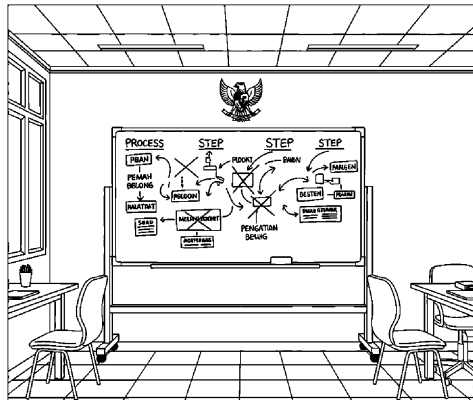


SPECIFIC-CASE

WORKSHEET 9 OF 9

Auditor Requires Process Documentation for COSO Compliance

Scenario: A distributor with \$3.1 million in annual revenue is preparing for a credit facility review. The bank's auditor has asked for documented internal controls for three critical processes: cash receipts, procurement approval, and goods receipt. The business has no control documentation. The review is in eight weeks.



Complementary worksheet for
Business Process Reengineering
by Ibrahim Anwar

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What This Is For

A credit facility review at a bank or a pre-IPO audit at the stock exchange does not simply confirm that processes exist -- it confirms that controls over those processes are both designed and demonstrably running. The distinction matters. A cashier who always reconciles the drawer is running a control. If no log records that reconciliation happened, no signature confirms it, and no procedure documents when it must occur, the auditor cannot verify it. From the auditor's perspective, a control that cannot be verified does not exist.

This worksheet structures the documentation of internal controls for the three processes most commonly scrutinized: cash receipts, procurement approval, and goods receipt. It maps each process step against the control questions an auditor will ask: who executes, who approves, what evidence exists that each happened, and whether the executor and approver are different people. Eight weeks is enough time to build the documentation and generate a four-to-six week sample of running records - the minimum an auditor needs to see that controls are not just written, but habitual.

Benefits

What you get when you actually run this worksheet on a real situation:

- Converts a verbal assurance that controls exist into a table an auditor can read and verify independently -- the only form of assurance that counts in a formal review.
- Identifies segregation-of-duties gaps before the auditor does: every row where the executor and approver are the same person is a finding that can be corrected before the review rather than during it.
- Defines the evidence format for each control -- signature, log, timestamp, counter-signature -- which is the step most consistently skipped in informal control environments.
- Produces a four-to-six week running record of controls in practice when started at the beginning of the eight-week window, which is the minimum auditors need to see habitual operation rather than last-minute compliance.
- Creates the foundation for a COSO control matrix that scales as the business grows toward more formal audit environments, without requiring a consultant to build it from scratch.

Framework To Use

— COSO Five-Component Mapping to Operator Practice

COSO's five components translated into the questions a small business operator can answer at each process step. The control activity component (who approves what, how evidence is captured) is the core of this worksheet.

CONTROL ENVIRONMENT

Do management and staff actually run the controls daily, or only when someone is watching? This cannot be documented -- it can only be demonstrated through consistent records over time.

RISK ASSESSMENT

What could go wrong at this step that would affect cash, inventory accuracy, or financial statement reliability? The risk is what justifies the control.

CONTROL ACTIVITY

The specific procedure: who approves, what form is used, how the approval is recorded. This is what the worksheet documents for each step.

INFORMATION & COMMUNICATION

Does the control record reach the right person in time to act if something is wrong? A daily reconciliation log that the manager sees weekly is not a control -- it is a retrospective.

MONITORING

Is someone checking whether the controls are being run? Monthly review of completion logs and quarterly deviation review are the minimum monitoring mechanisms.

How To Use

Follow these steps in order. Each one builds on the previous.

- 1 Select one of the three processes -- cash receipts, procurement approval, or goods receipt. Work on one process at a time. Complete one before starting the next.
- 2 List every step in the process from start to finish. Use the existing process map if one exists. If not, spend 30 minutes mapping the steps with the staff who run the process before filling in this worksheet.
- 3 For 'Who executes': write the role, not the person's name. If only one person in the business can run this step, note it -- that is a key-person dependency and an auditor finding.
- 4 For 'Approval required (Y/N)': mark Y for every step where a second person must confirm or authorize before the process continues. If approvals are happening informally without a documented standard, mark N -- informal approval is not verifiable approval.
- 5 For 'Evidence of execution': name the specific format. Not 'staff signs off.' The specific form: 'goods receipt form GR-01, signed by receiving staff in the counter-signature box, submitted to admin before end of shift.' If no evidence format is defined, write 'none defined' and add it to the action list.
- 6 For 'Evidence of approval': name the specific format separately from execution. Counter-signature on the same form, a system approval record, a dated email confirmation -- the evidence must be distinct from the execution record.
- 7 For 'Segregation of duties (Y/N)': mark Y if and only if the person who executes the step and the person who approves it are different roles. If one person both executes and approves, mark N. That is a segregation gap.
- 8 For every N in the segregation column: assign a different approver role before the review. A senior peer approval -- the warehouse head approving what the receiving staff handled, for example -- closes the gap. The approval does not need to be a manager.
- 9 Start running the controls immediately. The eight-week window gives four to six weeks of records before the review, which is the minimum a bank auditor will accept as a running sample.

