**Template: Example of Specified Procedures Memorandum of Understanding for a Shared Service Centre Audit**

Contents

[Contents 1](#_Toc9420918)

[Background 1](#_Toc9420919)

[Summary of procedures 1](#_Toc9420920)

[Appendix A—Process and systems documentation 5](#_Toc9420921)

[Appendix C—Independent testing of management’s internal controls—Group 8](#_Toc9420922)

[Appendix D—Analytical procedures 9](#_Toc9420923)

[Appendix E—Substantive testing procedures—Group 10](#_Toc9420924)

[Appendix F—Independent testing of management’s internal controls—Statutory 12](#_Toc9420925)

[Appendix G—Analytical procedures—Statutory 13](#_Toc9420926)

[Appendix H—Substantive testing procedures—Statutory 14](#_Toc9420927)

[Appendix I—Confirmation of sufficiency of procedures 15](#_Toc9420928)

[Appendix J—Confirmation of compliance with documentation standards 16](#_Toc9420929)

[Appendix K—Memorandum on examination 17](#_Toc9420930)

[Appendix L—Subsequent events review 19](#_Toc9420931)

[Appendix M—Confirmation of compliance with documentation standards—Completion 20](#_Toc9420932)

**[Address to all OAG engagement teams which will be using the results of the SSC work, detailing only those components which are relevant to each OAG engagement team.]**

**[Date]**

Background

For the purpose of the audit of the [statutory/group financial statements][[1]](#footnote-1) for the year ended [year end] of [name of corporation, department, crown], which uses the Shared Service Centre (SSC) located in [location], certain specified procedures will be performed by the SSC auditor.

The outcome of the procedures performed will be relied upon by you as part of your audits. The specific procedures will be performed based upon Canadian Auditing Standards. The scope of work requested has been designed based on the collaborative effort of the group, component/statutory audit teams and the shared service auditor, according to OAG Audit 2380.

Our audit procedures will substantially consist of identifying and testing controls around those processes in scope. Our testing will consider the operation of the controls across a number of entities; therefore, the samples picked may or may not include transactions in relation to a particular component.

Summary of procedures

**Sharing of financial statement mapping**

The process documentation and geography / financial statement mapping of the SSC and the relationship with financial statement accounts (as documented in appendix **A**), assertions and information processing objectives has been prepared by the SSC team and will be shared with the respective engagement teams.

**I - Work to be performed for the group audit**

From an internal controls perspective, the work to be performed includes procedures around:

* The testing of operating effectiveness of the Control Environment, Risk Assessment, Monitoring of Controls and Information and Communication – Group-wide Controls as indicated in appendix **B**
* Independent testing of management’s internal controls as listed in appendix **C.**
* Upon conclusion of this work, the results of the testing will be discussed amongst the Group audit team, the component/statutory audit teams and the SSC team by [e.g. conference call].

From a substantive testing perspective, the work to be performed includes the following procedures:

* Analytical procedures as described in appendix **D (Note: this is only appropriate in situations where management with reporting and analytical responsibilities for financial results is located at the SSC. If this is not the case, the responsibility for performing analytical procedures will remain with the respective engagement team)**
* Substantive testing procedures of certain processes[[2]](#footnote-2) as indicated in appendix **E**

The substantive testing procedures required to be performed at the Shared Service Centre level are designed based on the following:

* + Specific risk of material misstatement at group level, component level and/or statutory location level;
  + Account balances significant to the group, component and/or statutory locations; and/or
  + Specific procedures that are required by either OAG audit methodology or GAAS.

This document provides the scope of the audit at the SSC. For additional guidance in performing the audit, refer to the relevant section in Section 2300 Group Audits guidance.

**II - Work to be performed for statutory auditors**

Incrementally to the work described above, the results of which will be leveraged for statutory audit purposes, the SSC audit team will perform audit procedures in support of the statutory audits of the following entities:

* Company A
* Company B
* Company C
* etc.

The following incremental agreed upon internal control procedures and substantive audit procedures will be performed (see appendices for specific details by control, test and entity):

*Procedures around internal controls:*

* Additional independent testing of management’s internal controls as listed in appendix **F**

Upon conclusion of this work, the results of the testing will be discussed between the statutory audit teams and the Shared Service Centre team by conference call.

