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| **Client:** | **${client}** | |
| **Period end date:** | **${start} - ${end}** | |
| **Ref. no.:** |  | |
| **Prepared by:** | ${user} | **Date:** |
| **Approved by Manager:** | ${manager} | **Date:** |
| **Approved by Partner:** | ${partner} | **Date:** |

# **Guidance (click to expand):**

This template is designed to serve as a documentation template for an engagement team's understanding and evaluation of the five components of the entity’s system of internal control. Engagement team is required to document the risk assessment procedures performed and the sources of information and how design and implementation of control was evidenced.

The documentation template is prefilled with key elements to address and for most of the elements, there is a ‘consider’, providing the auditor with matters to think about when understanding and evaluating entity’s system of internal control. This template is also prefilled with suggested potential sources of evidence for each component of the entity’s system of internal control to facilitate understanding of the entity's system of internal control and to assist with documentation of the understanding and evaluation of the identified controls. This template also consists of potential control activities relevant to the audit with supporting questions that assist the auditor in determination of whether the controls exist and are designed effectively.

However, the components of the entity’s system of internal control for the purpose of this guidance may not necessarily reflect how an entity designs, implements and maintains its system of internal control, or how it may classify any particular component. Entities may use different terminology or frameworks to describe the various aspects of the system of internal control. For this purpose, auditor may also use different terminology or frameworks provided all the components described in this guidance are addressed.

Not all of the common controls included in the template will be applicable to all entities. The form and extent of the documentation is influenced by the nature, size and complexity of the entity and its system of internal control, availability of information from the entity and the audit methodology and technology used in the course of the audit. The example controls and suggested potential sources of evidence included throughout this template are not exhaustive and auditor will need to modify and/or supplement based on the individual facts and circumstances identified at each entity.

The overall objective and scope of an audit does not differ whether an entity operates in a mainly manual environment, a completely automated environment, or an environment involving some combination of manual and automated elements (i.e., manual and automated controls and other resources used in the entity’s system of internal control).

The auditor’s understanding and evaluation of each of the components of the entity’s system of internal control provides a preliminary understanding of how the entity identifies business risks and how it responds to them. It may also influence the identification and assessment of the risks of material misstatement. This assists the auditor in designing and performing further audit procedures, including any plans to test the operating effectiveness of controls. For example:

* The auditor’s understanding of the entity’s control environment, the entity’s risk assessment process, and the entity’s process to monitor controls components are more likely to affect the identification and assessment of risks of material misstatement at the financial statement level.
* The auditor’s understanding of the entity’s information system and communication, and the entity’s control activities component, are more likely to affect the identification and assessment of risks of material misstatement at the assertion level.

The auditor’s understanding and evaluation will be based on:

* Inquiries directed towards management and those charged with governance and others within the entity
* Inspection of documentation produced by the entity detailing policies, procedures and controls
* Observations of application of specific controls
* Performing walk-throughs for e.g. selecting transactions and tracing them through the applicable process in the information system
* Information obtained from client acceptance/continuance process.
* Additional information obtained from other engagements performed for the entity.
* Information obtained from previous audits and its relevance to the current period.
* Discussions among engagement team and engagement team’s knowledge of the entity.

The result of this assessment will be reflected in the audit strategy including any plans to place any reliance on the controls.

# **Internal Control Template**

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| **Summary** | |
| **Components** | **Link** |
| Control Environment | [Control Environment](#_Control_Environment_1) |
| Risk Assessment Process | [Risk Assessment Process](#_Risk_Assessment_Process) |
| Information System & Communication | [Information System and Communication](#_Information_System_and) |
| Control Activities | [Control Activities](#_Control_Activities) |
| Monitoring of Controls | [Monitoring of Controls](#_Monitoring_of_Controls) |
| **Overall assessment** | |
| Based on our understanding and evaluation of the five components in the entity’s system of internal control (including controls relevant to significant risks):  No significant risks were identified, or  One or more significant risks were identified and considered in the risk assessment document.  AND  No control deficiencies were identified, or  The following control deficiencies were identified (specify).  AND  No significant control deficiencies were identified, or  Identified significant control deficiencies and communicated them to those charged with governance on a timely basis. | |

