Sarbanes Oxley
Section 404 compliance

Management Testing:
Principles & Guidelines
SOX s404 Management Testing

Agenda

- SOX Project Plan
- Why do management test?
- Testing Concepts
- Sampling Theory
- Performing tests – Test plans
- Documenting & Evidencing test results
- Evaluation of test results & Dealing with exceptions
- Performing & Documenting tests – A practical example
- Questions & Answers
SOX Project Plan
SOX Project Plan

- Scope
- Document
- Test
- Conclude
- Remediate
- Communicate
- Manage
Why do management test?
Why do management test?

A company is required to include in its annual SEC filing (Form 20-F):

- Conclusion on the effectiveness of disclosure controls and procedures,
- Management’s report on internal control over financial reporting, including its assessment of the effectiveness of the company’s internal control over financial reporting as of the year-end,
- Report of the independent public accounting firm on the effectiveness of the company’s internal control over financial reporting as of the year-end,
- Disclosure of any changes in the company’s internal control over financial reporting during the period covered by the annual report.

Management **is not** permitted to conclude that its internal control over financial reporting is effective, if there are **one or more material weaknesses**.

Additionally, the SEC staff have indicated management must not state that its internal control over financial reporting is effective with “certain qualifications” or “exceptions” or express similar positions.
Why do management test?

- **“First” phase of SOX projects:**
  - Documentation of actual processes and controls
  - Evaluation of design mainly through walkthroughs

- **“Second” phase of SOX projects:**
  - Testing to ensure there is a sufficient basis to support the necessary assertion
  - Verification of documentation phase
  - Identification of any further deficiencies (Design & Operating Effectiveness)
Testing Concepts: Risk Assessment

- A risk-based approach is important so that:
  - we determine the correct key controls
  - Key controls are designed effectively
  - we identify the appropriate timing and attributes for testing.

- Risk assessment for testing purposes is based on the risk assessment prepared by the documentation teams per location.

- Two sections -> inherent risk probability & impact on group Fin. Statements.

- This risk assessment should be considered throughout the whole of the end-to-end process for test planning and performance.
Testing Concepts: Step by step Methodology

1. Determine **what** to test
2. Determine **when** to test
3. What testing **techniques** will you use?
4. Design the **test plan**
5. Identify the **sample**
6. Select the **sample size**
7. **Performance** of the testing
8. **Documenting** and evidencing the results
9. **Evaluation** of testing results
10. Dealing with **exceptions**
Testing Concepts: What to test (object of testing)

- Only key controls need to be tested – these are controls that provide comfort over financial assertions associated with significant accounts.
- Top down review of the identified key controls needs to be performed before test planning commences – do they mitigate all relevant risks?
- Only controls that are considered to be designed effectively are ready for testing.
- Ensure any assessment of key controls considers the end-to-end process and impact on the financial line items.
Testing Concepts: What to test (object of testing)

Need to consider all types of controls:

- Entity Level Controls (ELCs)
- General Computer Controls (GCCs or ITGCs)
- Automated application controls
  - Embedded within an application
  - System generated reports
  - End user computing
- Manual controls
Testing Concepts: What to test (object of testing)

- Internal Controls
  - Manual Controls
    - Manual non-IT dependent Controls
  - Application Controls
    - Manual IT dependent Controls
    - Automated Controls
      - Reliance On GCC
  - General Computer Controls
- Company Level Controls
Testing Concepts: When to test (timing of testing)

*Maximise early testing and minimize late testing*

The rationale behind this principle is two-fold:

- Early testing reduces the risk of late identification of ineffective controls
- Early testing reduces the testing workload at year-end

Time period must be sufficient to determine operating effectiveness as of the end of the fiscal year
Testing Concepts: When to test (timing of testing)

- Need to determine what evidence is required for the remaining period.
- Consider the significance of the specific controls that were tested, the results of that testing and the length of the remaining period.
- No specific guidance on the sample split – test planning teams need to use their judgement.
- All key controls should have some testing performed in the 3rd or 4th quarter.
- For automated controls testing can be performed earlier in the year, with some inquiry performed as update testing – this depends on the successful testing of GCCs.
Testing Concepts: When to test (timing of testing)

