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(54) Title: METHOD AND SYSTEM FOR AUDITING INTERNAL CONTROLS

(57) Abstract: The present invention provides a computer-implemented method and system for assessing internal controls. The method includes: presenting internal control items; processing an input set associated with at least some of the internal control items; and (c) generating a set of assessment information based on the processed input set. The method may further include one or more of: (d) prior to presenting, automatically grouping and presenting a subset of the plurality of internal financial control items based on a user input related to an assessment of risk; (e) prior to presenting, automatically presenting a previously identified risk associated with one or both of an audit area and a transaction class associated with a subset of the plurality of internal financial control items; (g) receiving a user test input designating an internal financial control item for testing and presenting a set of test procedures associated with the designated internal financial control item; (h) documenting assessments with the set of test procedures; and (i) receiving from a user a plurality of inputs representing user assessment of the effectiveness of internal financial control items and presenting a summary of the effectiveness assessments.



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5 **METHOD AND SYSTEM FOR AUDITING INTERNAL CONTROLS**

FIELD OF THE INVENTION

[0001] The present invention relates to the provision of and tools to assist in
the provision of professional services, specifically including auditing services,
10 preparing financial statement, conducting internal and external audits of internal
controls and practices. More particularly, the present invention relates to computer-
implemented tools, resources, and processes for assisting in these efforts.

BACKGROUND OF THE INVENTION

15 **[0002]** As companies continue to strive for efficiency, consistency and
flexibility, computers and software executed on computers are increasingly relied
upon to automate, semi-automate, enhance, quicken and make reliable and uniform
business processes. This is true even in fields of professional service providers,
such as financial auditors, and fields in which standardized procedures and
20 documents govern acceptable and "best" practices. For instance, organizations,
such as FASAB (Federal Accounting Standards Advisory Board), FASB (Financial
Accounting Standards Board), AICPA (American Institute of Certified Public
Accountants), IASB (International Accounting Standards Board), the SEC, and
PCAOB (Public Company Accounting Oversight Board) promulgate rules and
25 regulations, e.g., GAAS (generally accepted auditing standards), GAAP (generally
accepted accounting principles), and IFRS (International Financial Reporting
Standards), that govern the way companies are reviewed for integrity of financial
accounting and operation. GAAS is principally comprised of ten auditing standards
developed by AICPA that establish general standards (3) and standards related to
30 field work (3) and reporting (4), including whether the report is in accordance with
GAAP, and related interpretations. In addition, the SEC (Securities and Exchange
Commission) provides guidance and laws, such as Sarbanes-Oxley Act ("SOX") and
other laws and regulations provide guidance and requirements for compliance in
reporting and other aspects concerning integrity of business operation and
35 management.

5 **[0003]** In addition, in light of Sarbanes Oxley and other laws governing corporate governance and reporting, the Committee Of Sponsoring Organizations (COSO) has published, e.g., for use by audit professionals in auditing financial statements or corporate compliance officers, a framework for evaluating internal controls used by corporations that are required to report to the Securities Exchange
10 Commission or similar agency. The COSO framework provide a generally recognized appropriate industry/professional standard for performing evaluation of internal controls, including five elements or factors to be considered when evaluating internal controls: 1) control environment; 2) risk assessment, 3; information and communication; 4) monitoring, and 5) control activities.

15 **[0004]** In the field of auditing, although GAAP and GAAS provide guidelines by which auditors should conduct audits, there is a significant amount of leeway and many variables that leave to the professional and his or her assessments determining the set of procedures required under the particular set of circumstances. This may also depend on the purpose and the intended audience to receive and
20 interpret/rely on the report, and whether the entity being audited is public or non-public or governmental. Whether public or non-public, investors, banks, and other persons of interest rely on financial accounting information when determining whether to invest in a company, grant a loan to a company, merge with a company, etc. Standards are intended to promote best practices and uniformity, and therefore
25 reliability, in the auditing process so that the resulting report may be viewed as unbiased, accurate and trustworthy.

[0005] Companies, such as Thomson Corporation, provide tools, resources and services to assist accountants and auditors. For instance, Thomson PPC's e-Practice Aids is a series of titles or Guides that give guidance and provide materials
30 and procedures consistent with standards, e.g., *PPC's Guide To Audit Of Nonpublic Companies*, 25th Edition, January 2007. Auditors may rely on the Guides or titles in conducting audits. Electronic tools, for instance Thomson's e-Tools, and electronic versions of guides, Thomson e-Practice Aids, help auditors take their tools and resources with them when conducting field work or may make them accessible from
35 remote locations or at least electronically. Computers are also helpful in collecting client data and capturing assessment data. What is needed is an integrated system for conducting audits and for processing collected and risk related assessment data

5 to determine and generate and present a suggested audit approach and set of procedures consistent with relevant standards and guides.

[0006] Associated with audits, as well as in-house efforts to establish and maintain internal control practices, SOX 404 requires public companies to (i) establish, maintain, and assess their internal control over financial reporting and (ii)
10 obtain an opinion of their independent auditors as to the effectiveness of their internal control. One overriding goal of internal control over financial reporting is to promote the preparation of reliable financial statements. Assessing internal control practices is essential to identify material weaknesses and risks that may cause a material misstatement in the financial statements.

15 The SEC, in its Statement on Management's Report on Internal Control Over Financial Reporting, provided guidance in the area of internal controls. This SEC Guidance stated that management and auditors must use reasoned judgment and a top-down, risk-based approach to compliance with SOX 404. In addition, the SEC provided that the internal control audit and the financial statement audit should be
20 integrated and that internal controls over financial reporting should be tailored to reflect the nature and size of the company. Also, the SEC recommended frequent dialogue between a company and its auditors to promote improved internal controls and improved financial reports. The SEC Guidance also recommended customizing internal control testing programs and stated that a "risk-based" approach to internal
25 control testing should be used.

[0007] Risk-based testing requires management to prioritize areas of the company's financial statements according to relative levels of risk of misstatement. The risk-based approach requires extensive testing of related controls. In taking a "top-down" approach, the SEC guided management to identify controls related to
30 each relevant area of a company's financial statements and to design appropriate documentation and testing procedures relative to each such area's risk level. However, the SEC provided that testing programs should be designed to assess those internal controls that affect the reliability of financial reporting and lead to "reasonable assurance" of reliability and not absolute assurance. Accordingly,
35 testing programs need not test every step but must be sufficient to support a conclusion that the process meets the control objective. SEC guides that testing programs should focus on the objective of controls in determining the overall

5 effectiveness, rather than individual steps. Where a control deficiency is uncovered through testing and assessment, a quantitative analysis is performed to determine its level of significance.

[0008] While the SEC guidelines are directed primarily to management, the PCAOB directs its guidance to professionals involved in providing audits. PCAOB
10 guidance provides that auditors should integrate the internal control audit with the financial statements audit; exercise judgment to tailor audits to specific risks; use a top-down approach that begins with company-level controls to identify for further testing only the accounts and processes that are relevant to internal control over financial reporting; use risk assessment to remove accounts and processes that
15 represent a remote risk of material misstatement. The PCAOB guides auditors to review and assess whether client systems of internal financial controls provide reasonable assurance that financial statements do not contain material misstatements. PCAOB guides auditors to take a "top-down" approach in audits of internal controls, meaning that auditors should first concentrate on company-level
20 controls and then on significant accounts and to examine significant processes and before individual controls. This steers the audit toward areas of higher risk and away from those not likely to have a material impact on financial statements. The PCAOB guides auditors to use a risk -based approach in auditing internal controls to reduce costs while increasing audit effectiveness by focusing efforts on areas of higher risk.

SUMMARY OF THE INVENTION

[0009] The present invention addresses the shortcomings of the prior art and provides, among other things, a powerful computer-implemented tool to assist in auditing internal controls and for generating procedures, conducting audits,
30 preparing financial statements, and coordinating documents and other work product. More particularly, the present invention relates to a system of creating and generating auditing procedures, and assessing internal controls, in response to identified risks and risk assessments.

[0010] In one respect, the invention provides a professional services audit tool
35 that includes an application that performs a variety of functions such as completing certain audit planning processes/forms (including assessing risks related to the financial statements being audited and assessing internal controls), offering a top-down and risk-based approach to assessing internal controls. The internal control

5 assessment invention may be used in combination with other auditing tools and programs, e.g., Thomson Corporation's PPC SMART e-Practice suite of products. The present invention utilizes efforts and data collected in performing risk assessments to help assess design deficiencies and overall effectiveness of internal controls. The present invention provides test procedures to assist the auditor,
10 internal or external, in assessing internal controls.

[0011] The present invention may be integrated with audit tools, such as Thomson's SMART e-Practice Aids-Risk Assessment software, and may be linked with audit sources such as Checkpoint. The tool allows auditors to apply a "how to, risk-based, top-down" process for efficiently evaluating internal control over financial
15 reporting and, where desired, testing only the minimum number of controls necessary to support reduced control risk assessments and limit substantive testing. The tool may be an integrated component of audit solutions, such as the SMART e-Practice Aid suite, allowing the auditor to optimize the overall audit planning process.

[0012] Since the process delivered by this tool is based on the extensive
20 experience of recognized experts in the internal control field, the tool provides auditors with increased confidence in evaluating internal control and identifying control risks.

[0013] The auditor as described in the present invention is intended to include every person who may use the program to assess risk facing an enterprise and
25 internal controls implemented to alleviate such risks. The applications in the context of auditing cover, for example, the following categories: accounting, audit & attest; compilation and review; non-profit organizations; governments; specialized industries; and bookkeeping services.

[0014] In conjunction with the use of the present invention, audit procedures
30 are created using a logic system based primarily on the input of assertions associated with Risk of Material Misstatement (RMM), but include such other facts as fraud risks. In one manner, when one or more or a particular combination of assertions are evaluated to be "high," the present invention associates such identified risks with internal control components, audit areas, transaction classes,
35 and internal control items and presents the risks to the user involved in assessing and testing internal controls. The term "assertion" as used herein means representations that are embodied in components being audited.

5 **[0015]** The present invention is intended to be medium-neutral, being equally capable as a desktop program, a web-enabled program, a web-based program, and any variation thereof, being broad enough to include all future mediums.

[0016] In one embodiment, the present invention provides a computer-implemented method for assessing a plurality of internal financial control items.

10 The method includes: (a) presenting the plurality of internal financial control items; (b) processing an input set associated with at least some of the plurality of internal financial control items; and (c) generating a set of assessment information based on the processed input set. The method may further include one or more of: (d) prior to presenting, automatically grouping and presenting a subset of the plurality of internal
15 financial control items based on a user input related to an assessment of risk; (e) prior to presenting, automatically presenting a previously identified risk associated with one or both of an audit area and a transaction class associated with a subset of the plurality of internal financial control items; (g) receiving a user test input designating an internal financial control item for testing and presenting a set of test
20 procedures associated with the designated internal financial control item; (h) documenting assessments with the set of test procedures; (i) receiving from a user a plurality of inputs representing user assessment of the effectiveness of internal financial control items and presenting a summary of the effectiveness assessments; (j) receiving a set of user inputs adapted to designate at least some of the plurality of
25 internal financial control items as having a key control status; (k) assigning and presenting a set of defaults designating at least some of the plurality of internal financial control items as having a key control status and allowing a user to change key control status designation; and (l) filtering internal financial control items based on a key control status designation assigned to a subset of the plurality of internal
30 financial control items and presenting the subset of the plurality of internal financial control items having the key control status designation.

[0017] In another embodiment, the present invention provides a system for assessing risks associated with internal financial controls. The system includes: a computer having an associated memory, display, and input device and adapted to
35 execute code; a graphical user interface adapted to operate on the computer and adapted to present a plurality of internal financial control items, the graphical user interface further adapted to receive user inputs related to the set of internal financial control items via the input device; and a code set adapted to be executed on the

5 computer and adapted to process the user inputs to generate a set of assessment information based on the received user inputs.

[0018] In another embodiment, the present invention provides a computer-implemented method for assessing a plurality of internal control items. The method includes: (a) automatically grouping and presenting a subset of internal control items
10 based on an assessment of risk associated with one or more internal control items included in the subset of internal control items; (b) processing a set of inputs associated with at least some of the subset of internal control items; and (c) generating a set of assessment information based on the processed set of inputs. The internal control items may relate to one or more of compliance, operational,
15 financial, and regulatory controls.