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| **Control Environment** | | |
| **Inquired of entity personnel [name and designation] on the understanding and evaluation of the controls relevant to the audit.** | | |
| **Key elements to address** | **Documentation of understanding** | **Documentation of sources of information and risk assessment procedures performed** |
| How management’s responsibilities are carried out, such as creating and maintaining the entity’s culture and demonstrating management’s commitment to integrity and ethical values.  Consider the following:   * Entity’s ethical and behavioural standards or codes of conduct; * How they are communicated (e.g., through policy statements and by example); and * How they are reinforced in practice (e.g., through management actions to eliminate or mitigate incentives or temptations that might prompt personnel to engage in dishonest, illegal, or unethical acts). | The entity has created and maintained a culture of and demonstrated commitment to integrity and ethical values through the following (checked those that apply):  Formal code of conduct or equivalent disseminated throughout the entity and acknowledged by all employees.  There is no formal/written code of conduct, however, management has developed a culture of and demonstrated commitment to integrity and ethical behaviour through their directives, actions and behaviours.  Management has established tone at the top; values ethics and integrity over short-term business goals; is receptive to employees' ethical concerns; and responds appropriately if they become aware of misconduct.  Whistle blowing system that exists and is used effectively.  Other (specify) | Checked those that apply (inquiry alone is not sufficient):  Controls do not exist or their design is considered ineffective.  Inspected the entity's code of conduct and/or other policies to determine that it is comprehensive and appropriate.  Inspected documents to determine that the entity's code of conduct and/or other polices are communicated and acknowledged.  Formal documentation and programs are not in place, however we have observed that management has developed a culture of and demonstrated commitment to integrity and ethical behaviour through their directives, actions and behaviours.  Observed that management continually demonstrates, through their directives, actions and behaviours, a commitment to integrity and ethical standards.  Inspected relevant documents evidencing disciplinary action/ dismissal of employees in response to misconduct.  Inspected the whistle blowing system and details of follow-up of matters raised to determine that it exists and is accessible.  Other (specify) |
| When those charged with governance are separate from management, how those charged with governance demonstrate independence from management and exercise oversight of the entity’s system of internal control.  Consider the following:   * Whether there are sufficient individuals who are independent from management and objective in their evaluations and decision-making; * How those charged with governance identify and accept oversight responsibilities; and * Whether those charged with governance retain oversight responsibility for management’s design, implementation and conduct of the entity’s system of internal control. | Those charged with governance demonstrate independence from management and exercise oversight of the entity’s system of internal control through following (checked those that apply):  The role of those charged with governance is undertaken by those with competence, capabilities, proper experience and independence from management.  The responsibilities of those charged with governance and the extent of their involvement is line with applicable laws and regulations (checked those that apply):  Companies Act, 2017  Code of Corporate Governance  Other (specify)  Significant issues and financial results are communicated to those charged with governance in a timely manner.  Those charged with governance meet on a regular basis and minutes of meetings are circulated on a timely basis.  Those charged with governance exercise oversight of the entity’s system of internal control relevant to financial reporting such that controls are discussed at meetings.  Other (specify) | Checked those that apply (inquiry alone is not sufficient):  Controls do not exist or their design is considered ineffective.  Inspected documents supporting the appointment of competent, capable and independent members.  Attended meetings held with those charged with governance and observed that they are competent, capable and independent.  Inspected documents sent to those charged with governance to determine their sufficiency and timeliness and whether they are made aware of important decisions, significant issues and financial results.  Inspected minutes of meetings to determine that those charged with governance meet on a regular basis and minutes of meetings are circulated on a timely basis.  Inspected minutes of meetings to determine the effective oversight by those charged with governance and their ability to ask and pursue answers to probing questions.  Other (specify) |
| How the entity assigns authority and responsibility in pursuit of its objectives.  Consider the following:   * Key areas of authority and responsibility and appropriate lines of reporting; * Policies relating to appropriate business practices, knowledge and experience of key personnel, and resources provided for carrying out duties; and * Policies and communications directed at ensuring that all personnel understand the entity’s objectives, know how their individual actions interrelate and contribute to those objectives, and recognize how and for what they will be held accountable. | The entity assigns authority and responsibility in pursuit of its objectives through the following (checked those that apply):  Key areas of authority and responsibility and appropriate lines of reporting are established suitable for the size and complexity of the entity. We have documented the “Organisational Structure”.  Employees in key management and financial reporting positions have the required knowledge, skills and experience to perform their duties.  There is adequate supervision and monitoring of data processing and accounting operations.  Job descriptions that are made part of an employee’s file, state clearly the tasks to be performed by them.  There is segregation of duties amongst the major activities/functions (including authorizing transactions, recording transactions, reconciling information and maintaining custody of assets).  The entity has policy of double-signatures or authorized signatories.  The entity has established a procedure for making payments such that all cheques are prepared, reviewed and approved by appropriate senior person(s).  The entity has established appropriate lines of responsibility and processes for approval of significant, unusual and related party transactions such that management and/or board of directors approves pricing methods for related party transactions that were made on the terms equivalent to those that prevail in arm’s length transaction, only if such terms can be substantiated.  Other (specify) | Checked those that apply (inquiry alone is not sufficient):  Controls do not exist or their design is considered ineffective.  