

Entity level controls – Design/implementation

Entity _____
 Period ended _____

Objective: To document the design and implementation of the following elements of internal control:
 Control Environment Risk Assessment Financial Reporting (part of information systems) Fraud Prevention Monitoring

In smaller entities, there will be less documentation available to support entity level controls. Consequently, the attitudes, awareness and actions of management (owner-manager) will often form the basis for evaluating control design and implementation. Consider the impact of weaknesses identified on the planned audit strategy and procedures.

Control Environment (HB 5141 and CAS 315.14)	Control exists?	Describe the nature of any supporting documentation	What inquiry/observations made to ensure controls were implemented?	Risk mitigated?	Initials W/P ref.
1. Risk: No emphasis is placed on need for integrity and ethical values					
Possible controls (<i>not all need apply</i>): a) Management continually demonstrates, through words and actions, a commitment to high ethical standards. b) Management removes or reduces incentives or temptations that might cause personnel to engage in dishonest or unethical acts. c) A code of conduct or equivalent exists that sets out expected standards of ethical and moral behaviour. d) Employees clearly understand what behaviour is acceptable and unacceptable and know what to do when they encounter improper behaviour. e) Employees are always disciplined for improper behaviour. f) Other (explain).					
2. Risk: Incompetent employees may be hired or retained					
Possible controls (<i>not all need apply</i>): a) Company personnel have the competence and training necessary for their assigned duties. b) Management specifies the requisite knowledge and skills required for employee positions. c) Job descriptions exist and are effectively used. d) Management provides personnel with access to training programs on relevant topics. e) Adequate staffing levels are maintained to effectively perform required tasks. f) Initial and ongoing matching of staff skills to their job descriptions.					

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g) Staff are compensated and rewarded for good performance. h) Other (explain).					
3. Risk: Ineffective management oversight provided by those charged with governance (where applicable)					
Possible controls (<i>not all need apply</i>): a) A majority of board members are independent of management. b) There is appropriate experience, stature and financial expertise on the board (and the audit committee) to provide the necessary oversight. c) Significant issues and other information (financial results, etc.) are communicated to the board in a timely manner. d) The board provides effective oversight over management’s activities. This includes raising difficult questions and pursuing answers. e) The board of directors meets on a regular basis and minutes of meetings are circulated on a timely basis. f) Where an audit committee exists, <ul style="list-style-type: none"> • A charter outlining duties and responsibilities exists. • Discussions take place about the risk of management override and the effectiveness of internal controls over financial reporting. • Deficiencies identified in internal control are addressed on a timely basis. • The scope of activities of the external auditors is reviewed at least annually. g) Other (explain):					

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4. Risk: Management has a poor attitude toward internal controls and/or managing business risks					
<p>Possible controls (<i>not all need apply</i>):</p> <ul style="list-style-type: none"> a) Management demonstrates positive attitudes and actions toward: <ul style="list-style-type: none"> – The establishment and maintenance of sound internal control over financial reporting, (including management override and other fraud), – Appropriate selection/application of accounting policies, – Information processing controls, and – The treatment of accounting personnel. b) Management emphasizes appropriate behaviour to operating personnel. c) Management has established procedures to prevent unauthorized access to, or destruction of assets, documents and records. d) Management analyzes business risks and takes appropriate action. e) Other (explain). 					
5. Risk: Ineffective/inappropriate organizational structure for planning, controlling and achieving objectives					
<p>Possible controls (<i>not all need apply</i>):</p> <ul style="list-style-type: none"> a) There is appropriate organizational structure to facilitate achievement of entity objectives, operating functions and regulatory requirements. b) Management clearly understands its responsibility and authority for business activities and possesses the requisite experience and levels of knowledge to properly execute its positions. c) The entity structure facilitates the flow of reliable and timely information to the appropriate people for planning and controlling activities. d) Incompatible duties are segregated to the extent possible. e) Other (explain). 					

