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| **Engagement information** | | |
| **Entity name:** | | Summit Equipment |
| **Date of financial statements:** | | 31 December 20X6 |
| **Engagement name:** | | Summit Equipment Year End Audit |
| **EY Canvas data fresh as of:** |  | 31/01/20X7 1:02:42 PM |

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| **Obtain an understanding of the SCOT: Payroll Expense** |

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|  | None identified. |

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| |  | | --- | | 🞧 | |  | | **SCOT characteristics and audit strategy** | | | | | | | |
| Preliminary audit strategy for this SCOT: | | | Controls | | | | |
| Type of SCOT: | | Routine | Related in-scope IT applications: | | SAP | | |
| Select all characteristics that apply to this SCOT. | | | | | | | |
| 🞎 | Controls over this SCOT are rotated and are NOT tested in this audit period | | | | |  | |
| 🞎 | Includes related party relationships or transactions | | |  | | | |
| 🞎 | Highly automated | | | | | | |
| 🞎 | Entity uses a service organization within this SCOT | | | | | | |
| Provide a brief summary of the entity's use of a service organization within this SCOT: | | | | | | |  |
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| **Initiation** | 🗶 |
| **New Hire - HR**  The new hire process is initiated by HR Coordinator. The HR coordinator and the HR Partner are the only people that can initiate new hires in the ADP system. New hires fill out paperwork with the HR team. This paperwork is reviewed by the HR team and is used to populate information in ADP. The information is then inputted into ADP which is built off of a configurable system containing different embedded links for each step of the hire process. Each step that is applicable to the employee must be completed by the appropriate employee for the Overall Status of the employee to be “Successfully Completed” in ADP.  The HR Coordinator, Maya Jones, enters all information on the “Details” tab of ADP for a new employee; this screen includes information like the employee’s position, title and salary.  **Employee Changes**  Access to input new hires into the system and to make changes to employee files is limited to the HR Coordinator (**KEY CONTROL Payroll 5 -** Access to input new hires into the system and to make changes to employee files is limited to the appropriate individuals.).  Salary changes are processed during the annual salary increase, approved and reviewed by the CFO (**Key Control Payroll 2**: Total annual payroll increases over the entire company are approved by the CFO every year). The salary increase data is reviewed by the CFO in consultation with the FP&A team. Each increase is based on the Company’s annual review process. This data is stored on the Company’s shared drive. Only department and HR heads have access to the shared drive files. This was tested by the FAIT team at (NOT INCLUDED FOR TRAINING PURPOSES). Other changes, such as a change to an employee’s title/status, location, change in salary, are initiated by the HR coordinator, and changes are approved by the Finance Department.  Similar to the new hire process, the employee status/job change process is processed in ADP. Access to make changes to employee files in ADP is limited to the HR Coordinator and HP Partner.  **Employee Termination – HR**  Employee terminations are initiated by the resignation of the employee or the termination by the employee’s manager. The employee termination process is completed in ADP, containing various steps which need to be completed in order for the termination to be binding. Voluntary terminations can only be processed by the HR Coordinator, HR Partner or the employee’s manager. | |