Inspected organization chart to determine that it is suitable for the size and complexity of the entity and authority and responsibility is clearly assigned along with appropriate lines of reporting.  Inspected documents supporting the appointment of individuals with knowledge, skills and experience.  Attended meetings held with key management personnel and observed that they are knowledgeable, skilled and experienced.  Inspected documents that demonstrate management's close involvement through supervision (e.g., management review, management approvals etc.).  Inspected job descriptions to determine that roles and responsibilities are clearly defined.  Inspected flowchart and/or narrative descriptions to determine the adequacy and appropriateness of the segregation of duties.  Observed that segregation of duties is appropriate.  Inspected the policy of double-signatures or authorizations.  Observed that all check payments are under the control of appropriate senior person(s).  Inspected policies and other documentation that support approval process for significant, unusual and/or related party transactions.  Observed that management at appropriate levels of the organization and/or the board of directors provide appropriate approval and oversight.  Other (specify) |
| How the entity attracts, develops, and retains competent individuals in alignment with its objectives.  Consider the following:   * Standards for recruiting the most qualified individuals – with an emphasis on educational background, prior work experience, past accomplishments, and evidence of integrity and ethical behavior; * Training policies that communicate prospective roles and responsibilities, including practices such as training schools and seminars that illustrate expected levels of performance and behavior; and * Periodic performance appraisals driving promotions that demonstrate the entity’s commitment to the advancement of qualified personnel to higher levels of responsibility. | The entity attracts, develops and retains competent individuals in alignment with its objectives through the following (checked those that apply):  Appropriate recruitment standards including background checks, interviews and communication of values, expected behaviour and management’s operating style, for recruiting competent and capable individuals.  Formalized job descriptions exist and are used to ensure competence and capabilities are in line with roles and responsibilities. An individual’s competence and capabilities are matched with job descriptions at the time of recruitment.  Formal/ informal trainings to provide guidance on roles and responsibilities, to improve performance and to meet evolving needs.  Periodic performance appraisals driving increments and/or promotions to further emphasize importance of competence and capabilities and to encourage achievement of objectives.  Remuneration packages are structured in a way to avoid factors that may place undue or significant pressure on management to achieve financial results exist. The management ensures that remuneration packages encourage value creation within the company. Levels of remuneration are appropriate to attract and retain the employees needed to function the Group successfully. Simultaneously, management ranks integrity and ethics an important factor in appraising employees. Employees who have fulfilled the objectives might not be given incentives and promotions if they lack in ethics and integrity.  Other (specify) | Checked those that apply (inquiry alone is not sufficient):  Controls do not exist or their design is considered ineffective.  Inspected policies and procedures for hiring/training/compensating/promoting employees to determine that knowledge and skills are important factors.  Inspected job descriptions to determine that required knowledge and skills are in line with roles and responsibilities.  Observed an ongoing training program.  Inspected performance appraisals that demonstrate entity’s commitment to competence by rewarding on the basis of knowledge and skills and achievement of objectives.  Inspected the structure of remuneration packages of management to determine that no factors place undue or significant pressure on management to achieve financial results.  Inspected minutes of meetings to determine that no factors place undue or significant pressure on management to achieve financial results.  Other (specify) |
| How the entity holds individuals accountable for their responsibilities in pursuit of the objectives of the entity’s system of internal control.  Consider the following:   * Mechanisms to communicate and hold individuals accountable for performance of controls responsibilities and implement corrective actions as necessary; * Establishing performance measures, incentives and rewards for those responsible for the entity’s system of internal control, including how the measures are evaluated and maintain their relevance; * How pressures associated with the achievement of control objectives impact the individual’s responsibilities and performance measures; and * How the individuals are disciplined as necessary. | The entity holds individuals accountable for their responsibilities in pursuit of the objectives of the entity’s system of internal control through the following (checked those that apply):  Management has established internal control objectives and emphasizes accountability and responsibility for them such that it emphasizes on the importance of a sound internal control system over financial reporting; appropriate selection/application of accounting policies; information-processing controls, and the treatment of accounting personnel.  Performance appraisals driving increments and/or promotions that emphasize the achievement of objectives of the entity’s system of internal control.  Management takes remedial actions in response to controls ignored or by-passed by individuals.  Other (specify) | Checked those that apply (inquiry alone is not sufficient):  Controls do not exist or their design is considered ineffective.  Inspected policies and/or other documents that establish internal control objectives and emphasize accountability and responsibility for them.  Observed that management holds individuals accountable for control responsibilities.  Inspected policies for performance appraisals to determine that the achievement of objectives of the entity’s system of internal control is an important factor.  Inspected a record of follow-up on controls ignored or bypassed to determine the appropriateness of remedial actions taken by management.  Other (specify) |
| **Evaluation** | | |
| Based on our understanding control environment of the entity’s system of internal control:  Has the management, with the oversight of those charged with governance, created and maintained a culture of honesty and ethical behaviour?  Yes  No  AND  Do the strengths in the control environment elements collectively provide an appropriate foundation for the other components of the entity’s system of internal control considering the nature and complexity of the entity?  Yes  No  AND  No control deficiencies in the control environment were identified, or  The following control deficiencies in the control environment were identified (specify).  AND  No significant control deficiencies in the control environment were identified, or  Identified significant control deficiencies in the control environment and communicated them to those charged with governance on a timely basis. | | |

