Index

A
Accounting estimates, 5, 6, 40, 71, 72, 81, 83, 181, 186
Accounting policies, selection and application of:
  audit committee inquiries, 194, 195, 198
  audit committee knowledge of, 127, 128
  board member inquiries, 189, 192
  entity-level control effectiveness, 143, 150, 159, 160, 162, 164, 169
  entity-level control tests, 127, 128
  entity-level documentation, 72, 73, 218
  management inquiries, 182, 186
  observation of operations, 223
  reperformance of entity-level controls, 228
  sources for additional information, 60, 61
Accounts and account groups:
  financial statement accounts, 40–44
  significant accounts, identifying, 5, 22 (See also Significant accounts and disclosures)
Activity-level controls:
  business process owners’ monitoring of, 289–293
  management review checklist, 47–51
  project planning, 22, 34
  project schedule, 30
  project scope, 5, 6
  and results of entity-level tests, 248, 249
Activity-level controls, documentation:
  General Work Program, 8–10
  location and access, 29
  review of, approach to, 82–84
  significant transaction or business unit/location, checklist for review of documentation, 85, 86
  techniques, 87–109
  work program, 80, 81
Activity-level controls tests:
  cash receipts and disbursements, example testing program for, 271–274
  computer application controls, 246–248
  design considerations, 245–250
  and entity-level test results, 248, 250
  guidelines for testing, 245–252
  observation, 251, 252
  payroll, example testing program for, 275–278
  purchases and expenditures, example testing program for, 267–270
  reconciliations, 251
  revenue, example testing program for, 262–266
  testing program, 261–278
  transactions, 250, 251
  types of tests, 250–252
walkthroughs, 250, 253–260
American Institute of Certified Public Accountants (AICPA):
  Practice Issues Task Force Alert 2000–2, Quality of Accounting Principles—Guidance for Discussions with Audit Committees, 61
  Statement on Auditing Standards No. 61, Communication with Audit Committees, 60
  Statement on Auditing Standards No. 70 (See Type 2 SAS No. 70 reports)
Antifraud programs and controls:
  audit committee inquiries, 195, 196, 199
  board member inquiries, 190, 192
  employee inquiries, 203, 206
  entity-level control documentation, 28, 216, 218
  entity-level control effectiveness, 143, 159
Application controls, 93, 233, 234, 246–248, 251
Assertions, 5, 89, 99, 101, 104, 107, 279, 281, 283, 286, 287
Assets, 42, 290, 293
Audit committee:
  accounting policies, knowledge of, 127, 128
Audit committee (Continued)
accounting policies selection and application inquiries, 73, 194, 195, 198
antifraud inquiries, 195, 196, 199
charter, 27
effectiveness, 28
entity-level control effectiveness, 143
entity-level control tests, 122
entity-level tests of operating effectiveness, inquiry note sheets, 193–199
inquiries, entity-level tests of operating effectiveness, 193–199
and objectivity of team members, 33
oversight, inquiries on, 195, 198, 199
Practice Issues Task Force Alert 2000–2, Quality of Accounting Principles — Guidance for Discussions with Audit Committees, 61
SAS 61, Communication with Audit Committees, 60
Auditors, external:
coordination with, general work program, 7, 8, 10, 11, 13
internal control services, 4
management representations, example letter, 16, 301, 302
and project planning, 7, 8
walkthroughs, 254

B
Board of directors:
inquiries, 187–192
oversight, entity-level control tests, 122
small business checklist, 136, 137

Boundary control objectives, 91, 93
Business processes. See Transactions/business processes
Business units or locations: checklist for review of documentation, 85, 86
documentation of internal controls, 8
multiple business units/locations, form for project planning,
22–25
project scope, 6

C
Cash receipts and disbursements, testing program example, 271–274
CD-ROM instructions, 393, 394
Centralized processing and controls:
documentation of internal control, 8
and project scope, 5
Change management, 179
Changes to internal control, 16, 45, 46
Committee of Sponsoring Organizations of the Treadway Commission (COSO), See COSO
Communication. See also Information and communication
control environment policies, 68
corporate culture, 177
entity-level control effectiveness, 143
with external auditors, 7, 8
letters (See Letter examples)
management inquiries, 179
project team, 18
Communication with Audit Committees, 60

