



zanetti &  
partners

# INTERNAL CONTROL SYSTEM (IKS)

## Group Financial Reporting

---



Many corporations use software products to prepare their consolidated financial statements. These IT solutions include built-in calculation rules which automatically generate journal entries in the consolidated financial statements. Therefore, an effective internal control system (ICS) must 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 to provide reasonable assurance about the achievement of corporate objectives in the following areas:

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

## **PRACTICAL EXPERIENCE**

On behalf of the Audit Committee, the Chief Financial Officer or the external auditor, we assessed at numerous groups the ICS in the context of IT-based group financial reporting.

Our experience has shown that when software solutions are used for group accounting, the ICS is often insufficient or ineffective. In fact, compliance with the basic principles of proper accounting is not always ensured to the extent required.

For example, the calculation rules built into the consolidation software, which automatically generate journal entries in the consolidated financial statements are not sufficiently documented. In addition, they often cannot be interpreted by a competent reader in a reasonable amount of time.

In addition, we found that the calculation rules were sometimes set incorrectly or incompletely, which led to erroneous or incomplete journal entries in the consolidated financial statements.

In some cases, the traceability of the figures shown in the consolidated financial statements was very time-consuming or non-existent in some cases. This applies particularly to the balance sheet item cumulative translations adjustments (CTA) and the consolidated figures in the cash flow statement and statement of changes in equity. As a result, compliance with the principles of proper accounting is only limited or not fulfilled at all.

## OUR SERVICES

As certified public accountants we assess the effectiveness and efficiency of the ICS in the context of IT-based group financial reporting. For this purpose, we have developed and use standard program which ensures a professional and efficient approach.

Moreover, we support corporate groups in the design, implementation, and maintenance of an appropriate and suitable ICS.

In assessing the effectiveness and efficiency of the ICS, we focus on the following areas:

- Access rights concept: design, implementation, and maintenance
- Processes for adjustments and additions of settings in the consolidation software due to changed requirements (by legislator, regulator, or management)
- Data collection process and data control mechanisms for reported data
- Assessment of the documentation of the consolidation software, particularly of the built-in calculation rules which automatically generate journal entries in the consolidated financial statements
- Processes for ensuring data consistency on consolidated level
- Compliance with legal record keeping requirements
- Group accounting manual administration
- Personnel organization
- etc.

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



## EXISTING RISKS

The assessment of the ICS in the area of IT-based group financial reporting can reveal weaknesses that might impair the reliability of financial reporting.

Examples:

- Incomplete reporting package, including group chart of accounts, for data collection at group companies.
- The calculation rules built into the consolidation software do not cover the requirements of the applied accounting standard.
- Incomplete or ineffective IT controls
- Adjustments/additions are not implemented in due time or incompletely
- Consolidation measures posted automatically in the balance sheet by the software have not been transferred to the movement schedules.
- Deferred taxes on consolidation measures are not considered or calculated based on wrong tax rates.
- Unauthorised manipulation of database or consolidation software.
- Missing fallback scenarios in case of technical breakdowns
- Violations of compliance with legal record keeping requirements.
- etc.



## ADDED VALUES FOR

Our team specialized in IT-based group financial reporting will analyse the processes, the efficiency and effectiveness of the ICS and the compliance with the basic principles of proper accounting and highlight weaknesses and risks. At the same time, we propose concrete solutions recommended for remedying these weaknesses and risks.

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 of weak points in the data collection process and processing procedures as well as practical solutions to improve processing reliability
- If applicable, guidelines on how to optimize processing based on our many years of practical experience in this area

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

The group auditor is, based on the results of our assessment, able to define and perform more targeted and specific audit procedures to mitigate the risk of misstatements in the consolidated financial statements.



---

### Zanetti & Partners AG

Obstgartenstrasse 7  
CH-8006 Zürich

### CONTACT

Phone +41 44 365 28 88  
info@zanettipartners.ch  
www.zanettipartners.ch

---

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.