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| **Risk Assessment Process** | | |
| **Inquired of entity personnel [name and designation] on the understanding and evaluation of the controls relevant to the audit.** | | |
| **Key elements to address** | **Documentation of understanding** | **Documentation of sources of information and risk assessment procedures performed** |
| The entity’s process for:   * Identifying business risks relevant to financial reporting objectives; * Assessing the significance of the risks, including the likelihood of their occurrence; and * Addressing those risks.   Consider how management or, as appropriate, those charged with governance, has:   * Specified the entity’s objectives with sufficient precision and clarity to enable the identification and assessment of the risks relating to the objectives; * Identified the risks to achieving the entity’s objectives and analyzed the risks as a basis for determining how the risks should be managed; and * Considered the potential for fraud when considering the risks to achieving the entity’s objectives. * Established a process for managing changes that can have significant impact on the entity's financial reporting objectives (e.g. changes in operating environment, new personnel, new information systems, rapid growth, new accounting pronouncements etc.). | The entity identifies business risks relevant to financial reporting objectives, estimates their significance, assesses the likelihood of their occurrence, and addresses them through the following (checked those that apply):  The entity-wide objectives are set annually through cash budgets. Budgets are prepared and are compared with the actual figures on a periodic basis. Material variances are identified and accounted for. The budgets, accounting policies and financial reporting objectives are subject to periodic review and approval and if required, are updated. The entity’s budgeting process helps the heads of lines of business to understand the strategic objectives and to enable identification and assessment of the risks relating to the objectives.  The entity does not have formalized risk assessment process but other processes (i.e. payroll, purchases & payable, revenue & receivable and property, plant & equipment) are in place to identify business risks relevant to financial reporting objectives in the relevant areas. Informal approaches are applied on individual or case-by-case basis in order to identify business risks, estimate their significance, assess the likelihood of their occurrence, and address them.  Management has established a process for managing changes that can have significant impact on the entity's financial reporting objectives such that in order to identify and react to changes that can have a more dramatic and pervasive effect on the entity, and may demand the attention of top management, the heads have been made responsible for implementing changes within their departments as a result of changes in the operating environment, new accounting pronouncements etc.  Other (specify) | Checked those that apply (inquiry alone is not sufficient):  Controls do not exist or their design is considered ineffective. However, inquired of management about identified risks and how they are addressed (mandatory irrespective of the circumstances in order to evaluate whether its absence/ineffectiveness is appropriate in the circumstances or to determine whether it represents a significant control deficiency).  Inspected budget report for management’s assessment of financial reporting objectives and related risks.  Inspected minutes of meetings to determine that financial reporting objectives and related risks are presented to those charged with governance for review and approval.  Inspected documents to determine that financial reporting objectives and related risks are periodically updated.  Inspected documentation of management's identification of business risks that are relevant to the entity's financial reporting objectives as well as to determine that management assessed the significance of the risks, including the likelihood of their occurrence and decided upon the actions to be taken to address them.  Formal documentation of management's risk assessment does not exist, however, we have observed that management identified changes in the entity and its environment; assessed significance of these changes in preparing the financial statements, including the likelihood of their occurrence; and took necessary action(s) to address those assessed risks of misstatement.  Inspected the list of risks identified by management to determine if the list is consistent with our understanding.  Inspected documents to determine that management has established a formal process for managing changes.  Observed the process followed in response to a recent change that can have significant impact on the entity.  Other (specify) |
| **Evaluation** | | |
| Based on our understanding risk assessment process of the entity’s system of internal control:  Is the entity’s risk assessment process appropriate to the entity’s circumstances considering the nature and complexity of the entity?  Yes  No  AND  No control deficiencies in the risk assessment process were identified, or  The following control deficiencies in the risk assessment process were identified (specify).  AND  No significant control deficiencies in the risk assessment process were identified, or  Identified significant control deficiencies in the risk assessment process and communicated them to those charged with governance on a timely basis. | | |