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| **Recording** | 🗶 |
| **New Hire**  The following steps are performed for each new hire.  After a new hire’s information is reviewed by the HR team, Maya Jones then enters the employee’s salary into ADP. If the salary entered in ADP exceeds the stated range for that employee’s job title, an automatic “Review Compensation” flag would appear, sending a notification to the HR Partner, Steve Kim, to review the salary. The new hire process is halted until the discrepancy is resolved. If there was no “Review Compensation” flag, the HR Coordinator can continue entering information for the new hire. The next step in ADP is to complete the “Personal Information Change” step which allows the HR Coordinator to add personal information for the employee including ethnicity, and marital status. Afterwards, in the “Edit Government ID’s” step, the HR Coordinator enters the employee’s identification using government issued identification information.  Next, the employee’s information previously entered into ADP (discussed above) proceeds to the HR Partner who reviews this information entered into the system by the HR Coordinator in the “Approval by HR Partner” step. In step “Review New Hire/Transfer”, the Finance/Budget team must provide final approval of the information, as they make sure that the salary entered into ADP for the new hire is the same salary that was approved by the Finance team.  **Employee Changes**  When there is a change to an employee’s title/status (e.g. change in title, change in location, change in salary, change in manager etc.), which causes a change in payroll, the HR Coordinator enters this information into ADP.  After the HR Coordinator updates the information that has changed in ADP, the receiving manager (i.e. the employee’s new manager) is sent a notification of this change and is required to review and approve the changes (**Key Control Payroll 1**: When individual payroll changes are made in ADP, an executive from the Finance Department reviews the change for completeness and compares the new salary and position to the budget to ensure that it is within the budget. Only after this approval will the change be effective.) The next step, “Review: Current Manager” is only required in the case that the current manager makes this status change in ADP. When the current manager makes this change in ADP, the HR Partner must approve this change before it moves further. Steps “Change Organization Assignments for Worker” and “Propose Compensation Change” are automatically populated using the information entered by the HR Coordinator in the first step, “Change Job”.  As in the new hire process, the Finance department must review and approve this change in payroll information before it becomes final. In addition, the employee “as self” reviews the changes in ADP for approval.  **Employee Terminations**  All steps of this process begin with the “Termination” step in ADP, which defines the reason for the termination, the employee’s last day of work, and the “Pay Through Date”. In addition, the letter of resignation is uploaded into the system by the HR coordinator. A second HR Coordinator must review the information in ADP to ensure it matches the resignation letter. Once the second approval is included, the information is then automatically updated into the “Details” tab of the employee’s profile in ADP. If the employee’s manager entered the termination information into ADP, it is triggered for review by the HR Coordinator or HR Partner, requiring the next step “Review Employee Termination” to be completed.  Next three steps of the termination process only apply if the employee is retiring or if the employee being terminated was assigned security access to other employees. Step “Assign Roles to Workers” Workstep is triggered if the employee has roles in SE that require takeover by another employee. For example, if a manager is terminated, and they had the role of approving timesheets for certain employees, this workstep would be triggered to assign that role to another employee. Step “Assign Roles” is reviewed by the HR Partner or HR Coordinator if it was completed by the employee’s manager. If not, Step “Review Change Role Assignments” is not required. Step “Change Benefits for Life Event” is automatically completed upon completion of step “Assign Roles”. Steps “To Do: Termination Procedure – Retirement” and “To Do: Termination Procedure – Involuntary” are only required if the employee was involuntarily terminated or if going into retirement. Step “Perform Recalculation” is a reminder to the HR Partner to validate if there is a repayment owed back to the firm based on offer letter terms. The Partner would notify Payroll directly if there is an outstanding repayment obligation for the terminating employee. The “Change Benefits for Life Event” is automatically configured from the information entered in Step “Termination”. The “Review COBRA Eligibility Event” Step is completed by the Benefits Coordinator which gives employees who lose their health benefits the right to choose to continue group health benefits provided by their group health plan for limited periods of time.  The “Non-Compete” step is approved by the HR Coordinator when the terminating employee agrees not to enter into or start a similar profession or trade in competition against the employer. For employees who receive severance as part of the termination package, the “Request One-Time payment” workstep is completed by the HR Coordinator when the AP Manager or Accounting Manager have prepared the severance calculation for the employee. Finally, the “Terminate User Account” workstep terminates the employee‘s rights to the ADP Payroll System. | |

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| **Processing** | 🗶 |
| ***Biweekly Processing***  Based on the information that has been updated and approved as described above, ADP automatically calculates payroll expenses, deductions and accruals for the period end (**Key Control - Payroll 3**: Payroll 3: ADP automatically calculates payroll expense and deductions. Company obtains a service organization report annually and reviews to ensure controls are adequate evidenced by a review memo). The Accounting Manager, Corey Smith, runs a report in the ADP system called the “batch report”, which captures all employees who enrolled into direct deposit. This run verifies payment information for all employees with direct deposit and is automatically sent to the bank. Corey then receives an email back from Capstone Bank, either confirming that all employees’ accounts are valid in the listing or prompting the HR Coordinator to make changes to an employee’s information. Changes are processed via the payroll changes process described above, the batch report is rerun, and is resent to the bank for approval. Once all accounts have been confirmed, the Accounting Manager runs the Pay Calculation which pulls everything to be paid for the period into a batch for payment. The Accounting Manager performs any audits for reassurance of the correct payment amounts. These audits include canned filters within ADP, such as identifying payments with a $0 amount, or amounts that vary greater than 20% from the prior pay period. It is up to the preparer’s discretion whether or not to utilize this functionality. If the functionality is used, and if amounts are on the report and are not easily explained, they are investigated to ensure no adjustments need to be made. Any changes are then manually adjusted in the system via the payroll change process described above. When the payroll is complete, an ADP Settlement Run is performed which creates a list of payments to be made via check or direct deposit. | |

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| **Reporting** | 🗶 |
| ***Monthly Reporting***  Corey Smith, Accounting Manager, prepares the payroll expense reconciliation using the ADP batch reports run during the month, as well as the bank statements showing the amounts paid to employees. The reconciliation is then used to prepare the journal entry in SAP, SE’s general ledger system. The reconciliation is attached to the JE in SAP for the Controller’s review.  The J/E is assigned to controller, Seth Jeffrey, for review within SAP. The payroll J/E is reviewed for consistency with the supporting documentation, unusual items and to ensure that the correct G/L accounts are used (**Key Control - Payroll 6**: The Controller reviews the payroll journal entry prepared by the Accounting Manager for unusual items and signs-off on the entry before the entry is entered into the general ledger (EY note: As part of the review the JE is agreed to the Payroll register to ensure appropriate coding and completeness).  ***Financial Statement Reporting***  The FP&A team prepares a budget to actual review on all payroll related expenses. They investigates & documents variances and reviews variances with the Senior Vice President and Executive Director.  The Business Unit Financial Controller will prepare the significant disclosures related to payroll of the financial statements. Once prepared the financial statements are sent by the Business Unit Financial Controller to the CFO who performs a review. | |