- There are a number of factors to consider when we determine when to test controls:
  - How long will it take to remediate any potential control issues?
  - What impact will the timing have on the extent of update testing required?
  - What is the extent of remediation planned or currently taking place?
  - What is the frequency of the control?
  - When is it most efficient for this work to be performed?
  - How does this fit in with the external auditor timeline?
Testing Concepts: How to test (nature of testing)

- Test technique is the form that the test procedure will take.

- 4 basic techniques
  - Inquiry
  - Observation
  - Examination
  - Re-performance

- Level of assurance obtained and time/cost varies considerably.

- Combining two or more of test techniques can provide greater assurance than using only one technique.
Testing Concepts: How to test (nature of testing)

Inquiry alone will not provide sufficient evidence of operating effectiveness; neither will a walkthrough alone.

Low Risk
- Inquiry
- Walkthrough
- Observe
- Examine
- Reperform

High Risk
Inquiry

- Ascertain whether a control is in place by oral questions
- Weakest type
- Should be followed by another test
- Should inquire of more than one person (i.e., corroborate)
- Documentation considerations – who, when, where, what, how

Inspection/Examination

- Easiest way of obtaining evidence of the existence of assets, such as cash and inventory
- Inspect documentation and/or reports
- Provide detail to be able to duplicate test process and verify result

Observation

- More reliable than inquiry
- Observe employee performing the control procedure
- Tour the facilities to gain an understanding of the business
- May be necessary to follow up with another test
- Document who, when, what was observed and the outcome

Re-performance

- Perform reconciliation using independent data sources
- Most reliable testing method
- Perform independent calculations that mimic the system
- Enter hypothetical transactions to the client’s test system and compare expected results to actual results
- Documentation should be in sufficient detail to understand exactly what was done, the results obtained, and conclusions drawn.
Testing Concepts: How to test *automated controls*

The term “automated control” may refer to any of the following:

- Automated application control
- Automated interface
- Automated accounting processes
- System-generated information
Testing Concepts: How to test *automated controls*

- Usually identified by the business. But will often need to be tested by IT.
- Need only test once – if it works properly once, it works properly all the time.
- Some automated controls require additional manual controls in order to be effective.
- Can be complex to test.
- When relying on automated controls, relevant ITGCs must be tested to satisfy that the automated controls can be relied upon.
Testing Concepts: How to test ELCs (CLCs)

“The consideration of entity-level controls (e.g. controls within the control environment) may influence management’s determination of the evidence needed to sufficiently support its assessment of internal control over financial reporting. E.g. management’s judgment about the likelihood that a control fails to operate effectively may be influenced by a highly effective control environment and thereby impact the evidence evaluated for that control.”

SEC Interpretive Guidance regarding management’s report on ICFR (2007), p.27

Primarily (softer COSO components):

- Monitoring
- Information & Communication
- Risk Assessment
- Control Environment
Testing Concepts: How to test ELCS – control area examples

Human Resources, including background checks
Enterprise Risk Management
Audit Committee
Internal Audit
Whistleblower
Code of Conduct
IT Environment & Organisation
Self Assessment
Oversight other than Audit Committee (Board, Senior Management, Compensation Committee)
Accounting Policies and Procedures
Testing Concepts: How to test *ELCs* – “EXCUSE ME” tests

- **EXistence** – determine whether the relevant process or program is present within the organization
- **Communication** – the existence of a process or program needs to be made aware to the covered people
- **Understanding** – to be effective the process or program must be understood by the covered people, including their roles and responsibilities
- **Support** – to facilitate an effective implementation a process or program must be supported
- **Monitoring** – to ensure the quality of the process of program it must be monitored.
- **Enforcement** – in order for the process or program to be effective it must be enforced by management
Testing Concepts: How to test controls performed by third parties