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| **Information System and Communication** | | |
| **Inquired of entity personnel [name and designation] on the understanding and evaluation of the controls relevant to the audit.** | | |
| **Key elements to address** | **Documentation of understanding** | **Documentation of sources of information and risk assessment procedures performed** |
| **Information System** | | |
| Entity’s information processing activities, including its data and information, the resources to be used in such activities and the policies that define, for significant classes of transactions, account balances and disclosures:   1. How information flows through the entity’s information system, including:    1. Transactions are initiated, and how information about them is recorded, processed, corrected as necessary, incorporated in the general ledger and reported in the financial statements; and    2. Information about events and conditions, other than transactions, is captured, processed and disclosed in the financial statements. 2. The accounting records, specific accounts in the financial statements and other supporting records relating to the flows of information in the information system. 3. The financial reporting process used to prepare the entity’s financial statements, including disclosures; and 4. The entity’s resources, including the IT environment, relevant to how information flows through the entity’s information system and the financial reporting process.   Consider the following:   * Understanding how information system addresses financial reporting objectives including compliance and operational objectives relevant to the preparation of financial statements. * Understanding of the human resources to be used in the information system including competence of the individuals, adequacy of the resources and appropriateness of segregation of duties. * When understanding policies that define flows of information for significant classes of transactions, account balances and disclosures, consider the nature of:   + The data or information relating to the significant transactions, other events and conditions to be processed;   + The information processing to maintain the integrity of that data or information; and   + The information processes, personnel and other resources used in the information processing process. * Obtaining an understanding of the entity’s business processes (payroll, purchases, sales etc.) which include how transactions are originated, assists the auditor in obtaining an understanding of the entity’s information system in a manner that is appropriate to the entity’s circumstances * Accounting systems used including any accounting software, electronic spreadsheets, relevant information from other sources and the policies and procedures used to prepare periodic financial reports and the period-end financial statements including disclosures. * Understanding relevant aspects of the information system relating to information disclosed in the financial statements that is obtained from within or outside of the general and subsidiary ledgers. | Entity’s information system, relevant to financial reporting objectives and preparation of financial statements is as follows (checked those that apply):  Information systems including related business processes and accounting systems are in place for gathering key financial information to support the financial reporting objectives and the financial statements preparation (including relevant aspects of systems relating to information disclosed in the financial statements that is obtained from within or outside of the general and subsidiary ledgers). *[Specify the accounting software, electronic spread sheets or any other software used].*  Entity’s information system addresses compliance and operations objectives because such information is relevant to the preparation of the financial statements for e.g. updates in laws and regulations having an impact on the preparation of financial statements.  Appropriate controls over the reliability of the internal information are performed.  The entity has appropriate numbers of people, particularly with respect to processing activities and information technology, with the requisite competence and capabilities for the size and complexity of the entity.  There is appropriate segregation of duties especially between IT and accounting personnel.  Other (specify) | Checked those that apply (inquiry alone is not sufficient):  Controls do not exist or their design is considered ineffective.  Inspected flowchart and/or narrative description to determine that information systems, including related business processes, by which transactions are initiated recorded, processed, corrected and reported in the financial statements are in place.  Selected transactions and traced them through the applicable process in the information system.  Inspected documentation to determine whether the entity’s information system addresses compliance and operations objectives.  Inspected documents to determine that the controls over the reliability of the internal information are performed.  Inspected documents (job descriptions and employee profiles etc.) to determine that the entity has appropriate numbers of people, particularly with respect to processing activities and information technology, with the requisite knowledge and skill levels for the size and complexity of the entity.  Observed that appropriate numbers of people are involved, particularly with respect to data processing and information technology, with the knowledge and requisite skill levels for the size and complexity of the entity.  Observed that there is appropriate segregation of duties especially between IT and accounting personnel.  Other (specify) |
| **Communication** | | |
| How the entity communicates significant matters that support the preparation of the financial statements and related reporting responsibilities in the information system and other components of the system of internal control:   * Between people within the entity, including how financial reporting roles and responsibilities are communicated; * Between management and those charged with governance; and * With external parties, such as those with regulatory authorities.   Consider the following:   * Whether there are formal policy manuals, accounting and financial reporting manuals, and memoranda or other informal processes are followed e.g. communication made electronically, orally, and through the actions of management. * Whether personnel understand how their activities in the information system relate to the work of others and the means of reporting exceptions to an appropriate higher level within the entity. | The entity communicates significant matters that support the preparation of the financial statements and related reporting responsibilities in the information system and other components of the system of internal control through the following (checked those that apply):  Formal policy manuals, accounting and financial reporting manuals exist and are used effectively.  Formal manuals are not in place however the entity has open communication channels that facilitate achievement of financial reporting objectives and financial statements preparation, including the reporting of exceptions and acting on them.  Personnel understand how their activities in the information system relate to the work of others and the means of reporting exceptions to an appropriate higher level within the entity.  Financial information is communicated timely and clearly to external stakeholders and regulatory parties in compliance with applicable laws and regulations.  Other (specify) | Checked those that apply (inquiry alone is not sufficient):  Controls do not exist or their design is considered ineffective.  Inspected the entity's financial reporting manual (or other relevant manuals) to determine that it is comprehensive.  Formal manuals are not in place however we have observed that the entity has open communication channels that facilitate the reporting of exceptions and acting on them.  Inspected minutes of meetings to determine that matters related to financial reporting and related reporting responsibilities are communicated on a timely basis.  Inspected filing dates to determine that adequate and appropriate information is received on a timely basis by the external stakeholders.  Other (specify) |
| **Complexity of the computer information system** | | |
| The level and complexity of controls automation, system complexity, platforms used, approach to security and the security architecture, known problems, and nature and volume of transactions that could impact the audit. | Checked those that apply:  Determined computer information system (CIS) to be complex (checked those that apply):  System has automated complex calculations (e.g., calculation of insurance premium).  System is an older technology that is no longer or poorly supported by vendors.  System is a new and emerging technology not yet widely used.  System is entity-developed or a highly modified off-the-shelf software.  System is an Enterprise Resource Planning (ERP) system.  There are extensive customized interfaces between systems.  System processes a high volume of transactions (e.g., bank and retail operations).  System processes for a complex or sophisticated business entity (e.g., multinational operations).  System is part of a complex information technology infrastructure (e.g., multiple sites, multiple systems).  Entity has high level of dependence on CIS (specify names of CIS used).  Other (specify)  Determined that CIS is outsourced. Refer to “Entity’s Use of Service Organization”.  Determined that CIS requires involvement of specialist(s).  Determined CIS to be non-complex.  Understanding and evaluation of CIS performed separately in “General Purpose CIS Template”. | |
| **Evaluation** | | |
| Based on our understanding information system an communication component of the entity’s system of internal control:  Does the entity’s information system and communication appropriately support the preparation of the entity’s financial statements in accordance with the applicable financial reporting framework?  Yes  No  AND  No control deficiencies in the information system and communication component were identified, or  The following control deficiencies in the information system and communication component were identified (specify).  AND  No significant control deficiencies in the information system and communication component were identified, or  Identified significant control deficiencies in information system and communication component and communicated them to those charged with governance on a timely basis. | | |