*Substantive audit procedures:*

* Additional analytical procedures for the entities listed on page 2 as detailed in appendix **G (Note: this is only appropriate in situations where management with reporting and analytical responsibilities for financial results are located at the SSC. If this is not the case, the responsibility for performing analytical procedures will remain with the respective engagement teams)**
* Specific incremental substantive testing procedures for the entities listed on page \_\_ as detailed in appendix **H**

**III - Actions required upon receipt of this memorandum**

All engagement teams receiving a copy of this Memorandum of Understanding need to complete and return to the SSC auditor a confirmation of sufficiency of procedures (appendix **I**). Completed copies of all confirmations will be provided to the Group audit team. This will complete the planning phase of the shared service centre audit.

In summary, the following deliverable is required to be completed and returned to OAG (SSC team):

| **Subject** | **Report Template** | **Due Date** |
| --- | --- | --- |
| Confirmation of agreement of sufficiency of procedures | Appendix **I** | April 15, 201X |

**IV - Reporting**

We have included in this Memorandum the following confirmations:

| **Subject** | **Location** |
| --- | --- |
| Confirmation of compliance with documentation standards (as appropriate) | Appendices **J and M** |

Upon completion of our work, we will provide a specified procedures report, together with the following supporting documentation. This information needs to be incorporated into your respective working papers to ensure your audits comply with GAAS requirements regarding documentation of an understanding of internal controls sufficient to allow you to plan your audits.

| **Subject** | **Report template** | **Due date** |
| --- | --- | --- |
| **Internal controls** | | |
| Sharing of the process and subprocess mapping and documentation of financial statement accounts, mapping | Appendix A - completed | January XX, 201X |
| Results of procedures around internal control over financial reporting as listed in appendices A, B, C, G | Appendices A, B, C, **G -completed** | January XX, 201X |
| **Substantive audit procedures** | | |
| Findings resulting from substantive audit procedures ***(reported on an exception basis)*** | Incorporated into Memorandum on Examination (Appendix **K**) | January XX, 201X |
| Subsequent Events Review Procedures | Subsequent Events Review (Appendix **L**) | February XX, 201X |
| Completion confirmation re applicable Audit Documentation Standards | Appendix **M** | March X, 201X |

Appendix A—Process and systems documentation

Identify all processes and sub-processes to be included in scope to address all financial statement assertions and control objectives upon which the end users will request evidence. The mapping needs to be included in Group audit team and component/statutory audit TeamMate audit files, as applicable, to ensure all assertions and control objectives are addressed – refer to template below:

| **Inputs & Outputs** | **Sub-process/**  **transaction** | **Control Objective** | **Description of Control Activities** | **Significant**  **Accounts** | **Information**  **processing**  **objective (C,A,V,R)** | **Assertion**  **(CO, EO, RO, VA, PD)** | **P or D**  **(1)** | **A,**  **M or ITDM**  **(2)** |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| TeamStore Change Forms  Approved TeamStorein TeamStoreFile | TeamStore | Customer TeamStore including changes are entered and processed completely, accurately, and are properly authorized | TeamStore changes need to be reviewed and approved authorized company personnel prior to being processed. | -Trade Receivables,  Net sales,  Note 5 Receivables | V, A | EO, RO, VA | P | A,M |

(1) Preventative (P) or Detective (D) control

(2) Automated (A), Manual (M) or (ITDM) IT Dependent Manual control

**Process flow documentation**

In addition to the above matrix, the engagement teams utilizing the work of the SSC audit team obtain a copy of the documentation of the process flows (e.g., flowcharts and or narratives) by either (entity consent required)

* Sharing the documentation directly with the appropriate teams via e-mail
* Sharing the documentation directly with the appropriate teams via a TeamMate Transport file
* Sharing the documentation by incorporating it into the Memorandum of Examination (Appendix **K**)

**IT System documentation**

Make sure to share the complete inventory of IT Systems and instances that are relevant to the above processes.

**Recognition of what are considered selected relevant controls in scope for the internal control agreed upon procedures work**

Through unique identifiers, the selected relevant controls that are subject to testing by the SSC for the purpose of each of the constituent audit teams, need to be clearly identified in the above documentation. Appendix B—Group-wide controls testing instructions (illustrative example)

Consider relevant control activities performed at a business process level (process-wide considerations) when evaluating transaction level and direct group-wide level controls over a process. Process-wide considerations relate to topics such as:

* Controls over standing data
* Controls over end-user computer tools, such as spreadsheets
* Management's review of access rights
* Segregation of duties
* System postings (based on pre-defined accounts mapping)
* Use of service organizations, including controls over inputs and outputs

Remember that process-wide considerations are generally applicable to multiple sub-processes within a process.