- Mechanisms exist for management to obtain comfort over processes operated by third parties – SAS70 reports, Agreed Upon Procedures, Input/Output Controls.
- Each of these methods of assurance need to be reviewed and tested for appropriateness.
- This may require specialist assistance.
Sampling Theory: Determine the population

- The cumulative total of the number of times the control is expected to operate during the financial year.
- Can use the frequency of the key control as guidance.
- For transaction-based manual controls, an estimate should be made based on historical data.
Sampling Theory: Select sample size – process to follow

- What type of control is it?
- If automated, are ITGCs effective?
- What is the frequency of the control?
- How complex is the control?
- How much judgement is required to perform the control?
- Who performs the control? How competent are they?
- How strong is the control environment?
- What is the importance of the control?
- Do other controls act as compensating / additional controls over the same financial assertions for that significant account / line item?
### Sampling Theory: Select sample size – manual controls

<table>
<thead>
<tr>
<th>Frequency of control</th>
<th>Number of items to test</th>
<th>Factors to consider when deciding on extent of testing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual</td>
<td>1</td>
<td>• Complexity of the control</td>
</tr>
<tr>
<td>Quarterly</td>
<td>2</td>
<td>• Significance of judgment in control operation</td>
</tr>
<tr>
<td>Monthly</td>
<td>2 to 5</td>
<td>• Level of competence necessary to perform</td>
</tr>
<tr>
<td>Weekly</td>
<td>5, 10, 15</td>
<td>• Frequency of operation</td>
</tr>
<tr>
<td>Daily</td>
<td>20, 30, 40</td>
<td>• Impact of changes</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Importance of the control</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Addressing multiple financial assertions</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Period end detective controls</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Only one control covering assertion</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Consider the walkthroughs and limited testing</td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>performed</strong>: if these have not revealed issues and the sub-process is considered lower risk, sample sizes can be selected from the lower end of the testing range</td>
</tr>
</tbody>
</table>

Multiple times / day  25, 30, 45, 60
Sampling Theory: Select sample size – transaction-based manual controls

<table>
<thead>
<tr>
<th>Population size</th>
<th>Sample size guidance to follow per previous table (Minimum number of items to be tested for remedied controls)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Annual</td>
</tr>
<tr>
<td>2-4</td>
<td>Quarterly</td>
</tr>
<tr>
<td>5-12</td>
<td>Monthly</td>
</tr>
<tr>
<td>13-52</td>
<td>Weekly</td>
</tr>
<tr>
<td>53-250</td>
<td>Daily</td>
</tr>
<tr>
<td>&gt; 250</td>
<td>Multiple times / day</td>
</tr>
</tbody>
</table>
### Sampling Theory: Sample size of remedied controls

<table>
<thead>
<tr>
<th>Frequency of control</th>
<th>Remedied control: Minimum time period / number of times of operation as of the year-end</th>
<th>Remedied control: Minimum number of items to be tested</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quarterly</td>
<td>2 quarters</td>
<td>2</td>
</tr>
<tr>
<td>Monthly</td>
<td>2 months</td>
<td>2</td>
</tr>
<tr>
<td>Weekly</td>
<td>5 weeks</td>
<td>2</td>
</tr>
<tr>
<td>Daily</td>
<td>20 days</td>
<td>10</td>
</tr>
<tr>
<td>Multiple times per day</td>
<td>25 times over a multiple day period</td>
<td>25</td>
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</tbody>
</table>
Sampling Theory: Select sample size – automated controls

• Testing one item may generally be sufficient – but remember there are a number of attributes within an automated control.

• When relying on automated controls, ensure General Computer Controls are being properly tested so as to be satisfied that the automated controls can be relied upon.
Select the sample (Example – Automated Control)

CONTROL ACTIVITY

The system blocks purchase orders being raised over a certain total value (monetary) as validated against the authorised purchase requisition / agreed budget. This control is a programme procedure within the ERP system and is maintained through configurable system tables. Only authorised individuals have access to change the configuration.