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6. Risk: Unclear lines of accountability/reporting leading to poor decision-making and possible errors in the financial statements					
<p>Possible controls (<i>not all need apply</i>):</p> <ul style="list-style-type: none"> a) There are policies and procedures for authorization and approval of transactions. b) Appropriate lines of reporting exist, appropriate to the entity's size and nature of activities. c) There is a process for assigning ownership of information and who is authorized to initiate or change transactions. d) Job descriptions include control-related responsibilities. e) The board of directors and/or audit committee considers how management identifies, monitors and controls business/financial risks affecting the entity. f) Other (explain). 					
7. Risk: No policies/procedures exist to ensure effective HR management					
<p>Possible controls (<i>not all need apply</i>):</p> <ul style="list-style-type: none"> a) Management establishes/enforces standards for hiring the most qualified individuals, with emphasis on education, prior work experience and evidence of integrity and ethical behaviour. b) Recruiting practices (particularly for employees with access to assets susceptible to misappropriation), include in-depth employment interviews, background checks and presentations on entity's culture, expected behaviours and operating style. c) Job performance is periodically evaluated, reviewed with each employee and appropriate action taken. d) Training policies address prospective roles and responsibilities and expected levels of performance and evolving needs. e) Other (explain). 					

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Risk Assessment (HB 5141, CAS 315.15 and Appendix 1)	Control exists?	Describe nature of any supporting documentation	What inquiry/observations made to ensure controls were implemented?	Risk mitigated?	Initials W/P ref.
1. Risk: Management is often surprised by events (including internal and external events, transactions or circumstances) that were not previously identified/assessed or is continually reacting to events rather than planning ahead					
<p>Possible controls (<i>not all need apply</i>):</p> <ul style="list-style-type: none"> a) Management has established and communicates the company's mission, strategy and objectives to employees. b) Risks are regularly identified/assessed and updated as part of the business planning process. c) Management identifies/assesses: <ul style="list-style-type: none"> • Business risks (that prevent achievement of objectives), business process risks and fraud risk factors, including management override. • New/emerging risk factors such as new operations, acquisitions/divestitures, changes in IT and control systems, new financial reporting requirements and changes in key personnel. • Financial reporting risks that result from operations and compliance with laws and regulations. d) Management develops a business plan/budget which is compared to actual results on a regular basis, variances explained and appropriate action taken. e) Changes in risks are identified in a timely manner. f) Management develops plans to mitigate significant identified risks. g) Other (explain). 					

Entity level controls – Design/implementation

Financial Reporting (HB 5141, CAS 315.18 - .19 and Appendix 2)	Control exists?	Describe nature of any supporting documentation	What inquiry/observations made to ensure controls were implemented?	Risk mitigated?	Initials W/P ref.
1. Risk: Transactions, events and conditions that are significant to the financial statements may not be captured or recorded					
<p>Possible controls (<i>not all need apply</i>):</p> <ul style="list-style-type: none"> a) Management has a good attitude regarding the disclosure of events and conditions that could be significant to the financial statements. b) Staff is expected to communicate bad news to management on a timely basis. c) Financial staff regularly reviews legal invoices, minutes and other similar types of documents for unrecorded events and conditions. d) Management has implemented procedures for identifying certain events and conditions (amortization, recoverable amounts, FMVs, etc.) that could be significant to the financial statements. e) Other (explain). 					
2. Risk: Poor oversight/control over financial reporting, journal entries and preparation of significant estimates/disclosures that could result in material misstatements in the financial statements					
<p>Possible controls (<i>not all need apply</i>):</p> <ul style="list-style-type: none"> a) Management employs competent personnel or hires appropriate specialist to prepare the financial reports (including estimates and accruals). b) Accounting applications used for financial reporting utilize the standard control features found in most commercial software packages. c) Spreadsheets used in F/S preparation are password-protected, kept in a central location, backed up and regularly checked for logic and calculation errors. d) Procedures are in place to ensure that all transactions are recorded in accordance with GAAP. e) All subsidiary ledgers are reconciled to the general ledger. These reconciliations are signed and dated by the preparer/reviewer and supporting documentation attached. 					

