</p> <p>The information stated above is <input type="radio"/> Correct <input type="radio"/> Not Correct</p> <p>Please give details of differences, if any.</p> <p>Company: <i>Western General Parts</i> Signature: <i>Carl P. Fisher</i> Title: <i>VP of Finance</i> Date: <i>1-7-08</i></p> <p>NOTE: To return to the confirmation listings, please click on the Appendix A link on the left.</p>	Invoice Number	Invoice Date	Amount	058500	12/9/07	\$45,000.00
Invoice Number	Invoice Date	Amount					
058500	12/9/07	\$45,000.00					

Appendix M – Supporting Documents (continued)

<p style="text-align: center; margin: 0;">Logout</p> <hr/> <p>Name: [Redacted] Email: [Redacted] Phone: [Redacted]</p> <p>Home Review Task Details</p> <p>Background Information</p> <ul style="list-style-type: none"> • Engagement History • Client Description • Income and Stock Price Data • Interim Work and Results • Engagement Staffing • Year-end Audit Program <p>The Accounts Receivables Workpapers</p> <ul style="list-style-type: none"> • AR-2 • AR-3 • AR-4 • AR-5 • AR-6 • AR-7 • AR-8 • AR-9 • AR-10 • Overall Conclusion <p>Supporting Schedules</p> <ul style="list-style-type: none"> • Appendix A: A/R Confirmations • Appendix B: Reconciliation of Discount Auto A/R Balance • Appendix C: Aged A/R Balances by Customer • Appendix D: Notes to A/R Schedule & Analysis at AR-4 • Appendix E: Notes to Uncollectible Analysis at AR-9 • Appendix F: Analysis of Credit Memo Details at AR-10 	<p>A/R Confirmation: ABS Systems</p> <p><i>January 3, 2008</i></p> <p>Ladies and Gentlemen:</p> <p>In connection with the audit of our financial statements as of 12/31/07 and for the year then ended, our independent auditors wish to determine whether our records of your indebtedness to us at 12/31/07 agree with yours. According to our records, your indebtedness to us on that date included the following invoice(s):</p> <table border="1" style="width: 100%; border-collapse: collapse; margin: 10px 0;"> <thead> <tr> <th style="text-align: left;">Invoice Number</th> <th style="text-align: left;">Invoice Date</th> <th style="text-align: left;">Amount</th> </tr> </thead> <tbody> <tr> <td>059518</td> <td>12/18/07</td> <td>\$57,500.00</td> </tr> </tbody> </table> <p>This is neither a request for payment, nor an indication of your total indebtedness to us.</p> <p>Please compare the above information to your records, complete the statement below, and send this letter directly to our independent auditors, DCH. An addressed envelope is enclosed for your convenience.</p> <p>The information stated above is <input type="radio"/> Correct <input type="radio"/> Not Correct</p> <p>Please give details of differences, if any.</p> <p>Company: <i>ABS Systems</i> Signature: <i>Jack Winters</i> Title: <i>Controller</i> Date: <i>1/17/08</i></p> <p>NOTE: To return to the confirmation listings, please click on the Appendix A link on the left.</p>	Invoice Number	Invoice Date	Amount	059518	12/18/07	\$57,500.00
Invoice Number	Invoice Date	Amount					
059518	12/18/07	\$57,500.00					

<p style="text-align: center; margin: 0;">Logout</p> <hr/> <p>Name: [Redacted] Email: [Redacted] Phone: [Redacted]</p> <p>Home Review Task Details</p> <p>Background Information</p> <ul style="list-style-type: none"> • Engagement History • Client Description • Income and Stock Price Data • Interim Work and Results • Engagement Staffing • Year-end Audit Program <p>The Accounts Receivables Workpapers</p> <ul style="list-style-type: none"> • AR-2 • AR-3 • AR-4 • AR-5 • AR-6 • AR-7 • AR-8 • AR-9 • AR-10 • Overall Conclusion <p>Supporting Schedules</p> <ul style="list-style-type: none"> • Appendix A: A/R Confirmations • Appendix B: Reconciliation of Discount Auto A/R Balance • Appendix C: Aged A/R Balances by Customer • Appendix D: Notes to A/R Schedule & Analysis at AR-4 • Appendix E: Notes to Uncollectible Analysis at AR-9 • Appendix F: Analysis of Credit Memo Details at AR-10 	<p>A/R Confirmation: Magic Imports</p> <p><i>January 3, 2008</i></p> <p>Ladies and Gentlemen:</p> <p>In connection with the audit of our financial statements as of 12/31/07 and for the year then ended, our independent auditors wish to determine whether our records of your indebtedness to us at 12/31/07 agree with yours. According to our records, your indebtedness to us on that date included the following invoice(s):</p> <table border="1" style="width: 100%; border-collapse: collapse; margin: 10px 0;"> <thead> <tr> <th style="text-align: left;">Invoice Number</th> <th style="text-align: left;">Invoice Date</th> <th style="text-align: left;">Amount</th> </tr> </thead> <tbody> <tr> <td>056565</td> <td>10/20/07</td> <td>\$40,500.00</td> </tr> </tbody> </table> <p>This is neither a request for payment, nor an indication of your total indebtedness to us.</p> <p>Please compare the above information to your records, complete the statement below, and send this letter directly to our independent auditors, DCH. An addressed envelope is enclosed for your convenience.</p> <p>The information stated above is <input type="radio"/> Correct <input type="radio"/> Not Correct</p> <p>Please give details of differences, if any.</p> <p>Company: <i>MAGIC IMPORTS</i> Signature: <i>Michael J. Magic</i> Title: <i>OWNER</i> Date: <i>1/24/08</i></p> <p>NOTE: To return to the confirmation listings, please click on the Appendix A link on the left.</p>	Invoice Number	Invoice Date	Amount	056565	10/20/07	\$40,500.00
Invoice Number	Invoice Date	Amount					
056565	10/20/07	\$40,500.00					

Appendix M – Supporting Documents (continued)

<div style="background-color: #e0e0e0; padding: 2px; text-align: center; font-weight: bold;">Logout</div> <p>Name: [Redacted] Email: [Redacted] Phone: [Redacted]</p> <p>Home Review Task Details</p> <p>Background Information</p> <ul style="list-style-type: none"> • Engagement History • Client Description • Income and Stock Price Data • Interim Work and Results • Engagement Staffing • Year-end Audit Program <p>The Accounts Receivables Workpapers</p> <ul style="list-style-type: none"> • AR-2 • AR-3 • AR-4 • AR-5 • AR-6 • AR-7 • AR-8 • AR-9 • AR-10 • Overall Conclusion <p>Supporting Schedules</p> <ul style="list-style-type: none"> • Appendix A: A/R Confirmations • Appendix B: Reconciliation of Discount Auto A/R Balance • Appendix C: Aged A/R Balances by Customer • Appendix D: Notes to A/R Schedule & Analysis at AR-4 • Appendix E: Notes to Uncollectible Analysis at AR-9 • Appendix F: Analysis of Credit Memo Details at AR-10 	<p>A/R Confirmation: Collision Specialists, Inc</p> <p><i>January 3, 2008</i></p> <p>Ladies and Gentlemen:</p> <p>In connection with the audit of our financial statements as of 12/31/07 and for the year then ended, our independent auditors wish to determine whether our records of your indebtedness to us at 12/31/07 agree with yours. According to our records, your indebtedness to us on that date included the following invoice(s):</p> <table border="1" style="width: 100%; border-collapse: collapse; margin-top: 10px;"> <thead> <tr> <th style="text-align: left;">Invoice Number</th> <th style="text-align: left;">Invoice Date</th> <th style="text-align: left;">Amount</th> </tr> </thead> <tbody> <tr> <td>056940</td> <td>11/10/07</td> <td>\$59,919.97</td> </tr> </tbody> </table> <p>This is neither a request for payment, nor an indication of your total indebtedness to us.</p> <p>Please compare the above information to your records, complete the statement below, and send this letter directly to our independent auditors, DCH. An addressed envelope is enclosed for your convenience.</p> <p>The information stated above is (o) Correct () Not Correct</p> <p>Please give details of differences, if any.</p> <p>Company: <i>CSI</i> Signature: <i>Elsie P. Potter</i> Title: <i>A/R Clerk</i> Date: <i>1/13/08</i></p> <p>NOTE: To return to the confirmation listings, please click on the Appendix A link on the left.</p>	Invoice Number	Invoice Date	Amount	056940	11/10/07	\$59,919.97
Invoice Number	Invoice Date	Amount					
056940	11/10/07	\$59,919.97					

