Risk Academy - Internal Controls - Control Testing Deep Dive

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Risk Academy – Internal Controls – Control Testing Deep Dive

Course introduction

- Internal control testing involves assessing the design and operational effectiveness of an organization's internal controls to identify opportunities for enhancing operational efficiency in mitigating risks.
- Internal control testing is vital for accurate financial reporting, reducing fraud risk, enhancing governance and efficiency, increasing stakeholder trust and potentially improving access to financial resources.
- Benefits outweigh the cost involved.

Test of design (TOD)

Test of design: introduction

A test of design (TOD) is aimed at evaluating whether internal controls are properly designed to prevent or detect and correct material misstatements in the financial statements.

It involves assessing whether the control, as designed and implemented, is capable of effectively addressing the identified risks associated with financial reporting.

A TOD verifies that:

- Controls are aligned with the risks they are intended to mitigate.
- Controls are appropriately integrated into the company's processes and procedures.
- Controls operate as prescribed and provide reasonable assurance that the organization's objectives will be achieved.
- There is a clear understanding of the control operation, including who performs the control, the frequency and what evidence is generated.

By conducting a TOD, auditors and management may identify potential weaknesses or gaps in the control design before they lead to significant issues.

A TOD is performed at the beginning of an audit cycle and whenever there is change in control design.

Test of design: key aspects to review

Identification of the five W's and the H

- Who: Responsible parties
- What: Nature and purpose of controls
- When: Timing and frequency
- Where: Control locations
- Why: Rationale behind controls
- How: Methods of execution

Documentation and review effectiveness

- Alignment with business objectives
- Risk mitigation effectiveness
- Precision and timeliness in review for reliability
- Detailed and retained documentation

Adaptability to change

- Scenario assessments for process and technology changes
- Documentation updates identified at the time of walkthrough of changes (if any)

Segregation of duties

- Conflict prevention through defined roles

Information quality

- Reliable IPE in control performance

Competency of control performers

- Competent and experienced performers

Test of effectiveness (TOE)

Test of operational effectiveness: introduction

A test of operational effectiveness (TOE) is designed to evaluate whether internal controls are operating as intended and are effective in practice. This type of test involves testing of the controls to verify that they are being applied consistently and are functioning properly over time.

The purpose of a test of effectiveness is to provide assurance that the internal controls in place are not only appropriately designed but also implemented and enforced in a manner that effectively mitigates the risks of material misstatements in financial reporting.

The key objectives include:

- Detecting errors and irregularities
- Maintaining reliable financial reporting
- Supporting operational efficiency
- Informing continuous improvement

Test of operational effectiveness: testing phases

Internal control testing is divided into phases to verify that controls are operating effectively. The entire year is broken down into multiple phases of testing. Phases of testing are determined in collaboration with the external auditor.

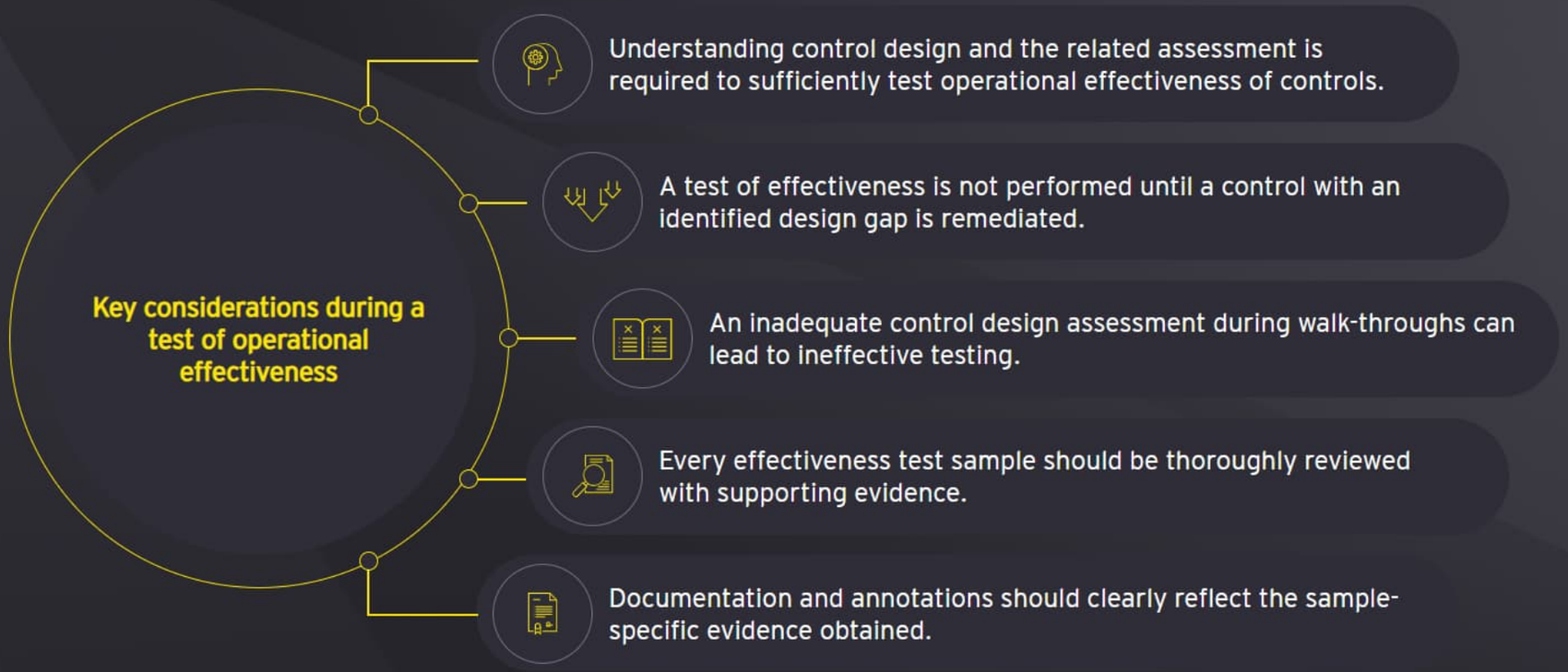
The standard phases are:

