

Oceanview Marine Company Audit Program – Accounts Payable (continued) December 31, 2018 AUDIT PROCEDURES

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In the realm of financial audits, meticulous procedures are essential to ensure accuracy, completeness, and compliance with applicable standards. The Oceanview Marine Company's Audit Program for Accounts Payable as of December 31, 2018, exemplifies a comprehensive approach to verifying the integrity of the company's liabilities. This article delves into the detailed audit procedures performed during this period, highlighting the key steps auditors undertake to validate accounts payable balances, identify potential discrepancies, and ensure proper financial reporting.

Understanding the Scope of the Audit Program

Before exploring the specific procedures, it is vital to understand the scope of the Oceanview Marine Company's audit program concerning accounts payable. The primary objectives include:

- Confirming the existence and accuracy of recorded liabilities
- Ensuring completeness of accounts payable records
- Verifying proper valuation and cutoff of liabilities
- Assessing internal controls over accounts payable processes
- Identifying any potential misstatements or fraud risks

Given Oceanview Marine's operations, which include complex maritime logistics and international transactions, the audit procedures are tailored to address industry-specific risks and ensure robust verification.

Pre-Audit Planning and Risk Assessment

Effective audits begin with comprehensive planning. For Oceanview Marine's accounts payable audit, auditors perform the following preparatory steps:

1. Review of Internal Controls

- Evaluate the design and implementation of controls over invoice processing, approval, and payment.
- Identify areas of potential control weaknesses or segregation of duties issues.
- Understand the flow of transactions from receipt of goods/services to payment.

2. Analytical Procedures

- Analyze trends in accounts payable balances over previous periods.
- Investigate significant fluctuations or unusual patterns.
- Perform ratio analysis comparing accounts payable to total liabilities and expenses.

3. Risk Identification

- Recognize high-risk areas such as foreign currency transactions, offshore vendors, or manual

adjustments.

- Assess the potential for unrecorded liabilities or fictitious invoices.

Detailed Audit Procedures for Accounts Payable

Once planning is complete, auditors proceed with substantive procedures. These are designed to substantiate the balances reported in the financial statements as of December 31, 2018.

1. Confirmation of Accounts Payable Balances

One of the cornerstone procedures involves direct confirmation with suppliers and vendors.

- Selection of Vendors for Confirmation:
 - Focus on significant vendors or those with unusual activity.
 - Use a statistically or judgmentally selected sample.
- Confirmation Process:
 - Send positive confirmations requesting vendors to confirm outstanding balances.
 - Follow up on non-responses with alternative procedures or direct inquiries.
- Analysis of Responses:
 - Reconcile confirmed balances with the company's records.
 - Investigate discrepancies and resolve differences.

2. Vouching and Tracing Transactions

This involves verifying individual transactions to supporting documentation and vice versa.

- Vouching:

- Select a sample of recorded accounts payable and trace to original invoices, purchase orders, and receiving reports.

- Ensure that recorded liabilities are supported by valid documentation.

- Tracing:

- For sample transactions, ensure that all goods/services received are recorded properly in accounts payable.

- Confirm cutoff at year-end by reviewing transactions just before and after December 31, 2018.

3. Cutoff Tests

- Examine transactions around the year-end to confirm proper recording period.

- Verify that liabilities incurred before year-end but paid afterward are included.

- Confirm that payments made after year-end pertain to goods/services received in the current period.

4. Analytical Review of Accounts Payable

- Compare current year balances with prior periods and budgets.

- Investigate significant deviations or unusual trends.

- Cross-verify with related accounts like accrued expenses or inventory.

5. Examination of Supporting Documentation

- Review vendor invoices, purchase orders, receiving reports, and payment vouchers.
- Confirm that recorded liabilities are valid, authorized, and properly classified.

6. Testing Internal Controls

- Evaluate the effectiveness of controls over invoice approval, vendor setup, and payment authorization.
- Perform walkthroughs of the process to identify control gaps.