<div style="background-color: #e0e0e0; padding: 2px; text-align: center; font-weight: bold;">Logout</div> <p>Name: [Redacted] Email: [Redacted] Phone: [Redacted]</p> <p>Home Review Task Details</p> <p>Background Information</p> <ul style="list-style-type: none"> • Engagement History • Client Description • Income and Stock Price Data • Interim Work and Results • Engagement Staffing • Year-end Audit Program <p>The Accounts Receivables Workpapers</p> <ul style="list-style-type: none"> • AR-2 • AR-3 • AR-4 • AR-5 • AR-6 • AR-7 • AR-8 • AR-9 • AR-10 • Overall Conclusion <p>Supporting Schedules</p> <ul style="list-style-type: none"> • Appendix A: A/R Confirmations • Appendix B: Reconciliation of Discount Auto A/R Balance • Appendix C: Aged A/R Balances by Customer • Appendix D: Notes to A/R Schedule & Analysis at AR-4 • Appendix E: Notes to Uncollectible Analysis at AR-9 • Appendix F: Analysis of Credit Memo Details at AR-10 	<p>A/R Confirmation: Great Northern Motors</p> <p><i>January 3, 2008</i></p> <p>Ladies and Gentlemen:</p> <p>In connection with the audit of our financial statements as of 12/31/07 and for the year then ended, our independent auditors wish to determine whether our records of your indebtedness to us at 12/31/07 agree with yours. According to our records, your indebtedness to us on that date included the following invoice(s):</p> <table border="1" style="width: 100%; border-collapse: collapse; margin-top: 10px;"> <thead> <tr> <th style="text-align: left;">Invoice Number</th> <th style="text-align: left;">Invoice Date</th> <th style="text-align: left;">Amount</th> </tr> </thead> <tbody> <tr> <td>056585</td> <td>10/22/07</td> <td>\$42,800.00</td> </tr> </tbody> </table> <p>This is neither a request for payment, nor an indication of your total indebtedness to us.</p> <p>Please compare the above information to your records, complete the statement below, and send this letter directly to our independent auditors, DCH. An addressed envelope is enclosed for your convenience.</p> <p>The information stated above is (o) Correct () Not Correct</p> <p>Please give details of differences, if any.</p> <p>Company: <i>Great Northern Motors</i> Signature: <i>Leslie J. Harmon</i> Title: <i>CFO</i> Date: <i>1/11/08</i></p> <p>NOTE: To return to the confirmation listings, please click on the Appendix A link on the left.</p>	Invoice Number	Invoice Date	Amount	056585	10/22/07	\$42,800.00
Invoice Number	Invoice Date	Amount					
056585	10/22/07	\$42,800.00					

Appendix M – Supporting Documents (continued)

<p style="text-align: center; margin: 0;">Logout</p> <p>Name: Tracy Hansen Email: tracy.hansen@deloitte.com Phone: 602-352-2222</p> <p>Home Review Task Details</p> <p>Background Information</p> <ul style="list-style-type: none"> • Engagement History • Client Description • Income and Stock Price Data • Interim Work and Results • Engagement Staffing • Year-end Audit Program <p>The Accounts Receivables Workpapers</p> <ul style="list-style-type: none"> • AR-2 • AR-3 • AR-4 • AR-5 • AR-6 • AR-7 • AR-8 • AR-9 • AR-10 • Overall Conclusion <p>Supporting Schedules</p> <ul style="list-style-type: none"> • Appendix A: A/R Confirmations • Appendix B: Reconciliation of Discount Auto A/R Balance • Appendix C: Aged A/R Balances by Customer • Appendix D: Notes to A/R Schedule & Analysis at AR-4 • Appendix E: Notes to Uncollectible Analysis at AR-9 • Appendix F: Analysis of Credit Memo Details at AR-10 	<p>A/R Confirmation: BBS Brake & Muffler (1)</p> <p><i>January 3, 2008</i></p> <p>Ladies and Gentlemen:</p> <p>In connection with the audit of our financial statements as of 12/31/07 and for the year then ended, our independent auditors wish to determine whether our records of your indebtedness to us at 12/31/07 agree with yours. According to our records, your indebtedness to us on that date included the following invoice(s):</p> <table border="1" style="width: 100%; border-collapse: collapse; margin-top: 10px;"> <thead> <tr> <th style="text-align: left;">Invoice Number</th> <th style="text-align: left;">Invoice Date</th> <th style="text-align: left;">Amount</th> </tr> </thead> <tbody> <tr> <td>056960</td> <td>11/21/07</td> <td>\$91,000.00</td> </tr> </tbody> </table> <p>This is neither a request for payment, nor an indication of your total indebtedness to us.</p> <p>Please compare the above information to your records, complete the statement below, and send this letter directly to our independent auditors, DCH. An addressed envelope is enclosed for your convenience.</p> <p>The information stated above is <input type="radio"/> Correct <input type="radio"/> Not Correct</p> <p>Please give details of differences, if any.</p> <p>Company: BBC Brake and Muffler Signature: Donna Diana Title: Assistant Controller Date: 1/20/08</p> <p>NOTE: To return to the confirmation listings, please click on the Appendix A link on the left.</p>	Invoice Number	Invoice Date	Amount	056960	11/21/07	\$91,000.00
Invoice Number	Invoice Date	Amount					
056960	11/21/07	\$91,000.00					

<p style="text-align: center; margin: 0;">Logout</p> <p>Name: Tracy Hansen Email: tracy.hansen@deloitte.com Phone: 602-352-2222</p> <p>Home Review Task Details</p> <p>Background Information</p> <ul style="list-style-type: none"> • Engagement History • Client Description • Income and Stock Price Data • Interim Work and Results • Engagement Staffing • Year-end Audit Program <p>The Accounts Receivables Workpapers</p> <ul style="list-style-type: none"> • AR-2 • AR-3 • AR-4 • AR-5 • AR-6 • AR-7 • AR-8 • AR-9 • AR-10 • Overall Conclusion <p>Supporting Schedules</p> <ul style="list-style-type: none"> • Appendix A: A/R Confirmations • Appendix B: Reconciliation of Discount Auto A/R Balance • Appendix C: Aged A/R Balances by Customer • Appendix D: Notes to A/R Schedule & Analysis at AR-4 • Appendix E: Notes to Uncollectible Analysis at AR-9 • Appendix F: Analysis of Credit Memo Details at AR-10 	<p>A/R Confirmation: Harvard Body Works</p> <p><i>January 3, 2008</i></p> <p>Ladies and Gentlemen:</p> <p>In connection with the audit of our financial statements as of 12/31/07 and for the year then ended, our independent auditors wish to determine whether our records of your indebtedness to us at 12/31/07 agree with yours. According to our records, your indebtedness to us on that date included the following invoice(s):</p> <table border="1" style="width: 100%; border-collapse: collapse; margin-top: 10px;"> <thead> <tr> <th style="text-align: left;">Invoice Number</th> <th style="text-align: left;">Invoice Date</th> <th style="text-align: left;">Amount</th> </tr> </thead> <tbody> <tr> <td>056660</td> <td>10/26/07</td> <td>\$42,000.00</td> </tr> </tbody> </table> <p>This is neither a request for payment, nor an indication of your total indebtedness to us.</p> <p>Please compare the above information to your records, complete the statement below, and send this letter directly to our independent auditors, DCH. An addressed envelope is enclosed for your convenience.</p> <p>The information stated above is <input type="radio"/> Correct <input type="radio"/> Not Correct</p> <p>Please give details of differences, if any.</p> <p>Company: <i>Harvard Body Works</i> Signature: <i>James J. True</i> Title: <i>Controller</i> Date: <i>1-8-08</i></p> <p>NOTE: To return to the confirmation listings, please click on the Appendix A link on the left.</p>	Invoice Number	Invoice Date	Amount	056660	10/26/07	\$42,000.00
Invoice Number	Invoice Date	Amount					
056660	10/26/07	\$42,000.00					

Appendix M – Supporting Documents (continued)

<p style="text-align: center; margin: 0;">Logout</p> <hr/> <p>Name: Tracy Hester Email: tracy@hester.com Phone: (951) 952-1111</p> <hr/> <p style="text-align: center;">Home Review Task Details</p> <p>Background Information</p> <ul style="list-style-type: none"> • Engagement History • Client Description • Income and Stock Price Data • Interim Work and Results • Engagement Staffing • Year-end Audit Program <p>The Accounts Receivables Workpapers</p> <ul style="list-style-type: none"> • AR-2 • AR-3 • AR-4 • AR-5 • AR-6 • AR-7 • AR-8 • AR-9 • AR-10 • Overall Conclusion <p>Supporting Schedules</p> <ul style="list-style-type: none"> • Appendix A: A/R Confirmations • Appendix B: Reconciliation of Discount Auto A/R Balance • Appendix C: Aged A/R Balances by Customer • Appendix D: Notes to A/R Schedule & Analysis at AR-4 • Appendix E: Notes to Uncollectible Analysis at AR-9 • Appendix F: Analysis of Credit Memo Details at AR-10 	<p>A/R Confirmation: BBS Brake & Muffler (2)</p> <p><i>January 3, 2008</i></p> <p>Ladies and Gentlemen:</p> <p>In connection with the audit of our financial statements as of 12/31/07 and for the year then ended, our independent auditors wish to determine whether our records of your indebtedness to us at 12/31/07 agree with yours. According to our records, your indebtedness to us on that date included the following invoice(s):</p> <table border="1" style="width: 100%; border-collapse: collapse; margin-top: 10px;"> <thead> <tr style="background-color: #e0e0e0;"> <th style="text-align: left;">Invoice Number</th> <th style="text-align: left;">Invoice Date</th> <th style="text-align: left;">Amount</th> </tr> </thead> <tbody> <tr> <td>059605</td> <td>12/30/07</td> <td>\$107,000.00</td> </tr> </tbody> </table> <p>This is neither a request for payment, nor an indication of your total indebtedness to us.</p> <p>Please compare the above information to your records, complete the statement below, and send this letter directly to our independent auditors, DCH. An addressed envelope is enclosed for your convenience.</p> <p>The information stated above is (<input type="radio"/>) Correct (<input type="radio"/>) Not Correct</p> <p>Please give details of differences, if any.</p> <p>Company: BBC Brake and Muffler Signature: Donna Diana Title: Assistant Controller Date: 1-10-08</p> <p>NOTE: To return to the confirmation listings, please click on the Appendix A link on the left.</p>	Invoice Number	Invoice Date	Amount	059605	12/30/07	\$107,000.00
Invoice Number	Invoice Date	Amount					
059605	12/30/07	\$107,000.00					

