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Spreadsheet Controls

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It's a virtual certainty that your external auditors will focus attention on spreadsheets that compute or store financial information feeding into your company's financial statements. While it's tempting to speculate about the scoping of other internal control areas for financial reporting assessment and audit purposes, spreadsheets are typically scoped-in to some degree.

Controls surrounding spreadsheets are often established by the finance staff. This is fine, however I recommend involving information technology (IT) staff as well and here's why. Controls around spreadsheets follow the same principles as other IT-managed applications. IT managers should be able to articulate these principles and assist in designing and implementing spreadsheet controls. The principles are presented in the following paragraphs.

Only spreadsheets that compute or store critical and material financial information need a formal internal control process for the purposes of financial reporting control assessments. We recommend a top-down risk assessment process that identifies which account numbers reflect the largest monetary amounts in terms of transactions or balances. Spreadsheets used to feed entries into these accounts should then have controls applied.

Identify any additional files that are used for important financial procedures such as consolidations, calculating bonuses or payroll, and provisional accounts. There is judgment in terms of which of these spreadsheets should be formally controlled. In the purest Sarbanes-Oxley (SOX) context, the focus should be on the calculation of the biggest numbers and where the greatest risk of misstatement exists, not on every number calculated in every spreadsheet. Some companies choose to include all spreadsheets used for accruals even when they are not material. This can be an expensive proposition with little gained in terms of risk mitigation to the consolidated financial statements.

Non-critical spreadsheets don't need the overhead and can be less formally managed. Build an inventory of spreadsheets and identify those to be formally controlled. This seems like a simple enough step and by filtering out less relevant files you can reduce the cost of spreadsheet controls.

However, be mindful of the tendency to "short change" the list of critical spreadsheets. By this we mean that people may want to avoid the hassle of spreadsheet controls and thus intentionally exclude some to make their lives easier. Here's a tip: as a one-time exercise with the help of IT, remove the Accounting staff's access to all spreadsheets (including any they think they are hiding on their local PC hard drive) except those on the controlled list and see if they can close the books. If the list is short-changed then people will certainly speak up. Now that we know which spreadsheets must be controlled, the next step is to secure them.

The technique used for spreadsheet security will vary depending on who is allowed to update spreadsheets in your company. The objective is to ensure that only properly authorized changes to both the data and formulae are allowed. To simplify this, you might lump changes to the data and formulae into the same category. What is the difference in risk whether someone makes a mistake in formulae or in keyed in data? The result is the same; an error. Some audit firms may



expect a separate change control process for spreadsheet formulae with locked cells and restricted access so that accounting staff can't alter them. But there are some obvious weaknesses with this approach. Accountants can easily do a "Save As" and create a new version of the spreadsheet with new errors, bypassing all the formal controls. Therefore, consider a robust review and approval process of all journal entries whose numbers have been derived from spreadsheets. The reviewer should approve both the journal entry and the supporting spreadsheet formulae and data. Make sure the approver understands the full scope of their responsibility.

There is software available that ties in with spreadsheets and prevents or flags changes to critical spreadsheets. While caution should be exercised in choosing compliance software, this can be one of the more effective uses of software for compliance. Go to any search engine of your choice; Yahoo, MSN, etc. and search on "Sarbanes-Oxley spreadsheet software" to begin your research.

How can you verify that spreadsheet files are correctly computing accruals and other amounts? This can be a difficult step to implement but it's important. First, don't allow the accountant who actually uses the spreadsheets to make this determination; have someone else test them. People commonly don't see their own errors. Write test lead sheets (scripts) that will verify the formulae in spreadsheets. Test steps should include input of known test data that generate a known answer or result. Another technique is to enter invalid data and verify that the spreadsheet flags the inaccurate data or otherwise draws attention to the error. Use your imagination. If you need help, contact your IT staff as they should have expertise in developing comprehensive and effective test scripts.

Finally, critical spreadsheets should be backed-up. Establish a procedure to test and verify that IT is retaining, and can retrieve, copies of this important information.

To summarize, here are some minimum steps to control critical spreadsheets: *f*

- ⑥ Formalize a process to identify spreadsheets required for financial transaction processing and the preparation of financial statements
- ⑥ Maintain an inventory of these critical spreadsheets
- ⑥ Restrict access to critical spreadsheets to only appropriate people with the rights to view and change
- ⑥ Capture and lock-down "as published" versions of critical spreadsheets that correspond to audited financial statements
- ⑥ Execute tests to verify the accuracy of formulae and data in critical spreadsheets. Save test results for audit trail purposes.
- ⑥ Backup critical spreadsheets to make sure they can be retrieved

As a final word of caution, be aware of recent developments in web- internet based spreadsheets. Such software as Google Docs™, Ajax™ or SecureSheets™ allows someone to bypass the spreadsheet software loaded on their PC and do the same thing across the internet. Determining whether your staff is using this alternative approach can be a challenge. A suggestion is to disable internet access for accountants as they try to close the books and see what happens.

The principles are easy but implementing them can be difficult. Don't be afraid to bring in outside help to be the heavy hand and take the heat for dictating the need for these controls. After all, that's part of an advisor's job. Ensure your spreadsheet control approach through education and securing the expertise to make strong and practical spreadsheet controls a reality.



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