Additional Audit Procedures Specific to Oceanview Marine

Given Oceanview Marine's maritime operations, certain unique procedures are also incorporated.

1. Review of Maritime Purchase Contracts

- Verify that liabilities arising from long-term contracts or leases are properly recorded.
- Ensure compliance with industry-specific accounting standards for maritime assets.

2. Foreign Currency Transaction Testing

- For transactions involving foreign vendors, verify the correctness of currency translation and

exchange rate application.

- Confirm that any gains or losses are appropriately recognized.

3. Inspection of Shipping and Delivery Records

- Cross-check delivery receipts with invoices to confirm receipt of goods/services.
- Ensure cutoff accuracy for shipments and related liabilities.

Final Evaluation and Reporting

After completing substantive procedures and internal control assessments, auditors synthesize their findings to form an opinion on the accounts payable balance.

1. Reconciliation and Final Analysis

- Reconcile confirmed balances with the general ledger.
- Investigate and document any discrepancies or unsubstantiated items.

2. Assessment of Completeness and Existence

- Confirm that all liabilities are recorded and that recorded liabilities actually exist.
- Identify any unrecorded liabilities through subsequent payments and vendor inquiries.

3. Documentation and Audit Evidence

- Compile all audit working papers, confirmations, and supporting documentation.
- Ensure compliance with auditing standards for documentation.

4. Reporting Findings

- Summarize key issues identified, such as unrecorded liabilities or incorrect cutoff.
- Provide recommendations to management for improving controls and processes.

Conclusion: Ensuring Accurate Financial Reporting

The Oceanview Marine Company's audit procedures for accounts payable as of December 31, 2018, exemplify a rigorous and systematic approach necessary for reliable financial reporting. Through confirmation, detailed testing, cutoff analysis, and control evaluation, auditors aim to provide reasonable assurance that liabilities are accurately stated, complete, and properly disclosed. For stakeholders, understanding these procedures fosters confidence in the company's financial health and compliance with applicable standards. Maintaining robust audit practices is vital in the maritime industry, where complex transactions and international operations pose unique challenges. Overall, the comprehensive audit program ensures that Oceanview Marine's financial statements present a fair and accurate view of its obligations as of the fiscal year-end.

Meta Description:

Discover the detailed audit procedures for Oceanview Marine Company's accounts payable as of

December 31, 2018. Learn about confirmation, cutoff tests, internal control evaluation, and industry-specific audit techniques to ensure accurate financial reporting.

Frequently Asked Questions

What specific audit procedures are recommended for verifying accounts payable balances as of December 31, 2018, at Oceanview Marine Company?

The audit procedures include confirming outstanding payables with vendors, reviewing subsequent payments made after year-end, and examining supporting documentation such as invoices and purchase orders to ensure accuracy and completeness of the accounts payable balance.

How does Oceanview Marine Company ensure the cutoff of accounts payable transactions is correctly recorded as of December 31, 2018?

The company reviews the receiving reports and vendor invoices around year-end to verify that expenses and liabilities are recorded in the correct accounting period, ensuring proper cutoff and avoiding misstatement of liabilities.

What controls are evaluated to assess the reliability of accounts payable data during the audit?

Auditors assess controls such as segregation of duties in invoice processing, approval procedures for payments, and the reconciliation process of accounts payable subsidiary ledger to the general ledger to determine the reliability of the data.

Are there any specific risks identified in the December 31, 2018, accounts payable audit for Oceanview Marine Company?

Risks include unrecorded liabilities, misstatements due to cutoff errors, and potential understatement of liabilities, especially if vendor invoices received after year-end are not properly included or if there are duplicate payments.

What role do analytical procedures play in the audit of Oceanview Marine Company's accounts payable as of December 31, 2018?

Analytical procedures involve comparing current-year liabilities with prior periods, budgeted amounts, and industry benchmarks to identify unusual fluctuations or discrepancies that warrant further investigation.