SAMPLE SIZE SELECTION

As this is an automated control, a sample of one should be taken. It should be tested as early as possible in the test period. It is dependent upon the effective design and operation of GCCs.
Select the sample (Example – Transaction Based Manual Control)

CONTROL ACTIVITY

All tariff changes (approx 260 a year) have to be reviewed and authorised by the Head of Pricing. This review includes an assessment of the terms and conditions, impact, effective dates and control assessment. The Head of Pricing signs off the completed tariff change form (TCF).

SAMPLE SIZE SELECTION

There are approximately 260 tariff changes a year therefore need to treat this control as if multiple times per day. This results in our sample size being between 25 to 60 items.

We would need to perform a risk assessment on the control to determine exactly where in the band the sample would fall.
Select the sample (Example – Manual Control)

CONTROL ACTIVITY

On a monthly basis the employee data change file is reviewed by the HR manager and authorised. The changes are then uploaded into the ERP system. The HR manager concentrates their review on those changes that will have a financial impact (bank details, paid amount, one off bonuses, etc).

SAMPLE SIZE SELECTION

This control operates on a monthly basis therefore the sample should be in the range of 2-5.

We would need to perform a risk assessment on the control to determine exactly where in the band the sample would fall.
Performing tests – Test plans
Performing tests – Test plans

- The following tasks need to be completed when developing test plans:
  - Determine control operation date
  - Determine test technique
  - Determine sampling method
  - Design test activities and procedures
  - Define the population
  - Select sample size
  - Justify sample size selection
  - Determine planned test date
  - Determine planned update test date
Performing tests – Test plans

Using the example control matrix, let us consider each section in turn:

<table>
<thead>
<tr>
<th>Control Operation Date</th>
<th>Test Technique</th>
<th>Selection method</th>
<th>Test Activity</th>
<th>Population</th>
<th>Sample Size</th>
<th>Justification of Sample Size Selection</th>
<th>Planned Test Date</th>
<th>Planned Update Test Date</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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<td>Description of the test activities (steps) to be performed. Description of method used to select sample.</td>
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<td>Why e.g. for a daily control a sample size of 20 instead of 40 was selected?</td>
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</tbody>
</table>
Control operation date

- Control matrices depict the overall status of key controls – current & remedied ones.
- The date of setting the control into operation is important, as this will impact the period the sample will be selected from.

Determine test technique

- As previously discussed, select the test technique that is required to assess the operation of a control (factors affecting the selection: risk assessment, risk of control breakdown, complexity/subjectivity in the performance of the control, significance to the control environment/overall comfort, etc).
- Need to use professional judgement.
- Remember the techniques required for automated controls and ELCS.
Decide selection technique

• The way in which the sample transactions should be selected.

• 4 methodologies – Haphazard, Judgemental, Systematic and Random
  • Haphazard – select sample randomly and without conscious bias
  • Judgemental – select sample on pre-determined criteria
  • Systematic – select sample by a pre-determined interval
  • Random – select sample by the use of a random number generator
Decide selection technique

• In addition need to consider:

  – **Process coverage** – ensure the sample covers all circumstances where the control might be applied differently, because of process variations, different groups performing the control, etc.

  – **Time frame** – pick a sample spread across a reasonable timeframe during the fiscal year to ensure that the control is operating consistently across time.

  – **Variety of results** – ensure the sample covers the critical outcome, including the “normal” and “unusual” situations.
Design test activities and procedures

• Describe test activities and procedures to be performed using the selected testing techniques.

• Will be dependent on the nature of the controls.

• Need to be specific on the exact nature of the test activities.

• Need to consider:

  Performance, Understandability, Control Operation, Evidence available and required, Inputs / Outputs, Accountability, Error Handling, Process.
Design test activities and procedures - Examples

• How would you test the following controls? (discussion)
  – Manual review and authorisation of all price changes
  – Whistleblower hotline
  – Automatic system based 3 way match of PO, Invoice and GRN
  – Password change controls
  – Manual review of system generated aged debt report
Determine planned test date

- When was the control set into operation?
- How long will it take to remediate a potential control issue?
- What impact will the timing have on the extent of update testing required?
- What is the extent of remediation planned or currently taking place?
- When is it most efficient for this work to be performed?