<p style="text-align: center; margin: 0;">Logout</p> <hr/> <p>Name: Tracy Hester Email: tracy@hester.com Phone: (951) 952-1111</p> <hr/> <p style="text-align: center;">Home Review Task Details</p> <p>Background Information</p> <ul style="list-style-type: none"> • Engagement History • Client Description • Income and Stock Price Data • Interim Work and Results • Engagement Staffing • Year-end Audit Program <p>The Accounts Receivables Workpapers</p> <ul style="list-style-type: none"> • AR-2 • AR-3 • AR-4 • AR-5 • AR-6 • AR-7 • AR-8 • AR-9 • AR-10 • Overall Conclusion <p>Supporting Schedules</p> <ul style="list-style-type: none"> • Appendix A: A/R Confirmations • Appendix B: Reconciliation of Discount Auto A/R Balance • Appendix C: Aged A/R Balances by Customer • Appendix D: Notes to A/R Schedule & Analysis at AR-4 • Appendix E: Notes to Uncollectible Analysis at AR-9 • Appendix F: Analysis of Credit Memo Details at AR-10 	<p>A/R Confirmation: Ross Auto Restoration</p> <p><i>January 3, 2008</i></p> <p>Ladies and Gentlemen:</p> <p>In connection with the audit of our financial statements as of 12/31/07 and for the year then ended, our independent auditors wish to determine whether our records of your indebtedness to us at 12/31/07 agree with yours. According to our records, your indebtedness to us on that date included the following invoice(s):</p> <table border="1" style="width: 100%; border-collapse: collapse; margin-top: 10px;"> <thead> <tr style="background-color: #e0e0e0;"> <th style="text-align: left;">Invoice Number</th> <th style="text-align: left;">Invoice Date</th> <th style="text-align: left;">Amount</th> </tr> </thead> <tbody> <tr> <td>058824</td> <td>12/14/07</td> <td>\$57,889.95</td> </tr> </tbody> </table> <p>This is neither a request for payment, nor an indication of your total indebtedness to us.</p> <p>Please compare the above information to your records, complete the statement below, and send this letter directly to our independent auditors, DCH. An addressed envelope is enclosed for your convenience.</p> <p>The information stated above is (<input type="radio"/>) Correct (<input type="radio"/>) Not Correct</p> <p>Please give details of differences, if any.</p> <p>Company: <i>Ross Auto Restoration</i> Signature: <i>Alan Ross</i> Title: <i>President</i> Date: <i>1/14/08</i></p> <p>NOTE: To return to the confirmation listings, please click on the Appendix A link on the left.</p>	Invoice Number	Invoice Date	Amount	058824	12/14/07	\$57,889.95
Invoice Number	Invoice Date	Amount					
058824	12/14/07	\$57,889.95					

Appendix M – Supporting Documents (continued)

<p style="text-align: center; margin: 0;">Logout</p> <hr/> <p>Name: View Name Email: View Email Phone: View Phone</p> <p>Home Review Task Details</p> <p>Background Information</p> <ul style="list-style-type: none"> • Engagement History • Client Description • Income and Stock Price Data • Interim Work and Results • Engagement Staffing • Year-end Audit Program <p>The Accounts Receivables Workpapers</p> <ul style="list-style-type: none"> • AR-2 • AR-3 • AR-4 • AR-5 • AR-6 • AR-7 • AR-8 • AR-9 • AR-10 • Overall Conclusion <p>Supporting Schedules</p> <ul style="list-style-type: none"> • Appendix A: A/R Confirmations • Appendix B: Reconciliation of Discount Auto A/R Balance • Appendix C: Aged A/R Balances by Customer • Appendix D: Notes to A/R Schedule & Analysis at AR-4 • Appendix E: Notes to Uncollectible Analysis at AR-9 • Appendix F: Analysis of Credit Memo Details at AR-10 	<p>A/R Confirmation: Pro-Sport Auto</p> <p><i>January 3, 2008</i></p> <p>Ladies and Gentlemen:</p> <p>In connection with the audit of our financial statements as of 12/31/07 and for the year then ended, our independent auditors wish to determine whether our records of your indebtedness to us at 12/31/07 agree with yours. According to our records, your indebtedness to us on that date included the following invoice(s):</p> <table border="1" style="width: 100%; border-collapse: collapse; margin-top: 10px;"> <thead> <tr> <th style="text-align: left;">Invoice Number</th> <th style="text-align: left;">Invoice Date</th> <th style="text-align: left;">Amount</th> </tr> </thead> <tbody> <tr> <td>057260</td> <td>11/23/07</td> <td>\$56,504.22</td> </tr> </tbody> </table> <p>This is neither a request for payment, nor an indication of your total indebtedness to us.</p> <p>Please compare the above information to your records, complete the statement below, and send this letter directly to our independent auditors, DCH. An addressed envelope is enclosed for your convenience.</p> <p>The information stated above is (<input type="radio"/>) Correct (<input type="radio"/>) Not Correct</p> <p>Please give details of differences, if any.</p> <p>Company: <i>PRO-SPORT AUTO</i> Signature: <i>Steven Jackson</i> Title: <i>A/P Manager</i> Date: <i>1/10/08</i></p> <p>NOTE: To return to the confirmation listings, please click on the Appendix A link on the left.</p>	Invoice Number	Invoice Date	Amount	057260	11/23/07	\$56,504.22
Invoice Number	Invoice Date	Amount					
057260	11/23/07	\$56,504.22					

<p style="text-align: center; margin: 0;">Logout</p> <hr/> <p>Name: View Name Email: View Email Phone: View Phone</p> <p>Home Review Task Details</p> <p>Background Information</p> <ul style="list-style-type: none"> • Engagement History • Client Description • Income and Stock Price Data • Interim Work and Results • Engagement Staffing • Year-end Audit Program <p>The Accounts Receivables Workpapers</p> <ul style="list-style-type: none"> • AR-2 • AR-3 • AR-4 • AR-5 • AR-6 • AR-7 • AR-8 • AR-9 • AR-10 • Overall Conclusion <p>Supporting Schedules</p> <ul style="list-style-type: none"> • Appendix A: A/R Confirmations • Appendix B: Reconciliation of Discount Auto A/R Balance • Appendix C: Aged A/R Balances by Customer • Appendix D: Notes to A/R Schedule & Analysis at AR-4 • Appendix E: Notes to Uncollectible Analysis at AR-9 • Appendix F: Analysis of Credit Memo Details at AR-10 	<p>A/R Confirmation: Discount Auto</p> <p><i>January 3, 2008</i></p> <p>Ladies and Gentlemen:</p> <p>In connection with the audit of our financial statements as of 12/31/07 and for the year then ended, our independent auditors wish to determine whether our records of your indebtedness to us at 12/31/07 agree with yours. According to our records, your indebtedness to us on that date included the following invoice(s):</p> <table border="1" style="width: 100%; border-collapse: collapse; margin-top: 10px;"> <thead> <tr> <th style="text-align: left;">Invoice Number</th> <th style="text-align: left;">Invoice Date</th> <th style="text-align: left;">Amount</th> </tr> </thead> <tbody> <tr> <td>Total Balance</td> <td>As of 12/31/07</td> <td>\$164,434.70</td> </tr> </tbody> </table> <p>This is neither a request for payment, nor an indication of your total indebtedness to us.</p> <p>Please compare the above information to your records, complete the statement below, and send this letter directly to our independent auditors, DCH. An addressed envelope is enclosed for your convenience.</p> <p>The information stated above is (<input type="radio"/>) Correct (<input type="radio"/>) Not Correct</p> <p>Please give details of differences, if any. Balance is \$135,306.70</p> <p>Company: <i>DISCOUNT AUTO</i> Signature: <i>Julie Conroe</i> Title: <i>A/P Clerk</i> Date: <i>January 8, 2008</i></p> <p>NOTE: To return to the confirmation listings, please click on the Appendix A link on the left.</p>	Invoice Number	Invoice Date	Amount	Total Balance	As of 12/31/07	\$164,434.70
Invoice Number	Invoice Date	Amount					
Total Balance	As of 12/31/07	\$164,434.70					

Appendix M – Supporting Documents (continued)