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| **Control Activities** |

### **Guidance on Control Activities (click to expand):**

The control activities component includes controls that are designed to ensure the proper application of policies (which are also controls) in all the other components of the entity’s system of internal control, and includes both direct and indirect controls.

Such controls include information processing controls and general IT controls, both of which may be manual or automated in nature. The greater the extent of automated controls, or controls involving automated aspects, that management uses and relies on in relation to its financial reporting, the more important it may become for the entity to implement general IT controls that address the continued functioning of the automated aspects of information processing controls.

The auditor shall obtain an understanding of control activities relevant to the audit, being those the auditor judges it necessary to understand in order to assess the risks of material misstatement at the assertion level and design further audit procedures responsive to assessed risks. An audit does not require an understanding of all the control activities related to each significant class of transactions, account balance, and disclosure in the financial statements or to every assertion relevant to them:

1. Controls that address a risk that is determined to be a significant risk

* The auditor’s understanding of whether the entity has designed and implemented controls for significant risks arising from non-routine or judgmental matters may include whether and how management responds to the risks. Such responses may include:

- Controls, such as a review of assumptions by senior management or experts.

- Documented processes for accounting estimations.

- Approval by those charged with governance.

* ISA 240 requires the auditor to understand controls related to assessed risks of material misstatement due to fraud (which are treated as significant risks), and further explains that it is important for the auditor to obtain an understanding of the controls that management has designed, implemented and maintained to prevent and detect fraud.