REMEMBER THE IMPACT THAT THIS DECISION WILL HAVE ON THE PLANNING OF TEST RESOURCES
Determine planned update test date

• Gain comfort that the controls are operating at year-end.

• Majority of sample size will be tested early, but a proportion will be tested as part of the update testing.

• Judgement is needed to determine the split of sample size
  – Nature of control,
  – Importance,
  – Possibility of change.

• All key controls should have some testing performed on Q3 and Q4 data.

• Automated controls and GCCs can be performed early with inquiry and observation validating the operation at year-end.
Review of test plan per location

- Assess all test plans per transaction and significant account.
- Assess total test effort across all key controls.
- If the risk assessment has identified high impact on financial statements, high inherent risk and considerable judgement then the testing needs to be more extensive.
- Challenge is to balance the planned test effort per location with the overall risk assessment per location.
- This assessment will impact the testing techniques used and sample sizes.
Test plans – Exercise

In your teams, for the controls assigned, design test plans considering the techniques to use, the sample method and the detailed test activities and procedures.

Present back to the group (20 minutes).
Documenting & Evidencing test results
Documenting & Evidencing test results

• The documentation of testing i.e. the evidence of testing performed will provide support for management’s sign off.

• This documentation will be reviewed by external auditors and possibly by the Regulators.

• Always keep in mind the re-performance standard.

• Remember to document the basis for your sample selection.

• Quality results and conclusion evidence is dependent on the quality of your test plan and activities.

• Physical evidence/electronic evidence.

• Real time observations.
Documenting & Evidencing test results

In summary:

- Ensure tests are well documented
- Reference documents examined and items selected for testing
- Be specific to allow re-performance
- Document all exceptions clearly
- Document suggested remediation measures based on discussion
- Use good professional scepticism
- “Trust, but verify”
Evaluation of test results & Dealing with exceptions
Evaluation of test results & Dealing with exceptions

• An exception exists when there is not sufficient objective and persuasive evidence to prove that:
  – The control is operating on a **timely** basis
  – The control is operating for the **entire** period
  – The control is operating for **all** the transactions
  – The person performing the control possesses the necessary **authority / qualifications**

• If a key control is not operating effectively, this is an internal control deficiency.

**ALL DEFICIENCIES NEED TO BE REMEDIED & LISTED ON THE SAD!**
Evaluation of test results & Dealing with exceptions

The “Accept / Reject” methodology is used to conclude on the operational effectiveness of controls

- **Accept** = control is effective because the test yields no or negligible errors

- **Reject** = control is ineffective because the test yields more than negligible errors

If the test is initially rejected additional testing may be carried out to achieve the test objective
Evaluation of test results & Dealing with exceptions

• All exceptions should be treated as deficiencies in cases of:
  – Manual controls (less than daily frequency)
  – Automated controls

• Additional testing may be required to decide if an exception is a deficiency in cases of *manual controls operating at least daily*, but only when:
  – One exception is observed in the initial sample, and
  – The exception does not indicate systematic error.

In such cases, double your sample and continue testing.
Evaluation of test results & Dealing with exceptions

- Impact of identified control deficiencies to remediation:
  - Each control deficiency must be linked to a remediation action,
  - A reference must be inserted in the extended control matrix,
  - Test performers should be able to suggest remediation,
  - The control owner is responsible for completing the final remediation actions,
  - The SAD must be updated with the planned remediation date,
  - Once remediation is complete, the documentation should be updated and the control re-tested. This should be documented on a new test work document.
Performing & Documenting tests – A practical example
Performing & Documenting tests – A practical example

