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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 1:02:42 PM |

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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 reliance | | | | |
| 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 | | | | | | |
| **x** | Entity uses a service organization within this SCOT | | | | | | |
| Provide a brief summary of the entity's use of a service organization within this SCOT: | | | | | | |  |
| The Company outsources its payroll processing to ADP, a third party vendor. SE obtains the service organization compliance report from ADP on an annual basis to validate that the controls over the process of transactions have been tested and deemed effective. We review the suggested controls to put into place and/or ensure our controls are in line with the service organization compliance report recommendations (NOT INCLUDED FOR TRAINING PURPOSES). | | | | | | | |

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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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Do not delete this bookmark!

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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.  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.  T  he “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. The company obtains a service organization compliance 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. 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 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).  ***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 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** **[SCOT name]:** |

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| **SCOT walkthrough:** | |  | 🗶 |
| Transaction(s) selected: | New Hire  Payroll Change  Employee Termination  June 20X6 Payroll Journal Entry | | |
| Individuals with whom we confirmed our understanding: | Maya Jones, HR Coordinator  Steve Kim, HR Partner  Warren Evans, CFO  Seth Jeffrey, Controller  Maya Jones, HR Coordinator | | |
| Procedures performed to confirm our understanding: | | | |
| |  |  | | --- | --- | | New Hire | *New Hire: Garrett Price*  *Employee ID: 1457023*  *Hired date: 15 March 20X6*  *Payroll date: 15 June 20X6*  *Check #: 1567*  *Check amount: CHF 2,178.08* | | Payroll change | Anna Frye  Employee ID: 1457047  Payroll change effective date: 30 June 20X6  Check #: 2890  Check amount: CHF 1,890.67 | | Employee termination | Isabel Claire  Employee ID: 1457044  Termination date: 30 June 20X6  Check #:2790  Check amount: CHF 1,906.47 |   **New Hire - HR**  *Per inquiry with Maya Jones, the HR related steps for the selected employee’s new hire 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 in addition to inquiries (NOT RETAINED FOR TRAINING PURPOSES).*  *In order to complete the walkthrough procedures based on the online data, we selected one employee who was hired in the current year. A screenshot in the ADP system was obtained from Maya Jones to illustrate the employment information of the related employee, Garrett Price, hired on 15 March 20X6 at* ***B02 1/****. Garrett’s hiring agreement was approved by the finance department during the hiring process. Based on inquiry of Maya, the finance department emails her that the salary was approved. The salary details are kept on the company’s shared drive which is restricted to a limited number of employees. Access to the shared drive is tested by our FAIT team at (NOT INCLUDED FOR TRAINING PURPOSES). We inspected the email received from the finance department at* ***B02 2/*** *noting Garrett’s salary was approved. Additionally, we note that if the employee’s salary information is outside of these parameters, ADP will require approval from Steve Kim, HR Partner. This control is included in the compliance auditors report and was tested and deemed effective, as noted in the report.*  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.  *We selected the 15 June 20X6 paycheck to walkthrough the processing and recording portions of the SCOT for Garrett Price. Based on his employee agreement at* ***B02 4/****, Garrett is salary paid in the amount of CHF 74,676.96 annually. We recalculated the amount that would be paid out biweekly (74696.96 / 24 pay periods = 3112.37). We then inspected the ADP screenprint for the payment made to Garrett on 15 June 20X6 at* ***B02 5/****, noting that our recalculated amount agreed to Mr. Price’s gross pay. Per inquiry Maya, at each pay period, a batch report is run in ADP which totals he amount to be paid out. We obtained and inspected the ADP batch report for the 15 June 20X6 payout, noting Garret Price’s pay amount was included in the listing (****B02 6/****).*  *We obtained the SAP screenprint for the approval of the JE at* ***B02 7/****. Our selection’s salary expense was booked as a debit under the salary expense account (7300007) as shown in the SAP screenshot at* ***B02 5/****. Based on our review and our understanding, we deem reasonable. A report was generated based on the information at* ***B02 6/****, including the new hire selected for walkthrough. Thus, we walked through the entire new hire process and ensured the first regular pay amount was calculated accurately and properly recorded in the book. See JE review walkthrough below for our inquiries with the controller regarding his review of the JE.*  **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**).  We inquired of the CFO regarding the approval of the annual payroll increases, noting that there is discussion on the total budgeted amount for the year and a high level review the underlying detail to determine if there were 1) any significant outliers, the overall number of employees is consistent year over year or changes are in line with expectations and the ending amount is consistent with the annual operating budget. EY inspected the minutes for the meeting on February 5, 20X6 noting the pay rate increases were approved by the CFO – Warren Evans during the meeting at **B02.1 1/**. **(For training purposes, the supporting evidence at B02.1 – B02.2 is properly referenced but not included in the support for 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 detail supporting the approved overall pay increase attached to 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 inspecting the two ADP batch reports generated from the ADP system in order to see the employee’s pay rate before and after the change, noting that the increase is consistent with the amount approved. 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 employee number and based on the payroll expenses for the two periods, we were able to recalculate the monthly payroll expense that agreed to the JE **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 general ledger.  **Employee Termination – HR**  EY selected Isabel Claire, effective 6/20/X6 for the termination portion of this walkthrough.  This portion of the SCOT begins with the resignation letter initiated by an employee or paperwork completed by HR for an involuntary termination. The information form for the termination is input into ADP by Maya. Per inquiry of Maya, the information she entered into The “Termination” step in ADP 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.  See the screenshots at **B02.2 1/ - B02.2 6/**.  Per inquiry 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 selected for the walkthrough is processed and recorded. 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 the notice of resignation. . We inquired of Maya about the difference between voluntary and involuntary termination process. 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, he reviews the journal entry for reasonableness based on the supporting documentation and his expectations, which are developed based on standing meetings with the FP&A team in which budget to actual performance throughout the year is discussed. Although not noted with our selection, we inquired about the nature of an issues that have come up in his review of the journal entries, noting that issues that would require follow up included missing supporting documentation or inappropriate GL accounts used in the journal entry. In these instances, Seth would send the entry back to Corey to resolve the matter. Once resolved, Corey would resubmit the entry to Seth for his review. As there is no written notes to support this part of the process, we also inquired of Corey, noting that the process to resolve issues is consistent with Seth’s explanation. We obtained and inspected, but did not retain, emails which evidenced this type of follow up occurring in the past.*  *For our selected transaction, the Controller reviewed the expense amount paid in the expense batch report and the related GL report to ensure the accuracy of the numbers used in the reconciliation. We reviewed his sign-off on the reconciliation schedule as an evidence of his review at* ***B02 11/****. The amount paid is seen on the bank statement at* ***B02 10/****. The controller documented his approval of the JE in the SAP screen print at* ***B02 7/****. EY re-performed the procedures noted by the Controller noting no exceptions.*  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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| 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 compliance 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 Accounting 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 compliance 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 CHF 100,000, 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: | | | | | |
| *The Controller graduated from a prestigious university with a Bachelor in Accountancy and worked as an auditor for 4 years before becoming a senior accountant at the entity. He has served in various finance and accounting roles since then and is now the Controller. He is also a licensed or certified public accountant in Switzerland. Based on his work experience and professional certifications we believe he has the necessary competency 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 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 compliance 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: |
| *In June of 20X6, the Controller noted that the total expense varied from the ADP report by $4,589. Although the amount was significantly under the threshold, the Controller investigated the variance and noted there were two manual checks issued as severance for a terminated employee. Usually the severance is paid out of ADP, but this employee was removed from ADP prematurely. EY met with the HR Partner, Steve Kim, to discuss how often manual checks were issued. Steve Kim noted that these were the only manual checks issued during the year, and that every other ADP report matched the JE exactly. To corroborate the inquiry, EY inspected the JE’s and ADP reports for the remaining months noting they agreed without exceptions. As this amount is immaterial to the audit, we did not deem manual checks as a separate SCOT. We note that the controls for cash disbursements on the manual checks were effective on the manual check transaction that caused the variance. See* ***B02 5****/.* |