<p style="text-align: center; background-color: #e0e0e0; margin: 0;">Logout</p> <hr/> <p>Name: View Details Email: View Details Phone: View Details</p> <hr/> <p>Home Review Task Details</p> <p>Background Information</p> <ul style="list-style-type: none"> • Engagement History • Client Description • Income and Stock Price Data • Interim Work and Results • Engagement Staffing • Year-end Audit Program <p>The Accounts Receivables Workpapers</p> <ul style="list-style-type: none"> • AR-2 • AR-3 • AR-4 • AR-5 • AR-6 • AR-7 • AR-8 • AR-9 • AR-10 • Overall Conclusion <p>Supporting Schedules</p> <ul style="list-style-type: none"> • Appendix A: A/R Confirmations • Appendix B: Reconciliation of Discount Auto A/R Balance • Appendix C: Aged A/R Balances by Customer • Appendix D: Notes to A/R Schedule & Analysis at AR-4 • Appendix E: Notes to Uncollectible Analysis at AR-9 • Appendix F: Analysis of Credit Memo Details at AR-10 	<p>A/R Confirmation: New Century Motors</p> <p><i>January 3, 2008</i></p> <p>Ladies and Gentlemen:</p> <p>In connection with the audit of our financial statements as of 12/31/07 and for the year then ended, our independent auditors wish to determine whether our records of your indebtedness to us at 12/31/07 agree with yours. According to our records, your indebtedness to us on that date included the following invoice(s):</p> <table border="1" style="width: 100%; border-collapse: collapse; margin-top: 10px;"> <thead> <tr> <th style="text-align: left;">Invoice Number</th> <th style="text-align: left;">Invoice Date</th> <th style="text-align: left;">Amount</th> </tr> </thead> <tbody> <tr> <td>058338</td> <td>12/11/07</td> <td>\$49,500.00</td> </tr> </tbody> </table> <p>This is neither a request for payment, nor an indication of your total indebtedness to us.</p> <p>Please compare the above information to your records, complete the statement below, and send this letter directly to our independent auditors, DCH. An addressed envelope is enclosed for your convenience.</p> <p>The information stated above is (<input type="radio"/>) Correct (<input type="radio"/>) Not Correct</p> <p>Please give details of differences, if any.</p> <p>Company: <i>New Century Motors</i> Signature: <i>Anna Elise</i> Title: <i>Controller</i> Date: <i>January 16, 2008</i></p> <p>NOTE: To return to the confirmation listings, please click on the Appendix A link on the left.</p>	Invoice Number	Invoice Date	Amount	058338	12/11/07	\$49,500.00
Invoice Number	Invoice Date	Amount					
058338	12/11/07	\$49,500.00					

Logout	<p>Appendix B</p> <p>Reconciliation of Discount Auto A/R Balance</p> <p>PBC - 2/3/08</p> <p>Reconciliation of Discount Auto Account Balance as of 12/31/07</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="background-color: #e0e0e0;">Balance per JMI Books</td> <td style="text-align: right;">\$164,434.70</td> </tr> <tr> <td colspan="2">Less: Invoices generated & billed by</td> </tr> <tr> <td colspan="2" style="background-color: #e0e0e0;">JMI on 12/28/07 but not received by</td> </tr> <tr> <td colspan="2">Discount until after 12/31/07.</td> </tr> <tr> <td style="background-color: #e0e0e0;">Invoice #059571</td> <td style="text-align: right;">2,028</td> </tr> <tr> <td style="background-color: #e0e0e0;">Invoice #059572</td> <td style="text-align: right;">27,100 (29,128)</td> </tr> <tr> <td style="background-color: #e0e0e0;">Revised JMI Balance</td> <td style="text-align: right; border-top: 1px solid black;">135,306.70</td> </tr> <tr> <td style="background-color: #e0e0e0;">Balance confirmed by Discount</td> <td style="text-align: right; border-top: 1px solid black;">135,306.70</td> </tr> </table>	Balance per JMI Books	\$164,434.70	Less: Invoices generated & billed by		JMI on 12/28/07 but not received by		Discount until after 12/31/07.		Invoice #059571	2,028	Invoice #059572	27,100 (29,128)	Revised JMI Balance	135,306.70	Balance confirmed by Discount	135,306.70
Balance per JMI Books	\$164,434.70																
Less: Invoices generated & billed by																	
JMI on 12/28/07 but not received by																	
Discount until after 12/31/07.																	
Invoice #059571	2,028																
Invoice #059572	27,100 (29,128)																
Revised JMI Balance	135,306.70																
Balance confirmed by Discount	135,306.70																
<p>Background Information</p> <ul style="list-style-type: none"> • Engagement History • Client Description • Income and Stock Price Data • Interim Work and Results • Engagement Staffing • Year-end Audit Program <p>The Accounts Receivables Workpapers</p> <ul style="list-style-type: none"> • AR-2 • AR-3 • AR-4 • AR-5 • AR-6 • AR-7 • AR-8 • AR-9 • AR-10 • Overall Conclusion <p>Supporting Schedules</p> <ul style="list-style-type: none"> • Appendix A: A/R Confirmations • Appendix B: Reconciliation of Discount Auto A/R Balance • Appendix C: Aged A/R Balances by Customer • Appendix D: Notes to A/R Schedule & Analysis at AR-4 • Appendix E: Notes to Uncollectible Analysis at AR-9 • Appendix F: Analysis of Credit Memo Details at AR-10 																	

Appendix M – Supporting Documents (continued)