How does Oceanview Marine Company document and support the audit findings related to accounts payable for the December 31, 2018, audit?

The company maintains detailed audit trails, including copies of confirmations, reconciliation reports, review notes, and documentation of any adjustments made, ensuring that all findings are well-supported and can be reviewed during the audit process.

Additional Resources

Oceanview Marine Company Audit Program - Accounts Payable (Continued) December 31, 2018
AUDIT PROCEDURES

Introduction

The audit of accounts payable is a critical component of the overall financial statement audit for Oceanview Marine Company. For the fiscal year ending December 31, 2018, the audit procedures related to accounts payable are designed to ensure the completeness, accuracy, existence, and valuation of liabilities recorded in the financial statements. This detailed review offers an in-depth look at the audit procedures, methodologies, and controls involved in verifying the accounts payable balances, with particular emphasis on the ongoing procedures, substantive testing, and analytical reviews.

Objectives of the Accounts Payable Audit Procedures

The primary objectives guiding the audit of accounts payable include:

- Existence: Confirm that recorded payables actually exist as liabilities owed by Oceanview Marine.
- Completeness: Ensure all liabilities that should have been recorded are included.
- Valuation and Accuracy: Verify that payables are properly valued, accurately recorded, and free from material misstatement.
- Cut-off: Confirm that liabilities are recorded in the correct accounting period.
- Rights and Obligations: Establish that Oceanview Marine has legal obligations related to the recorded liabilities.

Achieving these objectives involves a combination of substantive procedures and tests of controls, tailored to address any identified risks of material misstatement.

Preliminary Planning and Risk Assessment

Before executing substantive procedures, the audit team performs comprehensive planning, including understanding Oceanview Marine's internal controls over accounts payable. This involves:

- Reviewing the company's policies on procurement, invoice processing, and payments.
- Identifying potential risks such as unrecorded liabilities, duplicate payments, or fraudulent activities.
- Evaluating the design and implementation of controls around invoice approval, vendor management, and periodic reconciliations.
- Assessing the risk of understatement or overstatement of liabilities, especially near period-end.

A detailed understanding of Oceanview Marine's vendor setup, approval hierarchy, and payment procedures aids in designing targeted audit procedures.

Audit Procedures – Accounts Payable (Continued)

The procedures outlined below are performed both at the interim and year-end stages, with specific emphasis on direct confirmation, analytical review, and substantive testing.

1. Analytical Procedures

- Trend analysis: Review the trend of accounts payable balances over the prior periods, comparing current year figures with prior periods for anomalies or unusual fluctuations.
- Ratio analysis: Calculate and analyze ratios such as accounts payable to total liabilities, days payable outstanding (DPO), and current liabilities to sales to identify inconsistencies.
- Comparison with prior periods: Evaluate significant changes in vendor balances or transaction

volumes, investigating any unexplained variances.

- Vendor analysis: Analyze the vendor population for unusual or related-party vendors, which may indicate potential conflicts of interest or fraud.

These analytical procedures serve as an initial screening process and help focus more detailed substantive testing on areas of concern.

2. Confirmation of Accounts Payable Balances

- Third-party confirmations: Send confirmations directly to selected vendors to verify the outstanding balances as of December 31, 2018.
- Select a sample of significant vendors, typically those with balances exceeding a predetermined threshold.
- Confirm the balances, payment terms, and any disputes or discrepancies.
- Follow up on non-responses with alternative procedures such as subsequent payments or vendor statements.
- Vendor statement reconciliation: Obtain vendor statements and reconcile them to the company's accounts payable ledger.
- Cut-off testing: Confirm that liabilities are recorded in the correct period by:
 - Reviewing invoices received just before and after year-end.
 - Examining receiving reports and purchase orders around the cutoff date.
 - Ensuring that liabilities are not recorded prematurely or omitted.