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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: |  |
| *We met with Controller Seth Jeffrey and inquired as to the procedures he performs to review the June 20X6 Payroll Journal Entry # 32032356. EY inspected the JE approved by the Controller via SAP screen prints, along with the data attached to the JE. We also inspected the FP&A budgetary reports and information from ADP that the Controller utilized to carry out the approval of JE. 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 compliance report of ADP at (NOT RETAINED FOR TRAINING PURPOSES).* | |
| 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? *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 not 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. 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 compliance report of ADP at (NOT RETAINED FOR TRAINING PURPOSES).* 2. What procedures are performed as part of the review? Are there specific items that receive additional attention? *The Controller compares the Journal Entry to the monthly trended budget for the fiscal year, including projected payroll expenses, withholding tax amounts, bonus amounts, and severance payments. He also utilizes the trending analysis of payroll expense by month when compared month over month using the previous JE’s and ADP reports. These reports are password protected.* 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 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 not 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.* 4. What triggers the reviewer to request the preparer to perform additional follow-up procedures? *Variances between the budget and actual expense greater than CHF 100,000, as well as changes in payroll deductions greater than 2% of payroll expense as compared to recent prior periods will result in follow up. In June of 20X6, the controller that the total expense varied from the ADP report by $4,589. Although the amount was significantly under the threshold, the Controller investigated the variance and noted there were two manual checks issued as severance for a terminated employee. Usually the severance is paid out of ADP, but this employee was removed from ADP prematurely. EY met with the HR Partner, Steve Kim, to discuss how often manual checks were issued. Steve Kim noted that these were the only manual checks issued during the year, and that every other ADP report matched the JE exactly. These notes were included in SAP evidencing the Controller’s review. To corroborate the inquiry, EY inspected the JE’s and ADP reports for the remaining months noting they agreed w/o/e. As this amount is immaterial to the audit, we did not deem manual checks as a separate SCOT. We note that the controls for cash disbursements on the manual checks were effective on the manual check transaction that caused the variance.* 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.) *Questions about variances will include: What is driving the variance? Why did the deduction changes significantly from prior periods? Why does the total expense amount deviate from the amount in the ADP report? These variances are resolved prior to month-end close (within one week from the last day of the calendar month).* 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?) *The controller will leave notes on the approval in SAP for significant items discussed, investigated, or questioned during his review.* 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 or in ADP. The controls over the server are tested at workpaper (NOT RETAINED FOR TRAIING PURPOSES). The controls over the ADP reports as well as the ADP service organization compliance report 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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| **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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| ⭘ | 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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