	Logout	Appendix C																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																													
<p>Name: [Redacted]</p> <p>Email: [Redacted]</p> <p>Phone: [Redacted]</p> <p>Home</p> <p>Review Task Details</p> <p>Background Information</p> <ul style="list-style-type: none"> • Engagement History • Client Description • Income and Stock Price Data • Interim Work and Results • Engagement Staffing • Year-end Audit Program <p>The Accounts Receivables Workpapers</p> <ul style="list-style-type: none"> • AR-2 • AR-3 • AR-4 • AR-5 • AR-6 • AR-7 • AR-8 • AR-9 • AR-10 • Overall Conclusion <p>Supporting Schedules</p> <ul style="list-style-type: none"> • Appendix A: A/R Confirmations • Appendix B: Reconciliation of Discount Auto A/R Balance • Appendix C: Aged A/R Balances by Customer • Appendix D: Notes to A/R Schedule & Analysis at AR-4 • Appendix E: Notes to Uncollectible Analysis at AR-9 • Appendix F: Analysis of Credit Memo Details at AR-10 	<p>AGED A/R BALANCES BY CUSTOMER 12/31/07 Date 011506</p> <p style="text-align: center;">JOHNSON MANUFACTURING, INC. A/R AGED TRIAL BALANCE ALL CUSTOMERS AS OF: 12/31/07 SUMMARY</p>	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th>CUS ID</th> <th>CUSTOMER NAME</th> <th>CYCLE</th> <th>CUST TYPE</th> <th>ACCT CONTACT</th> <th>PHONE</th> <th>CR LIMIT</th> </tr> </thead> <tbody> <tr> <td colspan="7" style="text-align: center;">OPEN ITEMS</td> </tr> <tr> <td></td> <td></td> <td>CURRENT</td> <td>1-30</td> <td>31-60</td> <td>61-90</td> <td>OVER 90</td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td>TOTAL A/R</td> </tr> <tr> <td>A1000</td> <td>A-1 AUTOMOTIVE</td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td></td> <td>CUSTOMER TOTALS</td> <td>55,313.84</td> <td>141,097.62</td> <td></td> <td></td> <td>96,411.46</td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td>0.00</td> </tr> <tr> <td>A1020</td> <td>AAA PARTS & SUPPLY</td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td></td> <td>CUSTOMER TOTALS</td> <td>297,172.04</td> <td>158,933.04</td> <td>1,842.51</td> <td>8,476.60</td> <td>466,424.19</td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td>0.00</td> </tr> <tr> <td>A1030</td> <td>ABS SYSTEMS</td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td></td> <td>CUSTOMER TOTALS</td> <td>57,500.00</td> <td></td> <td></td> <td>775.00</td> <td>58,275.00</td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td>0.00</td> </tr> <tr> <td>A1115</td> <td>ACME AUTO ELECTRIC</td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td></td> <td>CUSTOMER TOTALS</td> <td></td> <td></td> <td>114,702.02</td> <td></td> <td>14,702.02</td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td>0.00</td> </tr> <tr> <td>A1160</td> <td>ALPHA AUTO PARTS</td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td></td> <td>CUSTOMER TOTALS</td> <td>1,974.00</td> <td></td> <td>9,442.98</td> <td>63,788.00</td> <td>75,204.98</td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td>0.00</td> </tr> <tr> <td>A1421</td> <td>AMERICAN AUTO SUPPLY</td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td></td> <td>CUSTOMER TOTALS</td> <td>117,437.93</td> <td>1,761.00</td> <td></td> <td></td> <td>119,198.93</td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td>0.00</td> </tr> <tr> <td>A1441</td> <td>AMERICAN PARTS &</td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td></td> <td>CUSTOMER TOTALS</td> <td>542,611.38</td> <td>57,772.21</td> <td>3,457.91</td> <td></td> <td>603,841.50</td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td>0.00</td> </tr> <tr> <td>B1002</td> <td>B&B MUFFLER</td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td></td> <td>CUSTOMER TOTALS</td> <td></td> <td></td> <td></td> <td>9,013.00</td> <td>9,013.00</td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td>0.00</td> </tr> <tr> <td>B1005</td> <td>B&T MOTORSPORTS</td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td></td> <td>CUSTOMER TOTALS</td> <td>14,412.11</td> <td></td> <td></td> <td></td> <td>4,412.11</td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td>0.00</td> </tr> <tr> <td>B1130</td> <td>BBC BRAKE & MUFFLER</td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td></td> <td>CUSTOMER TOTALS</td> <td>107,000.00</td> <td>91,000.00</td> <td></td> <td></td> <td>198,000.00</td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td>0.00</td> </tr> <tr> <td>B1190</td> <td>BOB'S IMPORT MOTORS</td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td></td> <td>CUSTOMER TOTALS</td> <td></td> <td></td> <td>9,345.20</td> <td>23,000.07</td> <td>32,345.27</td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td>0.00</td> 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<td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td></td> <td>CUSTOMER TOTALS</td> <td>42,778.65</td> <td></td> <td></td> <td>24,429.00</td> <td>67,207.65</td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td>0.00</td> </tr> <tr> <td>C1009</td> <td>CORPORATE RENTALS</td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td></td> <td>CUSTOMER TOTALS</td> <td>124,499.00</td> <td></td> <td></td> <td>21,732.11</td> <td>46,231.11</td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td>0.00</td> </tr> <tr> <td>C1015</td> <td>CENTRAL FABRICATION</td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td></td> <td>CUSTOMER TOTALS</td> <td>354,709.30</td> <td>58,490.70</td> <td></td> <td></td> <td>413,200.00</td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td>0.00</td> </tr> <tr> <td>C1230</td> <td>CITY TRANSMISSION & RE</td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td></td> <td>CUSTOMER TOTALS</td> <td>444,333.65</td> <td></td> <td>142,769.67</td> <td></td> <td>487,103.32</td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td>0.00</td> </tr> <tr> <td>C1320</td> <td>COLLISION SPECIALISTS</td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td></td> <td>CUSTOMER TOTALS</td> <td>37,991.01</td> <td>59,919.97</td> <td></td> <td></td> <td>97,910.98</td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td>0.00</td> </tr> <tr> <td>D1090</td> <td>DIRECT AUTOMOTIVE, INC</td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td></td> <td>CUSTOMER TOTALS</td> <td>214,058.90</td> <td>152,300.00</td> <td></td> <td>119,072.00</td> <td>285,430.90</td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td>0.00</td> </tr> <tr> <td>D1221</td> <td>DISCOUNT AUTO</td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td></td> <td>CUSTOMER TOTALS</td> <td>100,796.17</td> <td>52,636.36</td> <td></td> <td>11,002.17</td> <td>164,434.70</td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td>0.00</td> </tr> <tr> <td>E0000</td> <td>EMPLOYEE ADVANCES</td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td></td> <td>CUSTOMER TOTALS</td> <td>7,460.00</td> <td></td> <td></td> <td></td> <td>7,460.00</td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td>0.00</td> </tr> <tr> <td>E1874</td> <td>EXECUTIVE USED CARS</td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td></td> <td>CUSTOMER TOTALS</td> <td>71,410.10</td> <td>1778.01</td> <td>7,555.08</td> <td></td> <td>79,743.19</td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td>0.00</td> </tr> <tr> <td>E1991</td> <td>EXOTIC AUTO SALES</td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td></td> <td>CUSTOMER TOTALS</td> <td>64.44</td> <td></td> <td></td> <td></td> <td>64.44</td> </tr> </tbody> </table>	CUS ID	CUSTOMER NAME	CYCLE	CUST TYPE	ACCT CONTACT	PHONE	CR LIMIT	OPEN ITEMS									CURRENT	1-30	31-60	61-90	OVER 90							TOTAL A/R	A1000	A-1 AUTOMOTIVE							CUSTOMER TOTALS	55,313.84	141,097.62			96,411.46							0.00	A1020	AAA PARTS & SUPPLY							CUSTOMER TOTALS	297,172.04	158,933.04	1,842.51	8,476.60	466,424.19							0.00	A1030	ABS SYSTEMS							CUSTOMER TOTALS	57,500.00			775.00	58,275.00							0.00	A1115	ACME AUTO ELECTRIC							CUSTOMER TOTALS			114,702.02		14,702.02							0.00	A1160	ALPHA AUTO PARTS							CUSTOMER TOTALS	1,974.00		9,442.98	63,788.00	75,204.98							0.00	A1421	AMERICAN AUTO SUPPLY							CUSTOMER TOTALS	117,437.93	1,761.00			119,198.93							0.00	A1441	AMERICAN PARTS &							CUSTOMER TOTALS	542,611.38	57,772.21	3,457.91		603,841.50							0.00	B1002	B&B MUFFLER							CUSTOMER TOTALS				9,013.00	9,013.00							0.00	B1005	B&T MOTORSPORTS							CUSTOMER TOTALS	14,412.11				4,412.11							0.00	B1130	BBC BRAKE & MUFFLER							CUSTOMER TOTALS	107,000.00	91,000.00			198,000.00							0.00	B1190	BOB'S IMPORT MOTORS							CUSTOMER TOTALS			9,345.20	23,000.07	32,345.27							0.00	B1272	BMX SPORTS							CUSTOMER TOTALS	7,566.87	4,002.00	998.52	631.95	13,199.34							0.00	B1354	BRANDON MOTORS							CUSTOMER TOTALS				14,450.00	14,450.00							0.00	B1399	BRAISON MOTORS							CUSTOMER TOTALS	625,325.49	56,412.00	1113.33	22,732.44	704,583.26							0.00	C1004	C&R AUTOMOTIVE, INC							CUSTOMER TOTALS	42,778.65			24,429.00	67,207.65							0.00	C1009	CORPORATE RENTALS							CUSTOMER TOTALS	124,499.00			21,732.11	46,231.11							0.00	C1015	CENTRAL FABRICATION							CUSTOMER TOTALS	354,709.30	58,490.70			413,200.00							0.00	C1230	CITY TRANSMISSION & RE							CUSTOMER TOTALS	444,333.65		142,769.67		487,103.32							0.00	C1320	COLLISION SPECIALISTS							CUSTOMER TOTALS	37,991.01	59,919.97			97,910.98							0.00	D1090	DIRECT AUTOMOTIVE, INC							CUSTOMER TOTALS	214,058.90	152,300.00		119,072.00	285,430.90							0.00	D1221	DISCOUNT AUTO							CUSTOMER TOTALS	100,796.17	52,636.36		11,002.17	164,434.70							0.00	E0000	EMPLOYEE ADVANCES							CUSTOMER TOTALS	7,460.00				7,460.00							0.00	E1874	EXECUTIVE USED CARS							CUSTOMER TOTALS	71,410.10	1778.01	7,555.08		79,743.19							0.00	E1991	EXOTIC AUTO SALES							CUSTOMER TOTALS	64.44				64.44
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	CUSTOMER TOTALS	107,000.00	91,000.00			198,000.00																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																									
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	CUSTOMER TOTALS			9,345.20	23,000.07	32,345.27																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																									
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	CUSTOMER TOTALS	7,566.87	4,002.00	998.52	631.95	13,199.34																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																									
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	CUSTOMER TOTALS	625,325.49	56,412.00	1113.33	22,732.44	704,583.26																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																									
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	CUSTOMER TOTALS	42,778.65			24,429.00	67,207.65																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																									
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	CUSTOMER TOTALS	124,499.00			21,732.11	46,231.11																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																									
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	CUSTOMER TOTALS	354,709.30	58,490.70			413,200.00																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																									
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	CUSTOMER TOTALS	444,333.65		142,769.67		487,103.32																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																									
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	CUSTOMER TOTALS	37,991.01	59,919.97			97,910.98																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																									
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	CUSTOMER TOTALS	214,058.90	152,300.00		119,072.00	285,430.90																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																									
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	CUSTOMER TOTALS	100,796.17	52,636.36		11,002.17	164,434.70																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																									
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	CUSTOMER TOTALS	7,460.00				7,460.00																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																									
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	CUSTOMER TOTALS	71,410.10	1778.01	7,555.08		79,743.19																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																									
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	CUSTOMER TOTALS	64.44				64.44																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																									

Appendix M – Supporting Documents (continued)