3. Substantive Testing of Accounts Payable

- Sample testing of transactions:
 - Select a representative sample of invoices recorded during December 2018.

- Verify supporting documentation, including purchase orders, receiving reports, and approved invoices.
- Confirm that the recorded amounts agree with supporting documents.
- Check that expenses are recognized in the correct period.

- Vouching procedures:
 - Trace a sample of recorded payables back to purchase orders and receiving reports.
 - Confirm that goods/services were received before recording the liability.

- Reconciliation of accounts payable ledger:
 - Reconcile the detailed ledger with the general ledger control account.
 - Investigate any reconciling items or discrepancies.

- Testing for unrecorded liabilities:
 - Review subsequent cash disbursements after December 31, 2018, to identify any liabilities that should have been recorded at year-end.
 - Examine purchase orders and receiving reports for transactions near year-end that may not have been accrued.

4. Review of Vendor and Purchase Documentation

- Vendor master file review:
 - Verify the completeness and accuracy of vendor information.
 - Identify any duplicate or inactive vendors that may pose risks.

- Review of purchase policies:
 - Confirm compliance with internal controls regarding approval limits and segregation of duties.
 - Assess whether unauthorized or fraudulent transactions could have occurred.

- Review of contractual obligations:

- Examine significant agreements to identify potential liabilities not yet recorded.

5. Testing Internal Controls

While the substantive procedures focus on verifying balances, testing the effectiveness of internal controls over accounts payable helps assess the risk of material misstatement.

- Sample testing of controls:
 - Review approval workflows for purchase requisitions and invoices.
 - Verify segregation of duties between invoice receipt, approval, and payment processing.
 - Test the reconciliation processes of the accounts payable ledger with vendor statements.
- Control environment assessment:
 - Evaluate management's oversight and whether controls are designed and operating effectively.
 - Identify any control deficiencies that could impact the reliability of the accounts payable balance.

Special Considerations in the Audit of Oceanview Marine

Oceanview Marine operates in a complex environment involving multiple vendors, international transactions, and specialized maritime procurement. These factors influence audit procedures:

- Foreign currency transactions: For vendors invoicing in foreign currencies, ensure proper translation and recording at year-end rates.
- Long-term contracts: Review whether long-term purchase agreements contain obligations that require accrual.
- Related-party transactions: Pay special attention to related-party vendors to prevent conflicts of interest or undisclosed liabilities.

- Maritime-specific expenses: Verify that expenses related to ships, maintenance, and port services are properly classified and supported.

Documentation and Reporting

All audit procedures performed must be thoroughly documented, including:

- Audit programs and procedures executed.
- Sample selections, including rationale.
- Findings, discrepancies, or issues identified.
- Responses and corrective actions taken.
- Conclusions reached regarding the accuracy and completeness of accounts payable.

A comprehensive working paper file supports the auditor's opinion and provides evidence that due diligence was exercised.

Conclusion

The ongoing audit procedures concerning Oceanview Marine's accounts payable as of December 31, 2018, encompass a robust combination of analytical reviews, confirmations, substantive testing, and control evaluations. These procedures are designed to mitigate risks of misstatement, detect potential fraud, and ensure that liabilities are properly recorded and disclosed in accordance with applicable accounting standards.

By meticulously executing these procedures, auditors can provide reasonable assurance that the accounts payable balance reflects the true obligations of Oceanview Marine, thereby contributing to the overall integrity and reliability of the financial statements. The depth and rigor of this audit approach underscore the importance of a comprehensive, risk-based methodology in financial audits, particularly within complex and dynamic industries like maritime operations.

Note: This detailed overview is intended to serve as a comprehensive guide to the audit procedures for Oceanview Marine's accounts payable as of December 31, 2018. It emphasizes adherence to auditing standards, thorough documentation, and a focus on key risk areas to ensure a high-quality audit outcome.

Oceanview Marine Company Audit Program Accounts Payable Continued December 31 2018 Audit Procedures

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