

G13 - ITGCs Role in Internal Control over Financial Reporting

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Computer Controls – Their Role in Internal Control over Financial Reporting

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Disclaimer

- The views expressed in this presentation are mine and do not necessarily reflect the views of the PCAOB, the Board members, or other PCAOB staff.



Discussion Topics

- Overview/mission of PCAOB
 - Inspections in general
- How ITGCs fit into an audit of ICFR
- Common issues with ITGCs and application controls
- Planning and preparation considerations



PCAOB Mission

- The PCAOB is a private-sector, non-profit corporation, created by the Sarbanes-Oxley Act of 2002, to oversee the auditors of public companies in order to protect the interests of investors and further the public interest in the preparation of informative, fair, and independent audit reports.



Inspections Division

- Conducts a continuing program of inspections of registered public accounting firms
- Assess compliance with:
 - The Sarbanes-Oxley Act
 - Rules of the Board
 - Rules of the SEC
 - Professional standards



Inspections Division (cont'd)

- Inspections conducted annually with firms with more than 100 public companies
- At least triennially for firms with 100 or fewer public companies
- Prepare written report concerning each inspection
- Portions of the report made public



How ITGCs Fit into an Audit of ICFR

- ITGCs are an important part of ICFR
- Effective ITGCs may reduce risks by providing assurances that:
 - Automated process controls and IT dependent manual controls perform as intended
 - Information on reports produced by the system is complete and accurate
 - Appropriate division of duties is established and enforced



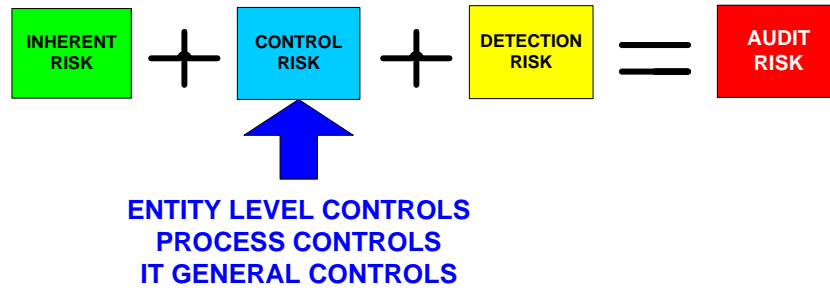
How ITGCs Fit into an Audit of ICFR

- Ineffective ITGCs may increase risk of:
 - Errors in financial reporting processes operating in that IT environment
 - Reports produced from that IT environment may not be complete or accurate
 - Unauthorized financial transaction initiation, recording, processing and approvals may be performed in that IT environment



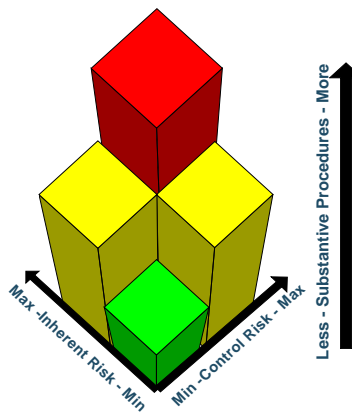
How ITGCs Fit into an Audit of ICFR

Simple audit risk model



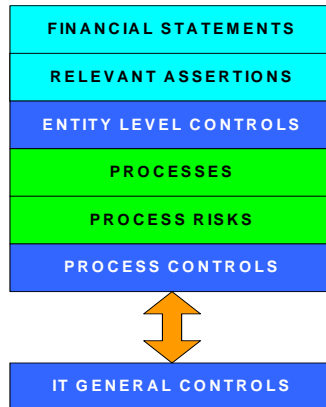
How ITGCs Fit into an Audit of ICFR

Relationship of Inherent Risk, Control Risk and Substantive Procedures



How ITGCs Fit into an Audit of ICFR

Top/down perspective



CONVERGENCE

ISACA
Serving IT Governance Professionals
San Francisco Chapter

Common Issues with ITGCs and Application Controls

Planning and Scoping

- Scoping and risk assessment of IT environments
- Using the work of others
 - Competence and objectivity
 - Reperformance of used work
- Design of controls (using wrong populations)

CONVERGENCE

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Common Issues with ITGCs and Application Controls

Performing Tests of Controls

- SAS 70 reliance
 - SAS 70 period of coverage
 - User control considerations
- Substantive tests (snapshot) vs. control tests (process)
- Inappropriate “tests of one”



Common Issues with ITGCs and Application Controls

Performing Tests of Controls (cont'd)

- Integrity of data in reports used for audit procedures
- “Benchmarking reports”
- Tests not achieving control objective
- CAATS – validation of population (completeness)



Common Issues with ITGCs and Application Controls

Performing Tests of Controls (cont'd)

- Not testing controls over systems interfaces
- Questions and open discussion



Common Issues with ITGCs and Application Controls

Remediation and Audit Reaction

- Remediating control deficiencies (ICFR Opinion vs. FSA Opinion)
 - Timing of remediation and testing
 - Degree of controls reliance for FSA opinion
 - Impact on ICFR opinion
- Aggregation of deficiencies/impact on audit procedures



Common Issues with ITGCs and Application Controls

Remediation and Audit Reaction

- Reaction to defective controls
 - Risk change – modification of audit strategy
 - Precision of compensating controls
- Questions and open discussion



Planning and Preparation Considerations

- Current process flows
- IT environment inventories
- IT environment risk assessments
- Evidence of competence and objectivity
- Identification and testing of ELCs
- Sufficient documentation
 - Work performed
 - Results obtained
 - Conclusions reached



Planning and Preparation Considerations

- Prepare for interim testing
- Remediation strategies and plans
- SAS 70s
 - Copies for review/evidence of review
 - Tests of user control considerations
- Effective/thorough communications between internal auditors and external auditor



Summary

- Auditor should focus on what is important
 - Focus on most important matters
 - Eliminate unnecessary procedures
 - Making the audit scalable to the size and complexity of the business, and
- ITGCs and application controls are a critical part of the audit process
 - Application controls support audit assertions
 - ITGCs support application controls



Summary

- Common issues but opportunities for improvement
 - Appropriately re-assess risk when deficiencies are discovered
 - Integrity of data
 - Scoping and testing IT environments
- Work with auditor where appropriate
 - Understand their activities and goals
 - Prepare effectively



Questions?
Discussion?