F1090	FRANKLIN REPAIR SHOP						0.00
	CUSTOMER TOTALS	458,493.44	274,330.00			17,020.00	749,843.44
							0.00
G1370	GRAIT AUTO SUPPLY						0.00
	CUSTOMER TOTALS	114,221.00					14,221.00
							0.00
G1721	GREAT NORTHERN MOTO						0.00
	CUSTOMER TOTALS	44,000.00	92,271.12	42,800.00	173.95		179,145.07
							0.00
H1070	HARVARD BODY WORKS						0.00
	CUSTOMER TOTALS	5,678.89	88,934.07	42,000.00			136,612.96
							0.00
H2121	HODGES BODY WORKS						0.00
	CUSTOMER TOTALS					17,639.96	17,639.96
							0.00
M1171	MAGIC IMPORTS						0.00
	CUSTOMER TOTALS	376.00		140,500.00	17,777.42		58,653.42
							0.00
M1333	MILLER SUPPLY						0.00
	CUSTOMER TOTALS	14,256.66	52,500.00	1,323.70	27,792.08		95,872.44
							0.00
M1564	MOORE AUTOMOTIVE PAR						0.00
	CUSTOMER TOTALS		113,445.76			118,138.47	131,584.23
							0.00
N1061	NATIONWIDE SUPPLY						0.00
	CUSTOMER TOTALS	869,325.19	90,543.78				959,868.97
							0.00
N1181	NEW CENTURY MOTORS						0.00
	CUSTOMER TOTALS	49,500.00	13,334.44	187.49			63,021.93
							0.00
P1330	POPULAR IMPORTS						0.00
	CUSTOMER TOTALS	123,436.78	227,980.02	17,041.00			368,457.80
							0.00
P1422	PRO-SPORT AUTOS						0.00
	CUSTOMER TOTALS	52,322.49	156,504.22				108,826.71
							0.00
P1713	PROFESSIONAL AUTO REPA						0.00
	CUSTOMER TOTALS	72,298.99	60,700.00				132,998.99
							0.00
P1732	PROFESSIONAL BODY REP						0.00
	CUSTOMER TOTALS	113,332.76	96,312.74	146,582.13	820.73		157,048.36
							0.00
Q1003	QUALITY USED CARS						0.00
	CUSTOMER TOTALS					16,645.00	6,645.00
							0.00
Q1101	QUANTUM IMPORTS						0.00
	CUSTOMER TOTALS	1414.44	3,488.88			4,697.73	8,601.05
							0.00
R1032	RAIACH ROAD REPAIRS						0.00
	CUSTOMER TOTALS	13,377.52	61,940.09	111,433.95		9,743.40	96,494.96
							0.00
R1390	RELIABLE AUTO IMPORTS						0.00
	CUSTOMER TOTALS					113,286.60	113,286.60
							0.00
R1342	ROSS AUTO RESTORATIO						0.00
	CUSTOMER TOTALS	57,889.95	72,300.76	44,800.79	120,500.00	9,750.95	205,242.45
							0.00
S1010	SARMO AUTO REPAIR						0.00
	CUSTOMER TOTALS	162,223.00	107,442.23	152,220.74	52.26		321,938.23
							0.00
S1050	SELLERS SUPPLY						0.00
	CUSTOMER TOTALS	61,457.92				17,770.00	79,227.92
							0.00
S1667	SIMPSON PARTS & SUPP						0.00
	CUSTOMER TOTALS	1540,736.23	74,219.27	31,057.08		14,400.00	650,412.58
							0.00
T1022	TAYLOR'S TRAILERS						0.00
	CUSTOMER TOTALS	50,800.04	35,405.58			16,580.27	92,785.89
							0.00
T1440	THOMSON USED CARS						0.00
	CUSTOMER TOTALS	1,776.53	590.92		174.31		2,441.76
							0.00
U1020	U-HAUL-IT						0.00
	CUSTOMER TOTALS	339.89	42,333.17	57,012.22			99,685.28
							0.00
U1177	UPTON'S, IIC						0.00
	CUSTOMER TOTALS	1374,674.51	143,669.82	14,556.66			432,900.99
							0.00
W1550	WESTERN GHL PTS						0.00
	CUSTOMER TOTALS	145,000.00	26,715.45				71,715.45
							0.00
X1010	XYZ AUTO RESTORATION						0.00
	CUSTOMER TOTALS				39,433.20		39,433.20
							0.00
Y1020	YAEGER AUTOMOTIVE, IIC						0.00
	CUSTOMER TOTALS	77,232.14	1,752.33				78,984.47
							0.00
Y1311	YOUNG PARTS						0.00
	CUSTOMER TOTALS	493,178.92	19,223.00				512,401.92
							0.00
Z1111	ZERO TOLERANCE						0.00
	CUSTOMER TOTALS		15,052.45	11,724.00			6,776.45
							0.00
	GRAND TOTALS	6,710,758.17	2,296,093.01	493,466.98	150,872.67	400,426.00	10,051,616.83

T Agreed to aging schedule (see AR-2)

Appendix M – Supporting Documents (continued)

Logout	Appendix D
<p>Name: View Details</p> <p>Email: View Details</p> <p>Phone: View Details</p> <hr/> <p>Home</p> <p>Review Task Details</p> <p>Background Information</p> <ul style="list-style-type: none">Engagement HistoryClient DescriptionIncome and Stock Price DataInterim Work and ResultsEngagement StaffingYear-end Audit Program <p>The Accounts Receivables Workpapers</p> <ul style="list-style-type: none">AR-2AR-3AR-4AR-5AR-6AR-7AR-8AR-9AR-10Overall Conclusion <p>Supporting Schedules</p> <ul style="list-style-type: none">Appendix A: A/R ConfirmationsAppendix B: Reconciliation of Discount Auto A/R BalanceAppendix C: Aged A/R Balances by CustomerAppendix D: Notes to A/R Schedule & Analysis at AR-4Appendix E: Notes to Uncollectible Analysis at AR-9Appendix F: Analysis of Credit Memo Details at AR-10	<p>APPENDIX D NOTES TO A/R SCHEDULE & ANALYSIS AT AR-4</p> <p>A. Consistent with prior years, the client's trade A/R balances consisted of commercial sales to both domestic and foreign customers. Both trade balances were traced to the general ledger and the supporting schedules with no exceptions. DCH also noted that the client's total trade A/R balance increased by \$2,733,547 as compared to the prior year. Per discussion with Bob Ross, controller of JMI, this increase can be attributed entirely to the client's sales growth in the current year.</p> <p>B. Balance consisted of miscellaneous salary and travel advances to employees. Balance is immaterial as expected and appears reasonable.</p> <p>C. Consistent with the prior year, the <i>Advances to Suppliers</i> account consisted of an inventory supply "arrangement" (no signed agreement with any formal terms) among JMI, Ace Suppliers, and Central Fabrications, Inc. Under this arrangement, JMI attempts to control the flow of materials in the production process as well as protect its rights in patented product technology by purchasing predetermined amounts of raw materials from Ace Suppliers (manufacturer of patented technology) to be used in the final production of its Magic Car Seat and re-selling the purchased materials to Central Fabrications, Inc. who performs the final assembly. JMI records the Central Fabrications sale transaction as a debit to the <i>Advances to Suppliers</i> account and a credit to Sales.</p> <p>JMI and Central Fabrications then enter into a finished goods schedule of production agreement, detailing required dates of completion necessary to meet JMI's customer demand. When the agreed upon amounts are completed, JMI re-purchases the finished goods from Central Fabrications. JMI records the Central Fabrications re-purchases as a debit to <i>Inventory</i> and a credit to <i>Advances to Suppliers</i>. DCH noted that the <i>Advances to Suppliers</i> account balance is essentially an accumulation of inventory costs through the production process. The balance in this account arises simply from the need to account for the various portions of the transaction. As JMI introduces the raw materials to Central Fabrications, strictly with the intent to re-purchase the finished goods and essentially compensates ACE Supplies for the payable JMI initially assumes, this "receivable" balance appears collectible. However, due to the unusual nature of this account and for the purpose of proper presentation/disclosure, DCH proposed a reclassification journal entry (see below) to separately state this balance from A/R on the balance sheet. Adequate disclosure will be provided in the notes to the F/S regarding the nature of this account and the transactions that derive the balance.</p> <p>The <i>Advances to Suppliers</i> account balance decreased by \$1,426,629 as compared to prior year. Per discussion with Bob Ross, this decrease can be primarily attributed to the slowed sales to Central Fabrications in the current year. Per last year's workpapers, the client sold Central Fabrications a significant amount of product in the prior year in order to build up an inventory backlog which was required to meet immediate customer demand in the prior year. In the current year, however, JMI began to slow its sales of raw materials to allow Central to consume the existing overstock. Bob Ross noted that the current year decrease can also be attributed to the fact that Central Fabrications purchased more raw materials directly in the current year as opposed to through JMI. Based on the above discussion, the current year decrease in the <i>Advances to Suppliers</i> balance appears reasonable. DCH confirmed the entire Central Fabrications outstanding balance as part of our confirmation testwork. See confirmation testwork at AR-8 and Appendix A.</p>

Appendix M – Supporting Documents (continued)