1. Controls over journal entries, including non-standard journal entries used to record non-recurring, unusual transactions or adjustments

Controls that address risks of material misstatement at the assertion level that are expected to be identified for all audits are controls over journal entries, because the manner in which an entity incorporates information from transaction processing into the general ledger ordinarily involves the use of journal entries, whether standard or non-standard, or automated or manual. The extent to which other controls are identified may vary based on the nature of the entity and the auditor’s planned approach to further audit procedures.

1. Controls for which the auditor plans to test operating effectiveness in determining the nature, timing and extent of substantive testing, which shall include controls that address risks for which substantive procedures alone do not provide sufficient appropriate audit evidence

* The auditor determines whether there are any risks of material misstatement at the assertion level for which it is not possible to obtain sufficient appropriate audit evidence through substantive procedures alone. The auditor is required, in accordance with ISA 330, to design and perform tests of controls that address such risks of material misstatement when substantive procedures alone do not provide sufficient appropriate audit evidence at the assertion level. As a result, when such controls exist that address these risks, they are required to be identified and evaluated.
* In other cases, when the auditor plans to take into account the operating effectiveness of controls in determining the nature, timing and extent of substantive procedures in accordance with ISA 330, such controls are also required to be identified because ISA 330 requires the auditor to design and perform tests of those controls.
* The auditor’s plans to test the operating effectiveness of controls may also be influenced by the identified risks of material misstatement at the financial statement level. For example, if deficiencies are identified related to the control environment, this may affect the auditor’s overall expectations about the operating effectiveness of direct controls.

1. Other controls that the auditor considered appropriate to enable the auditor to identify and assess of risks of material misstatement and the design of further audit procedures with respect to risks at the assertion level, based on the auditor’s professional judgment.

* Controls that address risks assessed as higher on the spectrum of inherent risk but have not been determined to be a significant risk.
* Controls related to reconciling detailed records to the general ledger; or Complementary user entity controls, if using a service organization.

Based on controls identified above the auditor shall:

1. Identify the IT applications and the other aspects of the entity’s IT environment that are subject to risks arising from the use of IT; and
2. For such IT applications and other aspects of the IT environment, identify the related risks arising from the use of IT and the entity’s general IT controls that address such risks.

Lastly, following are the types of controls in control activities:

1. Examples of controls in the control activities component include authorizations and approvals, reconciliations, verifications (such as edit and validation checks or automated calculations), segregation of duties, and physical or logical controls, including those addressing safeguarding of assets.
2. Controls in the control activities component may also include controls established by management that address risks of material misstatement related to disclosures not being prepared in accordance with the applicable financial reporting framework. Such controls may relate to information included in the financial statements that is obtained from outside of the general and subsidiary ledgers.
3. Regardless of whether controls are within the IT environment or manual systems, controls may have various objectives and may be applied at various organizational and functional levels.

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| **Controls activities relevant to the audit** | **Do controls exist and are they designed effectively?**  **Yes/No** | **Comments** |
| Documented in ‘Audit Programs’. | | |
| **Evaluation** | | |
| Based on our understanding of relevant control activities of the entity’s system of internal control:  Is the control designed effectively to address the risk of material misstatement at the assertion level, or effectively designed to support the operation of other controls?  Yes  No  AND  Has the control been implemented?  Yes  No  AND  No control deficiencies in the control activities were identified, or  The following control deficiencies in the control activities were identified (specify).  AND  No significant control deficiencies in the control activities were identified, or  Identified significant control deficiencies in control activities and communicated them to those charged with governance on a timely basis. | | |