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| **Confirm our understanding of the SCOT: Payroll Expense** |

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| **SCOT walkthrough:** | |  | 🗶 |
| Transaction(s) selected: | New Hire  Payroll Change  Payroll Termination  June 20X6 Payroll Journal Entry | | |
| Individuals with whom we confirmed our understanding: | Maya Jones, HR Coordinator  Steve Kim, HR Partner  Warren Evans, CFO | | |
| Procedures performed to confirm our understanding: | | | |
| |  |  | | --- | --- | | Employee Name | New Hire:  Change: Anna Frye  Termination : Isabel Claire | | Check Date | `  30 June 20X6  30 June 20X6 | | Check Number | 2890  2790 | | Check Amount | CHF1,890.67  CHF1,906.47 |   **New Hire – HR**  Per inquiry, Maya inputs the information into ADP and it is sent to Steve Kim for review and approval. Maya stated she used the employee agreement at **B02 4/** to populate ADP with Garrett’s payroll related information (i.e. hire date, annual salary and title). EY reperformed Maya’s process by agreeing the amounts within the employee agreement to the ADP screenprint noting the information agreed. EY met with Steve Kim to discuss his review of the inputs. Per inquiry with Steve, he ensures that the salary, job title, name, and birth date all agree to the employee agreement. If they do not, Steve emails Maya and asks that the information be adjusted and resubmitted for approval. Steve has not found an instance where the salary information did not match the agreement; however, he has had to approve salaries outside the standard parameters in ADP due to an employee’s extensive experience. To confirm our understanding, we inspected the email at **B02 3/** documenting his approval of an employee, Warren Evans, whose salary was outside of the ADP parameters. Our review of the email corroborated Steve’s description of his review and evidenced that his review is conducted at a level of precision that would catch differences that would be considered immaterial to the monthly account balance by the entity.  Maya stated she used the employee agreement at **B02 4/** to populate this screen when Garrett was hired. EY reperformed Steve’s review by agreeing the amounts within the employee agreement to the ADP screenprint noting the information agreed.  We selected the 15 June 20X6 paycheck to walkthrough for Garrett Price.  **Salary and Other Employee Status Change – HR**  **Payroll Change**  Total annual payroll increases over the entire company are approved by the CFO every year (KEY CONTROL: **Payroll – 2 Annual Payroll Increase**).  EY obtained the minutes for the meeting on February 5, 20X6 noting the pay rate increases were approved by the CFO – Warren Evans at **B02.1 1/**. **(For training purposes, the supporting evidence at B02.1 – B02.2 is properly referenced but not required to be obtained from this activity.)**  Employee selected for Status Change walkthrough is Anna Frye. EY obtained screenshots of all steps displayed in the Job change Module at **B02.1 2/ - 4/**. We inquired of Anna the procedures performed to process changes to employee information in ADP. She walked us through each screen used to process changes to employee information. To do so, we selected one employee whose salary was changed in the current year. Based on our inquiries, we noted that the steps performed is consistent with the procedures described above, no exceptions were identified. Based on the pay rate increases approved by the Board, we inspected the screenshots, noting the pay rate amount was properly updated. In addition to the inquiries, we performed the following procedures:  We obtained the ADP system screenshot of the selected employees pay rate at **B02.1 2/** and inspected the minutes, noting the amount approved for the salary increase is consistent with the amount noted in the screen shot. We also reperformed the review of the control owner by recalculating that employee’s salary payment before and after the change based on the annual salary. We also obtained the two ADP batch report generated from the ADP system in order to see the employee’s pay rate before and after the change. In order to be able to trace the selection through to the JE, Maya pulled the ADP batch reports which is used to compute the payroll expense from the ADP system. The two payroll expenses reports were retained at **B02.1 3/**. We located the selected employee’s payroll expense in the payroll expense reports based on the cost center number provided in the WD payroll detail reports. The total cost center payroll expenses for the two periods were then agreed to the JE report at **B02.1 4/**. Thus, we walked through the entire salary change process and compared the selected employee’s payroll amount for the period before and after the salary change to ensure the change had been properly reported in the book.  **Employee Termination – HR**  EY selected Isabel Claire, effective 6/20/X6 for the termination portion of this walkthrough.  