**Specific testing of group-wide controls**

Note that the Group-wide Control testing performed will be applicable and relevant for all group and component statutory audit teams. We will perform tests of Group-wide controls as follows:

| **Procedure** | **Results of testing** |
| --- | --- |
|  |  |
|  |  |
|  |  |
|  |  |

Appendix C—Independent testing of management’s internal controls—Group

Consider relevant control activities performed at a business process level (process-wide considerations) when evaluating transaction level and direct group-wide controls over a process (See above).

| **Location** | **Process/control** | **Operating effectiveness procedures performed** | **Results of testing** |
| --- | --- | --- | --- |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |

*Include here details of all controls to be tested, incorporating details*

Appendix D—Analytical procedures

For the purpose of the Group Audit, we will perform disaggregated analytical procedures (subject to materiality thresholds of \_\_\_\_\_\_\_), according to OAG Audit 7033.1, over the following accounts:

* List all applicable accounts
* **Note: this is only appropriate in situations where management with reporting and analytical responsibilities for financial results are located at the Shared Service Centre. If this is not the case, the responsibility for performing analytical procedures will remain with the respective engagement teams.**

Appendix E—Substantive testing procedures—Group

The following agreed upon substantive audit procedures will be performed. Issues arising as a result of testing will be reported on an exception basis in our Memorandum on Examination (Appendix **K**).

***Examples included below of substantive procedures – tailor as necessary***

**Accounts Receivable**

1. Audit of the reconciliation of the subledger to the general ledger and resolution of reconciling items above \_\_\_\_\_\_.
2. Scanning Analytics of the A/R subledger to identify
   1. Unusually large items (defined as individual items > \_\_\_\_ million)
   2. Credit balances
3. Substantive procedures designed to confirm the existence, occurrence and valuation assertions:
   1. Accounts receivable confirmation on the balance as of December 31.
   2. Tracing of subsequent cash remittance for those balances selected but not confirmed by the third party
   3. Examining shipping documents and copies of sales invoices and other relevant correspondence supporting the paid and unpaid portion of the account balances, and;
   4. Considering whether it is necessary to verify further the existence of the customer.

**Cash and Bank**

1. To the extent not selected as part of your controls testing sample, audit reconciliation of general ledger to 3rd party bank statements at December 31, XX.

**Procurement through Payables**

1. Perform a search for unrecorded liabilities
2. To the extent not selected as part of your controls testing sample, audit reconciliation of general ledger to subledger at December 31, XX

**Notes:**

* Reporting on the results of the above substantive testing will be by exception only. All other documentation associated with the substantive testing above needs to be documented within your team’s TeamMate audit file, as applicable. The procedures detailed above need to be performed according to OAG Annual Audit Methodology.
* Materiality for sampling, fluctuation analysis and group reporting purposes would be based on reporting of balance sheet adjustments of \_\_\_\_\_\_\_or greater and income statement adjustments of \_\_\_\_\_\_\_\_ or greater, unless other materiality amounts are specifically noted in the tests above.

Appendix F—Independent testing of management’s internal controls—Statutory

*The SSC team would incorporate here incremental internal control testing procedures requested by statutory teams, in a format consistent with Appendix C.*

Appendix G—Analytical procedures—Statutory

For the purpose of the statutory audits of the entities listed on page \_\_ of this Memorandum, we will perform disaggregated analytical procedures (subject to materiality thresholds of \_\_\_\_\_\_\_\_\_\_), according to OAG Audit 7033.1, over the following accounts:

* List all applicable accounts, by entity.
* **Note: this is only appropriate in situations where management with reporting and analytical responsibilities for financial results are located at the Shared Service Centre. If this is not the case, the responsibility for performing analytical procedures will remain with the respective engagement teams.**

Appendix H—Substantive testing procedures—Statutory

*The SSC team will include here incremental substantive testing requested by statutory teams, in a format consistent with Appendix E.*

Appendix I—Confirmation of sufficiency of procedures

To Office of the Auditor General of Canada – SSC team

**Acknowledgement of Receipt of Memorandum And Sufficiency of Procedures**

We acknowledge receipt of your Memorandum of Understanding dated [date]. We do not anticipate any issues with the scope of the work that you have outlined above, or the time anticipated for completing your report.

