

ENTITY 2019 Audit Programs

June 30, 2019

ITEMS FOR COMMENT – INTERNAL CONTROL

The following guidance should be used by the auditor to evaluate the control deficiencies identified (AU-C 265):

Definitions:

Deficiency in Internal Control – exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis.

Significant Deficiency – a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Material Weakness – a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the financial statements will not be prevented or detected and corrected on a timely basis.

Reasonable Possibility – exists when the likelihood of the event is either reasonably possible (chance of future event or events occurring is more than remote but less than likely) or probable (future event or events are likely to occur).

Magnitude – refers to the extent of the misstatement that could have occurred, or actually occurred, since misstatements include both potential and actual misstatements.

Factors which affect the magnitude of a misstatement and might result from a deficiency or deficiencies include, but are not limited to, the following:

- The financial statement amounts or total of transactions exposed to the deficiency.
- The volume of activity (in the current period or expected in future periods) in the account or class of transactions exposed to the deficiency.

Risk factors affect whether there is a reasonable possibility a deficiency, or a combination of deficiencies, will result in a misstatement of any account balance or disclosure. The factors include, but are not limited to, the following:

- The nature of the financial statement accounts, classes of transactions, disclosures and assertions involved.
- The cause and frequency of the exceptions detected as a result of the deficiency, or deficiencies, in internal control.
- The susceptibility of the related asset or liability to loss or fraud.
- The subjectivity, complexity or extent of judgment required to determine the amount involved
- The interaction or relationship of the control(s) with other controls.
- The interaction with other deficiencies in internal control.
- The possible future consequences of the deficiency, or deficiencies, in internal control.
- The importance of the controls to the financial reporting process.