

**CFO SERVICES**

***Detail Summary --  
A 404 Project***

**CFO SERVICES**

# Key Benefits of Our Approach

- Management stays actively involved throughout the project.
  - Typically co manage project
  - Staff for project also may be a joint effort.
- Documentation and tools developed are customized to each client's unique situation.
- Prepopulated internal control forms to facilitate efficient documentation of controls.
- Process improvement approach identifies savings to lower overall cost.
- Our team is comprised of resources with a BIG 4/internal audit/private industry blend.
- State of art software to facilitate creation, updating and reporting on control matters.

# Planning Considerations

- Scope – Agree on internal control definition and components to examine.
- Timing of key phases – sample proposed schedule – Fiscal 2005 company requirement.
  - Planning -- around 1/15/2004
  - System documentation -- 1/15 to 3/31/04
  - Preliminary evaluation of controls -- By 3/31/04
  - Testing strategy finalized -- By 4/30/04
  - Testing of internal controls – 5/1 to 8/31/04 and 2005
  - Evaluation of test results -- By 8/31/04 and 2005
  - Remediation/action plans completed – By 12/31/04
  - Monitoring activities – 2005

# Key Components of an Internal Control System

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

# Project Plan – By Internal Control Component

- Control Environment – Focus is on organizational matters such as effectiveness of audit committee, internal audit function, management compensation plans, etc. – CFO Services has sample form with prompt points to consider in all key areas.
- Risk Assessment
  - Materiality defined – overall and as to significant accounts
  - Significant accounts identified
  - Significant locations determined
  - Disclosures and related assertions

# Project Plan – By Internal Control Component

## ■ Control Activities

- Develop appropriate control objectives and risk evaluation templates – see sample forms:
  - To address the risks inherent in the business and its industry.
  - To link significant controls to assertions and risks, and ultimately to significant financial statement accounts. (Software drill down feature simplifies this.)
  - Facilitates initial identification of significant controls to consider for each control objective. (Tool is pre-populated to help streamline this activity.)
- Document controls and evaluate as effective or ineffective.

# Location Risk Analysis

- Significant locations– Individually important or in the aggregate. Also, could be significant if present specific risk (e.g. foreign currency).
  - Individually significant locations will require site specific controls testing, and consideration of entity wide controls.
  - Insignificant locations that only become significant when aggregated may only require entity wide controls.
- Insignificant locations in aggregate do not require any testing.

# Entity Wide Controls

- Factors to evaluate:
  - Similarity of business across locations
  - Extent of centralized processing
  - Control environment matters– consider extent of management involvement including review of operating results, internal audit monitoring of locations, assignment of authority, consistency of policies and procedures, etc.
  - Transaction activity at location
  - Overall inherent risk

# Control Objectives Defined

- The control objectives will address such areas as:
  - Finance related accounts such as cash balances, cash receipts and disbursements, debt and leases, equity transactions, etc.
  - Administrative accounts such as tax provisions and liabilities, commitments and contingencies, litigation and other matters.
  - Sales related accounts such as sales, bad debt reserves and sales allowances.
  - Financial reporting and disclosures.

# Information & Communication / Monitoring

- Internal control assessment to be documented in manner to facilitate updating and sharing of results.
  - Consider safeguard controls
  - Authorization matters
  - Maintenance of records
- Monitoring practices – will be evaluated in planning phase, with improvement opportunities reported to management.
- Need for software or other support tools also addressed.

# Next Steps

- Confirm timing and staffing, (client plus CFO Services).
- Provide engagement letter.