Case 19-9: Dandelion Company — Handout 2

Visualizations Worksheet

Discussion 2

The audit manager has informed you that in the prior year the following risk of material misstatement (RoMM) related to the **valuation** assertion associated with the investments has been identified:

> Investment securities held at fair value (Level 2 securities) are incorrectly valued because the selected method, data, or assumptions that form the estimate have been inappropriately determined or applied. (RoMM 1)

In addition, the following RoMM related to the **presentation and disclosure** of investments has been identified:

> The Company's classification of securities is inconsistent with the fair value hierarchy (e.g., it classifies a security as Level 2 rather than Level 3). (RoMM 2)

None of these risks were determined to be significant.

Note that the above risks have been selected for the purpose of this exercise. An actual engagement would most likely have additional RoMMs identified.

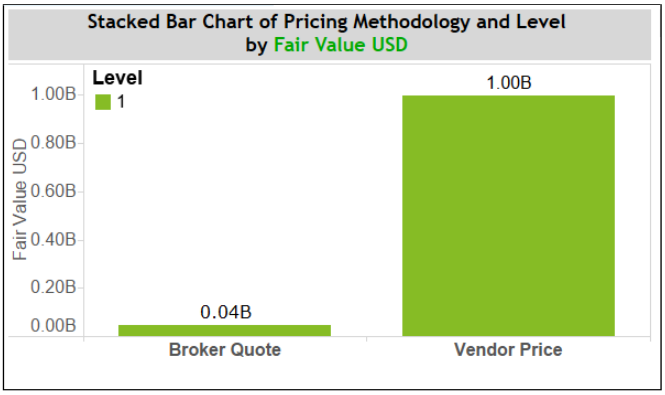
The audit manager has provided you with visualizations (created using visualization software) that present additional analytical information about Dandelion's investment portfolio. She has asked you to review the visualizations to determine what each shows and how the information might affect our risk assessment. She has also asked that, when determining the impact on our risk assessment, you specify whether the information obtained from the visualization assisted you or could assist you in (1) identifying a new RoMM, (2) assessing or reassessing the risk level of the RoMMs already identified, (3) designing tailored audit procedures, or (4) providing fact-based evidence to support your current risk assessment. In addition, the audit manager has questions about certain visualizations.

Use this handout to record your responses and discuss those responses with the group. Note that the current year and prior year are represented by 20Y2 and 20Y1, respectively.

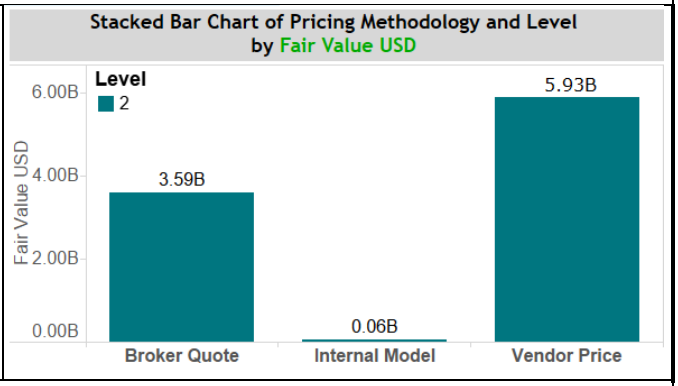
Visualization and Description 1

Bar Charts of Pricing Methods and Levels

Level 1



Level 2



These bar charts are visual representations of the pricing methods for Level 1 and Level 2 securities.

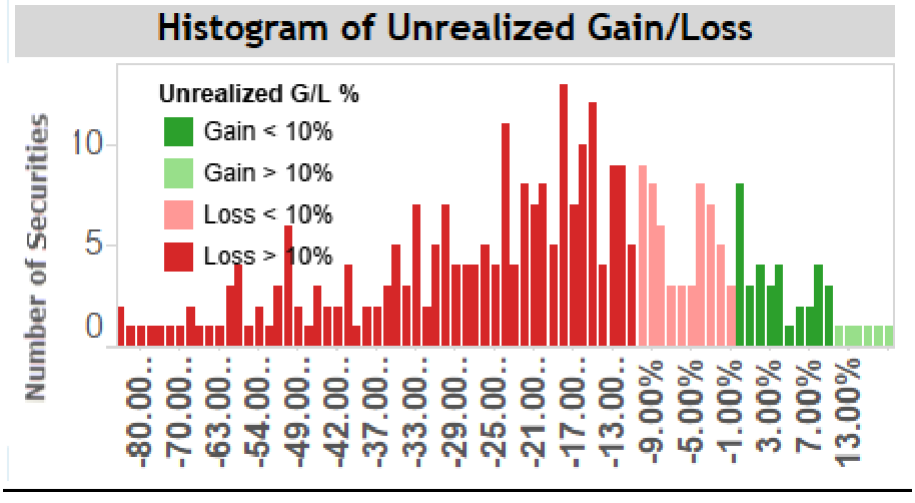
Question	Response
What do these visualizations show?	
How might these observations affect our risk assessment?	

