

FREE PRACTICAL GUIDE

INTERNAL AUDIT RESOURCE LIBRARY

CONTROL TESTING

How to Test Internal Controls

A practical guide to testing both control design and operating effectiveness

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This guide is designed for internal auditors who need a concise, practical way to apply test internal controls in real engagements. It focuses on decisions, evidence and common failure points rather than theory.

THE OUTCOME YOU WANT

A practical guide to testing both control design and operating effectiveness.

The six-step approach

- 1 Define the risk and expected control outcome.
- 2 Assess whether the control is designed to address the risk.
- 3 Identify the evidence the control should create.
- 4 Select the strongest practical test method: inspection, observation, reperformance or analytics.
- 5 Test enough periods, users or transactions to support a conclusion.
- 6 Evaluate exceptions for pattern, impact and root cause before concluding.

Steps 1-3: Build the foundation

How to Test Internal Controls

1

Define the risk and expected control outcome.

Define the decision, risk or process question before collecting evidence. Write down what a good outcome would look like.

2

Assess whether the control is designed to address the risk.

Use actual transactions, system evidence, data and accountable owners to confirm how the process operates in practice.

3

Identify the evidence the control should create.

Record assumptions, exceptions and boundaries early so later testing remains focused and reproducible.

AUDITOR PROMPT

Ask: "What evidence would convince another experienced auditor that this conclusion is reasonable?" If the answer is unclear, strengthen the planned work before moving on.

Steps 4-6: Turn work into assurance

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4

Select the strongest practical test method: inspection, observation, reperformance or analytical procedures.

Match the depth of work to the severity of the risk. High-risk conclusions need stronger evidence and clearer documentation.

5

Test enough periods, users or transactions to support a conclusion.

Challenge exceptions for frequency, impact, root cause and management awareness before deciding what they mean.

6

Evaluate exceptions for pattern, impact and root cause before concluding.

Finish with an explicit conclusion and next action: no issue, improvement opportunity, finding, escalation or follow-up.

QUALITY CHECK

Before you finalize, ask whether the work directly answers the original audit question, whether evidence is sufficient, and whether a reader can understand the reasoning without being in the audit team.

CONTROL

Manager approval of travel claims.

WEAK TEST

Confirm approvals exist.

STRONGER TEST

Inspect approvals, reperform policy-limit checks on selected claims, and analyze overrides across the full population.

What makes the example useful?

- It starts from a specific risk or audit question.
- It connects evidence and testing to a conclusion.
- It avoids treating process description as proof of control effectiveness.
- It leaves a clear path for management action or follow-up.

Quick reference - use this on your next audit

How to Test Internal Controls

Five practical reminders

- Do not jump straight to sampling; first decide whether the control is capable of working.
- Inquiry helps understanding but rarely proves effectiveness on its own.
- A signed approval is not automatically evidence of meaningful review.

Mini self-check

- ☐ Have I linked the work to a clear audit objective or business risk?
- ☐ Is the evidence strong enough for the importance of the conclusion?
- ☐ Have I distinguished facts, explanations and assumptions?
- ☐ Have I considered root cause and recurrence, not only the immediate exception?
- ☐ Can management understand what decision or action is required?

RESOURCE NOTE

This is a practical learning resource, not formal professional guidance. Adapt the approach to your organization, applicable standards, regulation and audit methodology.