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Financial Reporting (HB 5141, CAS 315.18 - .19 and Appendix 2)	Control exists?	Describe nature of any supporting documentation	What inquiry/observations made to ensure controls were implemented?	Risk mitigated?	Initials W/P ref.
<ul style="list-style-type: none"> f) All account balances are reconciled prior to closing the books, including confirming that balances agree with related parties (including reconciling subsidiary balances to GL balances). g) A procedure exists that details how significant estimates and accruals are prepared. This would include calculations, assumptions, reliability of underlying information, use of specialists (if any) management review and consistency in application. h) Period-end close procedures include definitions of account classifications, assignment of responsibilities and due dates. i) With regard to journal entries: <ul style="list-style-type: none"> • A checklist exists of standard closing entries, • Journal entry input is restricted to authorized personnel, and • Manual entries are adequately supported and approved by management. j) Management reviews and initials: <ul style="list-style-type: none"> • Calculations of estimates and accruals, • Reports of all journal entries posted, and • The financial reports produced, and inquires into variances and unusual amounts. k) Access/authorization controls are in place to maintain the integrity of the chart of accounts. l) Other (explain). 					
3. Risk: Significant matters relating to financial reporting may not be communicated to the board of directors or external parties such as bankers or regulators					
<p>Possible controls (<i>not all need apply</i>):</p> <ul style="list-style-type: none"> a) Management prepares a monthly financial reporting package (comparing actual results to budget) for review by those charged with governance. b) Regular financial reports are prepared for key stakeholders such as financial institutions, investors, funders and regulators. c) Other (explain). 					

Entity level controls – Design/implementation

Fraud Prevention (HB 5145 and CAS 240.16-.24)	Control exists?	Describe nature of any supporting documentation	What inquiry/observations made to ensure controls were implemented?	Risk mitigated?	Initials W/P ref.
1. Risk: Management has not considered or assessed the risks of fraud occurring (including management override)					
<p>Possible controls (<i>not all need apply</i>):</p> <ul style="list-style-type: none"> a) A positive workplace environment exists which minimizes employees' sense of feeling abused, threatened, or ignored. b) Management reacts to and deals with acts of fraud, or suspected fraud, in a manner that sends a strong message to others that fraud will not be tolerated or quietly ignored. c) Management has a formal process for identifying and documenting fraud risk which: <ul style="list-style-type: none"> • Explicitly considers potential fraud schemes and scenarios, • Addresses fraudulent financial reporting and misappropriation of assets by senior management, and • Assesses the likelihood and the impact (significance) of fraud. d) Those charged with governance regularly consider the potential for management override of controls. e) Management has a policy of informing the auditor on a timely basis about actual, suspected or alleged fraud affecting the entity. f) Where appropriate a whistleblower program is in place where reports are communicated directly to the audit committee. g) Other (explain). 					

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Monitoring (HB 5141 and CAS 315.22-.23)	Control exists?	Describe nature of any supporting documentation	What inquiry/observations made to ensure controls were implemented?	Risk mitigated?	Initials W/P ref.
1. Risk: No procedures exist to monitor whether internal controls are operating as intended or to correct identified control weaknesses on a timely basis					
Possible controls <i>(not all need apply)</i> : a) Ongoing monitoring activities (such as exception and IT reports, etc.) are in place to address the operation of significant internal controls. b) Procedures are in place to monitor when controls are overridden and to determine if appropriate. c) Periodic evaluations of controls are conducted on key control systems by skilled personnel. d) Management takes appropriate action on: <ul style="list-style-type: none"> • Exceptions to policies/procedures, • Correcting deficiencies in internal control (including those identified by the auditor), and • Complaints of improper financial matters by external parties. e) Other (explain).					

Overall Conclusions (may effect the risk assessment at F/S level)	Yes/No	Explanations , comments and impact (if any) on audit procedures
a) Management, with the oversight of those charged with governance, has created and maintained a culture of honesty and ethical behaviour.		
b) The strengths in the control environment elements collectively provide an appropriate foundation for the other components of internal control? (i.e., the other components of internal control are not undermined by control environment weaknesses).		

Prepared by _____ Date _____

Reviewed by _____ Date _____