All steps of this process begin with the “Termination” step, which defines the reason for the termination, the employee’s last day of work, and the “Pay Through Date”. In addition, the letter of resignation is uploaded into the system. This information is then automatically updated into the “Details” tab of the employee’s profile in ADP. If the team manager entered the termination information into ADP, it is triggered for review by the HR Coordinator of HR Partner, requiring the next step “Review Employee Termination” to be completed.  See the screenshots at **B02.2 1/** for EY’s observation of the process described above.  Per discussion with Maya Jones, the HR related steps for the selected employee’s termination process occurred in the past and cannot be replicated again. The HR team ran through the entire process under the testing environment which means only the offline data was used and any changes made in the testing environment are separated from the real-time online data. The screenshots we obtained facilitated our documentation and helped us to corroborate our understanding of the process initially obtained through inquiry.  We inquired of Maya how the termination process is processed and recorded. Per inquiry with Maya, a resignation is received from the employee’s manager. HR will then contact the employee and schedule an exit interview and determine the official termination date, usually two weeks from resignation. . We inquired of Maya about the difference between voluntary and involuntary termination process. Per inquiry with Maya Jones, HR Coordinator, for the voluntary vs. involuntary termination process, there is a different “to do” step in ADP depending on how the termination is coded. This essentially serves as a flag or reminder to the HR Partner/Recruiter accountable for that step, to take action outside of the system in a different way for involuntary terminations. In terms of effective dates and review/approval steps, all things remain consistent regardless of termination type.  In order to complete the walkthrough procedures based on the online data in the company’s system, we selected one employee, Isabel Claire, who was terminated in the current year. We obtained the termination notice at **B02.2 2/** and the ADP system screenshot at **B02.2 1/,** and inspected the documentation noting that the termination date entered by Maya was consistent with the termination notification. Per inquiry with Maya, once the employee is terminated in ADP, no additional payments are made to the employee. To confirm our understanding, we obtained the batch reports for the periods ended on 30 June 20X6 and 15 July 20X6, which were retained at **B02.2 3/**. We inspected the 30 June 20X6 batch report, noting that Isabel received a payment for the period. We also inspected the 15 July 20X6 batch report to verify that no payroll payment was made. Once the batch reports are run, the total expense for the month is used to prepare the journal entry. The journal entries related to the 30 June 20X6 period can be found at **B02.2 4/**. Per inquiry of the Accounting Manager, after each payroll period ended, he pulls the payroll data and computed payroll expense from the ADP system. The batch reports used to compute the JE amount was inspected and retained at **B02.2 5/**. We recalculated the total of the batch repots and agreed to total amount to the JE report at **B02.2 6/**. Thus, we walked through the entire termination process to corroborate that no regular pay occurred in the payroll period following the termination date, as the control owner described they check during their review.  **Preparation of Pay Data:**  We obtained the Batch report as of 30 June 20X6 from Corey at **B02 6/** and this report containing employees’ direct deposit bank information however, that bank account information was not included in the report retained for confidentiality purposes. Based on inquiry with Corey, they report is was then sent to the Capstone Bank for validation. We inspected the emails from the Bank for the pay periods in June at **B02 9/**, noting that the file was confirmed as accurate. Payroll disbursement was thus processed. This report is then used to book the JE in SAP.  **Recording of Journal Entry**  Per inquiry with Corey Smith, based on the batch reports, he manually entered total expense for June (which includes the payroll expenses for our selections), and prepared the journal entries by crediting the cash disbursement account (1520300) and debiting the wages and salaries expense account (7300007) as shown on **B02 7/**. He also uses this information to prepare the payroll reconciliation. In order to ensure the accuracy of the procedure, Seth Jeffrey, Controller, review the reconciliation.  Based on inquiry with the Controller,  For our selected transaction, the Controller reviewed  The FP&A team prepares a budget to actual review on all payroll related expenses. They investigates & documents variances and reviews variances with the Senior Vice President and Executive Director. (**KEY CONTROL: FP&A -4** The FP&A team prepares a budget to actual review on all payroll related expenses. They investigates & documents variances and reviews variances with the Senior Vice President and Executive Director.) | | | |