The interim phase encompasses audit procedures performed before the fiscal year end close.

Rollforward testing is the process of extending the results of interim tests to the year-end.

Year-end testing involves audit procedures performed after the financial-statement date to finalize the audit.

Test of operational effectiveness: key considerations



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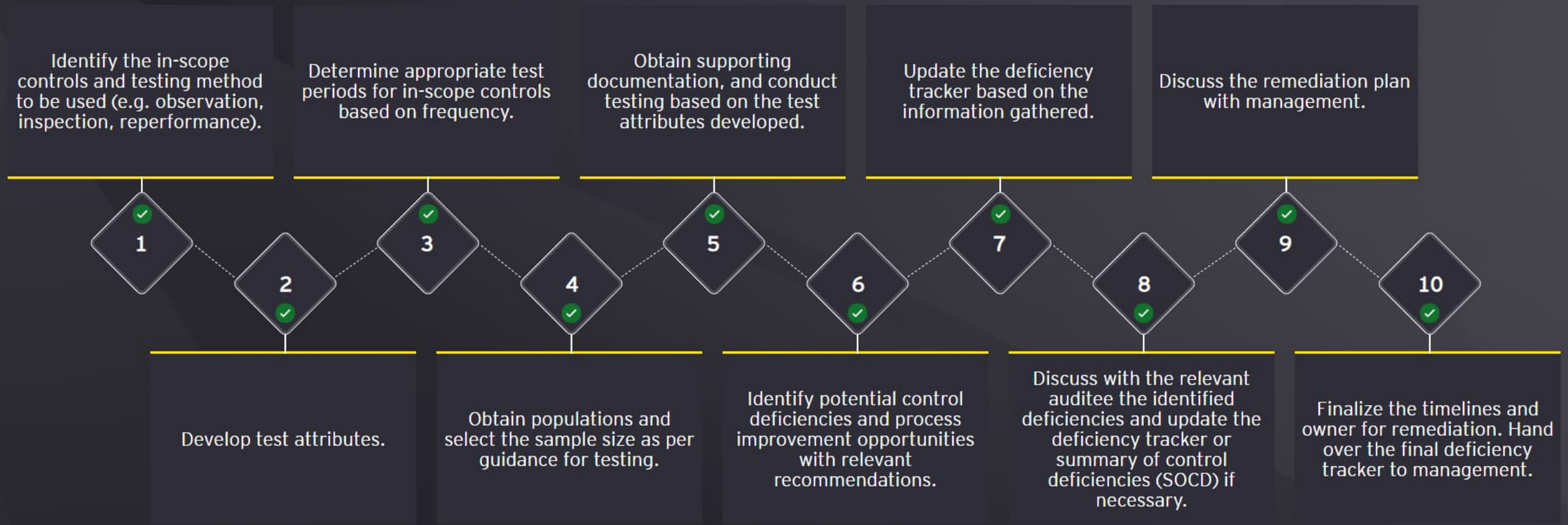
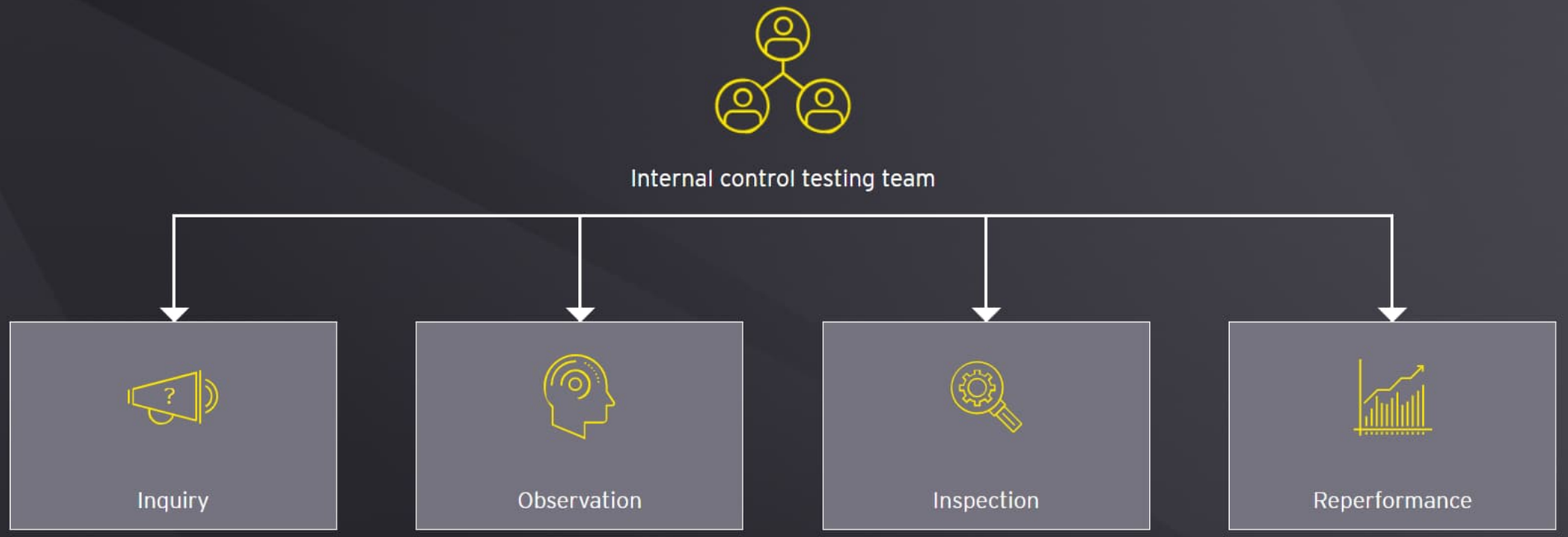
Internal controls testing process steps

