# UNIVERSITY OF TOLEDO INTERNAL AUDIT DEPARTMENT
# PROVIDE EXTERNAL FINANCIAL INFORMATION

Control practices

The following control objectives provide a basis for strengthening your control environment for the process of providing external financial information. 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 will 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. Critical forms, records, and processing areas and procedures are safeguarded from unauthorized access and hazards.
B. Disclosures are complete and accurate.
C. Employees and management are given the information they need to manage the external reporting process.

Reliability of financial reporting

A. Translation and consolidation of financial statements are complete and accurate.
B. Financial statements prepared for external distribution are fairly stated and reliable.
C. Reliable information is communicated to external stakeholders.

Compliance with applicable laws and regulations

A. The company’s reporting complies with applicable laws, regulations, and contracts.
B. The company's reporting complies with country requirements.

# UNIVERSITY OF TOLEDO INTERNAL AUDIT DEPARTMENT
# PROVIDE EXTERNAL FINANCIAL INFORMATION

Effectiveness and efficiency of operations

**A. Critical forms, records, and processing areas and procedures are safeguarded from unauthorized access and hazards.**

**Business risks**

- Records will be lost or destroyed, interfering with the ability to prepare reliable financial and operating reports.
- Unauthorized personnel will misuse or alter records to the detriment of the company, its employees, its customers, or its stockholders.
- Unauthorized personnel will alter computer programs.
- Unauthorized personnel will lose, destroy or alter the company's processing capabilities, particularly computer processing capabilities.
- Information systems will not provide necessary information in a timely manner.

**Control practices**

1. Establish and enforce procedures to back up all data on a daily basis.
2. Maintain records, computer files, programs, and related documentation in safes, locked cabinets, off-site back-up storage and secure tape or disk libraries.
3. Examine computer processing back-up facilities regularly to determine their adequacy.
4. Restrict online access to computer files to authorized personnel with passwords, terminal locks, and database management system facilities.
5. Appoint an appropriate official to approve changes to standing data prior to input.
6. Provide sufficient documentation to support changes made to standing data.
7. Encourage standing data owners to review data regularly for accuracy.
8. Encourage standing data owners to make changes via the standard data change process.
9. Segregate the duties of updating standing data from the maintenance of financial records (such as posting or authorization of adjustments and reconciliations).
10. Insure lost records with fidelity bonds or insurance policies and periodically evaluate and confirm coverage provisions.
11. Identify and implement necessary information systems changes continually.

**B. Disclosures are complete and accurate.**

**Business risks**

- Disclosures will be omitted or incomplete.
- Summarizing or reporting errors will cause misstated disclosures.
- Management will use unreasonable assumptions.

**Control practices**

1. Establish a checklist of required disclosures based on prior year financial statements, minutes of the board of directors and shareholders meetings, review of new regulatory pronouncements, and discussions with legal counsel and outside auditors.
2. Review the minutes of meetings held by stockholders, directors, and other appropriate groups to ensure that all proper disclosures are made.
3. Discuss developments subsequent to period-end with appropriate personnel, such as losses of major customers, cancellations of significant sales orders, commitments or plans for major purchases, and significant divestitures.
4. Review disclosures for proper source documentation, clerical accuracy, and compliance with reporting requirements.
5. Require management review of disclosures for completeness and compare disclosures to anticipated results, and/or the budget or forecast.

**C. Employees and management are given the information they need to manage the external reporting process.**

**Business risks**

- External reports will not respond to the requirements and needs of key stakeholders.
- Employees will not improve the external reporting process on a timely basis.

**Control practices**

1. Develop relevant performance measures that are aligned with the company's objectives.
2. Identify and decipher key external stakeholder expectations in order to maintain or improve the quality of the external reporting process.
3. Collect statistics surrounding the external reporting process, such as the number, nature, and timing of required reports and filings and use these as a basis for selecting relevant measures to use in refining and improving the external reporting process.

# UNIVERSITY OF TOLEDO INTERNAL AUDIT DEPARTMENT
# PROVIDE EXTERNAL FINANCIAL INFORMATION

Reliability of financial reporting

**A. Translation and consolidation of financial statements are complete and accurate.**

**Business risks**

- The company will fail to include proper subsidiaries in the consolidation.
- The company will apply policies and procedures inconsistently among its locations.
- The translation and consolidation of financial reports will conflict with generally accepted accounting principles.
- Missing or incorrect elimination and reclassification entries will result in incorrect financial statements.
- Inaccurate currency translations will result in incorrect financial statements.
- An incomplete and inaccurate chart of accounts will result in incorrect financial statements.
- Regulatory reporting requirements and/or loan restrictions will be violated.