***Note: A detailed assessment of the design effectiveness of SE Control 2, SE CR Controls 1, 2 and 3 have been excluded for learning purposes.***

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| 🞧 | + | **Payroll 2:** | Total annual payroll increases over the entire company are approved by the CFO every year. |

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| Is our documentation of this control and related procedures contained in another SCOT? | ⭘ |  | 🞊 |  |
| WP reference: | Not applicable. | | | |

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| 🞧 |  | **Other WCGWs in this SCOT addressed by this control:** |  |

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| WCGW 1 - Payroll and employee benefit expenses are not recorded at the appropriate amount and are not recorded in the appropriate accounts  WCGW 5 - Pay increases were not authorized by the appropriate personnel. |

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| 🞧 |  | **Control properties** |

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| Control Description |  |
| Total annual payroll increases over the entire company are approved by the CFO every year. The CFO meets with the FP&A team to determine the appropriate pay increase that should be considered by the Company. The FP&A team and CFO consider market factors such as competitor salaries, the projected economic outlook and the industry standards. Once the CFO and FP&A team are in agreement, the CFO approves the payment increases. | |
| The following significant risks are addressed by this control: | |
| No significant risks have been identified for this SCOT. | |

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| Design attributes (including precision and sensitivity): | | |  |
|  | **A** | The CFO meets with the FP&A team to determine the appropriate pay increases that should be considered for each level and department of the Company During the meeting, the CFO considers factors such as the projected budget, economic projections, and industry standards, as well as competitor’s salaries. This meeting serves as a basis for the CFO’s development of expectations used during his review of the annual payroll increase file. | |
|  | **B** | The CFO reviews the payment increases proposed by the FP&A team. During his review, the CFO compares the projected increases against the projected budget for the following year and ensures the increases are in line with the Board and investor’s expectations. He then approves the pay increases at the quarterly meeting. | |

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| Control Type: | | Management Review | | Frequency: | | Annual | | | | |
| Testing: | |  | Review or monitoring control? | |  | | 🞊 |  | ⭘ |  |
| Testing strategy (select all that apply): | | | | | | | | | | |
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| 🞧 |  | **Control owner information** |

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| Name/title of control owner: | CFO Warren Evans | | | | |
| Is the person performing the control objective and competent? | | 🞊 |  | ⭘ |  |
| Document the basis for our conclusion: | | | | | |
| Warren Evans is a Chartered Accountant with over 25 years of experience in corporate finance within the manufacturing industry. Warren commenced his career with Summit Equipment in 20X0 as the Group Financial Controller before progressing to Chief Financial Officer in 20X2.  His experiences, familiarity with the company, and designation support his competence and ability to perform this control. EY concludes that he has the necessary competence and authority to perform this control. | | | | | |
| Document any observations made regarding conflicting duties or authorization issues: | | | | | |
| EY did not observe any conflicting duties or authorization issues. | | | | | |

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| 🞧 |  | **Information produced by the entity (IPE)** |

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| What IPE is used in the execution of this control and how have the IPE risks been addressed? | | |  |
| The CFO utilizes the FP&A team’s budgetary reports and information from ADP in order to carry out the approval of the budget increases prepared by the FP&A team. The Budgetary information is populated from SAP and is kept in excel on the shared drive. The Excel Files are password protected. The completeness and accuracy of budgetary information was tested at (NOT RETAINED FOR TRAINING PURPOSES) and ITGC controls over SAP were tested at (NOT RETAINED FOR TRAINING PURPOSES). See testing over the service organization report of ADP at (NOT RETAINED FOR TRAINING PURPOSES). | | | |
| What is the source of this information? | Relevant application: | SAP, ADP | |
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| 🞧 |  | **Review control considerations:** |

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| Describe the precision and sensitivity of the review and the procedures we performed to conclude the review is sufficiently precise: |
| 1. The CFO compares the proposed increase to the proposed budget for the following fiscal year. If the proposed increases significantly vary from the budget (More than CHF 100,000), the CFO will determine if the proposed increases are too competitive or not competitive enough, and why the budget did not consider a greater/lesser payment increase. Once the budget or the pay increase is adjusted based on the relevant and most current information, the pay increases will be approved. |
| Describe the results of the review and follow-up and the procedures we performed to corroborate actions taken and results: |
| The CFO noted that the pay increases were CHF 200,000 greater than what had been budgeted. He had several meetings with the FP&A team to determine what was causing the discrepancy. Per review of the meeting minutes and emails, the difference was due to increased competitiveness in the wages for supporting staff, including shipping, packing, and warehouse management. These jobs have been lagging behind the inflation rates in Switzerland in previous years and thus have been adjusted to meet the demands of the workers industry wide during the current year. This was discovered when a competitor hired a third party to study the wages of their support staff. EY obtained the press release from the competitor discussing the wages increase for its support staff, noting the information cited a study that was published in the Switzerland Financial Gazette. |

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| 🞧 |  | **Confirm our understanding** |