To learn more about the tasks involved in each step, select the numbered button.



Testing techniques

To learn more about each testing technique, select the respective button.



Testing techniques

To learn more about each testing technique, select the respective button.

Inquiry

- Initial step in evaluating and testing control design
- Gathers information from reliable sources (e.g. control owner, process owner, SME) via interviews or questionnaires
- Used in conjunction with other techniques, such as observation and inspection, to corroborate responses from inquiries
- Useful in understanding the rationale behind a control or when seeking clarification on documentation or processes
- Example: auditor inquires about the process for approving new vendors to understand how management allows only legitimate vendors to be added to the system

Testing techniques

To learn more about each testing technique, select the respective button.

Observation

- The tester observes the control being performed in real time by the person responsible, to confirm it operates as intended.
- This method ensures that procedures are followed correctly, without relying on re-enactments of past activities.
- Provides direct evidence of control performance.
- For example, an auditor observes the physical inventory count process to check that employees are following the established procedures for counting and recording inventory items.

Testing techniques

To learn more about each testing technique, select the respective button.

Inspection

- The tester obtains and inspects various forms of documentation (internal or external, paper or electronic).
- This is done to confirm the performance of internal controls by checking that controls are properly executed and documented.
- For example, an auditor inspects signed documents to confirm proper authorization levels were adhered to for capital expenditure approvals.

Testing techniques

To learn more about each testing technique, select the respective button.

Reperformance

- Testers independently carry out original control procedures to assess their effectiveness.
- This technique checks that results from the original control are consistent and reliable.
- For example, an auditor reperforms the bank reconciliation process to verify reconciliations are being performed correctly and that reconciled balances match the company's records and bank statements.

Initial document preparation requirements

The initial documentation request list is the document used by an audit team to request documentation from the client for controls being tested.

Mandatory requirements	Optional requirements
Documents required for testing	
Documents required to verify population completeness or completeness and accuracy of key reports	
Population/sample period	
Number of samples	
Control performer and control owner name	
Due date for submission of documentation	
	Type of request: population request, sample request or subsample request

When a single document is used to test multiple controls, summarize the request and avoid mentioning it multiple times.

Initial document preparation do's and don'ts

Don'ts

Do not request the following documentation:

- Do not request for evidence of review if you have access to client's GRC tool where evidence of review for all controls is retained.
- Do not ask for screenshots from the ERP if you have access to the client's ERP.
- Do not ask for policies if you have access to SharePoint or client's intranet and can access policies on your own.
- Do not ask for information that is publicly available, for example, date of earnings release or 10-Q filing, or final 10-Q filed by the client.