[0019] The present invention builds on existing practice aids to provide an integrated audit planning and risk assessment approach to engagements. The invention provides an audit tool that allows auditors to complete audit planning documentation, identify and capture audit risks affecting the engagement, provide a
20 risk-based approach to presenting internal controls information to users integrated with and responsive to auditor risk assessments, customize aspects with user-friendly GUI and drag and drop functionality, and produce tailored practice aids for the engagement. To a large extent the present invention may be used to automate the audit planning and internal control assessment process, optimize judgments,
25 improve linkage between audit risk and internal controls, increase audit effectiveness and reduce risk, and increase consistency across audit engagements. These and other objects and benefits of the present invention are made more apparent with the aid of the following description and figures.

30 BRIEF DESCRIPTION OF THE DRAWINGS

[0020]

[0021] In order to facilitate a full understanding of the present invention, reference is now made to the accompanying drawings, in which like elements are referenced with like numerals. These drawings should not be construed as limiting
35 the present invention, but are intended to be exemplary and for reference, and are as follows:

[0022] Fig. 1 depicts an exemplary system embodiment of the present invention;

5 **[0023]** Fig. 2 depicts a flowchart illustrating one embodiment of the present invention;

[0024] Fig. 3A depicts a screen shot illustrating exemplary functionality for use in conjunction with the present invention;

10 **[0025]** Fig. 3B depicts a screen shot illustrating exemplary significant transaction classes functionality for use in conjunction with the present invention;

[0026] Fig. 4 depicts a screen shot illustrating exemplary control environment functionality for use in conjunction with the present invention;

15 **[0027]** Fig. 5 depicts a screen shot illustrating exemplary control environment functionality for presenting internal control items grouped by control component in conjunction with the present invention;

[0028] Fig. 6 depicts a screen shot illustrating exemplary control environment functionality for presenting control deficiency functionality in conjunction with the present invention;

20 **[0029]** Fig. 7 depicts a screen shot illustrating exemplary control environment functionality for presenting control deficiency functionality in conjunction with the present invention;

[0030] Fig. 8 a screen shot illustrating exemplary significant transaction classes functionality for use in conjunction with the present invention;

25 **[0031]** Fig. 9 a screen shot illustrating exemplary significant transaction classes functionality for use in conjunction with the present invention;

[0032] Fig. 10 a screen shot illustrating exemplary significant transaction classes functionality for use in conjunction with the present invention;

[0033] Fig. 11 a screen shot illustrating exemplary significant transaction classes functionality for use in conjunction with the present invention;

30 **[0034]** Fig. 12 a screen shot illustrating exemplary system documentation and evaluation related to accounts receivable audit area for use in conjunction with the present invention;

[0035] Figs. 13 a screen shot illustrating exemplary system documentation and evaluation related to accounts receivable audit area for use in conjunction with the present invention;

35 **[0036]** Fig. 14 a screen shot illustrating exemplary system documentation and evaluation related to general computer controls activities for use in conjunction with the present invention;

- 5 **[0037]** Fig. 15 a screen shot illustrating exemplary summary of design effectiveness functionality for use in conjunction with the present invention;
- [0038]** Fig. 16 a screen shot illustrating exemplary summary of design effectiveness functionality for use in conjunction with the present invention;
- [0039]** Fig. 17 a screen shot illustrating exemplary test procedures
- 10 functionality for use in conjunction with the present invention;
- [0040]** Fig. 18 a screen shot illustrating exemplary exception summary functionality for use in conjunction with the present invention;
- [0041]** Fig. 19 a screen shot illustrating exemplary control risk assessment functionality for use in conjunction with the present invention; and
- 15 **[0042]** Fig. 20 a screen shot illustrating exemplary diagnostics functionality for use in conjunction with the present invention.

DETAILED DESCRIPTION OF THE PREFERRED EMBODIMENT

[0043] The present invention will now be described in more detail with

20 reference to exemplary embodiments as shown in the accompanying drawings. While the present invention is described herein with reference to the exemplary embodiments, it should be understood that the present invention is not limited to such exemplary embodiments. Those possessing ordinary skill in the art and having access to the teachings herein will recognize additional implementations,

25 modifications, and embodiments, as well as other applications for use of the invention, which are fully contemplated herein as within the scope of the present invention as disclosed and claimed herein, and with respect to which the present invention could be of significant utility.

[0044] In one respect, the invention provides a professional services audit tool

30 that includes an application that performs a variety of functions such as completing certain audit planning processes/forms (including assessing risks related to the financial statements being audited), offering a tailored set of audit programs based on the assessed risks, allowing users to further tailor the suggested audit programs, and rendering these audit programs in a helpful format, e.g., Thomson Corporation's

35 PPC SMART e-Practice Aids format. In one manner, to use the application, each user also must own and have a valid license installed of an associated "practice aid," e.g., Thomson's e-Practice Aid product. In this example, the practice aid corresponds to one of eleven audit types, also referred to herein as "titles." An

5 exemplary list of audit types or titles that are supported by the Risk Assessment
system of the present invention includes: Guide to Audits of Nonpublic Companies;
Guide to PCAOB Audits (i.e., audits of publicly-traded companies); Guide to Audits
of Nonprofit Organizations; Guide to Audits of Local Governments; Guide to Audits of
Employee Benefit Plans; Guide to Construction Contractors; Guide to Dealerships;
10 Guide to Audits of Financial Institutions; Guide to Homeowners' Associations and
Other Common Interest Realty Associations; Guide to HUD Audits; and Guide to
Single Audits (audits that comply with government and non-profit "single audit" rules,
regulations and guidelines). One advantage of this embodiment of the invention is
that it enables a user to obtain a greater understanding of the entity under audit or
15 review and its environment, review internal control, perform a more rigorous risk
assessment, provide linkage of assessed risks of material misstatement (RIMM) to
the user's audit procedures at the assertion level, and meet new and expanded
documentation requirements.

[0045] As used herein, controls or control procedures shall refer to internal
20 control procedures, including internal accounting control procedures, including the
procedures that management has adopted or devised to provide management with
some degree of assurance that the objectives of the accounting information system
will be achieved. A control risk is the risk that a material misstatement will not be
detected or prevented by the entity's internal control on a timely basis. COSO refers
25 to Committee of Sponsoring Organizations of the Treadway Commission, which
issued a report titled Internal Control—Integrated Framework (the COSO Report).
The COSO Report has increasingly become a widely accepted framework for sound
internal control among U.S. entities. Identified risk refers to a risk discovered in an
engagement that could result in material misstatement of the financial statements.
30 Internal Control refers to a process, effected by an entity's board of directors,
management and other personnel, designed to provide reasonable assurance
regarding the achievement of objectives, specifically in the following categories:
Efficiency and effectiveness of operations; Reliability of financial reporting; and
Compliance with applicable laws and regulations. Objectives are goals of the audit
35 intended to mitigate the Control Risks. A single Objective could mitigate one or more
Control Risks. Test Procedures or Tests of Controls refers to those activities
performed by the auditor during the control testing stage that gather evidence as to
the operational effectiveness of internal control procedures upon which the auditor

5 has planned reliance. A transaction class represents a class of transaction within a Financial Reporting Cycle.

[0046] Referring now to Fig. 1, a system 100 is shown for implementing an internal control assessment and testing program and providing a tool that creates and generates procedures based on risk assessments and assertions identified
10 during an audit. The system 100 comprises a central side 102, a remote audit work station 104 and a local client-side facility 106. In this example, a user 108, such as a professional conducting an audit, may use a mobile or local device, such as a wireless-enabled notebook computer 110 to connect to the central side 102 and/or the client side 106 via communication links. This configuration is one of many and is
15 not limiting as to the invention. For example, in one alternative configuration user 108 may use the application fully self-contained within a desktop environment, e.g., as shown within 104, and may utilize a local database 119, such as SQL 2005 or above or SQL Express or other suitable database. The communication links may be a combination of wireless, LAN, WLAN, ISDN, X.25, DSL, and ATM type networks,
20 for example. The user notebook 110 may comprise a typical combination of hardware and software including system memory 112, operating system 114, application programs 116, graphical user interface (GUI) 118, processor 120, and storage 122 which may contain electronic information 124 such as forms, practice aids, titles, data, procedures and the like. The operating system 114 shall be
25 suitable for use with the internal control assessment functionality described herein, for example, Microsoft Windows Vista (business, enterprise and ultimate editions), Windows 2000 with SP4 or Windows XP Professional with SP2. Also, the risk assessment invention may be browser-based and/or may include custom integration with Microsoft Office applications, e.g., Outlook, Word and Excel. Application
30 programs 116 may include, for example, Microsoft Office 2007, Office XP with SP2, or Office 2003 with SP1 applications. The software and related tools, procedures, forms and data used to implement the internal control assessment and testing processes may be accessed by the machine 110 via the Internet or it may be loaded onto the machine via CD-ROM or other media or a combination of such means. The
35 system requirements in one embodiment may require the machine 110 to be compatible with minimum threshold levels of processing capabilities, e.g., Intel Pentium III, speed, e.g., 500 MHz, and other parameters.

5 **[0047]** For purposes of discussion, an exemplary central side 102 may
comprise a central server and database 126, user interface peripherals such as
drives (not shown) monitor 128, keyboard 130, and printer 132. The central server
and database 126 may be used to communicate remotely, or locally for that matter,
with the user's machine 110 and may load, pass, receive information and
10 instructions, such as software executable on the machine 110 and data, forms, titles,
guides, procedures and the like for storing and using locally by the user on machine
110. A communication link 103 may be established between central side 102 and
user workstation 104 for updating data and software used by the user during auditing
processes. The central side 102 may also include one or more application servers
15 134 and other devices to help facilitate the exchange of software and data between
the user 108 and the central side 102. The central side 102 may be associated with
a professional services company, such as an accounting firm, in the business of
conducting audits.

[0048] The local client-side facility 106 is illustrated for exemplary purposes
20 only as including a server 136 or the like to provide a communication link 105
between the user machine 110 and the client-side system as required, if at all, in the
auditing process. The client-side facility 106 may include a network 142 of
computers 140, such as over a LAN, WLAN, Ethernet, token ring, FDDI ring or other
communications network infrastructure. The client-side facility may also include a
25 database 138 or other data storage component. In conducting an audit of a
company associated with facility 106, the user 108, in one optional manner, may
access data and/or the network 142 as necessary to review documents and
processes of the company to prepare assessments and identify control risks
associated with company operations. In conducting and completing the audit
30 engagement, the user 108 inputs data, calls upon audit tools, such as titles and
procedures stored locally or remotely at the central side 102.

[0049] The system 100 may be Internet or (World Wide) WEB-based,
desktop-based, or application WEB-enabled. Also, the present invention supports a
"disconnected use" of the software in that the software may be designed so that a
35 user 108 does not write back to the central server database 126 and/or the local
database 119 until the user chooses to "save" or store the changes. Prior to saving
changes, the user 108 may work in short-term memory. This feature has the benefit

5 of allowing the user 108 to perform "what if" scenarios and examine results of these scenarios.

[0050] With reference to Figures 3A and 3B, the internal control assessment invention may be invoked as part, e.g., software module, of an over all audit suite of audit practice software tools, e.g., Thomson's SMART e-Practice Aids. The internal control module may be integrated within the suite of tools and call on data or
10 assessments, such as risk assessment, contained in a collective database or associated with the other modules. The internal control assessment module obtains and documents a user's understanding of internal control through narratives and selection of controls from a database of controls. The user may select controls to
15 test and generate test procedures or programs. Another aspect of the invention allows a user to evaluate design and operating deficiencies in the internal controls implemented by the entity being audited. In this manner, the user may assess control risks within the entity's internal control practices.

[0051] As a prelude, an audit engagement, new or existing, is selected as an
20 initial part of an audit process. At Figure 3A, the "planning" tab of an exemplary "SMART e-Practice Aids" solution is selected to gain access to multiple functions, including the "Internal Control" function. Audit areas and transaction classes are terms and items of the audit that are common across the suite and information collected and assessments made in conducting other functions of the suite may be
25 used by the internal controls function as well. Figure 3A also represents an assessment of risks associated with the accounts receivable and sales audit area and identifies assertions related thereto. Figure 3B depicts a significant transaction classes screen under the internal control module's understanding controls and evaluate design feature.

30 **[0052]** Fig. 4 depicts a screen shot illustrating exemplary control environment functionality for use in conjunction with the present invention. The following internal control components are derived from COSO: control environment; risk assessment; information and communication; monitoring; and control activities, as represented on the left side of the screen. From this screen, a user may click on "view control
35 activities" button to view the list of internal control items grouped by objective, in this case objective "a" as shown on Figure 4.