If, in combination with other risk assessment procedures, we identify a risk of material misstatement related to the classification of securities priced using an internal model as Level 2, what can we do to further investigate and obtain an understanding of the Company's process for valuing such securities?	

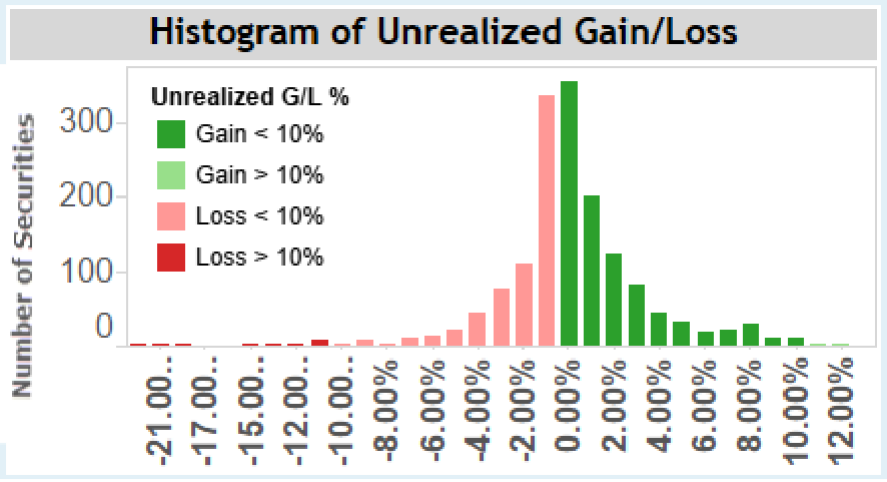
Visualization and Description 2

Histograms of Unrealized Gain/Loss — September 30, 20Y2

Level 1



Level 2



The X-axis of the histograms shows percentages of unrealized gains and losses, and the Y-axis shows number of securities. The visualizations depict the unrealized gains and losses by Level 1 and Level 2 securities, respectively.

Question	Response
What do these visualizations show?	
How might these observations affect our risk assessment?	

What types of procedures can be performed to evaluate what we are seeing relative to unrealized losses in the Level 1 securities?	

Visualization and Description 3

Comparison of Investment Type

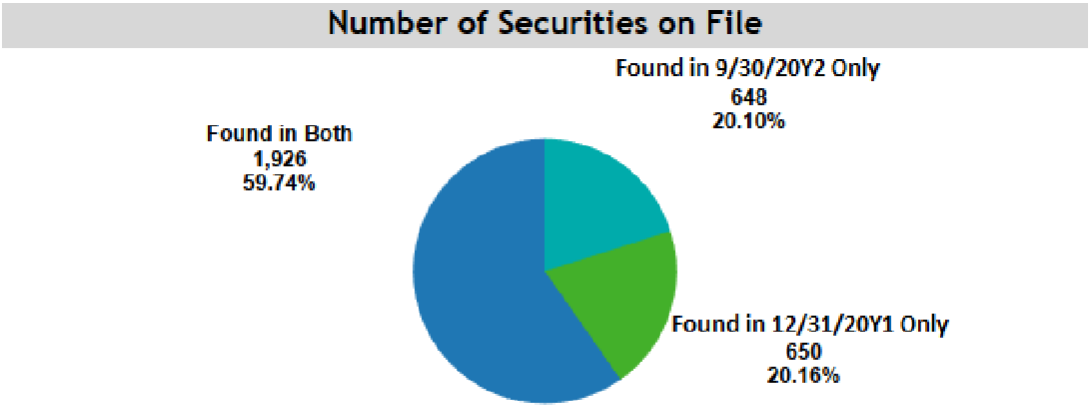
Comparison of Investment Type			
12/31/20Y1	09/30/20Y2		
Agency	Agency	✓	391
Asset-Backed	Asset-Backed	✓	46
Corporate Debt	Corporate Debt	✓	1,065
Equity	Equity	✓	311
Mortgage-Backed	Mortgage-Backed	✓	24
Residential Mortgage-Backed	Residential Mortgage-Backed	✓	84
U.S. treasuries	U.S treasuries	✓	5