Do's

Do request the following documentation:

- Evidence of review containing date of review.
- For any policy that is used year over year, instead of requesting the policy, confirm whether there have been any changes to the policy from the last phase of testing and reasons for changes.
- For sample or subsample requests that will be made after the receipt of initial data, specify in the documentation request that additional data will be requested.
- For any change in frequency from the last phase of testing, specify as a note in the request why there has been a change in sampling approach and why fewer or more documents are being requested.
- Verify that the request is exhaustive and includes all known documentation that is required from the client.

Factors to determine sample size

Risk rating

High-risk controls: Controls with a high risk rating are those that have significant implications for the organization if they fail. A larger sample size might be necessary to provide confidence that all issues have been addressed and the control is functioning correctly.

Moderate- to low-risk controls: For controls with lower risk ratings, a smaller sample size might be sufficient, as the likelihood and impact of a failure are less severe.

Rely/non-rely controls

Rely controls: If external auditors rely on certain controls, it may be necessary to select a larger sample size (upon agreement with the client's management) to provide the assurance the auditors need to reduce their own testing.

Non-rely controls: These controls are also known as independent controls. The sample size of non-rely controls will depend on the sampling strategy of the client.

Control frequency

Periodic controls: Controls that are performed periodically (e.g., daily, weekly, monthly, half-yearly or annually) may require a smaller sample size to check that the control's effectiveness is consistent over time. Remediation testing may involve multiple instances to confirm issues have been addressed across different periods.

Transactional controls: Controls that are executed more frequently (e.g., daily, more than daily, ad hoc controls) might warrant a larger sample size.

Annualizing population

This process entails assessing the annual frequency of the control's application, even if the control is not performed regularly.

Example: Your organization has a control in place for approving large capital expenditures. This control is triggered whenever a capital expenditure request exceeds a certain threshold. Because these requests are not consistent and happen on an ad hoc basis, it's important to annualize the population to determine how many instances should be tested during the audit period.

Steps to annualize population:

Determine the frequency

First, understand the frequency of this control.

For example, if the organization had 15 instances of capital expenditure approvals in the past year, that's the annual frequency.

Annualize the population

Assume you are conducting an audit in the middle of the year, and there have been seven instances so far.

To estimate the total number of instances for the entire year based on seven instances in six months, the annualized population will be:
$7/6 \times 12 = 14$

Determine the sample size

Using a sampling methodology, decide on the sample size based on the annualized population.

Suppose your organization's policy is to test 20% of the total instances for high-risk controls. Based on that percentage and the previous example, the sample size will be three instances:
$20\% \times 14 = 2.8$

Control attributes

Select each button to learn more.

- What are control attributes?
- Purpose of control attributes during a TOD and TOE
- Types of control attributes
- Setting timelines for review

Control attributes

Select each button to learn more.

- What are control attributes? ✓
- Purpose of control attributes during a TOD and TOE
- Types of control attributes
- Setting timelines for review

- Control attributes are specific characteristics or properties that define the control and how it functions.
- Control attributes serve as the baseline criteria for evaluating whether the control is operating as intended and effectively mitigating risks.
- Control attributes are usually created during the planning stage of internal control testing and are used throughout the testing lifecycle.
- Control attributes are created based on the control objectives, risk assessment and regulatory requirements. However, the attributes may be updated or revised as part of ongoing monitoring activities or when significant changes occur in the business process or environment.
- Attributes for reliance controls may require alignment with an external auditor.

Control attributes

Select each button to learn more.

- What are control attributes? ✓
- Purpose of control attributes during a TOD and TOE ✓
- Types of control attributes
- Setting timelines for review

- Control attributes are essential when performing a TOD and TOE as they provide the criteria against which the control is assessed.
  - During a test of design, the control attributes identified by the tester help in determining if the control is properly designed to prevent or detect errors or fraud. These attributes are agreed upon with the management.
  - During a test of effectiveness, the attributes help assess whether the control is operating as designed and effectively mitigating the identified risks.

Control attributes

Select each button to learn more.

- What are control attributes?
- Purpose of control attributes during a TOD and TOE
- Types of control attributes
- Setting timelines for review

- Control owner (who)
  - Is the control IT dependent, automated or manual?
  - What are the control owner's role and responsibilities?
  - Is the control owner competent, and does the owner have the appropriate authority?
- Evidence used (what)
  - What is the key piece of evidence in the control?
  - What information is used in the review, and what are the relevant systems?
- Frequency of the control (when)
  - How frequently is the control performed?
  - What is considered timely for the review?
- Purpose of the control (why)
  - What is the objective of the control?
  - Is the purpose to prevent or to detect and correct?
  - Is the objective of the control sufficient, individually or in combination with other controls, to address the risks?
- Control steps (how)
  - What steps are taken to perform the control?
  - What management considerations are there for the review?
  - What is the evidence of the review taking place?
- Investigates and resolves identified items
  - What types of questions are raised in the review?
  - What is the nature of the follow-up?
  - How did the reviewer resolve the items raised?
  - Is the control activity designed at a sufficient level of precision to mitigate risks?
- Systems and data sources used
  - What systems is the control operating off of?
  - What are the data sources of the control?
  - Is there any specific information used in the control (IUC), including information produced by the entity?