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| Person(s) we made inquiries of: | |
| CFO Warren Evans  FP&A Manager Jack Anderson | |
| Transaction or control instance used to confirm our understanding: | |
| 20X6 Payroll Increase | |
| Describe the procedures we performed to confirm our understanding of the design of this relevant control and that it has been implemented: |  |
| We met with CFO Warren Evans and inquired as to the procedures he performs to review the FP&A’s proposed salary increases. Warren stated he obtains the FP&A proposed increases along with the budgetary information on the Company’s shared drive. EY tested the controls surrounding the Company Shared Drive at (NOT RETAINED FOR TRAINING PURPOSES). EY inspected a copy of the report used by the CFO to approve the proposed salary increases. We note the FP&A team proposed an increase of 2%, with an option to increase more than 2% based on merit scores. In order to discuss the proposed increase, the CFO met with the FP&A team in May of 20X6. EY inspected a copy of the meeting invite and meeting materials from the meeting where the Compensation Director presented and received final sign off on the merit increase %s from CFO and Steve Kim (HR Partner). In addition, the minutes reveal the CFO and FP&A team discussed the increase in relation to the following fiscal year’s budget, current economic trends, and industry standards. The CFO concurred with the increase based on the information presented at the meeting, and approved the increases as noted in the meeting minutes. EY inspected the minutes of the meeting noting it was adjourned after an approval from CFO. | |
| For review controls, document here our specific inquiries of the control owner. Our testing of design of controls (in particular management review controls) includes performing probing inquiries and documenting the specific inquiries made and the responses to those inquiries. The bullets below highlight some of the more critical inquiries to appropriately test the design of the control:  • How does the reviewer set expectations to critically challenge assumptions, methodologies,  results and other relevant items before performing the review?  • What procedures are performed as part of the review? Are there specific items that receive  additional attention?  • What quantitative or qualitative threshold is used to perform the review? (“Reviewed for  significant and unusual items” should be defined through additional probing questions.)  • What triggers the reviewer to request the preparer to perform additional follow-up procedures?  • What is the nature of questions resulting from the review, the subsequent follow-up and the types of adjustments or changes that result from the review? Were the adjustments or changes made timely? (If no errors have been detected by the control, consider whether this indicates that the control is not designed at a sufficient level of precision.)  • What evidence exists reflecting the nature of questions resulting from the review and follow-up  actions performed? (Does the documentation of questions from the review and follow-up actions taken support a conclusion that the review would prevent or detect a material misstatement?)  • If prospective financial information (PFI) is used, what procedures are performed by the control  owner to challenge the PFI and the related key assumptions?  Refer to CONTROLS Appendix 2 for additional inquiries that can be made. | |
| 1. How does the reviewer set expectations to critically challenge assumptions, methodologies, results and other relevant items before performing the review?  **CFO utilizes the FP&A’s budgetary information in order to determine if the proposed pay raise is in line with previous budget projections approved by the board of directors. EY tests controls over the FP&A budget process at workpaper (NOT RETAINED FOR TRAINING PURPOSES). The CFO also utilizes reputable sources of information to determine if the economic outlook supports the salary increases, as well as competitor press releases and public information. Given the CFO’s experience, extensive knowledge of economics, etc., he has the appropriate skills in order to analyze the available information to determine if the salary increases can be supported.** 2. What procedures are performed as part of the review? Are there specific items that receive additional attention? **The CFO obtains the percentages for the proposed salary increases from the FP&A team. These are kept on the shared server and are password protected. Thus, the CFO cannot change the percentages without a formal request to the FP&A team. The CFO ensures the percentages are supported by data from the budget team. The supporting data is discussed at the meetings and documented via meeting minutes. The minutes are then approved by the CFO.** 3. What quantitative or qualitative threshold is used to perform the review? (“Reviewed for significant and unusual items” should be defined through additional probing questions. **The CFO compares the proposed increase to the proposed budget for the following fiscal year. If the proposed increases significantly vary from the budget (More than CHF 100,000), the CFO will determine if the proposed increases are too competitive or not competitive enough, and why the budget did not consider a greater/lesser payment increase. Once the budget or the pay increase is adjusted based on the relevant and most current information, the pay increases will be approved.** 4. What triggers the reviewer to request the preparer to perform additional follow-up procedures? **In addition to the precision level discussed above, the CFO will consider the supporting information for data relating to competitor pay raises, economic outlook, and other factors in the business. These are discussed in detail in the meeting minutes. If the CFO is unaware or unfamiliar with any information, he will investigate further and follow up with the FP&A team either in another meeting or via email correspondence.** 5. What is the nature of questions resulting from the review, the subsequent follow-up and the types of adjustments or changes that result from the review? Were the adjustments or changes made timely? (If no errors have been detected by the control, consider whether this indicates that the control is not designed at a sufficient level of precision.) **If the CFO notes a variance greater than CHF 100,000 or does not agree on supporting information that is supporting the pay increase, he will investigate the issue further. He will then schedule several meetings with the FP&A team to determine what was causing the discrepancy. In the case of the current year, the CFO noted a variance of CHF 200,000 between the proposed pay increases and the projected budget.** 6. What evidence exists reflecting the nature of questions resulting from the review and follow-up actions performed? (Does the documentation of questions from the review and follow-up actions taken support a conclusion that the review would prevent or detect a material misstatement?) **Per review of the meeting minutes and emails, the difference was due to increased competitiveness in the wages for supporting staff, including shipping, packing, and warehouse management. These jobs have been lagging behind the inflation rates in Switzerland in previous years and thus have been adjusted to meet the demands of the workers industry wide during the current year. This was discovered when a competitor hired a third party to study the wages of their support staff. EY obtained the press release from the competitor discussing the wages increase for its support staff, noting the information cited a study that was published in the Switzerland Financial Gazette.** 7. If prospective financial information (PFI) is used, what procedures are performed by the control owner to challenge the PFI and the related key assumptions? **All information utilized is kept on the FP&A’s shared server. The controls over the server are tested at workpaper (NOT RETAINED FOR TRAINING PURPOSES).** | |

