Examples of Controls in Small Entities

Overview[1]

Under AU-C 315.14, auditors are required to evaluate the design of their client's controls and determine whether they have been implemented. However, data gathered by the AICPA Peer Review Program indicates that many auditors are not meeting this requirement. In fact, non-compliance with paragraph .14 is nearly twice as common as non-compliance with any other requirement of AU-C 315.

One cause of this non-conformity is the misconception that smaller audit clients have no controls, and therefore paragraph .14 does not apply in these audits. This is a false assumption. While an entity may not have documented controls, some controls always exist.

To support compliance with AU-C 315, the AICPA has developed this practice aid to provide examples of controls that could be implemented by entities of any size. This practice aid is not intended to provide an exhaustive list of possible controls that might be implemented by small businesses, nor is it meant to serve as an endorsement of the controls described. Rather, this aid seeks to provide practitioners with a reference point when identifying controls at their small business clients.

If an auditor determines that one or more of these controls are present at their audit client, the auditor should evaluate the control's design and implementation in accordance with AU-C 315. This supports the identification and assessment of risks of material misstatement.

---

[1] **Note:** This practice aid is intended to help auditors comply with AU-C section 315, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*, when performing audits of small audit clients. This publication is an "other auditing publication" as defined in AU-C section 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards* (AICPA, Professional Standards). "Other auditing publications" have no authoritative status; however, they may help you understand and apply certain auditing standards.

In applying the guidance included in an "other auditing publication," the auditor should, exercising professional judgment, assess the relevance and appropriateness of such guidance to the circumstances of the audit. The auditing guidance in this document has been reviewed by the AICPA Audit and Attest Standards staff and published by the AICPA and is presumed to be appropriate. This document has not been approved, disapproved or otherwise acted on by any senior technical committee of the AICPA.

If an auditor determines that none of these controls are present at their audit client, and other compensating controls are not present, the auditor should consider if it is feasible to plan an audit that will reduce audit risk to an acceptably low level.

Material Class of Transaction, Account Balance or Disclosure	Examples of Controls that May Be Present in Small Entities
Financial Closing and Reporting	The owner/treasurer/director of finance, etc. (“the owner”) establishes a strong “tone at the top” reflecting a commitment to acceptable business practices, the company’s ethical values and employee integrity.
Financial Closing and Reporting	The owner reinforces the importance of integrity and ethical values through communications with personnel.
Financial Closing and Reporting	The bookkeeper/controller/staff accountant (“the bookkeeper”) reconciles all accounts monthly.
Financial Closing and Reporting	The owner reviews a budget vs. actual report each month and investigates any unexpected results.
Financial Closing and Reporting	The financial statements are prepared by the CPA firm and reviewed by the owner.
Financial Closing and Reporting	The entity’s accounting software is password protected. The password is changed regularly, and access to the login credentials is limited to the owner and the bookkeeper.
Financial Closing and Reporting	The company performs a background check on all prospective employees.
Financial Closing and Reporting	The bookkeeper is required to take an annual vacation.
Cash Management	The owner receives the bank statement at their personal address (electronically or hard copy). The owner reviews the activity in the statement monthly and investigates any discrepancies.
Cash Management	The bookkeeper performs bank reconciliations monthly. The owner reviews the reconciliations and investigates any unexpected results.
Cash Management	The authority to sign checks is limited to the owner and the bookkeeper, with checks above a dollar threshold requiring dual signatures.
Cash Management	During their monthly review of the bank statement, the owner analyzes cleared checks to ensure vendors are on the approved list, checks are

Material Class of Transaction, Account Balance or Disclosure	Examples of Controls that May Be Present in Small Entities
	not being issued out of order and signatures adhere to the company's check-signing policy.
Cash Management	Checks are kept in a locked drawer to which only the owner and the bookkeeper have access.
Cash Management	The company uses pre-numbered checks. The bookkeeper defaces and retains any voided checks.
Cash Management	Petty cash is limited to an immaterial amount and is kept in a locked safe to which only the owner and the bookkeeper have access.
Accounts Receivable	The owner reviews an aging schedule of customers' accounts receivable monthly.
Accounts Receivable	All write-offs or credit memos require approval by the owner. Evidence of approval is filed with the original invoice.
Accounts Receivable	All mail is opened by the administrative staff. Cash receipts are logged and stamped "For Deposit Only" before they are provided to the bookkeeper for recording. The bookkeeper places cash receipts in a locked safe and deposits them on the day they were received.
Accounts Receivable	During their monthly review of the bank statement, the owner compares the bank deposits to the cash receipts log and investigates any discrepancies.
Inventory	Purchase orders are issued for purchases exceeding a defined threshold. All purchase orders are required to be approved by the owner.
Inventory	Upon receipt of goods from the supplier, all materials are inspected for condition and independently counted.
Inventory	The employee receiving the goods signs and dates the shipping document as proof of delivery and provides the document to the bookkeeper.
Inventory	The entity conducts a physical inventory count at fiscal year-end and the bookkeeper reconciles the results to the accounting records.
Inventory	The warehouse is locked outside of normal business hours and security cameras have been installed.
Property	The company has established a minimum threshold for capitalization. The bookkeeper notifies the company's CPA firm of additions and

Material Class of Transaction, Account Balance or Disclosure	Examples of Controls that May Be Present in Small Entities
	disposals, which the firm records in the company's fixed asset register. The owner then reviews the register quarterly.
Accounts Payable	The bookkeeper maintains an approved vendor list, which is reviewed quarterly by the owner. Any changes to the list require owner approval.
Accounts Payable	The original invoice, shipping document and purchase order (where applicable) is reviewed by the bookkeeper before a check is issued.
Accounts Payable	When the threshold for dual signatures is exceeded, the owner reviews the invoice, shipping document and purchase order before signing.
Accounts Payable	Once the check is issued, the invoice is marked "Paid" and the check number is noted to prevent double payment.
Sales	The bookkeeper reviews sales invoices and shipping documents to confirm that terms have been met before recording sales.
Payroll	The bookkeeper works with a service organization to process the payroll. The owner reviews each payroll report and scans for phantom employees, unapproved overtime, unapproved pay raises and other discrepancies.
Payroll	All changes to payroll are requested in writing and approved by the owner before being submitted to the payroll service.
Other Expenses	Employee reimbursements are submitted in a standard format and supported by receipts. The owner reviews and approves reimbursement requests before payment.