

ENTITY NAME: _____

ACCOUNTS PAYABLE AND PURCHASES

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

- Goods or services are purchased only with proper authorization.
- Goods or services received are recorded correctly as to account, amount, and period.
- Recorded acquisitions are for goods and services received.
- Adjustments to vendor accounts are made in accordance with management's authorization.
- Only authorized goods and services are accepted and paid for.
- Access to purchasing, receiving, and accounts payable records is adequately controlled to prevent or detect duplicate or improper payments.

POTENTIAL ERRORS AND FRAUD

- Unauthorized purchases are incurred.
- Purchases are recorded but goods or services are not received.
- Liability is incurred but not recorded.
- Purchase amount is recorded incorrectly.
- Purchase is charged to wrong account or is recorded in wrong period.
- Purchases at other than favorable terms are made to facilitate side deals for the personal benefit of employees.
- Misclassification to conceal unauthorized purchases occurs.
- Purchase discounts are taken but not recorded; amount of discounts is misappropriated.

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. Does the client have a purchasing department? If yes, is it independent of the accounting department?	_____	_____	_____
2. Are purchases made only after the respective department heads sign purchase requisitions?	_____	_____	_____
3. Are purchases made by means of purchase orders sent to vendors for:			
a. All purchases?	_____	_____	_____
b. Only purchases over a predetermined dollar limit? (\$_____)	_____	_____	_____
4. Do purchase orders specify:			
a. Description of items?	_____	_____	_____
b. Quantity?	_____	_____	_____
c. Price?	_____	_____	_____
d. Terms?	_____	_____	_____
e. Delivery requirements and dates?	_____	_____	_____
5. Is a list of unfilled purchase orders maintained and reviewed periodically?	_____	_____	_____
6. Are purchase order forms prenumbered and is the sequence accounted for periodically?	_____	_____	_____
7. Does the client maintain an approved vendors list?	_____	_____	_____
8. Are items purchased only after competitive bids are obtained? If yes, are competitive bids obtained for:	_____	_____	_____
a. All purchases?	_____	_____	_____
b. Only purchases over a predetermined dollar limit? (\$_____)	_____	_____	_____
9. Is a log maintained of all receipts?	_____	_____	_____
10. At the time the items are received, does someone independent of the purchasing department check the merchandise before acceptance as to:			
a. Description?	_____	_____	_____
b. Quantity?	_____	_____	_____
c. Condition?	_____	_____	_____
11. Are copies of receiving reports:			
a. Furnished to the accounting department?	_____	_____	_____

	Yes	No	N/A
b. Furnished to the purchasing department?	_____	_____	_____
12. Are receipts under blanket purchase orders monitored, and are quantities exceeding authorized total returned to vendor?	_____	_____	_____
13. Are procedures adequate for the proper accounting for partial deliveries of purchase orders?	_____	_____	_____
14. Are purchasing and receiving functions separate from invoice processing, accounts payable, and general ledger functions?	_____	_____	_____
15. Are vendors' invoices, receiving reports, and purchase orders matched before the related liability is recorded?	_____	_____	_____
16. Are invoices checked as to:			
a. Prices?	_____	_____	_____
b. Extensions and footings?	_____	_____	_____
c. Freight charges or allowances?	_____	_____	_____
d. Credit terms?	_____	_____	_____
17. Are controls adequate to ensure that all available discounts are taken?	_____	_____	_____
18. Are purchases recorded in a purchase register or voucher register before being processed through cash disbursements?	_____	_____	_____
19. Does a responsible employee assign the appropriate general ledger account distribution to which the invoices are to be posted?	_____	_____	_____
20. Are procedures adequate to ensure that invoices have been processed before payment and to prevent duplicate payment (e.g., a block or cancellation stamp)?	_____	_____	_____
21. Does a responsible official approve invoices for payment?	_____	_____	_____
22. Are records of goods returned to vendors matched to vendor credit memos?	_____	_____	_____
23. Are unmatched receiving reports, purchase orders, and vendors' invoices periodically reviewed and investigated for proper recording?	_____	_____	_____
24. Is the accounts payable ledger or voucher register reconciled monthly to the general ledger control accounts?	_____	_____	_____
25. Are statements from vendors regularly reviewed and reconciled against recorded liabilities?	_____	_____	_____
26. Do adjustments to accounts payable (e.g., writing off of debit balances) require the approval of a designated official?	_____	_____	_____
27. Are budgets used? If yes:	_____	_____	_____
a. Are budgets approved by responsible officials?	_____	_____	_____
b. Are actual expenditures compared with budgeted amounts and variances analyzed and explained?	_____	_____	_____