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| **Alert: You have unresolved diagnostic items from the last refresh of Canvas data.** |

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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 9:56:23 AM |

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| **Obtain an understanding of the SCOT** **[SCOT name]:** |

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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: | | Non-routine | Related in-scope IT applications: | | None  \*Note- the IT application is utilized only for purposes of entering the journal entry into the system only- this is covered within the Purchases process | | |
| 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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| **Related party relationships and transactions** |
| Document our high-level understanding of the controls, if any, that management has established to: |
| Identify, account for, and disclose related party relationships and transactions in accordance with the applicable financial reporting framework: |
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| Authorize and approve significant transactions and arrangements with related parties: |
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| Authorize and approve significant transactions and arrangements outside the normal course of business: |
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| **Initiation** | 🗶 |
| |  | | --- | | The process starts when a new equipment is purchased and the property manager requests the purchasing department to obtain insurance quotes from contracted insurance companies. The purchasing department will secure different insurance quotes, which will be reviewed by the property manager for appropriateness of coverage and will be approved by the purchasing manager. Upon approval, the purchasing department then forwards the documents to the accounting department for recording.  **(Note: this process is out-of-scope for purposes of testing within the amortization of the prepayment account)** |  |  |  | | --- | --- | | **Recording** | 🗶 | | **Recording of prepayments**  The intermediate accountant reviews the documents and prepares an accounts payable voucher based on the amount in the payment request form. He/she reviews the terms of the insurance policy and determines if it will meet the accounting policy on recording prepayments **(SE-009 Global Accounting Policy for Prepayments)**. Based on the accounting policy, a prepayment is recorded if the expense benefits more than one period (i.e., more than a month) and are amortized monthly, otherwise, the amount paid is recognized as an outright expense.  If the item meets the Company’s criteria, the following journal entry is prepared:  DR – Prepayments  CR – Payables – Domestic suppliers  If the transaction does not meet the criteria, the intermediate accountant posts the following journal entry:  DR – Insurance  CR – Payables – Domestic suppliers  The senior accountant obtains a copy of the insurance policy and reviews the terms and conditions, including the amount of insurance premiums to be paid. He/she then determines, based on the details of the contract and the Company’s accounting policy for prepayments, whether the transaction should be recorded as a prepayment.  The senior accountant matches the details in the draft JE, such as the amount of insurance paid, date and description, to the AP voucher and insurance policy. He/she then makes an independent assessment on whether the transaction qualifies as a prepayment based on the accounting policy. If an exception is noted, the senior accountant returns the draft JE and AP voucher to the intermediate accountant with specific instructions on what to change. The intermediate accountant revises the entry or amount in the JE and/or AP voucher and forwards it to the senior accountant for review. The review process repeats until all exceptions are addressed. The senior accountant documents the review by placing a tick mark on the AP voucher and insurance policy as evidence of the tie out procedure and approves the transaction by affixing his/her initials in the AP voucher and posting the entry into the system.  **Monitoring**  When the intermediate accountant concludes that an invoice is a prepayment, it is added within the prepayments monitoring spreadsheet. The intermediate accountant updates the spreadsheet monthly and includes the insurance premium amount, term, and respective amortization period. The amortization is automatically calculated within the spreadsheet based on terms and the current month.  **Amortization**  Each month, the intermediate accountant prepares a JE based on the total amount of amortization expense for the month in the prepayments monitoring spreadsheet. The pro-forma JE to record amortization expense is as follows:  DR – Amortization Deferred Charges  CR – Prepayments  The senior accountant pulls out the inventory of insurance policies availed of each month and determines whether each policy was included in the spreadsheet. He/she checks the clerical accuracy of the footers/extensions by recomputing the amounts in the spreadsheet. He/she then matches the amount in the JE to the total amortization per month in the spreadsheet. If there are any exceptions, the senior accountant sends back the JE to the intermediate accountant with specific comments based on the review. The intermediate accountant prepares a reconciliation explaining the difference and adjusts the spreadsheet based on the reconciliation made. The review process repeats until all exceptions are addressed. The senior accountant documents the review by placing a tick mark on the monthly total column of the spreadsheet as evidence of the tie-out procedure and signifies his/her approval by posting the JE into the system. | | | |

