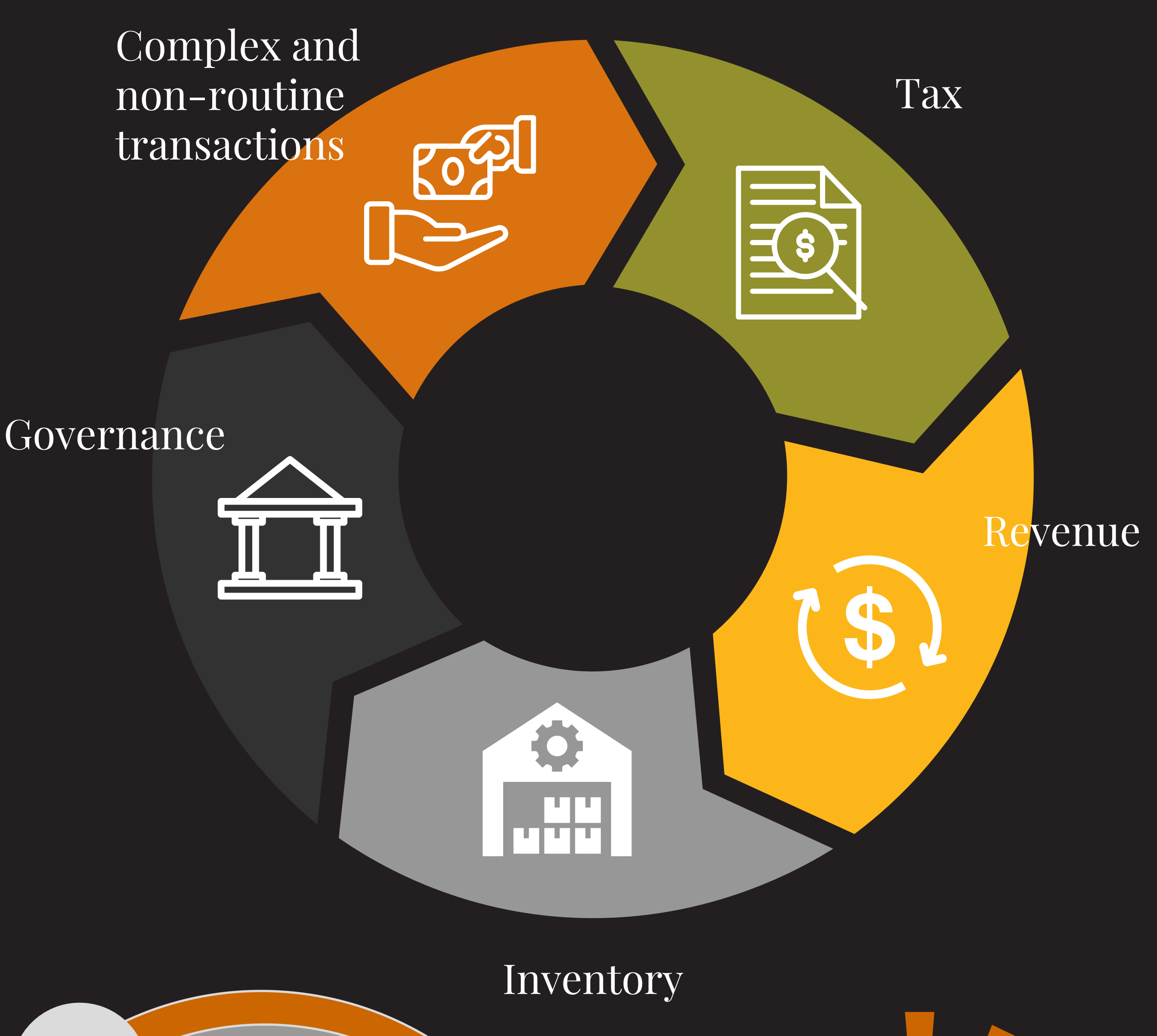
Top 5 Places Internal Auditors Should Look for Material Weaknesses

Discovering a material weakness during an external audit can be costly. Once identified, you must fix the weakness quickly to minimize any reputational and financial damage.

The top five business areas to look for material weaknesses are:



1

Failed management review controls (MRCs)
Happens in complex/non-routine transactions, tax and revenue reviews because of a weak MRC or lack of awareness that a transaction occurred.

2

Imprecise controls
Arise when too many attributes are built into one control. If one fails, the whole control fails.

3

Technical complexity
Caused by complex revenue recognition or other changes in accounting standards. This area is a major driver of material weaknesses. Putting the correct processes in place requires deep knowledge of the technical accounting for your ongoing revenue recognition, lease and inventory accounting.

4

Inaccurate valuation
Is often the main reason for inventory weakness. Incorrectly assessing obsolete/excess inventory or inaccurately recording returns can lead to material errors.

5

Systemic weakness
Is when you have many control deficiencies in one or more areas, which indicates a systemic problem. System problems can cause a material weakness in your control environment and show a lack of proper governance.

Need help to mitigate potential risk?

Reach out to our SOX experts for help understanding and avoiding potential material weaknesses in your organization..

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