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<p>Name: [REDACTED] Email: [REDACTED] Phone: [REDACTED]</p> <p>Home Review Task Details</p> <p>Background Information</p> <ul style="list-style-type: none"> • Engagement History • Client Description • Income and Stock Price Data • Interim Work and Results • Engagement Staffing • Year-end Audit Program <p>The Accounts Receivables Workpapers</p> <ul style="list-style-type: none"> • AR-2 • AR-3 • AR-4 • AR-5 • AR-6 • AR-7 • AR-8 • AR-9 • AR-10 • Overall Conclusion <p>Supporting Schedules</p> <ul style="list-style-type: none"> • Appendix A: A/R Confirmations • Appendix B: Reconciliation of Discount Auto A/R Balance • Appendix C: Aged A/R Balances by Customer • Appendix D: Notes to A/R Schedule & Analysis at AR-4 • Appendix E: Notes to Uncollectible Analysis at AR-9 • Appendix F: Analysis of Credit Memo Details at AR-10 	<p>Notes to Uncollectible Analysis at AD-9</p> <p>A. The client books a monthly standard addition to the allowance for doubtful accounts in the amount of 1/4% of monthly gross sales. DCH obtained the client's allowance account detail schedule through 12/31/07, tested the mathematical accuracy of the schedule on a test-basis without exception, and agreed the ending balance per the schedule to the 12/31/07 G/L without exception. DCH tested the total current year's addition to the allowance based on the client's calculation methodology as follows:</p> <table style="margin-left: 40px; border-collapse: collapse;"> <tr> <td>Total Gross Sales per the 12/31/07 G/L</td> <td style="text-align: right;">\$56,275,810</td> </tr> <tr> <td>1/4% of sales</td> <td style="text-align: right;">x .0025</td> </tr> <tr> <td>Est. total addition to the allowance per DCH</td> <td style="text-align: right; border-top: 1px solid black;">\$140,690</td> </tr> <tr> <td>Bad Debt Exp. per the 12/31/07 G/L (Actual Current Year's addition to the allowance account)</td> <td style="text-align: right;">\$148,036</td> </tr> </table> <p>Based on the above analysis, FY07 total bad debt expense as well as the current year's addition to the reserve appears reasonable.</p> <p>B. The client wrote-off \$112,632 (0.20% of FY 07 sales) of uncollectible A/R balances through 9/30/07. Per review of the client's 12/31/07 allowance account detail schedule, DCH noted that (as expected) the client did not write off any other balances during FY07. DCH calculated and reviewed the allowance as a % of trade A/R over the period 12/31/05-12/31/07 (see AR-4). Upon review, DCH noted that the allowance is consistent over the three year period. DCH also compared the allowance to actual A/R write-offs over the period 12/31/05-12/31/07 noting that the current year's allowance is adequate to cover actual write-offs in each of the two previous years as well as the current year.</p> <p>The following aging analysis was performed to supplement the preceding historical analysis.</p> <p>Aging Analysis:</p> <p style="text-align: center;">COMPARATIVE AGING SCHEDULE</p> <table border="1" style="margin-left: 40px; width: 100%; border-collapse: collapse; text-align: center;"> <thead> <tr> <th style="background-color: #e0e0e0;">Aging Analysis</th> <th style="background-color: #e0e0e0;">12/31/05</th> <th style="background-color: #e0e0e0;">12/31/06</th> <th style="background-color: #e0e0e0;">12/31/07*</th> </tr> </thead> <tbody> <tr> <td>Current</td> <td>44% \$ 2,429,573</td> <td>56% \$ 4,942,638</td> <td>67% \$ 6,710,758</td> </tr> <tr> <td>1-30</td> <td>25% \$ 1,382,324</td> <td>21% \$ 1,821,882</td> <td>23% \$ 2,296,093</td> </tr> <tr> <td>31-60</td> <td>11% \$ 608,222</td> <td>11% \$ 974,845</td> <td>5% \$ 493,467</td> </tr> <tr> <td>61-90</td> <td>6% \$ 335,075</td> <td>4% \$ 310,412</td> <td>1% \$ 150,873</td> </tr> <tr> <td>>90</td> <td>14% \$ 774,101</td> <td>8% \$ 687,881</td> <td>4% \$ 400,426</td> </tr> <tr> <td>Total Gross A/R</td> <td>100% \$ 5,529,295</td> <td>100% \$ 8,737,658</td> <td>100% \$10,051,617</td> </tr> </tbody> </table> <p>*Unaudited</p> <p>DCH reviewed the <i>Aging Analysis</i> noting all percentage aging bucket changes greater than 3% over the period 9/30/07-12/31/07. DCH noted that the current aging bucket increased 15%. Per discussion with Bob Ross, this increase can be attributed entirely to the significant monthly sales recorded during 11/07 and 12/07 (approx. \$5.1 million and \$7.4 million gross respectively). 12/07 total net sales were approx. \$2.6 million greater than 9/07 total net sales which would account for the significantly greater current aging bucket balance @ 12/31/07.</p> <p>DCH also noted that the 31-60 day aging bucket decreased by 4% and the 'greater than 90-day' bucket decreased by 8% over the period. Per Bob Ross, these decreases can be attributed entirely to the client's dedication of resources to improve cash collections in the 4th quarter. As noted in the <i>Comparative A/R Schedule and Analysis</i> on AR-4, the client's Days Sales Outstanding has decreased in the current year despite the client's continued significant sales growth. Per Bob Ross, the client offered cash incentives to A/R personnel based on cash flow improvements as well as the resolution of disputed aged balances resulting in cash receipts (not write-offs). DCH reviewed detail of cash received during the program noting that cash collections during the 4th quarter exceeded 3rd quarter collections by approximately \$1.8 million. These increased collections are clearly reflected in the <i>Aging Analysis</i> (i.e., percentage decreases in each aging bucket coupled with the significant percentage increase in the current aging bucket).</p> <p>Based on the above discussion and test work, the 31-60 and >90 aging bucket <i>decreases</i> appear reasonable.</p> <p>DCH noted per the <i>Aging Analysis</i> that \$551,299 (\$150,873 + \$400,426) is aged greater than 60 days as of 12/31/07 (5.7% of the total trade A/R balance). This constitutes a decrease of approx. \$790,000 from 9/30/07. DCH reviewed the 12/31/07 A/R aging noting all customers with greater than 60-day aged balances individually greater than \$30,000 (approx. 39% coverage = \$216,508 / \$551,299). All other balances were individually less than \$30,000. Noted individual balances were as follows:</p> <table style="margin-left: 40px; border-collapse: collapse;"> <tr> <td>Reliable Auto Imports</td> <td style="text-align: right;">\$113,287</td> </tr> <tr> <td>Alpha Auto Parts</td> <td style="text-align: right;">\$63,788</td> </tr> <tr> <td>XYZ Auto Restoration</td> <td style="text-align: right; border-top: 1px solid black;">\$39,433</td> </tr> <tr> <td></td> <td style="text-align: right; border-top: 1px solid black;">\$216,508</td> </tr> </table>	Total Gross Sales per the 12/31/07 G/L	\$56,275,810	1/4% of sales	x .0025	Est. total addition to the allowance per DCH	\$140,690	Bad Debt Exp. per the 12/31/07 G/L (Actual Current Year's addition to the allowance account)	\$148,036	Aging Analysis	12/31/05	12/31/06	12/31/07*	Current	44% \$ 2,429,573	56% \$ 4,942,638	67% \$ 6,710,758	1-30	25% \$ 1,382,324	21% \$ 1,821,882	23% \$ 2,296,093	31-60	11% \$ 608,222	11% \$ 974,845	5% \$ 493,467	61-90	6% \$ 335,075	4% \$ 310,412	1% \$ 150,873	>90	14% \$ 774,101	8% \$ 687,881	4% \$ 400,426	Total Gross A/R	100% \$ 5,529,295	100% \$ 8,737,658	100% \$10,051,617	Reliable Auto Imports	\$113,287	Alpha Auto Parts	\$63,788	XYZ Auto Restoration	\$39,433		\$216,508
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Appendix M – Supporting Documents (continued)

Per discussion with Julie Summers, credit manager, DCH noted the following regarding the collectibility of each of the above noted balances:

- **Reliable Auto Imports:** Consistent with our discussion @ interim, JMI continued to collect the 10% additional payment on current orders which was applied to and continued to reduce the outstanding balance over the period 9/30/07-12/31/07. As Reliable's total outstanding balance was reserved against @ 9/30/07 and the total balance was included in the client's reserve analysis @ 12/31/07 as noted in note C below, no additional reserve or discounting of the outstanding balance appears necessary. DCH noted that the balance should not be written off as collections continue to be received.
- **Alpha Auto Parts:** DCH noted that this customer had a greater than 60-day aged balance of approx. \$64,000 @ 12/31/07. Per discussion with Bob Ross, this customer is located worldwide with this particular facility located in India. Collection of payment from this facility requires a "document collection procedure" which is similar to "letter of credit" procedures with other foreign customers. Per Bob Ross, translation of Indian currency to dollars is controlled by the Indian government. Processing of payment in US dollars must be initiated by the client's bank with the facility's bank which must then process paperwork through the Indian government. As this process is time consuming, collection tends to extend past 60 days which is demonstrated by the fact that \$64,000 of this facility's \$75,000 total balance is aged greater than 60 days. Per Bob Ross, this facility's balances have historically been collectible. DCH reviewed on-line a payment received via wire transfer in the amount of \$3,000 on 1/5/08. Based on this fact as well as the above discussion, this facility's balance appears collectible @ 12/31/07.
- **XYZ Auto Restoration:** DCH noted that this customer had a greater than 60-day aged balance of approximately \$40,000 @ 12/31/07. Per discussion with Janice McCann, A/R clerk, this customer was given general payment terms of net 60 in the current year as a cash management accommodation to the customer during their facility renovations in the current year. Per Janice, all of this customer's balances have historically been fully collectible. DCH reviewed on-line a payment received via wire transfer on 1/8/08 in the amount of \$14,600. Based on this fact as well as the above discussion, this customer's balance appears collectible @ 12/31/07.
- **B&B Muffler:** DCH noted @ interim to review B&B's greater than 60-day aged balance @ year-end in support of the collectibility of their greater than 60-day balance @ 9/30/07. Upon review of the 12/31/07 A/R aging, DCH noted that B&B's greater than 60-day aged balance totaled only approximately \$9,000. Therefore, this A/R balance appears collectible at 12/31/07.