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| **Processing** | 🗶 |
| The documents will be forwarded to the treasury department for payment scheduling and recording into the payable system/ledger. Once the amount has been entered into the system as to be paid, it follows the purchases process as included within the **Purchases Process** narrative.  **(Note:** **this process is out-of-scope for purposes of testing within the amortization of the prepayment account)** | |

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| **Reporting** | 🗶 |
| The Finance Manager compares the information contained in the prepayments monitoring spreadsheet on a monthly basis, such as the insurance premiums paid, terms and amortization period, against the JEs posted in the system. The Finance Manager then compares the amounts of prepayments and amortization expense against the monthly budget. The senior accountant prepares a reconciliation and explanation of the difference between the budget and actual amounts. When the Finance Manager identifies an unrecorded transaction (i.e., a transaction in the spreadsheet that was not recorded in the system), the Intermediate Accountant prepares an adjusting JE to record the unrecorded transaction and follows the guidance in Section 7.2 of the narrative **(PM8.2.2D Prepayments Process Narrative)**. | |

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| **Confirm our understanding of the SCOT** **[SCOT name]:** |

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| **SCOT walkthrough:** | |  | 🗶 |
| Transaction(s) selected: | Month of September 20X6  Availment of prepaid insurance - recorded on 1 September 20X6 | | |
| Individuals with whom we confirmed our understanding: | Martin J Hayter (Finance Manager)  Eduardo Elizondo (Intermediate Accountant)  Vladmira Tokareva (Senior Accountant)  Corey Fulton (Purchasing Manager)  Deron Smith (Property Manager) | | |
| Procedures performed to confirm our understanding: | | | |
| EY obtained and reviewed the prepayments process narrative for Summit Equipment (refer to ***PM8.2.2D Prepayments Process Narrative*** attached in Canvas).  EY held a meeting on 4 January 20X7 with the individuals cited above to confirm our understanding as understood within the aforementioned prepayments process narrative.  During this meeting, EY inquired about any process changes from the prior year and noted that there were none. This is consistent with the results of our walkthrough procedures documented below.  EY randomly selected the following transaction to walkthrough the prepayments process:   |  |  | | --- | --- | | JE #: | 201X-3000-3200093827 | | Posting date: | 1 September 20X6 | | Description: | To record the purchase of prepaid insurance for new equipment. |   **Initiation**  EY inquired of Deron Smith (Property Manager) regarding the initiation process of availing insurance for new machinery and equipment. Consistent with the prepayments process narrative (refer to ***PM8.2.2D Prepayments Process Narrative*** attached in Canvas), the process was initiated when he requests to avail of prepaid insurance for a new equipment.  EY obtained a copy of the Property Manager’s e-mail request to the Purchasing Department for availment of prepaid insurance for a new equipment, price quotes from contracted insurance companies and payment request form. The documents were then forwarded to the Accounting Department.  **(Note: this section is not included for learning purposes.)**  **Recording**  EY obtained a copy of the AP voucher that was prepared by Eduardo Elizondo, intermediate accountant, based on the amount in the payment request form.   |  |  | | --- | --- | | Vendor Name |  | | APV No. |  | | Date |  | | Amount |  | | Explanation |  |   EY obtained a copy of the related insurance policy and noted that the amount of insurance premium to be paid agrees with the amount in the AP voucher. Vladmira Tokareva, senior accountant, showed us in the system the related JE that was posted to record the purchase of insurance. Details are as follows:   |  |  | | --- | --- | | JE No.: |  | | Date: |  | | Preparer: |  | | Reviewer: |  | | Debit: |  | | Credit: |  | | Explanation: |  |   EY notes that the JE was prepared by Eduardo Elizondo and approved by Vladmira Tokareva. The senior accountant walked us through her review by showing JE (in the actual system- a download was not utilized) that was posted in the GL and obtaining the supporting AP voucher and insurance policy summary page. She demonstrated that the amounts in the JE agrees with the AP voucher and amount to be paid in the insurance policy summary page, together with the description of the transaction and date recorded. The senior accountant placed tick marks in the supporting documents to show that she agreed the documents before approving the JE for posting. Furthermore, the senior accountant showed us the terms of the insurance policy summary and the Company’s accounting policy in recording prepayments as the basis for her own assessment that the amount paid should be recorded as a prepayment. EY notes that in the instance we are walking through, the amount paid to avail of the insurance policy qualifies as a prepayment and should be recorded as such in the system. We also noted that the JE posted in the system was correct and there were no exceptions requiring follow-up on the subject transaction. (**SE CR Control 1: The senior accountant matches the amounts in the draft JE to the AP voucher and insurance policy summary. He/she then makes an independent assessment on whether the transaction qualifies as a prepayment based on the accounting policy. If an exception is noted, the senior accountant returns the draft JE and AP voucher to the intermediate accountant with specific instructions on what to change. The intermediate accountant revises the entry or amount in the JE and/or AP voucher and forwards it to the senior accountant for review. The review process repeats until all exceptions are addressed. The senior accountant documents the review by placing a tick mark on the AP voucher and insurance policy summary as evidence of the tie out procedure and approves the transaction by affixing his/her initials in the AP voucher and posting the entry into the system)**.  EY obtained a copy of the prepayments monitoring spreadsheet for the month ending 30 September 20X6. We noted that the spreadsheet was updated to include the amount of insurance paid, term, amortization period and amortization amount. The spreadsheet was prepared by the intermediate accountant and reviewed by the senior accountant. EY confirmed with the senior accountant that there was only one prepayment transaction for the month of September.  The intermediate accountant provided us with a copy of the prepayments monitoring spreadsheet for the month of September and pointed out the total amortization column. The senior accountant showed in the system the JE posted that was posted to record amortization expense for the month of September and showed that the amount in the total amortization column of the spreadsheet tallies with the amount in the JE posted in the system. Details of the JE posted in the system are as follows:   |  |  | | --- | --- | | JE No.: |  | | Date: |  | | Debit: |  | | Credit: |  | | Explanation: |  |   **Processing**  After recording, the documents were forwarded to the treasury department for scheduling of payment. **(Note: this section is not included for learning purposes)**  **Reporting** | | | |