[0053] Fig. 5 depicts a screen shot illustrating exemplary control environment functionality for presenting internal control items grouped by control component and

5 objective. From this screen, a user may be presented, as will be seen hereinafter, with an exclamation point to indicate the existence of a risk associated with one or more of internal control component, objective, audit area, transaction class, internal control item, for example. As shown in Figure 5, a user may make an assessment of design effectiveness and log or enter the assessment using the box provided. The user may also indicate one or more control items for testing using the appropriate boxes provided next to each presented internal control item, e.g., CLC100-CLC112.

10 **[0054]** Fig. 6 depicts a screen shot illustrating the rest of the exemplary control environment screen. In particular, Figure 6 presents to a user a button for invoking the control deficiency evaluation and aggregation worksheet function for use in conducting the audit, testing and evaluation of internal controls. A box is provided for receiving user inputs related to the various items as indicated, for example logging assessed and identified design or control implementation deficiencies. Logged deficiencies are then aggregated and presented to the user using the control deficiency evaluation and aggregation worksheet depicted at Figure 7.

15 **[0055]** Fig. 8 is a screen shot illustrating exemplary significant transaction classes functionality for use in conjunction with the present invention. At this screen, as invoked by clicking on the button on the left hand side of the navigation bar, a user is presented with transaction classes, e.g., process orders, shipping and invoicing, sales returns and adjustments, etc., as grouped by audit area, e.g., cash, accounts receivable, inventory, property, etc. Audit areas include line items that appear on financial statements and are also associated with a risk assessment operation of the audit. As shown, exclamation marks represent and indicate previously identified risks, such as in performing the risk assessment operation of an audit, and are helpful in driving a risk-based approach to control risk assessment. For instance, and as shown in Figure 9, by hovering a cursor over the exclamation mark or associated audit area or transaction class, a user is presented with the yellow box indicating the existence of a risk or by clicking a user is presented with, in this case, a pop-up window providing a description of the risk identified. By presenting the user with the information during the internal control assessment process, the system of the present invention drives a risk-based approach to the assessment and testing and evaluation processes.

20 **[0056]** Fig. 10 is a screen shot illustrating exemplary significant transaction classes functionality for use in conjunction with the present invention. As shown, a

5 user may add a transaction class by clicking on the add button. A window presents to the user for receiving user input and selection to define/select an additional transaction class. Figure 11 shows the results of the "add" process of Figure 9, in which "process online orders" was added as a transaction class and associated with the accounts receivable audit area. This process is under, as shown in the navigation bar, the COSO derived control component – Control activities.

10 **[0057]** Figure 12 depicts a screen and functionality associated with the system documentation and evaluation function and as shown related to accounts receivable audit area. This is also under the Control activities internal control component.

From this screen, and as shown in Figure 13, a user may reveal internal control items associated with and grouped by assertion and objective. This is also under the processing orders transaction class so the internal control items are also associated and grouped by transaction class. Further, this is under the accounts receivable audit area so the internal control items are also associated and grouped by audit area. As shown, the user is presented with boxes for logging deficiencies during the assessment process. The user inputs are aggregated in the summary of design deficiencies and design effectiveness summary as well as the previously discussed worksheet of Figure 7. Also as shown, an exclamation mark indicates the existence of a known risk associated with the audit area and transaction class shown.

20 **[0058]** From the screen of Figure 13, a user may indicate an assessment of design effectiveness, may indicate a desire to test certain of the listed control items and input other information, including selection of the control item as a "key control." The system may optionally define certain of the control items as "key control" items and this pre-selection may be overridden by the user or the system may not permit such an override. Again, by using a key control status associated with certain of the more critical control items, the system drives a risk-based approach to the internal control assessment process.

25 **[0059]** Figure 14 provides a screen shot illustrating exemplary system documentation and evaluation related to general computer controls category under the control activities internal control component. This permits the user to input how information technology is implemented in the internal controls of the entity being audited and works largely as described hereinabove.

30 **[0060]** Figure 15 depicts an exemplary summary of design effectiveness evaluation screen and associated functionality. As shown, there are five control

5 components with one, control activities, highlighted. As shown audit areas and transaction classes are associated with the control component and indications of risk are presented to the user. Thus, the system drives a risk-based approach to the assessment of the internal controls. As shown, there are six assertions related to the accounts receivable audit area. The users previous inputs related to design
10 effectiveness are displayed on the summary as are indications of the controls previously selected for testing. Figure 16 illustrates additional functionality associated with this screen and as previously discussed that is available to the user.

[0061] Figure 17 illustrates exemplary screen for presenting test procedures associated with certain control items, RE172 and RE157, to the user. Assertions are
15 also displayed. The system may also provide the user with the ability to document results of test procedures and log the results into the system and generate associated work product and reports. Figure 18 is a screen shot illustrating an exemplary exception summary. The user may use the system to note exceptions to implementation of certain internal control items and may use the summary to present
20 the exceptions previously input for further consideration in the assessment process. As shown, a user may add additional exceptions into the system using the "add exception" button and window.

[0062] Figure 19 is a screen shot illustrating exemplary control risk assessment page and functionality. As shown, under the control component "control
25 activities" and audit area "accounts receivable", the user is presented with a list of assertions associated with therewith. As shown, a user may click on one of the noted exceptions to retrieve further explanation to aid in the assessment process. Control risk assessment pull downs are provide to collect the user's assessment of control risk associated with these areas. Fig. 20 is a screen shot illustrating
30 exemplary diagnostics functionality and screen to present errors, inconsistencies and other issues relevant to the assessment process.

[0063] Figure 2 is a flowchart illustrating an embodiment of a risk assessment and audit process related to and that may be used in conjunction with the internal control system of the invention. A computer-implemented process 200 for assessing
35 risks associated with an audit is shown. The process 200 includes the step 202 of presenting to a user a plurality of audit items and a set of risk levels associated with the plurality of audit items. Presenting step 202 may further comprise presenting a plurality of prompts designed to elicit a set of responses from a user/auditor wherein

5 the set of user responses are associated with a set of risks associated with the audit. Further, the set of risk levels may be associated with a set of assertions associated with the plurality of audit items. Also, the set of risk levels may include at least a first risk level and a second risk level of different degrees of risk. Step 204 is processing a set of responses received from the user in response to the items presented in step
10 202. In step 206 the process automatically generates a suggested audit approach that is based at least in part on the processing step 204.

[0064] Still with reference to Figure 2, the process 200 may optionally include one or more of the following steps. In step 208, the process includes determining a set of procedures that are based at least in part on the responses from step 204. At
15 step 210, the set of procedures are presented to the user based at least in part on the suggested audit approach of step 206. The process may also include step 212 whereby a user is presented a set of at least two audit approaches comprising the suggested audit approach and an alternative audit approach from which the user may select. In addition, the suggested audit approach may be one of basic, limited
20 or extended. In the process 200, each response in the set of responses may be a selected risk level from the set of risk levels representing different levels of risk. The presenting step 206 may include presenting an electronic audit form associated with the audit being performed by a user. The electronic form may comprise the plurality of audit items and the set of risk levels. The automatically generating step 206 may
25 further include determining a set of procedures based at least in part on the set of user responses and the suggested audit approach may include presenting the set of procedures. The process 200 may also include step 214 of editing the determined set of procedures from the generating step 206 to result in a customized set of procedures. The process 200 may also include step 216 of presenting a set of
30 electronic documents associated with the suggested audit approach.

[0065] The process 200 may be performed in a variety and combination of environments and architectures, including Internet/WWW-based applications, desktop applications, and WWW-enabled applications. In one exemplary
35 architecture, a user 108 at a remote workstation 110 may have executing thereon software so that the user is not writing back to the central server database 126 until the user 108 chooses to save changes made. Until the changes are saved, the user is working in short-term memory and the user has the ability to perform "what if" scenarios.

5 **[0066]** As used herein, the term assertion means representations that are embodied in components being audited. For example, Statement on Auditing Standard No. 106, Audit Evidence (SAS No. 106), issued by the American Institute of Certified Public Accountants (AICPA), provides that assertions used by the auditor fall into the following categories:

- 10 a. Assertions about classes of transactions and events for the period under audit:
- 15 *i. Occurrence.* Transactions and events that have been recorded have occurred and pertain to the entity.
 - ii. Completeness.* All transactions and events that should have been recorded have been recorded.
 - iii. Accuracy.* Amounts and other data relating to recorded transactions and events have been recorded appropriately.
 - iv. Cutoff.* Transactions and events have been recorded in the correct accounting period.
 - 20 *v. Classification.* Transactions and events have been recorded in the proper accounts.
- b. Assertions about account balances at the period end:
- 25 *i. Existence.* Assets, liabilities, and equity interests exist.
 - ii. Rights and obligations.* The entity holds or controls the rights to assets, and liabilities are the obligations of the entity.
 - iii. Completeness.* All assets, liabilities, and equity interests that should have been recorded have been recorded.
 - iv. Valuation and allocation.* Assets, liabilities, and equity interests are included in the financial statements at appropriate amounts and any resulting valuation or allocation adjustments are appropriately recorded.
 - 30 *v. Classification.* Transactions and events have been recorded in the proper accounts.
- c. Assertions about presentation and disclosure:
- 35 *i. Occurrence and rights and obligations.* Disclosed events and transactions have occurred and pertain to the entity.
 - ii. Completeness.* All disclosures that should have been included in the financial statements have been included.
 - iii. Classification and understandability.* Financial information is appropriately presented and described and disclosures are clearly expressed.
 - 40 *iv. Accuracy and valuation.* Financial and other information are disclosed fairly and at appropriate amounts.

[0067] SAS No. 106 provides that the auditor may use these relevant assertions as described above or may express them differently provided aspects described above have been covered. Standard setting bodies other than the AICPA also refer to other assertions in grouping that are similar to but that may differ from the grouping in SAS No. 106. Assertions may be in the following six groupings: existence or occurrence, completeness, rights and obligations, valuation and allocation, accuracy and classification, and cutoff.

5 **[0068]** As shown in the various figures, the invention provides a system for using a risk-based approach to assess control risks associated with internal financial controls. The system, in one embodiment, includes a computer, such as shown in Figure 1, having an associated memory, display, and input device. Many aspects of the invention are best implemented in software code and executed by the computer.

10 A graphical user interface is used to present a user with various groupings of internal financial control items. The graphical user interface receives inputs from the user that are related to the internal financial control items, audit areas, transaction classes, design deficiencies, assessments, exception and testing.

15 **[0069]** The system may be set up to automatically and respectively group and present to a user subsets of internal financial control items with internal control components, such as control environment, risk assessment, information and communication, monitoring, and control activities. The system can associate previously identified risks with an internal financial control item and/or an internal control component and may present an indication of the existence of an associated risk and a risk description associated with the indicated risk as described above.

20 The system may also group subsets of internal financial control items with transaction classes and audit areas and present the groupings to the user. The system may group transaction classes with audit areas and group subsets of internal financial control items with audit areas and/or transaction classes and present the groupings to the user.

25 **[0070]** The present invention may receive user test inputs designating an internal financial control item for testing and present a set of test procedures associated with the designated internal financial control item for use by the user. The system may document assessments with the set of test procedures and process inputs representing user assessment of the effectiveness of internal financial control items. The present invention may include code to filter internal financial control items based on a key control status and present a grouping of internal control items based on the key control status designation. Although largely discussed in terms of financial internal controls, the internal control items may relate to one or more of compliance, operational, financial, and regulatory controls.

30 **[0071]** The present invention is not to be limited in scope by the specific embodiments described herein. It is fully contemplated that other various embodiments of and modifications to the present invention, in addition to those

5 described herein, will become apparent to those of ordinary skill in the art from the foregoing description and accompanying drawings. Thus, such other embodiments and modifications are intended to fall within the scope of the following appended claims. Further, although the present invention has been described herein in the context of particular embodiments and implementations and applications and in
10 particular environments, those of ordinary skill in the art will appreciate that its usefulness is not limited thereto and that the present invention can be beneficially applied in any number of ways and environments for any number of purposes. Accordingly, the claims set forth below should be construed in view of the full breadth and spirit of the present invention as disclosed herein.

15

5 WHAT IS CLAIMED IS:

1. A computer-implemented method for assessing a plurality of internal financial control items, the method comprising:

(a) presenting the plurality of internal financial control items;

10 (b) processing an input set associated with at least some of the plurality of internal financial control items; and

(c) generating a set of assessment information based on the processed input set.

