

ENTITY NAME: _____

PROPERTY, PLANT, AND EQUIPMENT

We need to understand:

- How and by whom the transactions are initiated
- The accounting processing involved from initiation of a transaction to its inclusion in the general ledger or financial statements, including how the computer is used to process data
- The supporting documents involved, including accounting records and journals, source documents, and electronic means involved in the processing of the transactions
- The documents and reports generated by the accounting system

SECTION A

INTERNAL CONTROL OBJECTIVES

- Property, plant, and equipment are purchased only with proper authorization.
- Property, plant, and equipment purchases are recorded correctly as to account, amount, and period.
- Disposals, retirements, and trade-ins are identified promptly and recorded correctly as to account, amount, and period.
- Property, plant, and equipment are adequately safeguarded and insured.
- Depreciation is calculated correctly using proper lives and methods and is recorded in a timely manner.

POTENTIAL ERRORS AND FRAUD

- Purchases of property are recorded in the wrong account or not recorded.
- Unnecessary property is acquired, resulting in unused or idle capacity.
- Employees are able to conceal unauthorized purchases for their own benefit.
- Property remains in the accounting records after disposal.
- Sales of property are not recorded, and proceeds are misappropriated.
- Wrong lives are assigned to property, resulting in miscalculation of depreciation.

UNDERSTANDING OF ACCOUNTING SYSTEM

1. How and by whom are the transactions initiated?

2. Describe the source documents that support the transactions.

3. Describe the computer media that is used in the processing of accounting information.

4. Describe the documents and reports generated by the accounting system.

5. Describe the accounting processing, records, and files (including how frequently they are updated) that are used to process the transactions, including how transactions are reflected in journals of original entry and in the general ledger.

SECTION B

FURTHER UNDERSTANDING OF CONTROL ACTIVITIES

	Yes	No	N/A
1. Are detailed records maintained and do they include:			
a. Description of asset?	_____	_____	_____
b. Cost?	_____	_____	_____
c. Acquisition date?	_____	_____	_____
d. Depreciation method?	_____	_____	_____
e. Related depreciation?	_____	_____	_____
f. Useful life?	_____	_____	_____
2. Are the detailed records reconciled to the general ledger control accounts at least once a year?	_____	_____	_____
3. Are depreciable lives reviewed periodically by management and compared to actual experience for adequacy?	_____	_____	_____
4. Is all property adequately insured and is insurance coverage reviewed periodically?	_____	_____	_____
5. Are assets physically inspected periodically and compared to detailed records?	_____	_____	_____
6. Are acquisitions of property authorized by designated personnel for:			
a. All capital expenditures?	_____	_____	_____
b. Major renovations?	_____	_____	_____
c. Major repair jobs?	_____	_____	_____
7. Does the client have a well-defined policy for distinguishing between capital expenditures and repairs and maintenance?	_____	_____	_____
8. Does the retirement or sale of property require the approval of designated personnel?	_____	_____	_____
9. Are procedures adequate to ensure that property physically retired is properly removed from the accounting records and that the proceeds from sale, if any, are properly accounted for?	_____	_____	_____
10. Are the methods of selecting useful lives and depreciation policy clearly defined and approved by designated personnel?	_____	_____	_____
11. Are physical safeguards (e.g., alarms, guards, restricted access) over property adequate?	_____	_____	_____
12. Are the personnel who are responsible for maintaining custody of the property independent of the personnel in charge of maintaining the accounting records?	_____	_____	_____
13. Does in-house construction require authorized work orders?	_____	_____	_____
14. Is construction-in-progress regularly reviewed for adherence to budgeted amounts?	_____	_____	_____

15. Are receiving documentation, purchase order or contract, and invoice matched before transactions are recorded?

Yes No N/A