Control attributes

Select each button to learn more.

- What are control attributes?
- Purpose of control attributes during a TOD and TOE
- Types of control attributes
- Setting timelines for review

- This procedure involves determining how often the control is applied on an annual basis, even if it is not performed regularly.
- For example: Your organization is conducting a quarterly review of financial controls. The review process includes several attributes, such as documentation completeness, accuracy of records and compliance with regulations. So that the process is efficient and deadlines are met, you need to add timelines for each attribute.
- Steps to set timelines include:
  - Identifying the key attributes for the financial-controls review for which a timeline must be set.
  - Obtaining the required approval and sign-off. This is a control mechanism to maintain accountability and oversight in the internal control testing process.

Information produced by the entity (IPE)

- Information produced by the entity (IPE) is any information produced by the entity (or a service organization used by the entity) in an end user computing (EUC) tool that management uses in the performance of a control.
- The IPE is a critical aspect of testing as it provides data that is used to evaluate the accuracy and completeness of the information shared by the control owner.
- The IPE may be created using:
  - Company IT applications (e.g., Oracle Hyperion Financial Management)
  - Third-party reports (e.g., entity on third-party reports if third party handles business process such as order to cash)
  - EUC tools (e.g., Microsoft Excel, Microsoft Word)
  - Other means, including manually prepared information
- The IPE may be transferred to another EUC (e.g., Microsoft PowerPoint).

Information produced by the entity – key report

- When management uses a report to execute a key control, the report is a key report.
- Management is responsible for:
  - Documenting key report names, query parameters and other details for each IT-dependent manual control using terms and a language familiar to both IT and finance
  - Performing and documenting procedures to assess completeness and accuracy of each key report
    - Completeness: All data per report parameters is included within the report.
      Example: The May accounts receivable (AR) aging report total agrees to the May general ledger AR balance.
    - Accuracy: All data in the report is accurate and could, if needed, be traced back to source documentation.
      Example: The invoice listed on the AR aging report can be traced to the customer invoice; the invoice amount is the same, and aging can be recalculated.
- Key reports used in management review controls are effective only if the data is validated each time the control is performed.
  Example: It may be as simple as the reviewer validating the report parameters, depending on the type of report (canned, ad hoc, query or others).

Performing a test of design - example

SafeHarbor Bank

- SafeHarbor Bank employs a payroll review protocol within its financial reporting system to assess the efficacy of its payroll review control.
- This control is designed to verify the accuracy and reliability of payroll-related spreadsheets that are used for financial reporting.

Internal audit team

- Emily is assigned the responsibility of conducting a test of design (TOD) of the payroll review control.
- This control is a crucial part of the company's financial reporting system, and its primary objective is to check the accuracy and reliability of the spreadsheets used in the payroll accrual process.

Risk Academy – Internal Controls – Control Testing Deep Dive

Steps for performing a test of design

Select the respective button.

1. Understanding the control environment

2. Establishing the sample to be tested

3. Reviewing the design of the control procedures

4. Evaluating the control design

5. Documenting the test script

6. Concluding the test of design

Emily documents the details of the “Payroll Calculation Spreadsheet,” including the:

Control objective: The purpose of this control is to ensure that the spreadsheets used for calculating Payroll Accrual are accurate and reliable.

Spreadsheet details:

- Preparation Date: February 5, 2024.
- Preparer: Mathew King
- Reviewer: Yan Chi
- Key formulas: The main formulas used in the spreadsheet, such as SUM, AVERAGE, IF, VLOOKUP, and pivot table calculations.
- Supporting Documents: Documents used to support the data in the spreadsheet, which is the Payroll and HR register.

Emily determines the sample size and selection criteria using the sampling methodology.

Sample date range:

- Start date: January 1, 2024
- End date: June 30, 2024

Sample size:

- Total population: 6 months
- Sample size: 2 Months

Selection criteria: Random

Sample evaluated: 1

Emily ensures that the sample represents various complexities within the payroll spreadsheets used over a specified period.

Emily reviews the design of the control procedures to ensure they address the identified risks.

This includes:

- Procedure 1: Confirm the control addresses risks and meets business goals.
- Procedure 2: Assess if the control's execution frequency adequately manages risks on a timely basis.
- Procedure 3: Verify Check the qualifications and expertise of the control performers.
- Procedure 4: Validate that proper segregation of duties is present.
- Procedure 5: Validate the reliability of the information used in control performance.
- Procedure 6: Ensure the integrity and compliance of the spreadsheet by verifying formulas, cell references, macro functions, clerical accuracy, and approval signatures.