2. The method of claim 1 wherein the processing step includes processing at least one input from the input set that designates an internal financial control item for
15 testing and the generating step includes presenting test procedures associated with the designated internal financial control item.

3. The method of claim 1 wherein the presenting step includes first automatically and respectively grouping subsets of the plurality of internal financial control items with a plurality of internal control components, the plurality of internal control
20 components comprising control environment, risk assessment, information and communication, monitoring, and control activities.

4. The method of claim 3 wherein the presenting step includes presenting the subsets of internal financial control items based on an input representing a selection from among the plurality of internal control components.

25 5. The method of claim 3 wherein the plurality of internal control components are comprised of COSO components.

6. The method of claim 3 wherein the processing step includes processing at least one input designating a design deficiency associated with an internal control objective associated with one of the plurality of internal control components and the
30 generating step includes generating an indication of design deficiency.

5 7. The method of claim 3 further comprising:
 associating a previously identified risk with one or both of an internal financial
control item and an internal control component; and
 presenting an indication of the existence of an associated risk and a risk
description associated with the indicated risk.

10 8. The method of claim 1 wherein the presenting step further comprises:
 prior to presenting, automatically and respectively grouping subsets of the
plurality of internal financial control items with one or both of a plurality of transaction
classes and a plurality of audit areas and presenting one or both of the plurality of
transaction classes and the plurality of audit areas.

15 9. The method of claim 1 wherein the presenting step further comprises:
 prior to presenting, automatically and respectively grouping a plurality of
transaction classes with a plurality of audit areas and selectively presenting the set
of audit areas and transaction classes; and
 prior to presenting, automatically grouping subsets of the plurality of internal
20 financial control items with one or both of the plurality of audit areas and the plurality
of transaction classes.

 10. The method of claim 9 wherein the presenting step further comprises:
 prior to presenting, further grouping the subsets of the plurality of internal
financial control items based on one or both of assertion and objective.

25 11. The method of claim 9 further comprising:
 associating a previously identified risk with one or more of audit area,
transaction class, and internal financial control item; and
 presenting an indication of the existence of an associated risk and a risk
description associated with the indicated risk.

5 12. The method of claim 1 further comprising:

automatically grouping and presenting a subset of the plurality of internal financial control items based on a user input related to an assessment of risk, whereby the method provides a risk based approach to risk assessment.

13. The method of claim 1 further comprising:

10 prior to the presenting step, automatically presenting a previously identified risk associated with one or both of an audit area and a transaction class associated with a subset of the plurality of internal financial control items.

14. The method of claim 1 further comprising:

15 receiving a user test input designating an internal financial control item for testing; and

presenting a set of test procedures associated with the designated internal financial control item.

15. The method of claim 14 further comprising documenting assessments associated with the set of test procedures.

20 16. The method of claim 1 further comprising:

receiving from a user a plurality of inputs representing user assessment of the effectiveness of internal financial control items; and

presenting a summary of the effectiveness assessments.

17. The method of claim 16 wherein the effectiveness assessments relate to one
25 or more of internal financial control items, audit areas, transaction classes, assertions, exceptions, and internal control components.

18. The method of claim 16 further comprising:

grouping the effectiveness assessments by one or all of audit area, assertion, and transaction class and presenting the grouped effectiveness assessments.

5 19. The method of claim 16 wherein the plurality of user inputs includes at least one input representing a conclusion of internal control design effectiveness.

20. The method of claim 16 wherein at least one user assessment represents a design deficiency and the presenting step includes presenting a design deficiency summary.

10 21. The method of claim 16 wherein at least one user assessment represents an exception related to an internal financial control item and the presenting step includes presenting an exception summary.

22. The method of claim 1 further comprising:

15 receiving a set of user inputs adapted to designate at least some of the plurality of internal financial control items as having a key control status.

23. The method of claim 1 further comprising:

assigning and presenting a set of defaults designating at least some of the plurality of internal financial control items as having a key control status; and allowing a user to change key control status designation.

20 24. The method of claim 1 further comprising:

filtering internal financial control items based on a key control status designation assigned to a subset of the plurality of internal financial control items; and

25 presenting the subset of the plurality of internal financial control items having the key control status designation.

25. The method of claim 1 further comprising:

generating work product associated with the execution of the assessment method.

26. The method of claim 1 further comprising:

5 performing a diagnostics operation to identify one or more of errors in data, inconsistencies in responses and inputs, omissions, incomplete procedures or responses, and reminders to user to consider internal control deficiencies identified.

27. The method of claim 1 wherein the presenting step comprises presenting a plurality of prompts designed to elicit responses and being associated with a set of
10 risks associated with one or more of the plurality of internal control items.

28. The method of claim 1 wherein the method is at least in part carried out using one or more of an Internet-based application, an Internet-enabled application, and a desktop application.

29. The method of claim 1 wherein the method is conducted as part of an audit
15 process, a financial statement audit, or as part of a separate audit, assessment, implementation, or maintenance of internal control.

5

30. A system for assessing risks associated with internal financial controls, the system comprising:

a computer having an associated memory, display, and input device and adapted to execute code;

10 a graphical user interface adapted to operate on the computer and adapted to present a plurality of internal financial control items, the graphical user interface further adapted to receive user inputs related to the set of internal financial control items via the input device; and

a code set adapted to be executed on the computer and adapted to process
15 the user inputs to generate a set of assessment information based on the received user inputs.

31. The system of claim 30 wherein the graphical user interface is adapted to present a set of prompts designed to elicit user inputs.

32. The system of claim 30 wherein the code set is further adapted to present by
20 the graphical user interface a set of procedures based at least in part on the user inputs.

33. The system of claim 30 wherein the user inputs represent responses to risks associated with the plurality of internal financial control items.

34. The system of claim 30 further comprising a risk code set adapted to identify
25 and present via the graphical user interface risks associated with at least some of the plurality of internal financial control items.

35. The system of claim 30 further comprising an exception code set adapted to enable a user to identify exceptions associated with at least some of the internal financial control items.

5 36. The system of claim 30 wherein the code set is further adapted to process at least one input from the input set that designates an internal financial control item for testing and the graphical user interface is further adapted to present test procedures associated with the designated internal control item.

10 37. The system of claim 30 wherein the code set is further adapted to automatically and respectively group subsets of the plurality of internal financial control items with a plurality of internal control components, the plurality of internal control components comprising control environment, risk assessment, information and communication, monitoring, and control activities.

15 38. The system of claim 37 wherein the graphical user interface is further adapted to present the subsets of internal financial control items based on receiving a user input designating one of the plurality of internal control components.

20 39. The system of claim 37 wherein the codes set is further adapted to process at least one input designating a design deficiency associated with an internal control objective associated with one of the plurality of internal control components and to generate an indication of design deficiency.

25 40. The system of claim 37 wherein the code set is further adapted to associate a previously identified risk with one or both of an internal financial control item and an internal control component and wherein the graphical user interface is further adapted to present an indication of the existence of an associated risk and a risk description associated with the indicated risk.

41. The system of claim 30 wherein the code set is further adapted to automatically and respectively group subsets of the plurality of internal financial control items with one or both of a plurality of transaction classes and a plurality of

5 audit areas and the graphical user interface is further adapted to present one or both
of the plurality of transaction classes and the plurality of audit areas.

42. The system of claim 30 wherein the code set is further adapted to
automatically and respectively group a plurality of transaction classes with a plurality
of audit areas and to automatically group subsets of the plurality of internal financial
10 control items with one or both of the plurality of audit areas and the plurality of
transaction classes, and the graphical user interface is further adapted to selectively
present the set of audit areas and transaction classes and the grouped subsets of
the plurality of internal financial control items.

43. The system of claim 42 wherein the code set is further adapted to group the
15 subsets of the plurality of internal financial control items based on one or both of
assertion and objective.

44. The system of claim 42 wherein the code set is further adapted to associate
a previously identified risk with one or more of audit area, transaction class, and
internal financial control item and wherein the graphical user interface is further
20 adapted to present an indication of the existence of an associated risk and a risk
description associated with the indicated risk.

45. The system of claim 30 wherein the code set and the graphical user interface
are respectively further adapted to automatically group and present a subset of the
plurality of internal financial control items based on a user input related to an
25 assessment of risk, whereby the system provides a risk based approach to risk
assessment.

46. The system of claim 30 wherein the graphical user interface is further
adapted to automatically present a previously identified risk associated with one or

5 both of an audit area and a transaction class associated with a subset of the plurality
of internal financial control items.

47. The system of claim 30 wherein the graphical user interface is further
adapted to receive a user test input designating an internal financial control item for
testing and present a set of test procedures associated with the designated internal
10 financial control item.

48. The system of claim 47 wherein the graphical user interface is further
adapted to receive user inputs associated with documenting assessments
associated with the set of test procedures.

49. The system of claim 30 wherein the graphical user interface is further
15 adapted to receive from a user a plurality of inputs representing user assessment of
the effectiveness of internal financial control items and present a summary of the
effectiveness assessments.

50. The system of claim 49 wherein the effectiveness assessments relate to one
or more of internal financial control items, audit areas, transaction classes,
20 assertions, exceptions, and internal control components.

51. The system of claim 49 wherein the code set and graphical user interface are
respectively further adapted to group the effectiveness assessments by audit area
and present the grouped effectiveness assessments.

52. The system of claim 49 wherein the plurality of user inputs includes at least
25 one input representing a conclusion of internal control design effectiveness.

53. The system of claim 49 wherein at least one user assessment represents a
design deficiency and wherein the graphical user interface is further adapted to
present a design deficiency summary.

5 54. The system of claim 49 wherein at least one user assessment represents an exception related to an internal financial control item and wherein the graphical user interface is further adapted to present an exception summary.

 55. The system of claim 30 wherein the graphical user interface is further adapted to receive a set of user inputs adapted to designate at least some of the
10 plurality of internal financial control items as having a key control status.

 56. The system of claim 30 wherein the code set and graphical user interface are respectively further adapted to assign and present a set of defaults designating at least some of the plurality of internal financial control items as having a key control status and to receive and process user inputs changing key control status
15 designation.

 57. The system of claim 30 wherein the code set is further adapted to filter internal financial control items based on a key control status designation assigned to a subset of the plurality of internal financial control items and the graphical user interface is further adapted to present the subset of the plurality of internal financial
20 control items having the key control status designation.

 58. The system of claim 30 wherein the code set is further adapted to generate work product associated with processed user assessments of internal financial control items.

 59. The system of claim 30 wherein the code set is further adapted to perform a
25 diagnostics operation to identify one or more of errors in data, inconsistencies in responses and inputs, omissions, incomplete procedures or responses, and reminders to user to consider internal control deficiencies identified.

5 60. The system of claim 30 wherein at least some of the code executed by the
computer is one or more of Internet-based, Internet-enabled, and a desktop
application.

61. The system of claim 30 wherein the assessment information is generated as
part of an audit process, a financial statement audit, or as part of a separate audit,
10 assessment, implementation, or maintenance of internal control.

5 62. A computer program for assessing risks associated with internal financial controls and embodied in a computer-readable medium configured for execution on a computer having an associated memory, display, and input device, the computer program comprising:

 a graphical user interface adapted to operate on the computer and adapted to
10 present a plurality of internal financial control items, the graphical user interface further adapted to receive user inputs related to the set of internal financial control items via the input device; and

 a code set adapted to be executed on the computer and adapted to process the user inputs to generate a set of assessment information based on the received
15 user inputs.

63. The computer program of claim 62 comprising a risk code set adapted to identify and present via the graphical user interface risks associated with at least some of the plurality of internal financial control items.

64. The computer program of claim 62 further comprising an exception code set
20 adapted to enable a user to identify exceptions associated with at least some of the internal financial control items.

65. The computer program of claim 62 wherein the code set is further adapted to process at least one input from the input set that designates an internal financial control item for testing and the graphical user interface is further adapted to present
25 test procedures associated with the designated internal control item.

66. The computer program of claim 62 wherein the code set is further adapted to automatically and respectively group subsets of the plurality of internal financial control items with a plurality of internal control components, the plurality of internal

5 control components comprising control environment, risk assessment, information and communication, monitoring, and control activities.

67. The computer program of claim 66 wherein the graphical user interface is further adapted to present the subsets of internal financial control items based on receiving a user input designating one of the plurality of internal control components.

10 68. The computer program of claim 66 wherein the codes set is further adapted to process at least one input designating a design deficiency associated with an internal control objective associated with one of the plurality of internal control components and to generate an indication of design deficiency.