This table compares changes in individual investment types (e.g., asset-backed vs. mortgage-backed) between two periods. A green checkmark indicates that the investment type has not changed. (A red "X" would indicate a change in the investment type.)

Question	Response
What does this visualization show?	
How might these observations affect our risk assessment?	
How would a red "X" affect our risk assessment?	

Visualization and Description 4

Number of Securities on File



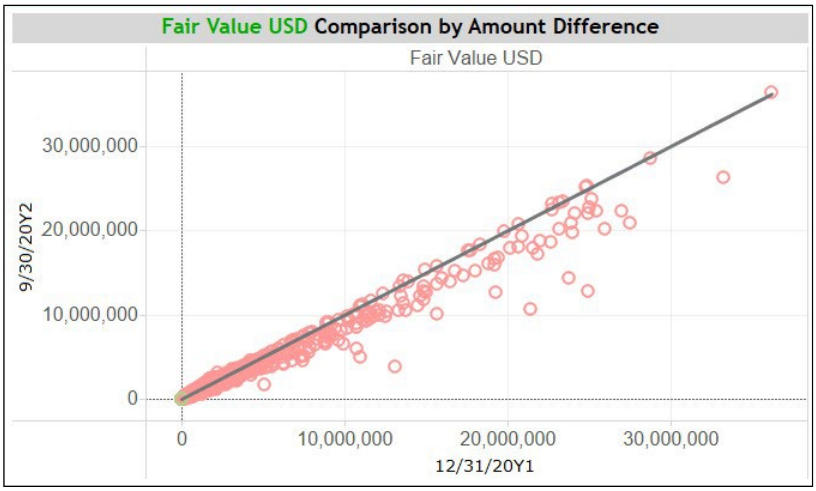
The pie chart above shows the number of investments found in both periods as well as newly purchased investments and investments withdrawn from the portfolio. This visualization can be used to identify either changes or consistencies in the investment portfolio composition between two points in time.

Question	Response
What does this visualization show?	

How might these observations affect our risk assessment?	
What additional observations can we make in looking at this visualization in conjunction with Visualization and Description 3 (Comparison by Investment Type)?	

Visualization and Description 5

Scatterplot: Fair Value Comparison by Amount Difference



This scatterplot depicts the difference in fair value between December 31, 20Y1, and September 30, 20Y2, for each security included in the investment portfolio as of both dates.

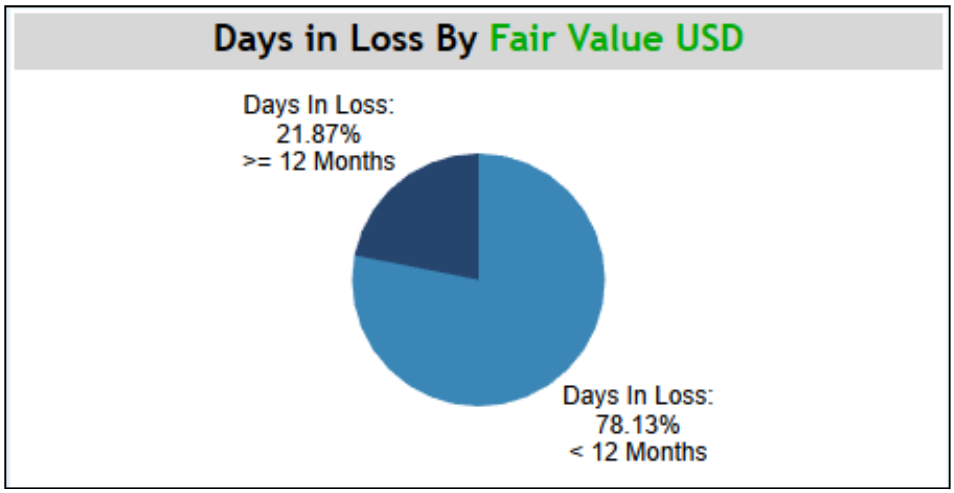
The X-axis represents the fair value of securities as of December 3, 20Y1, the Y-axis represents fair value of securities as of September 30, 20Y2, and the red circles represent individual securities. The solid line indicates zero change in fair value; thus, each red circle on the solid line represents a security with no changes in fair value. Red circles above the line represent securities with an increase in fair value and red circles below the line represent securities with a decrease in fair value.