Steps

Select

Emily evaluates whether the control, as designed, can detect or preventing errors in the payroll accrual process by reviewing the date to check for errors.

These are the steps taken to test the spreadsheet as per the identified procedures:

- Enquires about the control owner and whether the control is manual, IT-assisted, or automated.
- Ensures the control performer and reviewer are separate to prevent conflicts of interest.
- Verifies with the process owner, the tools and systems used and identifies required source documents for the test of design (TOD).
- Asks if there are any variations in the process or significant changes planned. Reviews prior-year documentation for relevance, confirming all documents are applicable.
- Audits spreadsheets for formula accuracy, cell reference validity, macro functionality, clerical correctness, and timely approvals.

Observations:

- Obtains the necessary details for the control owner and manually performed control.
- Review and approval process are conducted by separate individuals on time.
- Tools utilized include the HR and payroll register.
- No changes have been made or are planned.
- Audited the spreadsheet for formula accuracy, cell reference validity, macro functionality, clerical correctness, and timely approvals.

In this case, Emily did not find any concerns and documents her assessment of the control design.

Steps

Select

Emily completes the test script with detailed documentation, including:

- The control's objective and the risks it addresses.
- The detailed procedures that make up the control.
- The sample size, date range, and selection criteria for the spreadsheets.
- The evaluation of the control design's adequacy.

Emily ensures that the test script is thorough and provides a clear guide for conducting the Test of Design.

Based on the documented test script, Emily concludes that the 'Payroll Review Control' is appropriately designed and has passed the test of design.

Emily finalizes the test script with her conclusion and recommendations, readying it for review by the audit team and management.

Performing a test of operational effectiveness - example

SafeHarbor Bank

- After successful passing the test of design, SafeHarbor Bank is now ready to check the operational effectiveness of its payroll review control.

Internal audit team

- Alex, a member of the audit team led by Emily, is assigned to conduct a test of operational effectiveness (TOE) of the payroll general ledger accounts reconciliation control.

Steps for performing a test of operational effectiveness

Select the respective button.

1. Understanding the control environment

2. Establishing the sample to be tested

3. Performing the test of operational effectiveness

4. Evaluating the control's operational effectiveness

5. Documenting the test script

6. Concluding the test of operational effectiveness

Alex documents the plan, outlining the:

- Testing technique to be used: observing the control in action over several payroll cycles
- Payroll cycles to be observed: start date January 1, 2024, with end date: June 30, 2024
- criteria for evaluating the control's effectiveness:
  - The reconciliation was performed and reviewed within the 10-day timeframe.
  - There should be no errors in formulas.
  - Data entries should match source documents without discrepancies, and all required fields should be populated.
  - The spreadsheet balances should match the general ledger, and any reconciling items should be identified and explained.
  - Relevant documents were presented as evidence.
  - Preparer and reviewer signatures and dates are present.
  - Formulas, data and overall clerical accuracy have been verified.

Sample selection:

Sample date range:

- Start date: January 1, 2024
- End date: June 30, 2024

Sample size:

- Total population: 120 reconciliations
- Sample size: 30 reconciliations

Selection criteria: random

Sample type showing segregation of duties:

- Account 1 reconciled in January 2024, prepared by Employee A and reviewed by Employee B
- Account 2 reconciled in February 2024, prepared by Employee C and reviewed by Employee D
- Account 3 reconciled in March 2024, prepared by Employee E and reviewed by Employee F

Steps

Select

Alex performs the below steps to test the operational effectiveness of the control:

- Observes the payroll team as it executes the general ledger reconciliation control.
- Tests the selected sample to verify:
  - The control is executed correctly
  - Controls meet the set timelines
  - Reconciling items were promptly identified, documented and resolved
  - Reconciliation was supported by adequate documentation
  - There is consistency with general ledger
  - Signatures and dates are authentic

Observations:

- The process was executed correctly
- For instance, the reconciliation for January 2024 was prepared February 5, 2024, and reviewed February 10, 2024, which is within the required timeframe
- Each reconciliation was resolved and supported by adequate documentation
- Figures for the payroll reconciliations are consistent with the general ledger
- Preparer and reviewer signatures and dates are compliant with the control requirements

Steps

Select

Based on observations, testing, interviews and analysis, Alex assesses the overall effectiveness of the general ledger reconciliation control. Alex considers whether the control is consistently applied and whether it is effective in detecting and correcting errors.

In this example, it is found that the control is functioning as expected.