69. The computer program of claim 66 wherein the code set is further adapted to
15 associate a previously identified risk with one or both of a control item and a control component and wherein the graphical user interface is further adapted to present an indication of the existence of an associated risk and to present a risk description associated with the indicated risk.

70. The computer program of claim 62 wherein the code set is further adapted to
20 automatically and respectively group subsets of the plurality of internal financial control items with one or both of a plurality of transaction classes and a plurality of audit areas and the graphical user interface is further adapted to present one or both of the plurality of transaction classes and the plurality of audit areas.

71. The computer program of claim 62 wherein the code set is further adapted to
25 automatically and respectively group a plurality of transaction classes with a plurality of audit areas and to automatically group subsets of the plurality of internal financial control items with one or both of the plurality of audit areas and the plurality of transaction classes, and the graphical user interface is further adapted to selectively

5 present the set of audit areas and transaction classes and the grouped subsets of the plurality of internal financial control items.

72. The computer program of claim 71 wherein the code set is further adapted to group the subsets of the plurality of internal financial control items based on one or both of assertion and objective.

10 73. The computer program of claim 71 wherein the code set is further adapted to associate a previously identified risk with one or more of audit area, transaction class, and internal financial control item and wherein the graphical user interface is further adapted to present an indication of the existence of an associated risk and to present a risk description associated with the indicated risk.

15 74. The computer program of claim 62 wherein the code set and the graphical user interface are respectively further adapted to automatically group and present a subset of the plurality of internal financial control items based on a user input related to an assessment of risk, whereby the program provides a risk based approach to risk assessment.

20 75. The computer program of claim 62 wherein the graphical user interface is further adapted to automatically present a previously identified risk associated with one or both of an audit area and a transaction class associated with a subset of the plurality of internal financial control items.

25 76. The computer program of claim 62 wherein the graphical user interface is further adapted to receive a user test input designating an internal financial control item for testing and present a set of test procedures associated with the designated internal financial control item.

77. The computer program of claim 62 wherein the graphical user interface is further adapted to receive from a user a plurality of inputs representing user

5 assessment of the effectiveness of internal financial control items and present a
summary of the effectiveness assessments, and wherein the effectiveness
assessments relate to one or more of the group consisting of: internal financial
control items, audit areas, transaction classes, assertions, exceptions, internal
control components, and conclusions of internal control design effectiveness.

10 78. The computer program of claim 77 wherein the code set and graphical user
interface are respectively further adapted to group the effectiveness assessments by
one or both of audit area and transaction class and to present the grouped
effectiveness assessments:

15 79. The computer program of claim 77 wherein at least one user assessment
represents one or both of a design deficiency and an exception and wherein the
graphical user interface is further adapted to present one or both of a design
deficiency summary and an exception summary.

20 80. The computer program of claim 62 wherein the graphical user interface is
further adapted to receive a set of user inputs adapted to designate at least some of
the plurality of internal financial control items as having a key control status.

25 81. The computer program of claim 62 wherein the code set and graphical user
interface are respectively further adapted to assign and present a set of defaults
designating at least some of the plurality of internal financial control items as having
a key control status and to receive and process user inputs changing key control
status designation.

82. The computer program of claim 62 wherein the code set is further adapted to
filter internal financial control items based on a key control status designation
assigned to a subset of the plurality of internal financial control items and the

- 5 graphical user interface is further adapted to present the subset of the plurality of internal financial control items having the key control status designation.

5 83. A computer-implemented method for assessing a plurality of internal control items, the method comprising:

(a) automatically grouping and presenting a subset of internal control items based on an assessment of risk associated with one or more internal control items included in the subset of internal control items;

10 (b) processing a set of inputs associated with at least some of the subset of internal control items; and

(c) generating a set of assessment information based on the processed set of inputs.

15 84. The method of claim 83 wherein the grouping and presenting step includes presenting a previously identified risk associated with an audit area associated with the subset of internal control items.

85. The method of claim 83 wherein the grouping and presenting step includes presenting a previously identified risk associated with a transaction class associated with the subset of internal control items.

20 86. The method of claim 83 further comprising:

receiving a user test input designating an internal control item for testing; and
presenting a set of test procedures associated with the designated internal control item.

25 87. The method of claim 86 further comprising documenting assessments associated with the set of test procedures.

88. The method of claim 83 further comprising:

receiving from a user a plurality of inputs representing user assessment of the effectiveness of internal control items; and
presenting a summary of the effectiveness assessments.

5 89. The method of claim 88 wherein the effectiveness assessments relate to one or more of internal control item, assertion, audit area, transaction class, and internal control component.

 90. The method of claim 89 further comprising:

 presenting design effectiveness exceptions against at least some of the

10 subset of internal control items.

 91. The method of claim 90 further comprising:

 grouping the effectiveness assessments by one or both of audit area and transaction class and presenting the grouped effectiveness assessments.

 92. The method of claim 90 wherein the internal control items relate to one or

15 more of compliance, operational, financial, and regulatory controls.

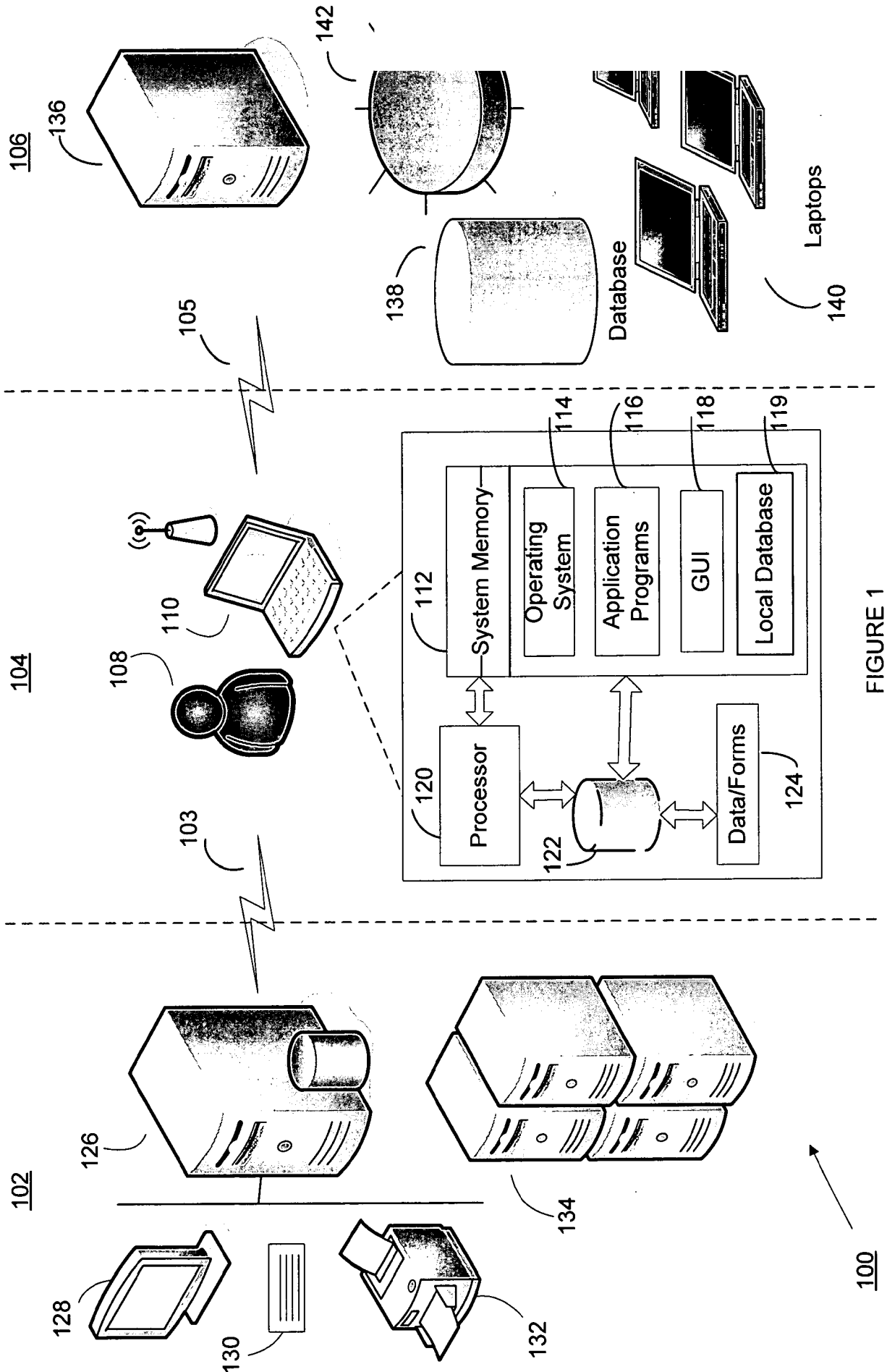


FIGURE 1

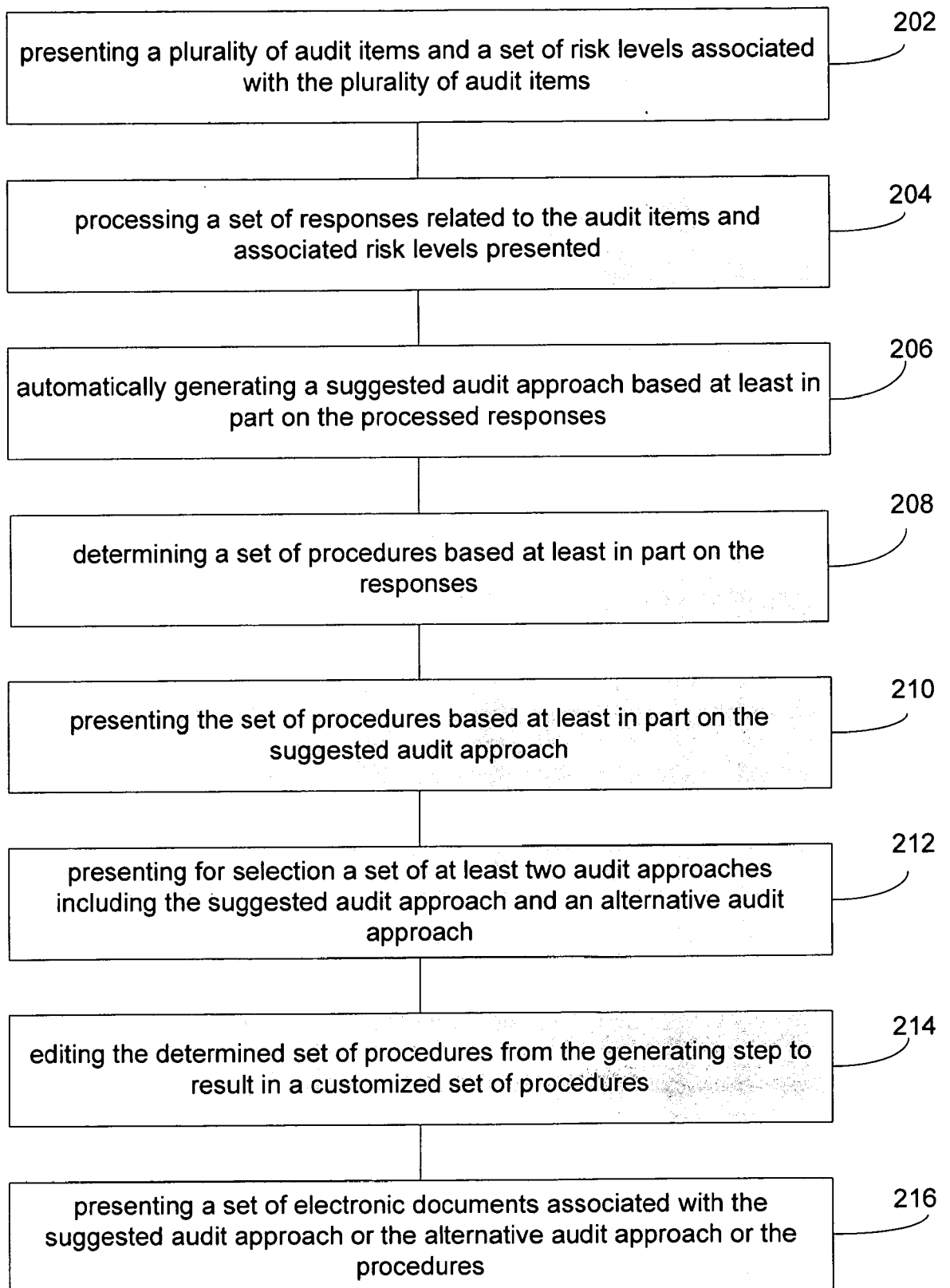
200

FIGURE 2

FIGURE 3A

File Edit View Insert Tools Help

Navigation

Introduction

- 1. Identify Risks
 - CX-3.1: Understanding the Entity and Its Environment
 - CX-3.2: Engagement Team Discussion
 - CX-3.3: Fraud Risk Inquiries Form
- Internal Control
 - Understand Controls and Evaluate Design
 - Control Environment
 - Risk Assessment
 - Information and Communication
 - Monitoring
- Significant Transaction Classes
 - System Documentation and Evaluation
 - Test Controls and Evaluate
- Assess Effects of Risks
- Review and Modify Audit Programs
- Generate Planning Forms and Audit Programs

Acceptance/Continuance
Planning
Performance
Disclosure
Reporting

Significant Transaction Classes

Instructions: You must obtain a sufficient knowledge of the design and implementation of the financial reporting system to understand the flow of information for significant transaction classes; the procedures for initiating, authorizing, recording, processing, and reporting those transactions; the accounting records, supporting information, and accounts involved in performing those procedures; and how the incorrect processing of transactions is resolved. Indicate the transaction classes that are significant; affect material account balances or significant disclosures; or contain fraud risks or other significant risks by selecting the transaction classes that Create new transaction classes or locations by clicking the "Add" buttons below.