***Note: A detailed assessment of the design effectiveness of SE CR Controls 1 has been excluded for learning purposes.***

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| 🞧 | + | **Control name:** | SE CR Control 1: The senior accountant matches the amount, date and description in the draft JE prepared by the intermediate accountant to the AP voucher and insurance policy summary. He/she then makes an independent assessment on whether the transaction qualifies as a prepayment based on the accounting policy. |

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| 🞧 | + | **Control name:** | SE CR Control 2: On a monthly basis, the senior accountant compares the insurance policies availed for the month to the entries in the prepayments monitoring spreadsheet. The senior accountant determines whether all insurance policies for the month have been included in the spreadsheet and amortized appropriately. |

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

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

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| SE Prepayments WCGW 1: Amortization expense is not recorded on prepaid insurance.  SE Prepayments WCGW 2: Extensions/totals in amortization schedule are incorrect.  SE Prepayments WCGW 3: Prepaid insurance has no future benefit.  SE Prepayments WCGW 4: Amortization expense is calculated using an inappropriate basis. |

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| 🞧 |  | **Control properties** |

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| Control Description |  |
| The senior accountant pulls out the inventory of insurance policies availed of each month and determines whether each insurance policy was appropriately included in the prepayments monitoring spreadsheet, including information on supplier name, amount paid and date availed. If there is an exception, the senior accountant will ask the intermediate accountant to include the omitted transaction in the spreadsheet, compute for the corresponding amortization and update the totals in the spreadsheet. She checks the clerical accuracy of the footers/extensions in the spreadsheet by recomputing the amounts in double checking the formulas in the ‘total’ cells. She then matches the amount in the JE prepared by the intermediate accountant to record amortization expense for the month to the total amortization for the corresponding month in the spreadsheet. The review process repeats until all exceptions are addressed. The senior accountant documents the review by placing a tick mark on the monthly total column of the spreadsheet as evidence of the tie-out procedure and signifies her approval by posting the JE into the system. | |
| 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 senior accountant pulls out the inventory of insurance policies availed of each month and determines whether each policy was included in the spreadsheet. | |
|  | **B** | The senior accountant checks the clerical accuracy of the footers/extensions by recomputing the amounts in the spreadsheet. | |
|  | **C** | The senior accountant matches the amount in the JE to the total amortization per month in the spreadsheet. | |
|  | **D** | If there are noted exception, the senior accountant will ask the intermediate accountant to include the ommitted transaction in the spreadsheet, compute for the corresponding amortization, update the totals in the spreadsheet and/or revise the amount in the JE. The intermediate accountant submits the corrected document or JE again for her review. | |