Alex completes the test script with detailed documentation, including:

- The control's objective and the risks it addresses
- A detailed summary of the testing procedures followed
- The sample size, date range and selection criteria for the spreadsheets
- The evaluation of the control's operational efficiency
- Recommendations (if applicable)

Steps

Select

Based on the documented test script, Alex concludes the payroll general ledger accounts reconciliation control is operating effectively and passed the test of operational effectiveness.

Alex finalizes the test script with recommendations.

Test script documentation considerations

- ☑ Perform spell-check.
- ☑ Verify the date format is accurate.
- ☑ Verify the workpaper reference is updated.
- ☑ Follow the standard test script and workpaper naming convention.
- ☑ Verify all fields in the test script are populated.
- ☑ Verify comments are provided for attributes marked as not applicable.

Remediation-testing introduction

Remediation testing

What is it?

- Remediation testing is a process within the internal control framework of an organization where the effectiveness of corrective actions taken to address previously identified control deficiencies is evaluated.

When is it performed?

- Testing for remediation is conducted once internal control weaknesses have been detected during the initial testing phase and subsequent measures have been implemented to rectify those shortcomings.
- The exact timing will depend on the urgency of the issue, the time required to implement the corrective actions, and the organization's internal and external reporting and compliance obligations.

Identification of deficiencies

A control is considered deficient when its design or functioning fails to enable management or employees, while carrying out their routine duties, to prevent or detect and rectify misstatements on a timely basis.

Deficiency types

Design deficiency

- Occurs when a control necessary to mitigate a risk is either not in place or is not properly designed
- Examples:
  - Missing controls for key risks
  - Unclear control objectives or activities
  - Poor duty separation that risks errors or fraud
  - Policies and procedures lacking clear guidance

Operating deficiency

- Occurs when a well-designed control does not operate as it was intended or when the person performing the control does not perform it correctly
- Examples:
  - Policies are clearly drafted, but there are gaps in adherence.
  - Data entry mistakes or misinterpretation
  - Inadequate control oversight
  - Communication failures affecting control application

Remediation plans

A remediation plan is a structured approach developed to address deficiencies identified in an organization's internal controls.

A remediation plan typically captures:

- Detailed description of the identified control deficiencies
- Root cause analysis of why the deficiencies occurred
- Specific corrective actions to be taken to address the deficiencies
- Responsible parties for each action item
- Deadlines for completing the remediation steps
- Metrics or criteria for measuring the effectiveness of the remediation

Remediation plan review requirements

To learn more about the activities carried out during each step, select the respective buttons.

1	Understand the remediation plan.
2	Assess the testing requirements.
3	Review timelines and deadlines.

Check the testing attributes to verify they are in line with the remediation plan agreed upon with the client based on the deficiency's root cause, nature and magnitude.

Example:

Control activity description	Deficiency description	Remediation plan	Remediation date
Inventory progress and accuracy is reviewed for compliance with the inventory validation policy.	Progress and accuracy percentages not in compliance with the inventory validation policy are not tracked and reported to management.	Progress and accuracy percentages that are below target will be reported to management, and an action plan will be documented.	January 1, 2020

Attributes drafted before remediation testing:

Attribute 1: Verify that progress and accuracy percentages are reviewed against the inventory validation policy.

Attribute 2: Verify that the review is completed by the operations team in a timely manner before the subsequent month-end date.

Check the client's remediation-testing requirements before starting testing. For some clients, remediation testing may not be required, even if a failure is noted.

Example:

Control activity description	Deficiency description	Remediation plan	Remediation date
Software code reviews are to be conducted for all new software features before release.	Several new software features were released without undergoing the mandatory software code review.	A new feature that automatically blocks the release of code that hasn't been reviewed and approved will be integrated into the version control system, and internal training will be enhanced to emphasize the importance of adhering to the software code review policy.	January 1, 2020

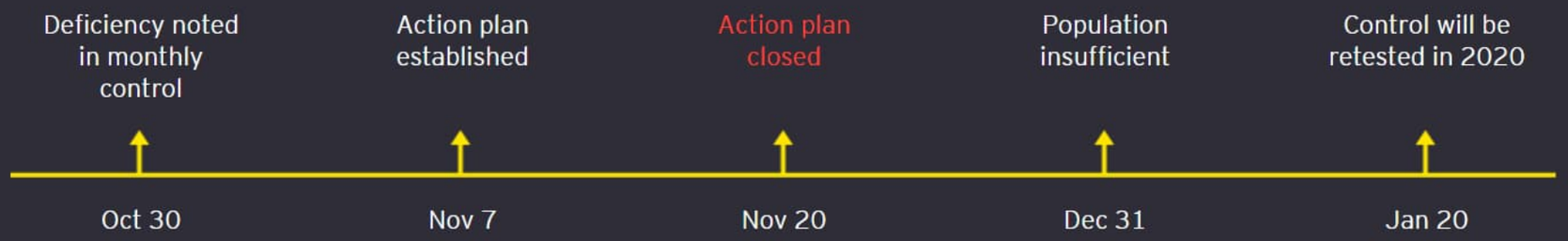
Remediation-testing requirements specified by the client:

- An internal audit should be conducted but not until three months after implementing the new system to allow for sufficient data on its effectiveness.
- DevTech's own internal audit team will be used for this task to reduce costs, as management has a high level of confidence in the new system's ability to enforce the control.
- There will be no external remediation testing by the auditor, as the client views the automated block as a robust solution that significantly reduces the risk of unreviewed code being released.