	Fort Worth	Austin	Atlanta	Comments
☒ Cash				
☒ Accounts Receivable (and Sales)				
☐ Revenues				
☒ Process Orders				
Shipping and Invoicing				
Sales Returns and Adjustments				
Process Cash Receipts				
Maintaining Customer Master File				
☒ Financial Statement Close and Reporting				
☒ Inventory (and Cost of Sales)				
☒ Property				
☒ Investments and Derivatives				
☒ Prepaids, Deferred Charges, Intangibles, Other Assets				
☒ Accounts Payable, and Other Liabilities (and Purchases)				
☒ Payroll, Employee Benefits, and Related Liabilities				
☒ Notes Payable and Long-term Debt				
☒ Income Taxes				
☒ Equity				
☒ Income and Expense				

FIGURE 3B

PPC's Smart e-Practice Aids: Internal Control

File Edit View Insert Tools Help

Navigation | Tips

Introduction

- 1. Identify Risks
 - RX-1: Engagement Acceptance Form
 - RX-2: Understanding the Entity and Its Environment
 - RX-2a: Engagement Team Discussion
 - RX-2b: Fraud Risk Inquiries Form
 - RX-4: Risk Identification Form
- 2. Internal Control
 - 2.1: Understand Controls and Evaluate Design
 - 2.2: Control Environment
 - 2.3: Risk Assessment
 - 2.4: Information and Communication
 - 2.5: Monitoring
- 3. Control Activities
 - 3.1: Summary of Design Effectiveness Evaluations
 - 3.2: Test Controls and Evaluate
 - 3.3: Assess Effects of Risks
 - 3.4: Review and Modify Audit Programs
- 4. Generate Planning Forms and Audit Programs

Applying a Risk-based Approach To Internal Control Assessment

Control Environment

1. Obtain a sufficient knowledge of the control environment to understand the attitudes, awareness, and actions of those governing the entity that relate to internal control and its importance in achieving reliable financial reporting. (Concentrate on the implementation of controls because controls may be established but not acted upon.) (See paragraph 303.29.)

Describe how the following objectives of the entity's control environment are achieved. The Control Activities Form at ASB-CX-5.14 presents a list of controls that may be used to assist you in identifying and describing the entity's controls related to this area. If desired, it may be completed to further document your understanding of controls and to indicate the controls, if any, that you wish to test.

a. Those charged with governance are actively involved and have significant influence over the company's internal control environment and its financial reporting.

[View Control Activities Form](#)

b. Management, through its attitudes and actions demonstrates character, integrity and ethical values. Sound integrity and ethical values, particularly of top management, are developed as the standard of conduct for the organization and financial reporting.

[View Control Activities Form](#)

c. Management's philosophy and operating style are consistent with a sound control environment and have a pervasive effect on the company. Management analyzes the risks and benefits ventures, assesses turnover among employees, investigates and resolves improper business practices, views accounting as a means to monitor and control the various activities of the org and adopts accounting policies that reflect the economic realities of the business.

[View Control Activities Form](#)

d. The organizational structure of the company is appropriately designed to promote a sound control environment. Authority and responsibility, appropriate reporting lines, and free flow of information across the business provide unfettered influence to effectively run the company and support effective financial reporting.

FIGURE 4

Navigation

Navigation | Tips

Introduction

- 1. Identify Risks Acceptance Form
- 2. Understanding the Entity and Its Environment
- 2a. Engagement Team Discussion
- 2b. Fraud Risk Inquiries Form
- 3. Risk Identification Form
- Internal Control
- Understand Controls and Evaluate Design
- Control Environment Risk Assessment Information and Communication Monitoring**
- Control Activities
- Summary of Design Effectiveness Evaluations
- Test Controls and Evaluate
- Assess Effects of Risks
- Review and Modify Audit Programs
- Generate Planning Forms and Audit Programs

Control Environment

Applying a Risk-based Approach To Internal Control Assessment

1. Obtain a sufficient knowledge of the control environment to understand the attitudes, awareness, and actions of those governing the entity that relate to internal achieving reliable financial reporting. (Concentrate on the implementation of controls because controls may be established but not acted upon.) (See paragraph 303 of the SAS.)

Describe how the following objectives of the entity's control environment are achieved. The Control Activities Form at ASB-CX-5.14 presents a list of controls that may be identified and describing the entity's controls related to this area. If desired, it may be completed to further document your understanding of controls and to indicate which controls you wish to test.

a. Those charged with governance are actively involved and have significant influence over the company's internal control environment and its financial reporting.

Hide Control Activities Form

Key Control	Control Has Been Implemented	Control Type	Test Control?
Objective: Those charged with governance are actively involved and have significant influence over the company's internal control environment and its financial reporting.	☐		☐
CLC100 - The makeup and general construction of the board of directors and its committees is appropriate given the nature of the company.	Yes ☐	P	☐
CLC101 - The board demonstrates the level of knowledge of accounting and regulatory requirements, industry experience, and business operations to determine if it is sufficient.	☐		☐
CLC102 - A succession planning process exists to continually evaluate the background and experience of the board members to provide adequate oversight of the company, and he board has oversight and input into the succession planning process for key members of management.	☐		☐
CLC103 - The board has documented charters including an audit committee charter outlining its duties and responsibilities.	☐		☐
CLC110 - The makeup and general construction of the board of directors and its committees is appropriate given the nature of the company.	☐		☐
CLC111 - The board demonstrates the level of knowledge of accounting and regulatory requirements, industry experience, and business operations to determine if it is sufficient.	☐		☐
CLC112 - A succession planning process exists to continually evaluate the background and experience of the board members to provide adequate oversight of the company, and he board has oversight and input into the succession planning process for key members of management.	☐		☐

FIGURE 5

PPC's Smart e-Practice Aids—Internal Control
File Edit View Insert Tools Help
Navigation
Navigation
Introduction
1 Identify Risks
RX-1: Engagement Acceptance Form
RX-2: Understanding the Entity and its Environment
RX-2a: Engagement Team Discussion
RX-2b: Fraud Risk Inquiries Form
RX-4: Risk Identification Form
Internal Control
Understand Controls and Evaluate Design
Control Environment
Risk Assessment
Information and Communication Monitoring
Control Activities
Summary of Design Effectiveness Evaluations
Test Controls and Evaluate
2 Assess Effects of Risks
3 Review and Modify Audit Programs
4 Generate Planning Forms and Audit Programs

g. The company is committed to competence in the requirement of particular jobs and in translating those requirements into knowledge and skills.

View Control Activities Form

2. Describe the sources of information used and procedures performed to evaluate the design of controls and to determine whether they have been implemented.

Yes

View Control Deficiency Evaluation and Aggregation Worksheet

FIGURE 6

PPC's Smart e-Practice Aids—Internal Control

File Edit View Insert Tools Help

Navigation | Tips

Introduction
☐ 1. Identify Risks
 RX-1: Engagement Acceptance Form
 RX-2: Understanding the Entity and Its Environment
 RX-2a: Engagement Team Discussion
 RX-2b: Fraud Risk Inquiries Form
 RX-4: Risk Identification Form
☒ Internal Control
 ☐ Understand Controls and Evaluate Design
 Control Environment
 Risk Assessment
 Information and Communication
 Monitoring
☐ Control Activities
 ➤ Significant Transaction Classes
 ☐ Accounts Receivable (and Sales)
 ☐ Inventory
 ☐ Financial Close and Reporting
 ☐ General

Appendix A Risk-based Approach To Internal Control Assessment

Significant Transaction Classes

Instructions: You must obtain a sufficient knowledge of the design and implementation of the financial reporting system to understand the flow of information for significant transaction classes; the procedures for initiating, authorizing, recording, processing, and reporting those transactions; the accounting records, supporting information, and accounts involved in performing those procedures; and how the incorrect processing of transactions is resolved. Indicate the transaction classes that are significant; affect material account balances or significant disclosures; or contain fraud risks or other significant risks by selecting the applicable locations. Be sure to also consider risks affecting the overall financial statements. View overall financial statement risks. Create new transaction classes or locations by clicking the "Add" buttons below.

	Fort Worth	Austin	Atlanta
☐ Cash			
☒ Accounts Receivable (and Sales)	☒	☒	☐
☒ Process Orders			
Shipping and Invoicing	☒	☐	☐
Sales Returns and Adjustments	☒	☐	☐
Maintaining Customer Master File	☒	☐	☐
Financial Statement Close and Reporting	☒	☐	☐
☐ Inventory (and Cost of Sales)			
☐ Property			
☐ Investments and Derivatives			
☐ Prepaids, Deferred Charges, Intangibles, Other Assets			
☐ Accounts Payable, and Other Liabilities (and Purchases)			
☐ Payroll, Employee Benefits, and Related Liabilities			
☐ Notes Payable and Long-term Debt			
☐ Income Taxes			
☐ Equity			
☐ Income and Expense			

Add Transaction Class Add Location < Previous Next >

Identified Risks

Add below any risk that could result in material misstatement of the financial statements:

- Improper revenue recognition ...
- Management override of controls ...
- VP of Sales receives a significant ...

