Organizing Section 404 Compliance
- Organize it as a project
- Understand that internal control improvements may be necessary
- Allow adequate time prior to the annual audit
- Management sets the foundation and the tone
- Project Sponsor – Senior Certifying Officer provides the overall direction to the assessment team
- Establish credible communication of the assessment project
- Identify assessment team members

Creating the Assessment Team
- Identify team members
- Determine roles and responsibilities
- Determine if external resources will be necessary
- What will be the role of the internal auditors?

Assessment Team Attributes
- Leadership qualities and skills
- Excellent facilitation skills
- Deep understanding of the organization, its people, and business
- Enthusiastic people with inquisitive minds and the skill to conduct diagnostic interviews
- Excellent written and verbal communication skills
- Excellent project management skills (PMP)

Developing the Project Plan
- Define objectives
- Establish a critical path
- Set critical success factors
- Assign appropriate project checkpoints
- Consider the assessment process
    - One on one interview
    - Facilitated workshops
    - Surveys
    - Analytical procedures

Compliance Considerations

- When will the external independent accountants want to begin the attestation of our assessment?
- What is the current state (As Is) of internal controls over financial reporting?
- Develop the controls assessment process
- What documentation techniques will be employed?
- Assess the design of internal controls
- Validate the operational effectiveness of internal control
- How will gaps in internal control be closed?

Project Management and Assessment Tools

- What project management software will be needed and used?
- What process mapping tools will be used?
- What documentation tools and techniques will be used?
- What checklists and templates will be needed?
- What technology tools will be needed?
- Is a separate project management function necessary?

Project Approach

- Establish agreement with approach up front
  - Management
  - Internal Auditors
  - External Auditors
  - Audit Committee
- Establish a common understanding of financial reporting risks and assertions
  - Core processes
  - Supporting processes
- Criteria for scope and materiality
- Identify the documentation and assessment methodology
- Define the control limits
  - Entity-level controls
  - Process-level controls
- Address IT infrastructure and control objectives for IT (COBiT)
- Agree on the COSO or other internal control framework
- Agree on the communication plan for assessment execution

Project Team Considerations
- Extent of controls
- Documentation of processes and controls in place
- What is the level and quality of internal resources
- Who is the project leader?
- Involvement of accounting and auditing representatives from the company's major business units including foreign operations
- Corporate executives
- Subject matter experts
- Need for a formal steering committee

Control Assessment Questions and Issues
- What are the nature and types of errors and omissions that could occur?
- Consider the nature, size and composition of an account or group of accounts
- What is the volume, size, and complexity of individual transactions that are processes?
- Establish materiality guidelines and significance of possible errors and omissions
- What is the susceptibility to error or omission as well as manipulation or loss
- Evaluate the robustness versus the subjectiveness of processes and methods for determining estimates
- What problem areas from prior years may require attention?
- What is the nature and effect of any related party transactions
- Consider the existence and impact of ERP and other systems
- What is the extent of change in the business and its expected effect?
- What risks extend beyond material errors and omissions?
- What are the expectations and requirements of the external auditors?

Documentation and Assessment Methodology
- Define the deliverables and reports that need to be issued
- Approach Considerations
  - Entity Level
  - Process Level
  - Locations
- Identify all IT systems, components, and structure
- Identify all transaction flows affecting key financial reporting elements
- Determine the level of process documentation
  - High level flows
  - Inter-functional process analysis
  - Procedural and process narratives

Decide the "Significant Areas"
- Prioritize the financial reporting elements
- Individual accounts or groups of related accounts
- Risk of (individual or combined) material effect on financial statement
- Areas with greatest risk for material misstatements or untimely disclosure
- Obtain input from management
- Obtain input from the audit committee
- Validate with the independent auditor
- Understand the extent of common processes and the degree of centralization versus decentralization in assessing the internal control system

Selecting Control Units and Locations
- Relative significance of assess and contributed sales and profits at each unit and location
- Existence of significant risks
- Consistency of operations and transaction processing
- Extent to which transactions affecting a significant account or group of related accounts are dispersed
- Extent to which accounting records and systems are centralized
- Decision making authority
- Potential for surprise
- Existence of effective entity-level monitoring and analytics that are entity-wide in scope
- Potential for surprises at a given location or unit
- Previously identified internal control issues

Overall Project Approach
- Build a project plan
- Assess current state internal controls and identify relevant processes
- Document control design and control operational effectiveness
- Design solutions for any control gaps
- Implement solutions for control gaps
- Issue internal control reports

High Risk Accounts or Disclosures
- Document the critical processes affecting high priority financial reporting issues
- Determine process risks and identify the controls used to mitigate the risks
- Evaluate the effectiveness of controls design
- Validate that controls are operating effectively

Moderate Risk Accounts or Disclosures
- Understand the critical processes, but where documentation doesn't need to be as robust as for priority financial reporting elements
- Evaluate risks and controls
- Reduce emphasis based on analytics and other monitoring mechanisms that enable management to reduce the level of documentation

Low Risk Accounts or Disclosures
- Minimum level of documentation and assessment is required unless more is desired by management
- This conclusion should be supported with analytics and entity-level monitoring

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