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Internal Control System (ICS) Group Financial Reporting



Suddenly you get the big picture.

Many corporations use software products to prepare their consolidated financial statements. However, an effective internal control system (ICS) must also be in place. An ICS serves as an important management tool for achieving corporate objectives, and it is a component of good corporate governance.

According to the International Standards on Auditing (ISA), an ICS includes all procedures, methods, and measures implemented by executive bodies with the aim of guaranteeing the reasonable achievement of corporate goals in the following areas:

- Reliability of financial reporting
- Effectiveness and efficiency of business activities
- Compliance with applicable laws and other regulations

Practical experience

On behalf of the Audit-Committee, the Chief Financial Officer or the ordinary auditor, we reviewed the ICS at numerous groups within the IT-based group financial reporting.

Our experience in auditing consolidated financial statements has shown that when software solutions are used for group accounting, an ICS is often insufficient or not effective enough. In fact, compliance with the basic principles of proper accounting is not always ensured to the extent required.

In particular, the accounting rules built into the software that result in automatically generated entries in the consolidated statements are not sufficiently documented. In addition, they cannot be interpreted by a competent reader in a reasonable amount of time.



We also discovered in a number of applications that we assessed that the rules were sometimes set incorrectly or incompletely, which led to erroneous or incomplete entries in the consolidated statements.

In some cases it took a long time to replicate the figures calculated by the software in the consolidated statements, which resulted in only partial compliance with the basic principles of proper accounting. This applies particularly to the consolidated figures in the cash flow statement, translation reserves, and the statement of changes in equity.

Our services

By using a standard program that we developed for assessing the effectiveness and efficiency of ICS in consolidation software systems we can help you implement and develop as well as assess the internal control system regarding group financial reporting.

The following areas are evaluated or assessed:

- Access rights
- Processes for modifications and upgrades to settings in the consolidation software
- Data collection process and data control mechanisms
- Assessment of proper consolidation software documentation, particularly of entries that are automatically generated by the system
- Compliance with legal record keeping requirements
- Group manual administration
- Human resource organization

The results of our analysis will highlight areas where action is needed and the concrete measures that must be introduced to build and maintain an effective, efficient ICS.

Existing risks

Using consolidation software for preparing group financial reports involves the following risks (list not exhaustive):

- Errors in the consolidated financial statements because the software rules that automatically generate entries for the group financial reports do not correspond to accounting standards
- Errors in the consolidated financial statements due to incomplete or ineffective IT controls
- Illicit or unauthorized manipulation of the database / consolidation software, possibly leading to incorrect balance sheets
- Delayed publication of the consolidated financial statements due to 'technical' problems
- Violations related to compliance with legal record keeping requirements
- Mistakes in the consolidated financial statements due to delayed instructions to group companies about modifications / updates to accounting standards
- Entries generated automatically by the software are not included in the movement schedules, resulting in movement schedules that do not correspond to the balance sheet or income statement
- Deferred taxes are not considered on consolidation entries

Added values for you

A team specialized in IT-based group financial accounting will analyze the processes, efficiency, and effectiveness of the ICS and compliance with the basic principles of proper accounting. The team will then highlight problem areas and risks and will provide concrete solutions recommended for remedying them.

You receive:

- If applicable, instructions on how to further optimize the efficiency and reliability of the ICS
- Findings on compliance with the basic principles of proper accounting and, where required, practical recommendations on how to meet legal requirements
- Details on possible errors in the group financial reports from problem areas in the data collection and processing procedures, and practical solutions to improve processing reliability
- If applicable, guidelines on how to optimize processing based on our many years of experience in this area

Based on the result of our reviews, the Audit Committee respectively Chief Financial Officer are able to issue clear directives regarding the ICS requirements within the group financial reporting.

Based on our results, the ordinary auditor is able to define specific audit procedures during the planning of the audit. These procedures effectively consider the existent circumstances.

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