Question	Response
What does this visualization show?	

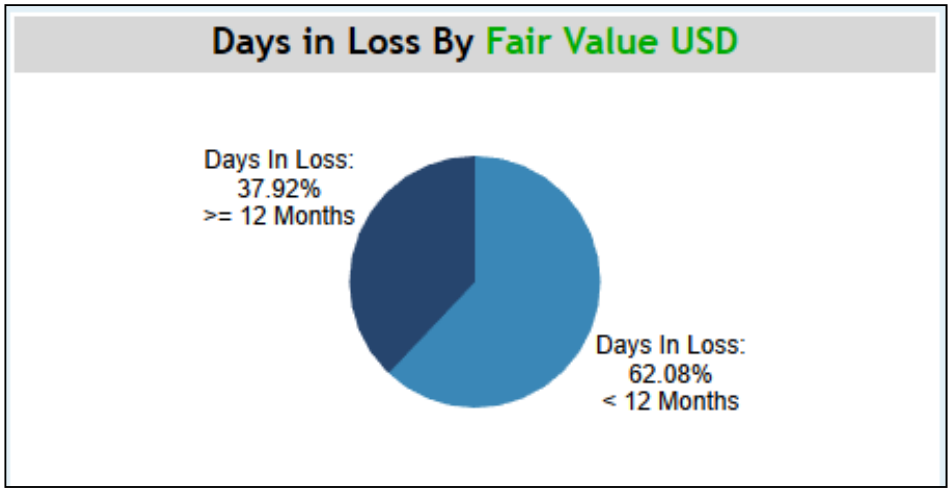
How might these observations affect our risk assessment?	
What can we do to understand the change in the fair value of the securities?	
What additional observations can we make in looking at this visualization in conjunction with the Days in Loss by Fair Value graphic below?	

Days in Loss by Fair Value — September 30, 20Y2

Level 1

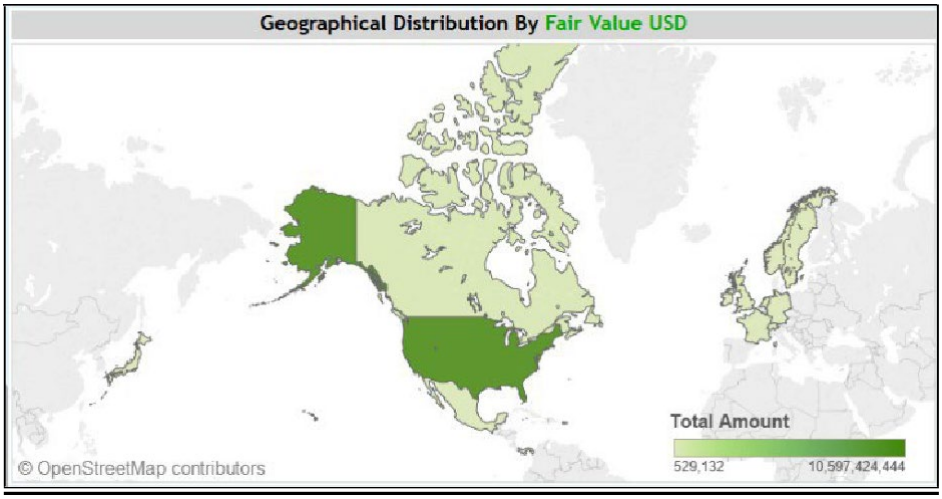


Level 2



Visualization and Description 6

Geographical Distribution by Fair Value — All Securities



This map shows the geographical distribution of the fair value of all securities in the Company's portfolio.

Question	**Response**
What does this visualization show?	
How might these observations affect our risk assessment?	

Why would it be important to know whether any securities are traded on a foreign exchange?	
What can we do to further investigate?	