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| 🞧 |  | **Control conclusion** |

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| Has the control been designed effectively to mitigate the WCGWs identified and has it been implemented? | 🞊 |  | ⭘ |  |

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|  |  | **Payroll 6:** | The Controller reviews the payroll journal entry prepared by the Accounting Manager for unusual items and approves the entry before recording into the general ledger (EY note: As part of the review the JE is agreed to the Payroll register to ensure appropriate coding and completeness) |

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| Is our documentation of this control and related procedures contained in another SCOT? | ⭘ |  | 🞊 |  |
| WP reference: | Not applicable. | | | |

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| 🞧 |  | **Other WCGWs in this SCOT addressed by this control:** |  |

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| WCGW 1 - Payroll and employee benefit expenses are not recorded at the appropriate amount and are not recorded in the appropriate accounts  WCGW 2 - Payroll and employee benefit transactions or events are inappropriately aggregated or disaggregated, and are not classified, described and disclosed in accordance with the applicable financial reporting framework.  WCGW 3 - All payroll disbursements made are not recorded.  WCGW 6 - Coding of payroll to G/L is incorrect.  WCGW 9 - Payroll expenses including deductions are incorrectly computed. |

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| 🞧 |  | **Control properties** |

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| Control Description |  |
| The Controller reviews the payroll journal entry prepared by the Accounting Manager for unusual items and signs-off on entry before entry into the general ledger (EY note: As part of the review the JE is agreed to the Payroll register to ensure appropriate coding and completeness). The Controller utilizes non-configurable reports from ADP to perform his review. He ensures these reports are password protected and read-only so they cannot be adjusted from the original report. He also compares the expense for the month to the FP&A budgetary information and ensures the salaries are within CHF 100,000 of the budgeted amount. He also reviews the classification of expenses, including the calculation of income tax withholdings and various other deductions and compares to the FP&A budget. | |
| The following significant risks are addressed by this control: | |
| No significant risks have been identified for this SCOT. | |

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| Design attributes (including precision and sensitivity): | | |  |
|  | **A** | The Controller obtains the journal entry within SAP which was prepared by the AP manager, Corey Smith. He opens the support for the JE within SAP, which includes the reconciliation for the payroll expense account, the bank statement for the month, and the bank's approval of the direct deposit data files. The Controller ensures the reports are complete and accurate by obtaining a screen print of the reports from ADP and ensuring the batch totals are the same for the period. Clerical accuracy is ensured by controls within the service organization report of ADP. | |
|  | **B** | The Controller compares the expenses for the period to budgetary information on the FP&A budget files located on the FP&A shared server. These files are password protected and cannot be changed once the preparer prepares the document and clears review notes. Thus, the budget information is complete and accurate. If the payroll expense deviates from the budget by more than CHF100,000, the CFO will schedule a meeting with the payroll department and Corey Smith to determine the source of the discrepancy. Minutes for the meeting are kept and signed and approved. If changes are made to the budget based on the findings, the FP&A drafts a memo of the change along with supporting documentation and stores the information on its shared drive | |

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| Control Type: | | Management Review Control | | Frequency: | | Monthly | | | | |
| Testing: | |  | Review or monitoring control? | |  | | 🞊 |  | ⭘ |  |
| Testing strategy (select all that apply): | | | | | | | | | | |
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| 🞧 |  | **Control owner information** |

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| Name/title of control owner: | Seth Jeffrey, Controller | | | | |
| Is the person performing the control objective and competent? | | 🞊 |  | ⭘ |  |
| Document the basis for our conclusion: | | | | | |
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| Document any observations made regarding conflicting duties or authorization issues: | | | | | |
| EY did not observe any conflicting duties or authorization issues. | | | | | |

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| 🞧 |  | **Information produced by the entity (IPE)** |

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| What IPE is used in the execution of this control and how have the IPE risks been addressed? | | |  |
| The Controller utilizes the FP&A team’s budgetary reports and information from ADP in order to carry out the approval of the budget increases prepared by the FP&A team. The Budgetary information is populated from SAP and is kept in excel on the shared drive. The Excel Files are password protected. The completeness and accuracy of budgetary information was tested at (NOT RETAINED FOR TRAINING PURPOSES) and ITGC controls over SAP were tested at (NOT RETAINED FOR TRAINING PURPOSES). See testing over the service organization report of ADP at (NOT RETAINED FOR TRAINING PURPOSES). | | | |
| What is the source of this information? | Relevant application: | SAP, ADP | |
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| 🞧 |  | **Review control considerations:** |