**Control practices**

1. Communicate acceptable accounting principles clearly.
2. Communicate all accounting policies to all units/subsidiaries.
3. Document accounting policies and procedures in writing with policy statements and procedure manuals.
4. Review accounting policies and procedures to ensure they comply with accepted accounting principles applicable to the country in which the financial statements are to be issued.
5. Establish a formal process to research, review, and document new accounting and reporting policies or changes to existing policies.
6. Appoint a group of knowledgeable personnel to review all new types of transactions to determine the proper accounting treatment.
7. Review accounting policies for significant transactions annually to ensure changes in circumstances are appropriately reflected in the recorded entries.
8. Secure management approval for selected accounting policies and principles prior to their use.
9. Assign management or supervisory personnel responsible for preparing external financial reports to review contractual agreements.
10. Use a regulatory reporting schedule to ensure all regulatory reports are issued in a timely manner.
11. Adhere strictly to established closing schedules.
12. Maintain only one recurring set of period end consolidation/elimination entries and perform a one-to-one check against the actual recorded journal entries to validate completeness.
13. Enter all nonrecurring period end consolidation/elimination entries into the accounting system and compare via a one-to-one check of post input/update reports to information contained in the source documents to ensure completeness and accuracy of all critical field data.

14. Clear out and properly recognize on a periodic basis or as often as required all activity from clearing accounts that transfers expense, income, and capital transactions.
15. Establish written policies and procedures for translating and consolidating financial statements.
16. Establish a standardized chart of accounts that must be used when preparing reports for consolidation purposes.
17. Ensure that management performs a periodic review of the general ledger to check compliance with the chart of accounts.
18. Ensure that management completes an annual review of the chart of accounts for appropriateness.
19. Ensure that management approves all changes to the chart of accounts.
20. Provide standard reporting formats to subsidiaries, divisions, and other reporting locations.
21. Review consolidation spreadsheet to ensure all subsidiaries are included.
22. Ensure that management decides on the appropriateness of including/excluding a newly acquired subsidiary in the consolidation, provides supporting documentation, and reviews its decision annually.
23. Ensure that management discusses the functional currency of subsidiaries and business units on an annual basis and provides documentation to support its decisions.
24. Use standard translation and consolidation formats.
25. Appoint an individual independent of the consolidation process to perform a review to verify that all consolidated balances, after applying elimination entries, are correct (for example, intercompany accounts are zero or include just balances due to nonconsolidated related companies).
26. Require management to review all suspended/rejected data as a result of the consolidation process (for example, remaining intercompany balances in a manual consolidation process or exceptions reports in an automated consolidation process).
27. Require supporting explanations and documentation for eliminating, reclassifying, and adjusting entries.
28. Require management to approve all consolidation/ elimination entries as well as comparisons to the source documents to ensure the documentation are sufficient and adequate.
29. Compare the nature and amounts within the detailed activity of accounts with the prior period.
30. Require management approval for all nonstandard entries.
31. Reconcile balances forwarded from the prior reporting period and current period activity.
32. Review financial statements for completeness, accuracy, compliance, and appropriate support.
33. Assign management to review accounting treatment of non-standard or unusual transactions.
34. Establish an accrual periodically for all known liabilities that have not been processed for payment or recorded in the accounting records.
35. Identify and record as required existing contingent liabilities and asset impairments that should be recorded in accordance with generally accepted accounting principles.

**B. Financial statements prepared for external distribution are fairly stated and reliable.**

**Business risks**

- Financial statements will conflict with generally accepted accounting principles.
- Management will base critical decisions on inaccurate reports.
- Financial information required for budgeting, forecasting, or analysis will not be available.
- Inaccurate regulatory reports will be prepared and will violate regulatory reporting requirements and/or loan restrictions.
- Exposure to litigation or enforcement actions by regulatory agencies and key stakeholders will increase.
- Bad publicity and additional costs will result if errors are identified and corrective action required.