1. Start off with the Control Matrix – Test Plan

<table>
<thead>
<tr>
<th>#</th>
<th>Control Objective</th>
<th>Risk</th>
<th>Control Activity</th>
<th>System</th>
<th>Control Nature (Preventive / Detective)</th>
<th>Control Type (Manual / Automated)</th>
<th>Frequency</th>
<th>Key Control?</th>
<th>Control Maturity (1-5)</th>
<th>Fraud Prevention</th>
</tr>
</thead>
<tbody>
<tr>
<td>7</td>
<td>New hires are fully and accurately input in the ERP HR module. All new hires entered in the system are valid.</td>
<td>Incomplete / inaccurate / invalid entries of new staff in the ERP HR module.</td>
<td>Comparison of data entered in the ERP HR module (Hiring, Placement &amp; Studies data sheets of the electronic master file) with information in physical employee files. ERP data sheets are printed and signed by the Head of the New Hires Dept, as proof of review. Print-outs are filed in the physical employee files.</td>
<td>Oracle ERP HR module</td>
<td>Detective</td>
<td>Manual</td>
<td>Ad hoc</td>
<td>Key</td>
<td>3 - Standardised</td>
<td>X</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Test Plan</th>
<th>Population</th>
<th>Sample Size</th>
<th>Justification of Sample Size Selection</th>
<th>Planned Test Date</th>
<th>Planned Update Test Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>1/1/2006 Examination</td>
<td>&gt;250</td>
<td>30</td>
<td>The control is not complex. There are other controls that provide comfort over the FSAs addressed. There is no history of identified errors.</td>
<td>Sept 2006</td>
<td>Nov 2006</td>
</tr>
</tbody>
</table>
Performing & Documenting tests – A practical example

2. Based on the Test Plan, proceed to prepare the Test Work sheet

<table>
<thead>
<tr>
<th>Control Operation Date</th>
<th>Test Technique</th>
<th>Selection method</th>
<th>Test Activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>1/1/2006</td>
<td>Examination</td>
<td>Haphazard</td>
<td>Obtain a print-out from the ERP HR module of all new hires since the control operation date. Select a haphazard sample of 25 new employees and obtain their physical files from the New Hires Dept (please note that 5 further items will be tested as part of the update testing). Examine if: a) Print-outs of the 3 data sheets from the ERP HR (Hiring, Placement, Studies) are included in the files. b) Data in the ERP print-outs agrees with supporting documents in the files (e.g. hiring &amp; placement decisions, copies of university or other degrees, etc). c) Print-outs are signed as proof of review and approval by the Head of the New Hires Dept.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Population: &gt;250, Sample Size: 30, Justification of Sample Size Selection: The control is not complex. There are other controls that provide comfort over the FSAs addressed. There is no history of identified errors.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Planned Test Date: Sept 2006, Planned Update Test Date: Nov 2006</td>
</tr>
</tbody>
</table>

Sample information (allowing for test re-performance)
### Performing & Documenting tests – A practical example

3. Select the sample and document the relevant information

<table>
<thead>
<tr>
<th>Sample item reference number</th>
<th>Employee KAM (HR code number)</th>
<th>Date of hire</th>
<th>Print-outs of the 3 data sheets from the ERP HR are included in the files</th>
<th>Data in the ERP print-outs agrees with supporting documents in the files</th>
<th>Print-outs are signed as proof of review and approval by the Head of the New Hires Dept</th>
<th>Result per sample item</th>
<th>Comments in case of exception</th>
<th>Conclusion on operating effectiveness</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>141547</td>
<td>12/1/2006</td>
<td></td>
<td></td>
<td></td>
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Performing & Documenting tests – A practical example

4. Perform each test step for each item - select either “yes” or “no” (drop-down list)

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Performing & Documenting tests – A practical example

5. If a “no” answer exists, document it as an exception in the Result column

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Performing & Documenting tests – A practical example

6. Write an explanatory comment for every case of exception that was identified

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<td>No exception</td>
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<td>Yes</td>
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<td>Yes</td>
<td>No exception</td>
<td></td>
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</tr>
</tbody>
</table>
Performing & Documenting tests – A practical example

7. Arrive at a Conclusion on the control’s operating effectiveness

A single exception was identified.