Add Cancel Delete

FIGURE 8

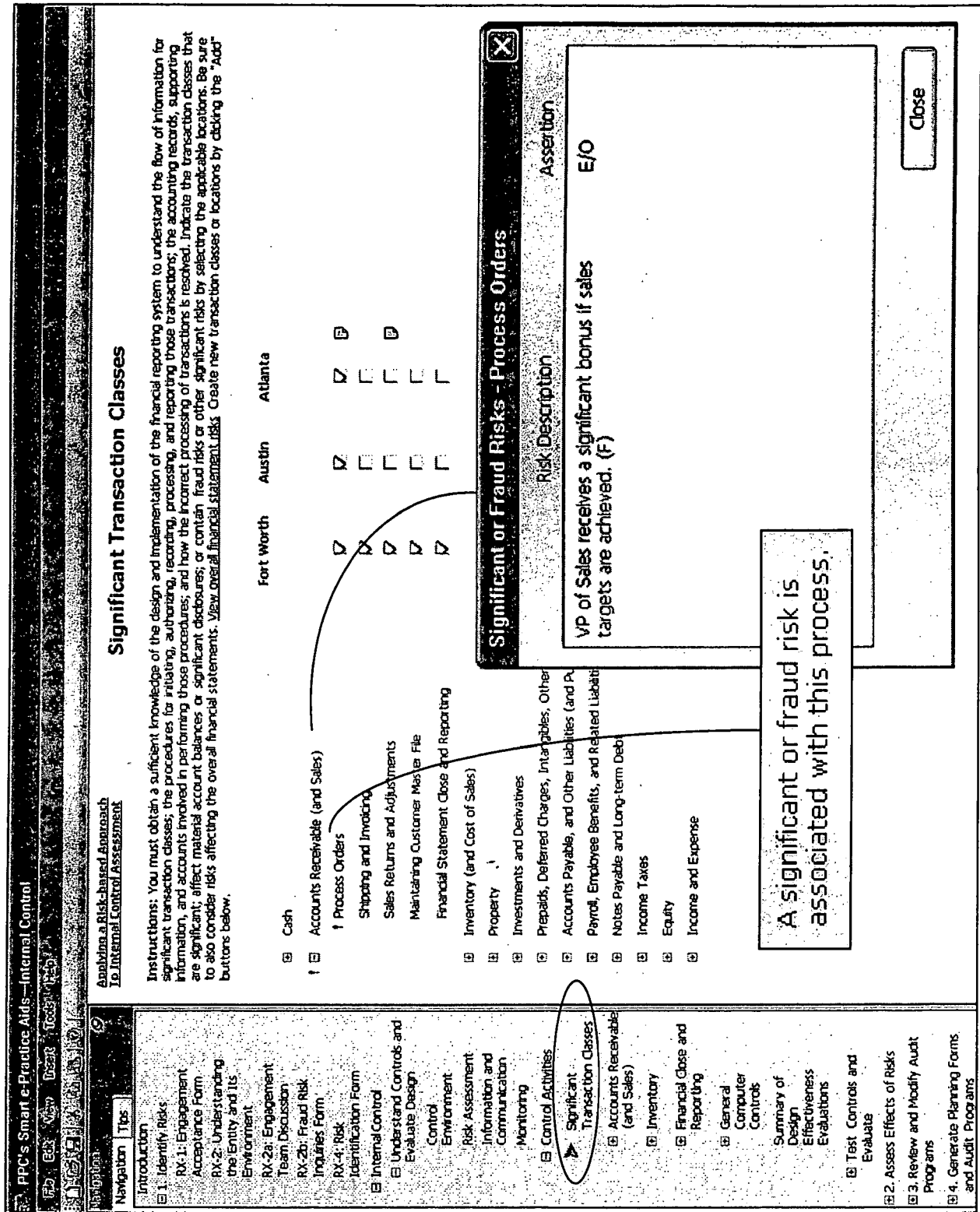


FIGURE 9

PPC's Smart e-Practice Aids—Internal Control

Navigation: Introduction, View, Smart Tools, Help

Significant Transaction Classes

Instructions: You must obtain a sufficient knowledge of the design and implementation of the financial reporting system to understand the flow of information for significant transaction classes: the procedures for initiating, authorizing, recording, processing, and reporting those transactions; the accounting records, supporting information, and accounts involved in performing those procedures; and how the incorrect processing of transactions is resolved. Indicate the transaction classes that are significant, affect material account balances, or contain fraud risks or other significant risks by selecting the applicable locations. Be sure to also consider risks affecting the overall financial statements. View overall financial statements. Create new transaction classes or locations by clicking the "Add" button below.

	Fort Worth	Austin	Atlanta
☐ Cash			
☐ Accounts Receivable (and Sales)	☒	☒	☒
☐ Process Orders			
☐ Shipping and Invoicing	☒	☒	☒
☐ Sales Returns and Adjustments	☒	☒	☒
☐ Maintaining Customer Master File	☒	☒	☒
☐ Financial Statement Close and Reporting	☒	☒	☒
☐ Inventory (and Cost of Sales)			
☐ Property			
☐ Investments and Derivatives			
☐ Prepaids, Deferred Charges, and Other			
☐ Accounts Payable, and Other			
☐ Payroll, Employee Benefits, and Other			
☐ Notes Payable and Long-term			
☐ Income Taxes			
☐ Equity			
☐ Income and Expense			

Add Transaction Class

To which audit area should the new transaction class be added?

Select an existing transaction class on which to base the new transaction class.

Enter a name for the new transaction class.

Accounts Receivable (and Sales)

Process Orders

Process Online Orders

Finish Cancel

Navigation: Introduction, View, Smart Tools, Help

Introduction

3.1. Identify Risks

RX-1: Exposure Acceptance Form

RX-2: Understanding the Entity and Its Environment

RX-2a: Engagement Team Discussion

RX-2b: Fraud Risk Inquiries Form

RX-4: Risk Identification Form

E: Internal Control

E: Understand Controls and Evaluate Design

Control Environment

Risk Assessment

Information and Communication

Monitoring

Control Activities

Significant Transaction Classes

☐ Accounts Receivable (and Sales)

☐ Inventory

☐ Financial Close and Reporting

☐ General Computer Controls

Summary of Design Effectiveness Evaluations

3.2. Test Controls and Evaluate

3.3. Assess Effects of Risks

3.3. Review and Modify Audit Programs

3.4. Generate Planning Forms and Audit Programs

Add Transaction Class Add Location Previous Next

Add Edit Delete

FIGURE 10

PPC's Smart e-Practice Aids—Internal Control

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Navigation

Navigation Tips

Significant Transaction Classes

Applying a Risk-based Approach To Internal Control Assessment

Instructions: You must obtain a sufficient knowledge of the design and implementation of the financial reporting system to understand the flow of information for significant transaction classes; the procedures for initiating, authorizing, recording, processing, and reporting those transactions; the accounting records, supporting information, and accounts involved in performing those procedures; and how the incorrect processing of transactions is resolved. Indicate the transaction classes that are significant; affect material account balances or significant disclosures; or contain fraud risks or other significant risks by selecting the applicable locations. Be sure to also consider risks affecting the overall financial statements. View overall financial statement risks Create new transaction classes or locations by clicking the "Add" buttons below.

	Fort Worth	Austin	Atlanta
☒ Cash			
☒ Accounts Receivable (and Sales)	☒	☒	☒
☒ Process Orders	☒	☒	☒
Shipping and Invoicing	☒	☒	☒
Sales Returns and Adjustments	☒	☒	☒
Maintaining Customer Master File	☒	☒	☒
Financial Statement Close and Reporting	☒	☒	☒
Process Online Orders	☒	☒	☒
Inventory (and Cost of Sales)	☒	☒	☒
Property	☒	☒	☒
Investments and Derivatives	☒	☒	☒
Prepays, Deferred Charges, Intangibles, Other Assets	☒	☒	☒
Accounts Payable, and Other Liabilities (and Purchases)	☒	☒	☒
Payroll, Employee Benefits, and Related Liabilities	☒	☒	☒
Notes Payable and Long-term Debt	☒	☒	☒
Income Taxes	☒	☒	☒
Equity	☒	☒	☒
Income and Expense	☒	☒	☒

Introduction

☒ 1. Identify Risks

☒ RX-1: Engagement Acceptance Form

☒ RX-2: Understanding the Entity and Its Environment

☒ RX-2a: Engagement Team Discussion

☒ RX-2b: Fraud Risk Inquiries Form

☒ RX-4: Risk Identification Form

☒ Internal Control

☒ Evaluate Design

☒ Control Environment

☒ Risk Assessment

☒ Information and Communication

☒ Monitoring

☒ Control Activities

☒ Significant Transaction Classes

☒ Accounts Receivable (and Sales)

☒ Inventory

☒ Financial Close and Reporting

☒ General Computer Controls

FIGURE 11

Navigation Introduction 1. Identify Risks 2. Understand the Entity and its Environment 3. Engagement Acceptance Form 4. Team Discussion 5. Fraud Risk Inquiries Form 6. Risk Identification Form 7. Internal Control 8. Understand Controls and Evaluate Design 9. Control Environment 10. Risk Assessment 11. Information and Communication 12. Monitoring 13. Control Activities 14. Significant Transaction Classes 15. Accounts Receivable (and Sales) 16. Fort Worth Austin Atlanta 17. Inventory 18. Financial Close and Reporting 19. General Computer Controls 20. Summary of Design Effectiveness Evaluations 21. Test Controls and Evaluate 22. Assess Effects of Risks 23. Review and Modify Audit Programs 24. Generate Planning Forms and Audit Programs System Documentation and Evaluation—Accounts Receivable (and Sales) (Fort Worth)	
General Ledger Accounts:	Flow of Information 1. You must obtain a sufficient knowledge of the design and implementation of the financial reporting system to understand the flow of information for significant transaction classes; the procedures for initiating, authorizing, recording, processing, and reporting those transactions; the accounting records, supporting information, and accounts involved in performing those procedures; and how the incorrect processing of transactions is resolved. Document in the space provided the flow of information for significant transaction classes affecting this audit area. Include a description of the controls, if any, the entity has implemented to prevent or detect and correct material misstatements related to fraud risks or other risks. Use professional judgment, considering the size and complexity of the entity and your experience with it, to determine the extent of understanding that will be sufficient to assess the risks of material misstatement of the financial statements and respond to those risks. The "Control Activities Forms" at CX-5 present a list of controls over various transaction classes that may be used to assist you in identifying the entity's controls and in obtaining a further understanding of control activities. If desired, the list may be completed to further document your understanding of controls and to indicate the controls, if any, that you wish to test.
Processing Orders	List the significant software applications relevant to this transaction class. (Separate entries with a semicolon) View Control Activities Form Considering the size and complexity of the entity, are controls over this transaction class properly designed and implemented? (If no, explain why. Any design or implementation deficiencies may be accumulated and evaluated using a form such as ASB-CX-15.1, "Control Deficiency Evaluation and Aggregation Worksheet.") View Control Deficiency Evaluation and Aggregation Worksheet
Shipping and Invoicing	List the significant software applications relevant to this transaction class. (Separate entries with a semicolon) View Control Activities Form Considering the size and complexity of the entity, are controls over this transaction class properly designed and implemented? (If no, explain why. Any design or implementation deficiencies may be accumulated and evaluated using a form such as ASB-CX-15.1, "Control Deficiency Evaluation and Aggregation Worksheet.") View Control Deficiency Evaluation and Aggregation Worksheet
Processing Sales Returns	List the significant software applications relevant to this transaction class. (Separate entries with a semicolon) View Control Activities Form

FIGURE 12

System Documentation and Evaluation—Accounts Receivable (and Sales) (Fort Worth)												
General Ledger Accounts:												
Flow of Information 1. You must obtain a sufficient knowledge of the design and implementation of the financial reporting system to understand the flow of information for significant transaction classes; the procedures for initiating, authorizing, processing, and reporting those transactions; the accounting records, supporting information, and accounts involved in performing those procedures; and how the incorrect processing of transactions is resolved. Document in the space provided the flow of information for significant transaction classes affecting this audit area. Include a description of the controls, if any, the entity has implemented to prevent or detect and correct material misstatements related to fraud risks or other risks. Use professional judgment, considering the size and complexity of the entity and your experience with it, to determine the extent of understanding that will be sufficient to assess the risks of material misstatement of the financial statements and respond to those risks. The "Control Activities Forms" at CX-5 present a list of controls over various transaction classes that may be used to assist you in identifying the entity's controls and in obtaining a further understanding of control activities. If desired, the list may be completed to further document your understanding of controls and to indicate the controls, if any, that you wish to test.												
Processing Orders												
List the significant software applications relevant to this transaction class. (Separate entries with a semicolon)												
Hide Control Activities Form												
EXISTENCE OR OCCURRENCE												
Evaluate Controls for this Objective	Adds Fraud or Significant Risk?	Key Control Implemented	How Evidenced?	Control Type	IT Dependent	Automated	Software Application	Frequency	Who Performs?	Number of Objects Addressed	Effectively Designed?	
☒ Objective: Only valid orders are input and processed. RE120 - Sales by product/service and/or customer are reviewed. RE128 - The application is configured to post an invoice number only once. RE129 - The application is configured to disallow unordered shipments (i.e., a valid sales order must exist before shipment can be processed). RE131 - The application requires a unique customer purchase order number to be entered into the sales order. RE106 - Customers complain to sales department about incorrect shipments. RE107 - Delinquent accounts receivable are reviewed. RE108 - Electronic data interchange with customers' results in accurate revenue capture. RE137 - The application requires a unique customer purchase order number to be entered into the sales order.	☒ ☐ ☐ ☐ ☐ ☐ ☐	☒ ☒ ☐ ☒ ☒ ☒ ☒		☐ ☐ ☐ ☐ ☐ ☐ ☐	☒ ☐ ☐ ☐ ☐ ☐ ☐							

FIGURE 13

System Documentation and Evaluation—General Computer Controls (Fort Worth)

1. Describe the extent to which IT is used in significant transaction classes by completing the following:

- a. List the significant computer applications. Identify the source of the software used, and indicate whether the client has access to the source code. For vendor software packages, provide information such as the vendor or brand name, version, and significant customized features or modifications.