Computer application controls. See Application controls
Consultants, letter to management, 297–300
Control deficiencies:
corrective action, 14–16, 46, 49–51, 62, 65, 82, 84
identification of, 50, 107
management inquiries, 178
reporting, 7, 11, 78
significance of, 108
summary of, 66, 81, 85
and testing exceptions, 14
Control environment:
audit committee inquiries, 194, 197
board member inquiries, 188–191
COSO Internal Control Integrated Framework, Chapter 2, 60
employee inquiries, 201, 202, 204, 205
documentation, 66–68
entity-level control effectiveness, 120–123, 143
entity-level controls, 28
entity-level controls, documentation, 66–68
internal control documentation, summary table, 63
management inquiries, 177–179, 183
project scope, 21
small business checklist, 136
testing exceptions, 123, 124
Control testing exceptions:
accounting principles, 128–132
corporate culture, 177
documentation, 123, 124
IT general controls, 132, 133
monitoring, 125–127
nonroutine transactions, 133, 134
period-end financial reporting, 127, 128
risk assessment, 124, 125
Corporate culture:
audit committee inquiries, 194
board member inquiries, 188, 189
employee inquiries, 201
employee survey, 208–212
entity-level control tests, 120, 121
management inquiries, 177
survey of employees, example, 207–214
Corroborating information, 249, 253, 255, 259
COSO:
control deficiencies, 289, 290
and documentation of internal controls, 87, 101
entity-level controls, testing, 118
Internal Control — Integrated Framework, 53, 60, 304

D
Depreciation, 92
Detective controls, 92
Disclosures, 55, 56
Documentation of internal control:
activity-level controls, 8–10, 29, 80–109
completeness, 8, 59, 62, 63, 80, 82, 83
currency, 8, 9, 59, 62–64, 80, 82, 83
entity-level controls, 8, 9, 27–29, 59–79, 215–219
general work program, 8–12
senior management review checklist, 49, 50

E
Emerging Issues Task Force, EITF 00–1, 55
Employees:
inquiries, entity-level tests of operating effectiveness, 200–206
letter to in advance of survey, 207, 208
survey of corporate culture and personnel policies, example, 207–214
survey results, evaluation of, 212–214
Entity-level controls:
management review checklist, 47–51
project schedule, 30
project scope, 5
project scope checklist, 21, 22
Entity-level controls, documentation:
checklist for review of, 66–79
documentation of internal controls, 8, 9
documentation sources, 27–29
inspection of, 215–219
review of documentation, overall approach, 62–65
review of documentation, work program for, 59–61
Entity-level controls, reperformance:
index to tests for, 225, 226
worksheet for documenting, 227–229
Entity-level controls, testing tools:
control effectiveness, work program for testing, 143–170
COSO framework, mapping to, 118
documentation hierarchy, 116, 117
documentation of performance of controls, worksheet to document inspection of, 217–219
documentation of tests, 115–116
employee survey, 207–214
extent of tests, 116
index to tests, inquiries and surveys, 171–175
index to tests, inspection of documentation, 215, 216
index to tests, observation of operations, 220, 221
index to tests, reperformance of controls, 225, 226
IT general control effectiveness, planning and review of scope of tests, 235–240
IT general control effectiveness, work program for reviewing report on, 230–234
IT general controls review, work program, 241–244
nature and timing of tests, 116
observation of operation of controls, worksheet for documenting, 222–224
observations and conclusions, summary of, 116, 119–134
operating effectiveness, audit committee member inquiries, 193–199
operating effectiveness, board members inquiry note sheets, 187–192
operating effectiveness, employee inquiries, 200–206
operating effectiveness, management inquiry note sheets, 176–186
performing tests, 115
planning, 115
reperformance of controls, worksheet for documenting, 227–229
small businesses, checklist, 135–142
Estimation transactions, 5, 6, 40
Events versus transactions, 91, 92
Exceptions. See Control testing exceptions
External auditors. See Auditors, external

F
Financial Accounting Standards Board Interpretations, FIN 46, 55
Financial reporting:
executive officer responsibility, 47
inquiries, 46
internal control information sources, 20
Internal Control over Financial Reporting and Disclosure in Exchange Act Periodic Reports, 303, 308–384
management reports on effectiveness of internal control, 303, 304
management’s report on internal control, checklist, 52–56
Financial reporting, period-end:
control testing exceptions, 127, 128
entity-level control effectiveness, 143
entity-level control tests, 126, 127
entity-level controls, 21, 28, 40, 71, 72
management inquiries, 181, 182, 186
Financial statements, 182
Flowcharts:
example, 93–98
strengths and weaknesses of for documenting activity-level controls, 90
tips for flowcharting, 90–93
use of for designing documentation for routine transactions, 87–89
Form 10-K, 20, 55, 56, 249
Form 10–KSB, 36, 55
Form 10–Q, 20
Fraud, 15. See also Antifraud programs and controls

