

UNIVERSITY OF TOLEDO INTERNAL AUDIT DEPARTMENT

CLOSE THE BOOKS

Control practices

The following control objectives provide a basis for strengthening your control environment for the process of closing the books. When you select an objective, you will access a list of the associated business risks and control practices that information can serve as a checklist when you begin reviewing the strength of your current process controls.

This business risk and control information can help you assess your internal control environment and assist with the design and implementation of internal controls. Please note that this information is at the generic business process level and many companies need to go beyond generic models to address the specific business processes that support the financial and nonfinancial disclosures being made. You can combine the insight of this business risk and control information with your industry-specific knowledge and understanding of your company's environment when conducting internal control assessments and designing and implementing recommendations.

Effectiveness and efficiency of operations

- A. Cycle time is reduced.
- B. Quality within the closing process is improved.
- C. Employees and management are given the information they need to control the closing process.
- D. Relevant management information is provided on a timely basis.

Reliability of financial reporting

- A. Journal entries are properly authorized.
- B. Journal entries are accurately and completely recorded on a timely basis.
- C. Journal entries are reliably processed and reported.
- D. Recorded balances are substantiated.
- E. Recorded balances are evaluated.
- F. All necessary reconciliations are complete and accurate.
- G. Perf

UNIVERSITY OF TOLEDO INTERNAL AUDIT DEPARTMENT
CLOSE THE BOOKS

Effectiveness and efficiency of operations

A. Cycle time is reduced.

UNIVERSITY OF TOLEDO INTERNAL AUDIT DEPARTMENT
CLOSE THE BOOKS

UNIVERSITY OF TOLEDO INTERNAL AUDIT DEPARTMENT CLOSE THE BOOKS

Reliability of financial reporting

A. Journal entries are properly authorized.

Business risks

Unauthorized or invalid entries will be recorded in the general ledger.

Control practices

1. Devise computer routines that automate recurring journal entries submitted from subsidiary ledger systems.
2. Devise computer systems that generate reports of all recurring and recurring journal entries and appoint an appropriate level of personnel to review them to ensure proper authorization and supporting documentation exists for each.
3. Appoint an appropriate level of personnel that is knowledgeable with the transaction details to review nonrecurring journal entries as well as a higher level of personnel to approve them.
4. Implement security controls to prevent unauthorized access to general ledger records.
5. Devise appropriate authorization and explanation details that support all consolidation, reclassification, and adjustments of general ledger balances.
6. Program the computer system to restrict journal entry changes outside certain parameters (for example, the system will not allow duplicate account numbers or it will only allow liability accounts to be created with a certain range of account numbers).

UNIVERSITY OF TOLEDO INTERNAL AUDIT DEPARTMENT
CLOSE THE BOOKS

B. Journal entries are accurately and completely recorded on a timely basis.

Business risks

Journal entries will be omitted.

UNIVERSITY OF TOLEDO INTERNAL AUDIT DEPARTMENT

CLOSE THE BOOKS

C. Journal entries are reliably processed and reported.

Business risks

Unauthorized changes will be made to programs, causing unauthorized processing results.

Unauthorized versions of either files and/or programs will be used in processing, resulting in unauthorized or incorrect business transactions.

Control practices

1. Implement controls to maintain the integrity of programs used to process transactions (for example, authorization to modify use programs)
2. Use only current, tested, and authorized versions of computer programs for processing transactions.
3. Ensure that all relevant accounts are locked down during the closing process and only key personnel are responsible for the lock down activation.
4. Program the accounting system to automatically cease processing any entry that does not balance and to display an error message for the individual posting the problem entry.
5. Configure the accounting system to display an error message when someone posts a problem entry.
6. Ensure that the recording, approval, and review of journal entries are performed by different individuals with different levels of seniority.

UNIVERSITY OF TOLEDO INTERNAL AUDIT DEPARTMENT
CLOSE THE BOOKS

D. Recorded balances are substantiated.

Business risks

Unauthorized transactions will remain undetected.

Errors in processing, summarizing, and recording transactions will remain undetected.

Transactions will not be recorded.

Control practices

1. Confirm significant balances with third parties.
2. Reconcile general ledger balances regularly to subsidiary ledger balances.
3. Compare journal entry activity reports periodically to supporting documentation.
4. Perform a one-to-one check of the listing of recurring period end closing entries/adjustments to the journal entries actually recorded to validate completeness.
5. Ensure that all nonrecurring period end closing entries/ adjustments entered into the accounting system are compared via a one-to-one check of postinput/update reports to information contained in the source documents to verify the completeness and accuracy of all critical field data.
- 6.

UNIVERSITY OF TOLEDO INTERNAL AUDIT DEPARTMENT
CLOSE THE BOOKS

F. All necessary reconciliations are complete and accurate.