Application	Transaction Classes Impacted	Service Organization Name (if applicable)	Internally Developed?	Vendor/Brand Name and Version	Custom Features (if any)	Does Client Have Access to Source Code?
Excel worksheet	Process Orders, Shipping and Invoicing		☒			☒
Peachtree Complete	Cash Disbursements		☒			☒
FAS Fixed Assets	Asset Acquisitions, Asset Disposals, Depreciation		☒			☒

- b. Consider whether it is necessary to obtain information about a service organization's controls that are significant to the entity's internal control. (Such information may be obtained from user or technical manuals, system overviews, and other information the service organization provides the entity; from the user auditor's prior experience with the service organization; or from reports on the service organization's policies and procedures provided by internal auditors, regulatory authorities, or an independent auditor.) If necessary, has the information been obtained?
- ☒

- c. If the entity uses more than one computer platform (such as a mainframe and LAN) for significant audit areas, briefly describe each platform and the applicable audit areas.
- ☐

2. Is it necessary to devote additional attention to obtaining an understanding of general computer controls? (If Yes, complete the "Control Activities Form for General Computer Controls" at ASB-CX-5.12 and, if desired, provide a reference to the form.)
- ☒ Yes ☐ No W/P Ref.

Practical Considerations:

- General computer controls relate to the entity's overall computer environment. Application controls, such as those programmed in a software application to restrict user access, produce batch totals, etc., are considered during the evaluation of controls over various transaction classes.
- Consider only those general controls that are relevant to applications and data that become part of the financial statements. For example, if no new systems are implemented during the period of the financial statements, weaknesses in the general controls over "systems development" may not be relevant to the financial statements being audited.
- Consider whether the entity has responded adequately to IT risks by establishing effective general controls.
- General computer controls relate to all audit areas in which a computer is used. Consequently, if general computer controls are tested, it should be done in conjunction with tests of controls in other audit areas.

View Control Activities Form

3. Is the use of an IT specialist considered necessary?
- ☒ Yes ☐ No

Factors to Consider:

- The complexity of the IT systems and controls and their pervasiveness to the entity's operations, including the use of emerging technologies.
- Whether significant system changes have occurred.
- The extent to which data is shared among systems.
- The extent of the entity's e-commerce activities.
- Whether significant audit evidence is available only in electronic form.

4. Considering the size and complexity of the entity, are general computer controls properly
- ☐ Yes ☐ No

FIGURE 14

Summary of Design Effectiveness Evaluations		
This summary displays your design effectiveness and testing conclusions by audit area and assertion. As you review the summary, consider whether additional identified risks need to be listed and/or whether planned tests of controls will be cost-effective.		
	Effectively Designed and Implemented?	Controls Selected for Testing?
Control Environment	Yes	No
Risk Assessment	Yes	No
Information and Communication	Yes	No
Monitoring	Yes	No
Control Activities		
- Accounts Receivable (and Sales) - EXISTENCE OR OCCURRENCE - Process Orders - Fort Worth - Process Orders - Austin - Process Orders - Atlanta - Shipping and Invoicing - Fort Worth - Sales Returns and Adjustments - Fort Worth - Process Cash Receipts - Fort Worth - Maintaining the Customer Master File - Fort Worth	Yes	Yes
- COMPLETENESS - CUTOFF - ACCURACY OR CLASSIFICATION - VALUATION OR ALLOCATION - RIGHTS OR OBLIGATIONS - Inventory (and Cost of Sales) - Payroll, Employee Benefits, and Related Liabilities - Financial Close and Reporting	Yes	No

FIGURE 15

Summary of Design Effectiveness Evaluations

This summary displays your design effectiveness and testing conclusions by audit area and assertion. As you review the summary, consider whether additional identified risks need to be listed and/or whether planned tests of controls will be cost-effective.

Control Environment

- ☐ Risk Assessment
- ☐ Information and Communication
- ☐ Monitoring
- ☐ Control Activities

† Accounts Receivable (and Sales)

- ☐ **EXISTENCE OR OCCURRENCE**
 - † Process Orders - Fort Worth
 - Process Orders - Austin
 - Process Orders - Atlanta
 - Shipping and Invoicing - Fort Worth
 - Sales Returns and Adjustments - Fort Worth
 - Process Cash Receipts - Fort Worth
 - Maintaining the Customer Master File - Fort Worth
- ☐ COMPLETENESS
- ☐ CUTOFF
- ☐ ACCURACY OR CLASSIFICATION
- ☐ VALUATION OR ALLOCATION
- ☐ RIGHTS OR OBLIGATIONS
- ☐ Inventory (and Cost of Sales)
- ☐ Payroll, Employee Benefits, and Related Liabilities
- ☐ Financial Close and Reporting
- ☐ General Computer Controls

A significant or fraud risk is associated with this process.

Significant or Fraud Risks - Process Orders

Risk Description
VP of Sales receives a significant bonus if sales targets are achieved. (F)

Assertion
E/O

Effectively Designed and Implemented?	Controls Selected for Testing?
Yes	No
Yes	No
Yes	No

Close

FIGURE 16

PPC's Smart e-Practice Aids—Internal Control

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Navigation

Navigation

Tips

Introduction

1. Identify Risks

RX-1: Engagement Acceptance Form

RX-2: Understanding the Entity and Its Environment

RX-2a: Engagement Team Discussion

RX-2b: Fraud Risk Inquiries Form

RX-4: Risk Identification Form

Internal Control

Understand Controls and Evaluate Design

Test Controls and Evaluate

Control Environment

Monitoring

Control Activities

Accounts Receivable (and Sales)

Process Orders

Shipping and Invoicing

Sales Returns and Adjustments

Maintaining Customer Master File

Process Orders

Instructions for using this form will appear here.

Control Reference	Location	Assertions
RE172	Fort Worth Austin	1. Randomly select one month and obtain the Price Discrepancy Report from Cost Accountant, and perform the following: a. Verify report was prepared by Cost Accountant b. Verify report was reviewed and approved by Controller. c. Comments explaining discrepancy were appropriate.
RE157	Fort Worth	R/O 2. Sit with a user who has order entry access. Go to Sales Order Maintenance screen and perform the following: a. Attempt to create a sales order in excess of the customers credit limit and on a customer who is on credit hold and document

FIGURE 17

SUBSTITUTE SHEET (RULE 26)

Exception Summary	
(Provide instructions on what to do on this page, transferring deficiencies to management point worksheet, etc.)	
Control	Exception
ACCOUNTS RECEIVABLE (AND SALES) Process Orders - Fort Worth COMPLETENESS	
RE172 - Price Discrepancy Report is prepared by Cost Accountant and reviewed/approved by Controller.	☐ Price Discrepancy Report was not always approved. The report was not signed by the Controller on 3 of the sampled weeks.
Process Orders - Austin (List all exceptions and group by assertion.)	
INVENTORY (Present all transaction classes on this page. List all exceptions found in each class.)	
Exception: Control Reference: RE120 Transaction Class: Process Orders Control Description: Sales by product/service and/or customer are reviewed. Location: ☒ Fort Worth ☐ Austin Describe the Exception: Comments:	

FIGURE 18

Control Risk Assessment			
For each area in which controls were selected for testing, provide an assessment of the level of control risk.			
	Control Tested	Test Results	Control Risk Assessment
Introduction ☐ 1. Identify Risks RX-1: Engagement Acceptance Form RX-2: Understanding the Entity and Its Environment RX-2a: Engagement Team Discussion RX-2b: Fraud Risk Inquiries Form RX-4: Risk Identification Form ☐ Internal Control ☐ Understand Controls and Evaluate Design ☐ Test Controls and Evaluate Control Environment Monitoring ☐ Control Activities ☐ Evaluate Test Results Exception Summary Control Risk Assessment	☐ Control Environment ☐ Monitoring ☐ Control Activities ☐ Accounts Receivable (and Sales) ☐ Existence or Occurrence ☐ Process Orders		
	Shipping and Invoicing	RE107 Delinquent reviewed. RE165 Only authorized customer reviewed. RE118 Reconciliation shipped is p RE107 Delinquent reviewed. RE118 Reconciliation shipped is p RE100 All write-off specified at	Control RE900 Bank reconciliations are prepared and reviewed timely. Exception Bank reconciliations were not performed timely. Reconciliations for January, February, and March were not prepared until April. Review and approval of reconciliations was not documented.
	Sales Returns and Adjustments	RE107 Delinquent accounts receivable accounts are reviewed.	No Exceptions
	Processing Cash Receipts	RE900 Bank reconciliations are prepared and reviewed timely. RE133 Cash receipts are reconciled to general ledger postings and the cash. RE107 Delinquent accounts receivable accounts are reviewed.	Exception Noted
	Maintaining Customer Master File	RE165 Only authorized users can modify data in the customer master records.	No Exceptions
	Completeness		
	Process Orders	RE107 Delinquent accounts receivable accounts are reviewed. RE165 Only authorized users can modify data in the customer master records.	No Exceptions No Exceptions

FIGURE 19

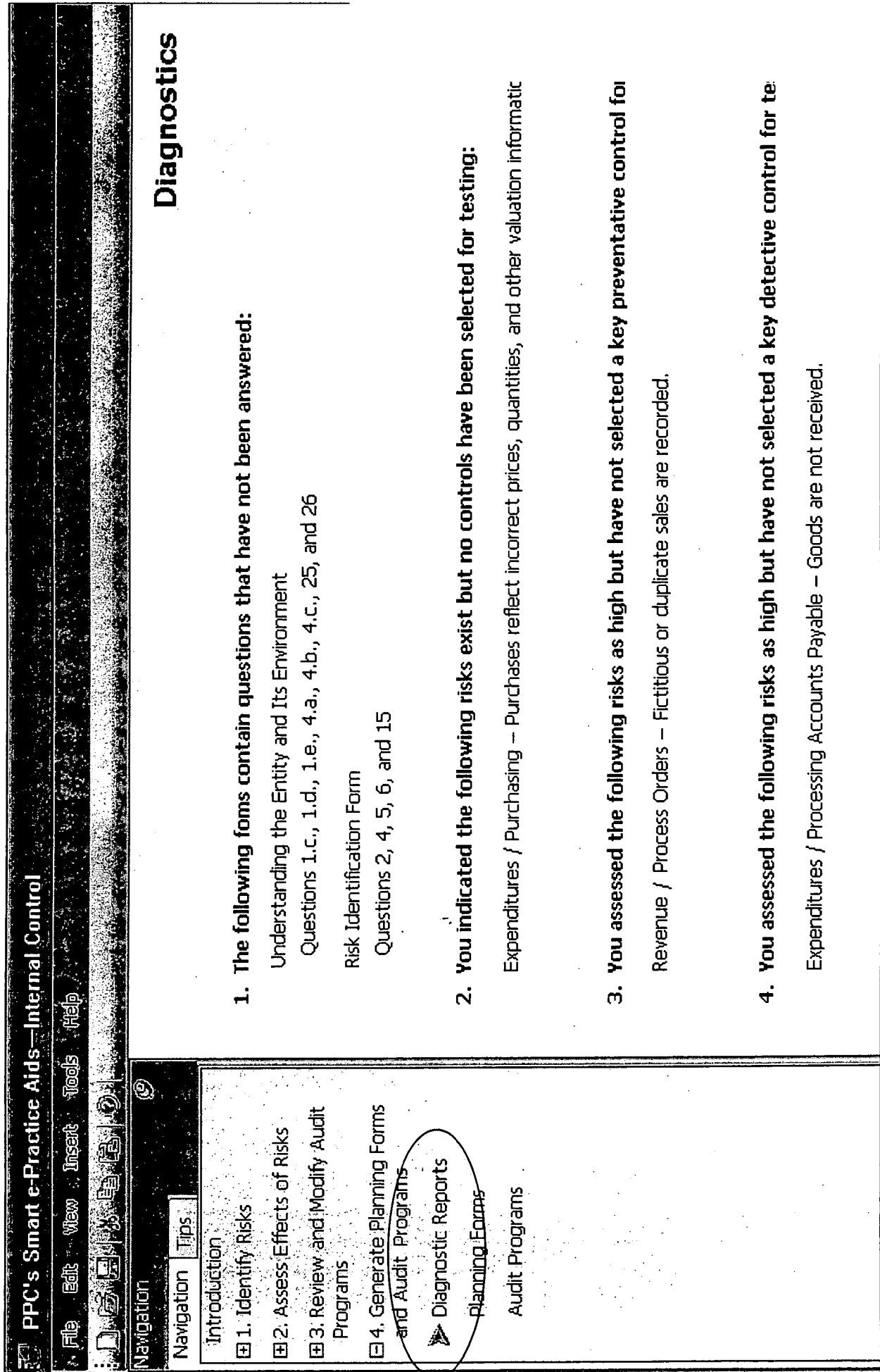


FIGURE 20