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| **Monitoring of Controls** | | |
| **Inquired of entity personnel [name and designation] on the understanding and evaluation of the controls relevant to the audit.** | | |
| **Key elements to address** | **Documentation of understanding** | **Documentation of sources of information and risk assessment procedures performed** |
| **Ongoing and separate/periodic evaluations for monitoring the effectiveness of controls and the identification and remediation of control deficiencies identified.** | | |
| Ongoing monitoring activities are often built into the normal recurring activities of an entity and may include regular management and supervisory activities.  Management may also perform separate evaluations of the effectiveness of internal controls.  Matters that may be relevant for the auditor to consider when understanding how the entity monitors its system of internal control include:   * The design of the monitoring activities, for example whether it is periodic or ongoing monitoring; * The performance and frequency of the monitoring activities; * The evaluation of the results of the monitoring activities, on a timely basis, to determine whether the controls have been effective; and * How identified deficiencies have been addressed through appropriate remedial actions, including timely communication of such deficiencies to those responsible for taking remedial action. | Management monitors the effectiveness of controls and the identifies and remediates of control deficiencies through the following (checked those that apply):  Management reviews whether significant reconciliations (for example bank reconciliations are being prepared accurately and on a timely basis.  Management performs periodic asset counts to check proper recording.  Management monitors the controls over access rights and restrictions to verify they remain appropriate over time.  Management addresses and follows up anything unusual (e.g., variations to budgets, one-off contracts, major purchases, journals, etc.) which might indicate a deficiency in controls.  Other (specify) | Checked those that apply (inquiry alone is not sufficient):  Controls do not exist or their design is considered ineffective.  Inspected significant reconciliations (for example bank reconciliations) to determine that they are performed accurately and on a timely basis.  Inspected documents to determine that the management performs periodic asset counts to check proper recording.  Observed that management monitors the controls over access rights and restrictions to verify they remain appropriate over time.  Inspected documents to determine that management addresses and follows up anything unusual (e.g., variations to budgets, one-off contracts, major purchases, journals, etc.) which might indicate a deficiency in controls.  Other (specify) |
| **Entity’s internal audit function, if any, including its nature, responsibilities and activities.** | | |
| The objectives and scope of internal audit functions typically include activities designed to evaluate or monitor the entity’s system of internal control.  The auditor’s inquiries of appropriate individuals within the internal audit function help the auditor obtain an understanding of the nature of the internal audit function’s responsibilities and its role in monitoring activities. If the auditor determines that the function’s responsibilities are related to the entity’s financial reporting, the auditor may obtain further understanding of the activities performed, or to be performed, by the internal audit function by reviewing the internal audit function’s audit plan for the period, if any, and discussing that plan with the appropriate individuals within the function. This understanding, together with the information obtained from the auditor’s inquiries, may also provide information that is directly relevant to the auditor’s identification and assessment of the risks of material misstatement. If, based on the auditor’s preliminary understanding of the internal audit function, the auditor expects to use the work of the internal audit function to modify the nature or timing, or reduce the extent, of audit procedures to be performed, ISA 610 (Revised 2013) applies. | Nature of the internal audit function’s responsibilities and its role in monitoring activities is as follows (checked those that apply):  Internal audit function evaluates and monitors the entity’s system of internal controls in line with the internal audit charter and/or terms of reference.  The work of Internal audit function is properly planned, supervised and reviewed.  Internal audit function has sufficiently qualified, experienced and independent individual(s) given the size and complexity of the entity.  Other (specify) | Checked those that apply (inquiry alone is not sufficient):  Controls do not exist or their design is considered ineffective.  Inspected audit committee charter to determine that the internal audit's role is supported in monitoring of internal controls.  Inspected documents to determine that the internal audit has a plan and reviewed that plan for monitoring the internal controls during the year.  Observed that the internal audit has sufficiently qualified, experienced and independent individual(s) given the size and complexity of the entity.  Other (specify) |
| **Sources of the information used in the entity’s monitoring activities, and the basis upon which management considered the information to be sufficiently reliable for the purpose.** | | |
| The auditor’s understanding of the sources of information used by the entity in monitoring the entity’s system of internal control, including whether the information used is relevant and reliable, assists the auditor in evaluating whether the entity’s process to monitor the entity’s system of internal control is appropriate.  Consider different sources of information used and the sufficiency and relevance and reliability of the information used by the management. | Management’s monitoring activities use information as follows (checked those that apply):  Management uses any communications from the internal audit function relating to the entity’s system of internal control in its monitoring activities.  Management uses any communications from external auditors relating to the entity’s system of internal control in its monitoring activities.  Management evaluates the sufficiency, relevance and reliability of any information used for monitoring activities in order to draw appropriate conclusions from its monitoring activities.  Other (specify) | Checked those that apply (inquiry alone is not sufficient):  Controls do not exist or their design is considered ineffective.  Observed that management is receptive to recommendations from the internal audit function and follows them up.  Observed that management is receptive to recommendations from the external auditors and follows them up.  Inspected documentation of the information used by management to determine the quality of the information and whether and how management provides a basis for the information to be sufficiently relevant and reliable.  Other (specify) |
| **Evaluation** | | |
| Based on our understanding monitoring of controls component of the entity’s system of internal control:  Is the entity’s process for monitoring the system of internal control appropriate to the entity’s circumstances considering the nature and complexity of the entity?  Yes  No  AND  No control deficiencies in the monitoring of controls component were identified, or  The following control deficiencies in the monitoring of controls component were identified (specify).  AND  No significant control deficiencies in the monitoring of controls component were identified, or  Identified significant control deficiencies in the monitoring of controls component and communicated them to those charged with governance on a timely basis. | | |