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| Describe the precision and sensitivity of the review and the procedures we performed to conclude the review is sufficiently precise: |
| The Controller compares the Journal Entry to the monthly trended budget for the fiscal year. If the expense significantly vary from the budget (More than CHF 100,000), the Controller will determine what is causing the discrepancy, and why the budget did match the expense. Once the budget is adjusted based on the relevant and most current information, the JE will be approved. Additionally, if the payroll deduction amounts as a percentage of payroll expense vary significantly from prior periods (more than 2%), the Controller will follow up with the payroll team and ADP representative to determine why the percentages changed. |
| Describe the results of the review and follow-up and the procedures we performed to corroborate actions taken and results: |
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| 🞧 |  | **Confirm our understanding** |

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| Person(s) we made inquiries of: | |
| Seth Jeffrey, Controller  Steve Kim, HR Partner | |
| Transaction or control instance used to confirm our understanding: | |
| 30 June 20X6 Journal Entry | |
| Describe the procedures we performed to confirm our understanding of the design of this relevant control and that it has been implemented: |  |
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| For review controls, document here our specific inquiries of the control owner. Our testing of design of controls (in particular management review controls) includes performing probing inquiries and documenting the specific inquiries made and the responses to those inquiries. The bullets below highlight some of the more critical inquiries to appropriately test the design of the control:  • How does the reviewer set expectations to critically challenge assumptions, methodologies,  results and other relevant items before performing the review?  • What procedures are performed as part of the review? Are there specific items that receive  additional attention?  • What quantitative or qualitative threshold is used to perform the review? (“Reviewed for  significant and unusual items” should be defined through additional probing questions.)  • What triggers the reviewer to request the preparer to perform additional follow-up procedures?  • What is the nature of questions resulting from the review, the subsequent follow-up and the types of adjustments or changes that result from the review? Were the adjustments or changes made timely? (If no errors have been detected by the control, consider whether this indicates that the control is not designed at a sufficient level of precision.)  • What evidence exists reflecting the nature of questions resulting from the review and follow-up  actions performed? (Does the documentation of questions from the review and follow-up actions taken support a conclusion that the review would prevent or detect a material misstatement?)  • If prospective financial information (PFI) is used, what procedures are performed by the control  owner to challenge the PFI and the related key assumptions?  Refer to CONTROLS Appendix 2 for additional inquiries that can be made. | |
| 1. How does the reviewer set expectations to critically challenge assumptions, methodologies, results and other relevant items before performing the review? 2. What procedures are performed as part of the review? Are there specific items that receive additional attention? 3. What quantitative or qualitative threshold is used to perform the review? (“Reviewed for significant and unusual items” should be defined through additional probing questions. 4. What triggers the reviewer to request the preparer to perform additional follow-up procedures? 5. What is the nature of questions resulting from the review, the subsequent follow-up and the types of adjustments or changes that result from the review? Were the adjustments or changes made timely? (If no errors have been detected by the control, consider whether this indicates that the control is not designed at a sufficient level of precision.) 6. What evidence exists reflecting the nature of questions resulting from the review and follow-up actions performed? (Does the documentation of questions from the review and follow-up actions taken support a conclusion that the review would prevent or detect a material misstatement?) 7. If prospective financial information (PFI) is used, what procedures are performed by the control owner to challenge the PFI and the related key assumptions? | |

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| 🞧 |  | **Control conclusion** |

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| Has the control been designed effectively to mitigate the WCGWs identified and has it been implemented? | 🞊 |  | ⭘ |  |

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| **Considerations for the use of the internal audit function** | |  |
| Who performed the walkthrough? | | |
| 🞊 | EY | |
| ⭘ | Internal auditors | |
| ⭘ | Others | |
| Document how we supervised and reviewed their work, including the method used to select the transaction(s) to walkthrough if we did not make the selection ourselves. | | |
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| **Other considerations** | |
| Observations that would indicate issues related to authorization or segregation of duties: |  |
| We have not identified any issues related to authorization or segregation of duties. | |
| Observations that would indicate the potential for management override of controls or other risks of material misstatement due to fraud in the SCOT: |  |
| None noted. | |

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| 🞊 | Our documentation accurately describes the operation of the SCOT and we have identified appropriate WCGWs. |
| ⭘ | Other (document additional observations) |
| Additional observations: | |
| All process owners were competent and possessed the appropriate authority to perform the control(s).  Each control adequately addressed the relevant WCGWs and was capable of effectively preventing, or detecting and correcting a material misstatement. | |

**\*\*\*** **Do not edit or delete anything below this point in the document!** **\*\*\***