G
General work program:
instructions, 3
project planning form, 4–16
purpose, 3
Human resource (HR) policies:
management inquiries, 178
small business checklist, 138
Information and communication:
audit committee inquiries, 194, 197
board member inquiries, 189, 191
employee inquiries, 202, 205
management inquiries, 179, 184
small business checklist, 140–142
Information sources, 20
Information storage and retrieval, 92, 93
Information Systems Audit and Control Association, 61
Information Technology Governance Institute, 61
Information technology (IT). See IT entries

H
Inquiries and surveys, entity-level controls:
audit committee members, 193–199
board member inquiries, 187–192
board members, 187–192
changes to internal control, identifying, 45, 46
employee inquiries, 200–206
employee survey, 207–214
instructions, 171
management, 172–186
Inquiries and walkthroughs, activity-level controls, 250, 255–257
Internal control, identifying changes to, 45, 46
Internal control information sources, 20
Internal Control Integrated Framework. See COSO
Internal Control over Financial Reporting and Certification of Disclosure in Exchange Act Periodic Reports, 303
Internal control testing programs:
entity-level controls (See Entity-level controls, testing tools)
IT Control Objectives for Sarbanes-Oxley, 61
IT general control effectiveness:
application controls, 233, 234, 246–248, 251
planning and review of scope of tests for, 235–240
work program for reviewing report on, 230–234
IT general controls:
entity-level control tests, 129–133
planning scope of tests, use of matrix for, 108, 109
work program for performing review, 241–244
IT specialists, 230–233, 235, 248

L
Letter examples:
consultants letter to management, 297–300
letter to employees in advance of employee survey, 207, 208
management representations, 301, 302
subcertification letter, 305, 306
Liabilities and equity, 43

M
Management:
query note sheets, entity-level tests of operating effectiveness, 176–186
interviews, summary of, 172–175
report on internal control effectiveness, checklist for preparation of, 52–56
reports on effectiveness of internal control over financial reporting, example, 303, 304
representations for external auditor, example letter, 301, 302
senior management review checklist, 47–51
small business checklist, 137
Material weakness, 15, 16, 50, 51, 53, 54, 304
Matrixes:
examples, 103–109
strengths and weaknesses of for documenting routine activity-level controls, 102
tips for preparing, 103
use of for designing documentation for routine transactions, 87, 88, 102
Monitoring of internal controls:
business process owners, 289–293
entity-level control effectiveness, 143
entity-level control tests, 125, 126
management inquiries, 180, 184
small business checklist, 142
Multiple business units/locations:
form for project planning, 22–25
Narratives:
strengths and weaknesses of for documenting routine activity-level controls, 98
tips for preparing, 99–102
use of for designing documentation for routine transactions, 87, 88, 98
Nonroutine transactions, 40
board member inquiries, 190, 192
entity-level control effectiveness, 143
entity-level control tests, 133, 134
entity-level controls, checklist for review of documentation, 79
management inquiries, 180, 181, 185
project scope, 5, 6
Observation of activity-level control procedures, 251, 252
Observation of operations:
index to tests for, 220, 221
worksheet for documenting, 222–224
Observations and conclusions, entity-level control effectiveness:
control environment, 120–122
control testing exceptions, 123–134
instructions for form, 119
purpose of form, 119
Operating effectiveness, General Work Program form, 11–15
Organizational structure, 178
entity-level control tests, 121
management inquiries, 178
small business checklist, 137, 138
Payroll, testing program example, 275–278
PCAOB Auditing Standards:
No. 2, 31, 40, 89, 101, 115, 254, 301
No. 5, 16, 21, 87, 105, 107
PCAOB Staff Questions and Answers (June 23, 2004), 24
Personnel policies:
employee inquiries, 202
employee survey, 208–212
entity-level control tests, 121, 122
management inquiries, 178
survey of employees, example, 207–214
Practice Issues Task Force Alert 2000–2, Quality of Accounting Principles —
Guidance for Discussions with Audit Committees, 61
Preventive controls, 92
Processes versus controls, 101
Project planning:
- entity-level control operating effectiveness tests, 145, 146
- General Work Program, 3–16
- senior management review checklist, 48, 49

Project planning summary:
- business processes, mapping to significant accounts and disclosures, 40–44
- changes to internal control, identifying, 45, 46
- instructions, 17
- internal control documentation sources, 27–29
- internal control information sources, 20
- project schedule, 7, 29, 30
- project scope, 5–7, 21–27
- project team (See Project team)
- purpose, 17
- significant accounts and disclosures, worksheet for determining and documenting, 34–39