**Control practices**

1. Support preparation of reliable and timely financial reports with defined responsibilities, policies, and procedures.
2. Import information electronically from the general ledger to the financial reporting system after consolidation and appoint appropriate personnel to review it for relevance and accuracy.
3. Reevaluate the financial reporting process periodically to ensure the main financial statement includes all information required by generally accepted accounting principles.
4. Review financial reports and related disclosures to ensure compliance with policies and procedures.
5. Support preparation of reliable and timely regulatory and government reports with defined responsibilities, policies, and procedures.
6. Review all financial, regulatory, and government reports for accuracy, consistency, and proper supporting documentation.
7. Establish a practical and realistic revenue recognition policy that reasonably reflects the completion of the earnings process and an estimate of the revenue earned.
8. Monitor year-end sales transactions to ensure they are reported in the appropriate period.
9. Evaluate accounting for non-recurring transactions to ensure they are properly reported and disclosed.
10. Establish policies for cost deferrals, such as start-up costs, R&D costs, and depreciation and amortization periods and lives.
11. Establish policies and procedures for periodic assessments of significant valuation reserves.
12. Establish policies and procedures to ensure that liabilities for future obligations are properly recorded and commitments and contingencies are properly disclosed.
13. Prohibit practices to smooth income, such as the use of reserves to shift income from one accounting period to another.

14. Implement a process to evaluate specific liabilities and assets and make the evaluation of the account balances part of the operating procedures when preparing financial statements.
15. Ensure that personnel executing financial reporting clearly understand the financial reporting objectives that their process is designed to accomplish.
16. Ensure that personnel performing the financial reporting process are qualified to make the critical decisions required for fair and accurate financial reporting.
17. Segregate duties (such as the preparation of top-side entries and the review and approval of financial statements) to ensure integrity in the preparation of financial statements.
18. Ensure that accounting personnel independent of the financial statement production process manually foot financial statements.
19. Ensure that accounting personnel independent of the preparation process review disclosure information and supporting documentation for accuracy.
20. Ensure that non-finance personnel responsible for disclosure content independently review related disclosures.
21. Assign both internal and external auditors to review the external report preparation process.
22. Review all interim financial statements for reasonableness, comparing the information to budgeted and forecasted information.
23. Ensure that all drafts and final versions of financial statements are approved by the controller and CFO and in accordance with generally accepted accounting principles.
24. Ensure that all topside entries to the financial statement are documented and approved by the controller and CFO.
25. Ensure that all disclosure information is approved by the controller and CFO prior to inclusion in the financial statement.
26. Safeguard access to accounting and finance records, documents, and processing.

## C. Reliable information is communicated to external stakeholders.

### Business risks

- Stakeholders will receive inconsistent information from the company, resulting in confusion.
- Unauthorized individuals will review and disclose confidential and proprietary information.

### Control practices

1. Assign specific individuals the responsibility to discuss the financial results with individuals and organizations outside the company.
2. Disclose new developments such as interim filings and press releases on a timely basis.
3. Brief shareholders, analysts, media, regulators, and other stakeholders appropriately and in a timely manner.

# UNIVERSITY OF TOLEDO INTERNAL AUDIT DEPARTMENT
# PROVIDE EXTERNAL FINANCIAL INFORMATION

Compliance with applicable laws and regulations

**A. The company's reporting complies with applicable laws, regulations, and contracts.**

**Business risks**

- Contractual obligations will not be upheld.
- The company will not comply with applicable laws and regulations.

**Control practices**

1. Prepare external financial reports on a timely basis and in compliance with applicable laws, regulations, rules, and contractual agreements.
2. Inform employees of applicable laws, regulations, rules, and contractual agreements.
3. Monitor activities of the FASB, EITF, SEC, and international standards setters appropriately (for example, through newsletters, databases updating activities of standards-setters, participation in industry and professional committees, and consultation with outside experts).
4. Support all decisions about accounting policies with current documentation as well as the approval of high level accounting managers and consult with external advisors, as appropriate.
5. Ensure that accounting and senior management perform a quarterly review of financial statements to verify compliance with accounting policies and generally accepted accounting principles.
6. Ensure that accounting managers discuss all estimating methods/assumptions and document them in the accounting policy manuals.

**B. The company's reporting complies with country requirements.**

**Business risks**

- The company will not comply with the reporting requirements of a particular country.
- The company will not comply with record retention requirements.
- The charge of accounts will not be complete and accurate.

**Control practices**

1. Devise a process that ensures the right personnel understand the financial reporting requirements 1. Of each country in which the company does business, and 2. Of every securities exchange that lists the company's publicly traded securities.
2. Prepare financial reports in accordance with country requirements and submit them to regulatory bodies in a timely manner.
3. Retain accounting and finance records in accordance with established record retention and tax requirements.