[**We request that you perform the following additional procedures in support of our statutory audit. Please provide us with the estimated hours for these additional procedures.]**

| **Procedures** | **Sample Size** | **Comments** |
| --- | --- | --- |
|  |  |  |
|  |  |  |
|  |  |  |
|  |  |  |

Appendix J—Confirmation of compliance with documentation standards

**(Note - The SSC team will tailor and sign this confirmation prior to despatch of the Memorandum)**

In connection with our audit of the [describe work to be performed] of [name of component] as of [date] and for the [period of audit]:

* We understand the training and supervision requirements of the Canadian Standards on Auditing (CASs) and Canadian Standard on Quality Management (CSQM) 1, (“the Standards”). I hereby confirm that the engagement team collectively has the required competency to perform the requested work according to the Standards.
* With regards to CAS 230 and CSQM 1, we:
  + Are familiar with and will comply with the Standards, and key members of our engagement team including myself, team managers, team members, specialists and internal experts have participated in training;
  + Will prepare as of the report date audit documentation sufficient to meet the requirements of the Standards;
  + Will assemble a complete and final set of audit documentation as of a date not more than 60 days after the report date of the consolidated (group) audit report, and will retain such documentation for a period of seven years from the report date; and
  + Will make any changes to our audit documentation after the report date and documentation completion date according to the Standards.

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  
Name of the component audit team

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  
Engagement Leader

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  
Date

Appendix K—Memorandum on examination

Upon completion of our procedures, we will provide you with a copy of our Memorandum on Examination containing the following information:

**Note - Content will vary depending on whether work has been performed on internal controls, ITGC, or substantive audit procedures at the SSC, therefore the following template has been segregated into “controls” and “substantive” captions.**

**REQUIRED TOPICS**

* An engagement completion document which describes the findings identified by the SSC team. The information on each significant matter would include a description of the matter; implications of the matter; actions taken to address the matter and any additional evidence obtained; and results of consultations with others.
* All matters to be communicated to those charged with governance
* Restrictions on the use of the report, such as the following paragraphs:
  + Because the procedures performed do not constitute either an audit or a review conducted in accordance with [Canadian Auditing Standards or Canadian Standards on Review Engagements], we do not express any assurance on [identify financial statements/special purpose financial information]. [**Include when relevant in the circumstances**: This report relates only to the [financial information] specified above and does not extend to the [financial statements/special purpose financial information] of [name of component] taken as a whole.]
  + This report is intended solely for the use of Office of the Auditor General of Canada - [name of team] [name of parent company] Group Audit Team in connection with the [audit/review] of the consolidated financial statements of [name of parent company] and should not be used for any other purpose.

**SUGGESTED ADDITIONAL TOPICS**

**Controls**

Attach the completed templates in Appendices B and C.

**Substantive Procedures**

* Summary of out-of-balance situations in accounts reconciled at the SSC.
* Details of any exceptions noted in substantive procedures below:

**Test of Details Results (on exception basis)**

|  |  |  |  |
| --- | --- | --- | --- |
| **Account** | **Procedures Specified** | **Sample size & population** | **Exception noted** |
|  |  |  |  |

**Substantive Analytical Procedures**

|  |  |  |  |
| --- | --- | --- | --- |
| **Account** | **Test performed** | **Conclusion** | **Rationale for Conclusion** |
|  |  |  |  |

Appendix L—Subsequent events review

As part of our subsequent events review, we will perform the following procedures:

*Tailor as appropriate*

* Review of latest available financial information;
* Search for unrecorded liabilities; and
* Enquiries of management.

**Note**—**Given that the timing of signing of reports for the Group consolidated financial statements and the various statutory financial statements may vary considerably, the nature, extent and timing of subsequent events procedures is likely to vary substantially for different engagement teams – the SSC team should consider tailoring these procedures for each party as appropriate.**

Appendix M—Confirmation of compliance with documentation standards—Completion

Audit documentation sufficient to meet the requirements of CAS 230 and CSQM 1 (“the Standards”) was prepared as of the report date. Engagement personnel assembled a complete and final set of audit documentation as of a date not more than 60 days after the report date. This audit documentation will be retained for a period of seven years from the report date. Any changes to this documentation after the report date and documentation completion date will be made according to the Standards.

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  
Name of component audit team

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  
Engagement Leader

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  
Date

1. This can be tailored as appropriate to include all report users, or to refer to an appendix. [↑](#footnote-ref-1)
2. Tailor as appropriate. [↑](#footnote-ref-2)