a) The control is manual
b) It operates over 250 times / year (corresponds to “multiple times / day”)
c) The exception appears to be isolated

→ A conclusion on the control’s operating effectiveness cannot be reached, until additional testing is performed.
Performing & Documenting tests – A practical example

8. Enter the test conclusion in the relevant column (select from the drop-down list)

<table>
<thead>
<tr>
<th>Sample item reference number</th>
<th>Employee KAM (HR code number)</th>
<th>Date of hire</th>
<th>Print-outs from the ERP HR are included in the files</th>
<th>Data in the ERP print-outs agrees with supporting documents in the files</th>
<th>Print-outs are signed as proof of review and approval by the Head of the New Hires Dept</th>
<th>Result per sample item</th>
<th>Comments in case of exception</th>
<th>Conclusion on operating effectiveness</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
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<td>Yes</td>
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<tr>
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<td>Yes</td>
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<td>No exception</td>
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<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>No exception</td>
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<td>Yes</td>
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<td>143088</td>
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<td>3/8/2006</td>
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<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>No exception</td>
<td></td>
</tr>
</tbody>
</table>
Performing & Documenting tests – A practical example

9. Select new sample, conduct the test, and document it in the same way

<table>
<thead>
<tr>
<th>ADDITIONAL TESTING</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sample item reference number</td>
</tr>
<tr>
<td>-----------------------</td>
</tr>
</tbody>
</table>

Suppose a second exception is identified in the extended sample
Performing & Documenting tests – A practical example

10. Document test results in the extended Control Matrix

<table>
<thead>
<tr>
<th>Test Work Reference</th>
<th>Result</th>
<th>Description of exception/deficiency (where applicable)</th>
<th>Conclusion about control operating effectiveness</th>
<th>Remediation Action Plan Reference (where applicable)</th>
<th>SAD Reference (where applicable)</th>
</tr>
</thead>
<tbody>
<tr>
<td>OTE.PA1.1.1-7</td>
<td>Exceptions found</td>
<td>2 cases of exceptions were identified. Both related to print-outs not being evidently reviewed (lack of signature) by the Head of the New Hires Dept. The reason in both cases was identified in that the Head of the Dept was on his annual leave at the time and the control responsibility was not assumed by another competent official.</td>
<td>INEFFECTIVE - Control is rejected</td>
<td>W64</td>
<td>12</td>
</tr>
</tbody>
</table>
Performing & Documenting tests – A practical example

11. Document the deficiency in the Remediation Action Plan and the SAD

<table>
<thead>
<tr>
<th>Ref</th>
<th>Sub-process</th>
<th>Description of Deficiency</th>
<th>Remediation Action Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>The responsibility for the review of new hires data entered in the ERP HR module lies only with the Head of the New Hires Dept. In case of his absence, the control responsibility is not assumed by another competent official.</td>
<td></td>
</tr>
<tr>
<td>W64</td>
<td>OTE.PA1.1.1</td>
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</tr>
<tr>
<td></td>
<td></td>
<td>The Head of the New Hires Dept must delegate the control responsibility to his deputy in case of absence. The deputy’s job description must also be accordingly modified.</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Number</th>
<th>Location</th>
<th>Cycle</th>
<th>Level 1 process</th>
<th>Level 2 process</th>
<th>Level 3 process</th>
<th>Control Activity ID Number</th>
<th>Description of the Control Deficiency</th>
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<tr>
<td>12</td>
<td>OTE</td>
<td>PA</td>
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<td>1</td>
<td>1</td>
<td>7</td>
<td>The responsibility for the review of new hires data entered in the ERP HR module lies only with the Head of the New Hires Dept. In case of his absence, the control responsibility is not assumed by another competent official.</td>
</tr>
</tbody>
</table>
Additional Materials

- SEC Interpretive Guidance regarding management’s report on ICFR (2007)
- PCAOB Auditing Standard 5 (AS 5)
- SEC ([www.sec.gov](http://www.sec.gov))
- PCAOB ([www.pcaobus.org](http://www.pcaobus.org))
Q&A
Thank you!