Example Use

A distribution business with \$3.1 million in revenue needs to document controls for goods receipt before a credit facility review in eight weeks. The business has a process map but no control documentation.

The owner maps the goods receipt process against the control columns.

Step 1 (receive delivery order from driver): Executes: receiving staff. Approval required: N (no approval needed to receive the document). Evidence of execution: delivery order physically received and timestamped in the receiving log. Evidence of approval: N/A. Segregation: N/A.

Step 2 (verify PO match): Executes: receiving staff. Approval required: N (within normal range). Evidence of execution: PO number written on the delivery order with 'verified' notation by receiving staff. Evidence of approval: N/A. Segregation: N/A.

Step 3 (count physical goods): Executes: receiving staff. Approval required: Y (warehouse head must confirm count). Evidence of execution: count recorded on goods receipt form GR-01, signed by receiving staff. Evidence of approval: counter-signature by warehouse head on GR-01, same session. Segregation: Y -- different roles.

Step 4 (inspect condition): Executes: receiving staff. Approval required: Y for damaged goods. Evidence of execution: condition noted on GR-01, photograph taken for any damaged item. Evidence of approval: warehouse head counter-signs GR-01 before form is submitted. Segregation: Y.

Step 5 (submit GR-01 to admin): Executes: receiving staff. Approval required: N. Evidence of execution: GR-01 in admin's incoming file, timestamped. Evidence of approval: N/A. Segregation: N/A.

Step 6 (admin records in stock system): Executes: admin. Approval required: N for standard goods; Y for items exceeding \$275. Evidence of execution: system timestamp on stock entry. Evidence of approval: finance manager approval in system for items over \$275. Segregation: Y -- admin executes, finance approves.

Segregation gaps identified: none on this process. Control gaps identified: Step 3 had no evidence format defined before this session -- 'warehouse head verbally confirms count' was the previous practice. No verifiable record. GR-01 form is now the defined format.

The owner prints GR-01 forms and starts using them immediately. Week six of eight, the auditor reviews 24 completed GR-01 forms. All show dual signatures. Controls are verified.

The Worksheet

Tear this out, copy it onto a fresh sheet, or fill it in directly.

Auditor Requires Process Documentation for COSO Compliance

Scenario: A distributor with \$3.1 million in annual revenue is preparing for a credit facility review. The bank's auditor has asked for documented internal controls for three critical processes: cash receipts, procurement approval, and goods receipt. The business has no control documentation. The review is in eight weeks.

PROCESS STEP	WHO EXECUTES? (ROLE)	APPROVAL REQUIRED? (Y/N)	WHO APPROVES? (ROLE)	EVIDENCE OF EXECUTION (SPECIFIC FORMAT)	EVIDENCE OF APPROVAL (SPECIFIC FORMAT)	SEGREGATION OF DUTIES: EXECUTOR ≠ APPROVER? (Y/N)

Reflection Prompts

After filling in the worksheet on the previous page, work through these.

1. For every N in the segregation column: write the name of a different role that can serve as approver for that step. It does not need to be a manager -- a senior peer in a different role is sufficient. Assign the new approver before the review. An informal control that runs correctly is better than no control.
-

2. For every blank in 'Evidence of execution': define the format today -- which form, which field, who signs, and by when. Then start running it. A control introduced the week before the review generates a sample of one or two instances. An auditor needs four to six weeks of consistent records to call it a running control.
-

Tips and Traps

TIPS

- Start the control documentation at the beginning of the eight-week window, not the final two weeks. The documentation itself takes one to two days. Building a verifiable running record takes the remaining six weeks. The record is what the auditor is checking.
- Use the simplest evidence format that produces a verifiable record. A paper form with two signatures is as auditor-acceptable as a system approval record. Complexity does not signal credibility. Consistency does.
- For key-person dependencies -- steps that only one person in the business can execute -- document them explicitly rather than hoping the auditor does not notice. Auditors notice. A documented dependency with a written contingency plan is a better finding than an undocumented dependency discovered during the review.
- Segregation of duties at Level 1 (under 20 staff) is structurally difficult when one person wears multiple hats. A senior peer approval -- any second role confirming any execution -- is a meaningful segregation. It does not need to be a separate department.