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| Control Type: | | IT Dependent Manual Control | | Frequency: | | Many times per day | | | | |
| Testing: | | Yes | 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: | Vladmira Tokareva (Senior Accountant) | | | | |
| Is the person performing the control objective and competent? | | 🞊 |  | ⭘ |  |
| Document the basis for our conclusion: | | | | | |
| Vladmira Tokareva is an experienced accountant who has been with Summit Equipment for more than 5 years. She is a Certified Public Accountant and has almost 10 years of corporate accounting experience. Prior to Summit Equipment, she worked for another retail company as an accounting supervisor, who is in-charge of monitoring JEs that are posted in SAP.  Her experiences, familiarity with the company and industry, and designation support his competence and ability 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 IPE used in the execution of this control are:   * Screenprint from system - SAP AP entry * Screenprint from system - September amortization entry   Refer to ***20X6 Summit Equipment IPE Summary (265GL)*** for additional information on the testing performed on this report. Based on our procedures, we have concluded that we can rely on this report. (**Note: this schedule is not included for learning purposes.**) | | | |
| What is the source of this information? | Relevant application: | SAP | |
| Downloaded copy of JE – The JE screenprints were generated and downloaded from SAP. |  | | |

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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: |
| EY inquired of Vladmira Tokareva how she performs her review of the prepayments monitoring spreadsheet and JE prepared by the intermediate accountant to record amortization expense for the month of September. |
| Describe the results of the review and follow-up and the procedures we performed to corroborate actions taken and results: |
| EY inquired of Vladmira Tokareva regarding the follow-up process:  **Corroborative Actions** |

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

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| Person(s) we made inquiries of: | |
| Vladmira Tokareva (Senior Accountant) | |
| Transaction or control instance used to confirm our understanding: | |
| JE# 201X-5000-3200092921 dated 30 September 20X6 to record amortization expense for the month of September. | |
| Describe the procedures we performed to confirm our understanding of the design of this relevant control and that it has been implemented: |  |
| Please see documentation in attributes section above for this control. | |
| 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?   ***Refer to the specific procedures performed documented in the attributes section and review control considerations* *section above for procedures as part of managements review.***   1. What quantitative or qualitative threshold is used to perform the review? (“Reviewed for significant and unusual items” should be defined through additional probing questions.   ***Refer to the specific procedures performed documented in the attributes section and review control considerations* *section above for procedures as part of managements review.***   1. What triggers the reviewer to request the preparer to perform additional follow-up procedures?   ***Any errors noted by the senior accountant in the JE or inconsistencies with the supporting spreadsheet will trigger an additional follow-up procedure.***   1. 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.)   ***Refer to the specific procedures performed documented in the attributes section and review control considerations* *section above for procedures as part of managements review.***   1. 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?)   ***Refer to the specific procedures performed documented in the attributes section and review control considerations* *section above for procedures as part of managements review. The steps taken support a conclusion that the review would prevent or detect a material misstatement.***   1. If prospective financial information (PFI) is used, what procedures are performed by the control owner to challenge the PFI and the related key assumptions?   ***Not applicable for this control.*** | |

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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? | | |
| **x** | 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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| **x** | Our documentation accurately describes the operation of the SCOT and we have identified appropriate WCGWs. |
| ⭘ | Other (document additional observations) |
| Additional observations: | |
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Control Summary v1.21

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