Based on the above collectibility discussions as well as test work performed at interim, DCH performed an allowance for doubtful accounts reasonableness test as follows:

Total of items identified as potentially uncollectible by DCH @ 9/30/07 (see interim w/p, Series L)	\$118,367
Less: Amounts written off by the client related to this amount over the period 9/30/07-12/31/07	\$ -0-
Add: Additional amounts identified by the client as potentially uncollectible (\$137,572-\$118,367)	\$19,206
Add: Additional items identified by DCH @ 12/31/07 as potentially uncollectible	\$ -0-
Subtotal	\$137,572
Add: Proration over >60 day aged balance [(\$551,299-\$216,508) x (\$137,572/\$551,299)]	\$83,544
Adjusted total to be reserved	\$221,116
Allowance for Doubtful Accts. @ 12/31/07	\$268,999
Difference	\$47,833
A/R allowance as a % of greater than 60-day aged balances @ 9/30/07 (\$378,750/\$1,341,256)	28.23%
A/R allowances as a % of greater than 60-day aged balances @ 12/31/07 (\$268,999/\$551,299)	48.79%

D. Per discussion with client management, DCH noted that the client generally only writes-off A/R balances to the allowance account if the customer is bankrupt and the balance is truly uncollectible. If an uncollectible balance arises from a dispute with a continuing solvent customer, JMI will generally issue a credit memo to the customer as opposed to reserving against the balance through the allowance account. See credit memo and return reserve testwork @ L-1.

Appendix M – Supporting Documents (continued)

Logout	Appendix F																																																																										
<p>Name: [Redacted] Email: [Redacted] Phone: [Redacted]</p> <p>Home Review Task Details</p> <p>Background Information</p> <ul style="list-style-type: none"> • Engagement History • Client Description • Income and Stock Price Data • Interim Work and Results • Engagement Staffing • Year-end Audit Program <p>The Accounts Receivables Workpapers</p> <ul style="list-style-type: none"> • AR-2 • AR-3 • AR-4 • AR-5 • AR-6 • AR-7 • AR-8 • AR-9 • AR-10 • Overall Conclusion <p>Supporting Schedules</p> <ul style="list-style-type: none"> • Appendix A: A/R Confirmations • Appendix B: Reconciliation of Discount Auto A/R Balance • Appendix C: Aged A/R Balances by Customer • Appendix D: Notes to A/R Schedule & Analysis at AR-4 • Appendix E: Notes to Uncollectible Analysis at AR-9 • Appendix F: Analysis of Credit Memo Details at AR-10 	<p>Analysis of Credit Memo Details at AR-10</p> <p>Subsequent to interim testing, DCH obtained JMI's credit memo details for the period 10/1/07-12/31/07 (\$186,141 in total) and tested credit memos issued to individual customers greater than a judgmentally determined scope of \$30K during the above period. DCH noted that all other credit memos issued during this period were individually insignificant (less than \$30K). Material credit memos reviewed were as follows:</p> <table border="1" style="width: 100%; border-collapse: collapse; margin-top: 10px;"> <thead> <tr style="background-color: #e1eef6;"> <th style="width: 15%;">Memo #</th> <th style="width: 15%;">Date</th> <th style="width: 40%;">Customer</th> <th style="width: 30%;">Total Value</th> </tr> </thead> <tbody> <tr> <td>R03688</td> <td>11/13/07</td> <td>Direct Automotive, Inc.</td> <td style="text-align: right;">\$34,900</td> </tr> <tr> <td>R03726,76</td> <td>11/23/07</td> <td>New Century Motors</td> <td style="text-align: right;">\$64,540</td> </tr> <tr> <td>R03739-42,51-52,56-57</td> <td>11/27/07</td> <td>Popular Imports</td> <td style="text-align: right;">\$67,000</td> </tr> </tbody> </table> <p>Upon review of the above credit memos and per discussion with Janice McCann, A/R clerk, the credits arose from JMI's shipment of non-conforming goods as well as the return of partially defective units. See further discussion and testwork related to the application of the above selected credit memos to over 60 day aged customer balances @ L-2 pg. 4-5. Per review of the client's 12/31/07 G/L, DCH noted that the client properly books credit memos as a credit to A/R and a debit to one of the five offsetting contra sales accounts noted below based on the nature of the product return:</p> <ul style="list-style-type: none"> • <i>Warranty (\$467K as of 12/31/07):</i> Credits issued for product returns during JMI's specified product warranty period. • <i>Non-Warranty (\$6K as of 12/31/07):</i> Credits issued for product returns subsequent to the client's specified warranty period and agreed to by JMI as a customer service accommodation. • <i>Material Return (\$253K as of 12/31/07):</i> Credits issued as a customer service accommodation for customer overstocks. These credits are generally reduced to include a "restocking fee". Per workpapers in the L series, DCH agreed this amount to sales returns and inventory records. • <i>Input Error (\$320K as of 12/31/07):</i> Credits issued due to JMI data entry errors such as pricing/inventory adjustments for incorrect sales order entries. Per workpapers in the L series, DCH agreed this amount to sales returns and inventory records. • <i>Other (\$169K as of 12/31/07):</i> All credits issued that cannot be classified in the above categories. Per workpapers in the L series, DCH agreed this amount to sales returns and inventory records. <p>DCH prepared a FY 07 credit memo analysis for both warranty and non-warranty related returns in the historical analyses below. As noted @ interim, product returns (warranty, non-warranty) can occur anywhere from 1-3 months from the date of sale, based on the fact that client customers can hold product in their inventory for extended periods of time. As such, DCH calculated estimates using average sales over the last 2 months of the year. Based on the historical analyses below, DCH will propose an adjustment (see below) to accrue for a warranty reserve net of the required adjustment to reverse credit memos issued in the current year which were related to prior year's sales. This adjustment is needed since the client does not book a monthly reserve for potential returns and warranty work.</p> <table border="1" style="width: 100%; border-collapse: collapse; margin-top: 10px;"> <thead> <tr style="background-color: #e1eef6;"> <th colspan="4" style="text-align: center;">Historical Credit Memo Data-Warranty</th> </tr> <tr style="background-color: #e1eef6;"> <th style="width: 50%;"></th> <th style="width: 15%;">12/31/06</th> <th style="width: 15%;">12/31/07</th> <th style="width: 20%;">Total</th> </tr> </thead> <tbody> <tr> <td>Total Sales^a</td> <td style="text-align: right;">\$ 35,959,659</td> <td style="text-align: right;">\$ 56,275,810</td> <td style="text-align: right;">\$ 92,235,469</td> </tr> <tr> <td>1 month Avg. 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Appendix M – Supporting Documents (continued)

Historical Credit Memo Data-All Non-Warranty			
	12/31/06	12/31/07	Total
Total Sales ^a	\$ 35,959,659	\$ 56,275,810	\$ 92,235,469
1 month Avg. Sales ^b	\$ 2,996,638	\$ 4,689,651	\$ 7,686,289
Total CR Mem. Iss.			
Non-Warranty	\$ 18,798	\$ 6,609	\$ 25,407
Material Return	\$ 67,853	\$ 252,727	\$ 320,580
Total CR Memos Issued^c	\$ 86,651	\$ 259,336	\$ 345,987
1 month Avg.—CR memos ^d	\$ 7,221	\$ 21,611	\$ 28,832
1 month Avg.—CR mem. (2yr)			\$ 14,416
1 mo. avg.--% 1 mo. avg. sales d / b	* 0.24%	f 0.46%	
Avg. % of sales (2 yr. Period)			g 0.35%

b = a / 12
d = c / 12
g = (e + f)/2

11/07 Total Gross Sales	\$5,139,204
12/07 Total Gross Sales	\$7,419,520
	\$12,558,724
	x 0.35%
	\$43,956
Less: 11/06 Total Gross Sales	\$3,162,950
12/06 Total Gross Sales	\$4,192,702
	\$7,345,652
	x 0.35%
	\$25,710
Subtotal	\$18,246
Avg. GM from A-3-1	x 45%
Estimated Return Reserve	
@12/31/07	8,211
Estimated Warranty Reserve (see above)	119,901
Total Estimated Reserve (pass on AJE, immaterial in amount)	\$128,112

DCH inquired of Bob Ross, Controller, regarding credits issued over the period 1/1/08-2/27/08 (final day of fieldwork) greater than \$30,000.
None noted.