TRAPS

- Defining controls in the documentation but not running them. An auditor reviewing six weeks of GR-01 forms with no counter-signatures sees a control that is designed but not operating. A designed control that is not running is, from the auditor's view, the same as no control.
- Using the same person as executor and approver and marking the segregation column Y. This is the most common control documentation error and the one most likely to generate an adverse finding. Segregation requires two different roles, not two signatures by the same person.
- Writing evidence formats at a level of abstraction that cannot be verified. 'Warehouse head confirms' is not a format. 'Warehouse head counter-signs field 6 of GR-01 before the form leaves the receiving area' is a format. An auditor can verify the second. They cannot verify the first.
- Completing this worksheet for only one process. The credit facility review will ask for controls on cash receipts, procurement, and goods receipt. Completing one and presenting the other two as 'in progress' during the review is not a passing result.

Appendixes

Appendix A -- Segregation of Duties Quick Reference

Three roles must be separated for every material transaction:

- Executor : the person who performs the transaction
- Approver : the person who authorizes it before or after
- Recorder : the person who enters it into the system or log

At a small business (under 20 staff), having all three roles as different people is often not feasible. Minimum acceptable for a bank credit facility review:

- Executor ≠ Approver (different roles, documented)

Common segregation gaps and low-cost fixes:

Gap: receiving staff counts and records without confirmation

Fix: warehouse head counter-signs the count form

Gap: procurement staff both requests and approves purchase

Fix: finance manager approves any request above \$50

Gap: admin both records and reconciles cash receipts

Fix: manager reviews and initials daily cash log

OJK finding rate for pre-IPO companies (2020-2022):

58% had at least one segregation-of-duties finding on cash or procurement transactions.

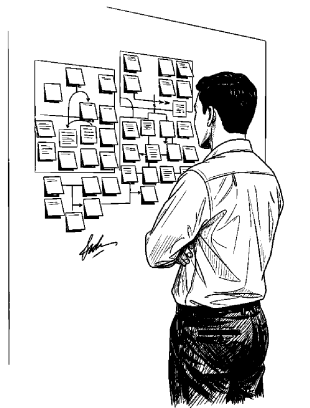
Appendix B -- Running Control Evidence Log (Weekly Check)

Use to confirm controls are running before the review date:

Week	Process	Forms completed	Dual-signed?	Reviewed by
-----	-----	-----	-----	-----
Wk 1			Y / N / Pct	
Wk 2				
Wk 3				
Wk 4				
Wk 5				
Wk 6				

Target: 100% dual-signed for weeks 3-6 (the weeks the auditor will most closely examine).

Any week below 100%: investigate which step missed the counter-signature and correct the process before the next week begins. A pattern of 85-90% compliance signals the control design needs simplification -- if the form is hard to complete consistently, redesign the form.



WHERE THIS WORKSHEET COMES FROM

Business Process Reengineering

A Process That Has Run a Long Time Is Not Necessarily a Correct Process

by Ibrahim Anwar

This worksheet is one of nine in the *Business Process Reengineering* companion worksheet pack. The full pack is grouped into three categories: high-volume worksheets you can run weekly, niche-search worksheets for rare but high-value situations, and specific-case worksheets that walk you through a single concrete scenario.

Every framework, decision filter, and figure used in these worksheets is drawn from the chapters of the source book. The book sets the diagnosis, the worksheets give you the form to act on it.

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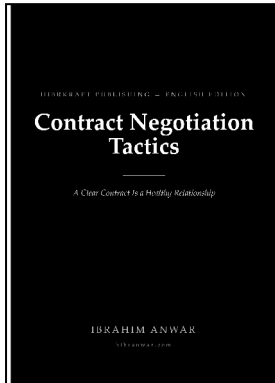
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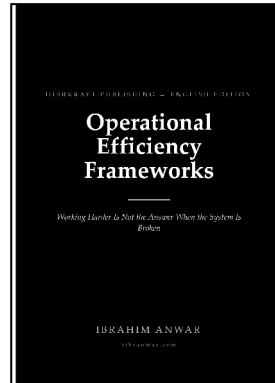
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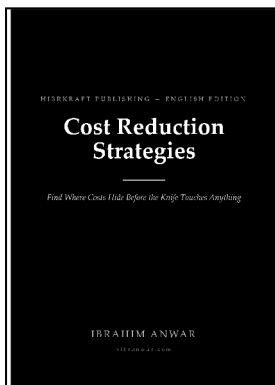
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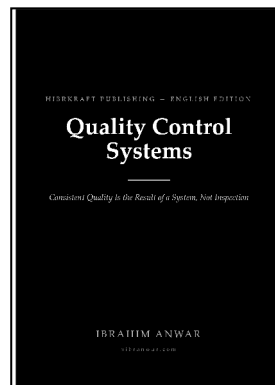
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