Evaluate if deadlines are achievable and allow for any necessary testing or validation.

- The remediation sample period should be after the remediation date.
- Double-check if a gap is required between the remediation date and the date a sample is selected for remediation testing. In some instances, management allows control performers a certain amount of time even after the remediation date before the test team can select samples for testing.
- If the population period in the existing fiscal year is not sufficient, the deficiency will move to the subsequent fiscal year and will be remediated then.

Example:



Remediation testing sampling selection guidance

Scope and objective

- Define the scope of the retesting based on the deficiencies identified in the initial testing.

Remediation sample size

- The sample size for retesting should match the sample size used in the original testing to maintain consistency and comparability.

Significance of deficiencies

- Consider the severity and frequency of the defects.

Control changes

- If controls or processes have undergone major changes, consider adjusting the sample size to detect new issues or prevent new defects.

Risk assessment

- Evaluate the risk associated with the control failures. Higher-risk areas might warrant a larger sample size for thorough verification.

Remediation testing sampling selection guidance

Original – TOE sampling guidance

Frequency	Low risk	Moderate risk
Monthly	2	3
Weekly	5	10
Daily	25	45

VS.

Remediation-sampling guidance

Frequency	Low risk	Moderate risk
Monthly	3	5
Weekly	8	15
Daily	35	60

Reporting control-testing results: introduction and requirements

To learn more about the reporting requirements, select the respective buttons.

- Why is reporting required?
- What should be reported?
- How can effectiveness results be communicated?
- Key output requirements

Reporting control-testing results: introduction and requirements

To learn more about the reporting requirements, select the respective buttons.

Why is reporting required?

What should be reported?

How can effectiveness results be communicated?

Key output requirements

Why is reporting required?

- The CEO and CFO are required to report quarterly (10-Q) and annually (10-K) affirming "the responsibility of management for establishing and maintaining an adequate internal control structure and procedures for financial reporting."
- Testing results are reported to ensure that a company's internal controls over financial reporting (ICFR) are effective in preventing and detecting material misstatements, thereby increasing the reliability of financial statements.
- Reporting testing results promotes transparency and accountability to investors, regulators, and other stakeholders, fostering trust in the capital markets

Reporting control-testing results: introduction and requirements

To learn more about the reporting requirements, select the respective buttons.

Why is reporting required?

What should be reported?

How can effectiveness results be communicated?

Key output requirements

What should be reported?

- Statement identifying the framework (for example, the COSO framework) used by management to evaluate effectiveness of the internal control over financial reporting
- Management's assessment of the effectiveness of the internal control over financial reporting as of the end of the fiscal year
- Material weaknesses (if any) identified in the public filing

Reporting control-testing results: introduction and requirements

To learn more about the reporting requirements, select the respective buttons.

Why is reporting required?

What should be reported?

How can effectiveness results be communicated?

Key output requirements

How can effectiveness results be communicated?

- Recurring status meetings with management
- Quarterly communications on testing and/or remediation efforts to the board or audit committee
- Communication of results of testing to the external auditors
- Annual management report on effectiveness of each entity's internal control environment to local management and the holding company

Reporting control-testing results: introduction and requirements

To learn more about the reporting requirements, select the respective buttons.

Why is reporting required?

What should be reported?

How can effectiveness results be communicated?

Key output requirements

Key output requirements

- Summary of any new issues identified
- Summary of items not remediated in a timely manner or past target date
- Summary of repeated or recurring deficiencies
- Status of remediation plans of issues previously identified

Risk Academy – Internal Controls – Control Testing Deep Dive

Key takeaways

- In evaluating the design or operational effectiveness of a control, it is important to consider whether the control can effectively prevent or detect material misstatements and inherent risks.
- The TOD and TOE processes help identify any deficiencies in the control, allowing for remediation and continuous improvement of internal controls.
- As a tester it is essential to retain all relevant documentation such that an independent person could come to the same conclusion on control effectiveness upon reviewing the control.
- The size of the sample should be in accordance with the agreed upon sampling methodology to provide reasonable assurance that the conclusions drawn from the sample are indicative of the population.
- Remediation testing assesses whether the actions taken to fix the identified control deficiencies are adequate.
- Proper reporting allows stakeholders to understand the effectiveness of internal controls, identify areas of risk and make informed decisions to enhance the control environment.