

ENTITY NAME: _____

INVESTMENTS

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

- Investment transactions are authorized and recorded correctly as to account, amount, and period.
- Income earned on investments is recorded correctly as to account, amount, and period.
- Loss in value of investments is promptly detected and provided for.
- Investment instruments are adequately safeguarded.
- Investments are properly valued and classified as long-term or short-term.

POTENTIAL ERRORS AND FRAUD

- Investments are made that are not authorized.
- Investments are purchased but not recorded; investments are recorded but not purchased.
- Investments are sold but not recorded; investments are recorded as sold but not sold.
- Investments are valued incorrectly.
- Unwarranted investment losses are incurred or potential investment gains are not realized.

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 securities kept in a safe vault? If yes:	_____	_____	_____
a. Is a record kept of all visits to the vault?	_____	_____	_____
b. Is the presence or signature of two or more designated persons required to open the vault?	_____	_____	_____
c. Is a detail record (e.g., certificate number, description) kept of each security?	_____	_____	_____
d. Are the securities periodically inspected and compared with detailed investment records by employees independent of the custodian and with the general ledger?	_____	_____	_____
2. Are all securities held in the name of the entity?	_____	_____	_____
3. Is custody of investment securities held by the entity assigned to bonded employees?	_____	_____	_____
4. Is the custodian of securities independent of the accounting function?	_____	_____	_____
5. Are purchases, exchanges, sales, and pledges of investments initiated and approved by designated officers?	_____	_____	_____
6. Are investments held in custodial accounts with a bank, trustee, or broker? If yes:	_____	_____	_____
a. Are account statements from these parties regularly reconciled with the general ledger control account?	_____	_____	_____
b. Is there a periodic review of the reputation and financial position of the parties that are ensuring completion of investment transactions?	_____	_____	_____
7. Is documented management authorization of transactions compared with evidence of execution of transactions (e.g., brokers' advices) promptly, and are differences investigated?	_____	_____	_____
8. Are procedures adequate to ensure that investment income is recorded properly and collected in a timely manner?	_____	_____	_____
9. Are the carrying values of investments reviewed periodically to determine if adjustments are needed for permanent impairment in value?	_____	_____	_____
10. Are investments that have been written off followed up on regarding their possible realization?	_____	_____	_____
11. Is a periodic review of the investment portfolio made and compared with the investment policy by designated officers?	_____	_____	_____