Project team:
- competence and objectivity, 4, 19, 20
- competence and objectivity, checklist, 31–33
- members and responsibilities, 18, 19

Public Company Accounting Oversight Board (PCAOB):
- Auditing Standards (See PCAOB Auditing Standards)
- Staff Questions and Answers, 24
- Purchases and expenditures, testing program example, 267–270

Q
- Quality of Accounting Principles — Guidance for Discussions with Audit Committees, 61

R
- Real estate investment trust (REIT) flowchart example, 93–98
- Reconciliations, testing, 246, 251
- Regulation S-B, 303
- Regulation S-K, 303
- Regulatory agency reports, 16
- Reperformance of entity-level controls:
  - index to tests for, 225, 226
  - worksheet for documenting, 227–229
- Reports:
  - IT general control effectiveness, 230–234
  - management reports on effectiveness of internal control over financial reporting, example, 303, 304
  - management’s report on internal control, checklist, 52–56
- Type 2 SAS No. 70 (See Type 2 SAS No. 70 reports)
- Revenue, testing program example, 262–266
- Revenues and expenses, 44
- Review and evaluation of findings, management review checklist, 50, 51

Risk assessment:
- board member inquiries, 189, 192
- entity-level control effectiveness, 143
- entity-level control tests, 123, 124
- IT risk indicators, 241
- IT risk significance, evaluating, 242–244
- management inquiries, 179, 184
- small business checklist, 138–140
- Routine transactions, 5, 6, 40
documentation techniques, 87–109

S
- SAS 70 Type II reports. See Type 2 SAS No. 70 reports
- Securities and Exchange Commission (SEC):
  - Internal Control over Financial Reporting and Certification of Disclosure in Exchange Act Periodic Reports, 303, 308–384
- Senior management review checklist, 47–51
- Service organization controls:
  - documentation of internal controls, 8
  - project planning form, 25–27
  - and project scope, 6
- Type 2 SAS No. 70 report, review checklist, 282–288
- Type 2 SAS No. 70 report, work program for review of, 279–281

Significant accounts and disclosures:
- accounts and account groups, identifying, 5, 22
- activity-level controls, 22, 34
- business processes, mapping to, 40–44
worksheet for determining and documenting, 34–39

Significant transaction or business unit/location, checklist for review of documentation, 85, 86

Small businesses, checklist for entity-level controls, 135–142

Software, evaluating:
checklist, 110, 111
documentation of internal controls, 9, 10

Statements on Auditing Standards:
SAS 61, Communication with Audit Committees, 60
SAS 70 (See Type 2 SAS No. 70 reports)

Subcertification:
business process owners, 7
letter, example, 305, 306

Surveys. See Inquiries and surveys, entity-level controls

T
Testing. See Activity-level controls tests; Entity-level controls, testing tools

Transactions/business processes:
documentation location and access, 29
events distinguished, 91, 92
monitoring of control effectiveness, process owners’ perspective, 289–293
nonroutine (See Nonroutine transactions)
routine transactions, documentation techniques, 87–109

significant accounts and disclosures, mapping to, 40–44
subcertifications, 7
tests of, 250, 251
types of transactions, 40
Type 2 SAS No. 70 reports, 26, 27
general work program form, 12

V
Variable-interest entities (VIE), 6, 55

W
Walkthroughs:
documentation of procedures, 257–260
general work program form, 10
guidelines for, 250, 253–255
inquiries, 255–257
CUSTOMER NOTE: IF THIS BOOK IS ACCOMPANIED BY SOFTWARE, PLEASE READ THE FOLLOWING BEFORE OPENING THE PACKAGE.

This software contains files to help you utilize the models described in the accompanying book. By opening the package, you are agreeing to be bound by the following agreement:

This software product is protected by copyright and all rights are reserved by the author, John Wiley & Sons, Inc., or their licensors. You are licensed to use this software on a single computer. Copying the software to another medium or format for use on a single computer does not violate the U.S. Copyright Law. Copying the software for any other purpose is a violation of the U.S. Copyright Law.

This software product is sold as is without warranty of any kind, either express or implied, including but not limited to the implied warranty of merchantability and fitness for a particular purpose. Neither Wiley nor its dealers or distributors assumes any liability for any alleged or actual damages arising from the use of or the inability to use this software. (Some states do not allow the exclusion of implied warranties, so the exclusion may not apply to you.)