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Interní kontrolní systémy v podniku

Internal control systems in the company

Bc. Monika Štenglová

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3. Analyse the internal control systems in selective areas of the corporate activities.
4. Evaluate the internal control systems in the company.

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Ing. Marie Černá

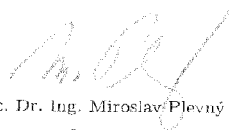
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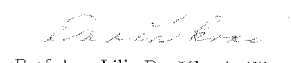
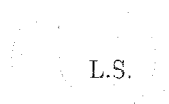
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Doc. Dr. Ing. Miroslav Plevný
děkan



Prof. Ing. Lilia Dvořáková, CSc.
vedoucí katedry

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Prohlašuji, že jsem diplomovou práci na téma

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Introduction

Internal controls are continuously being more important for most of the organizations all over the world. They are going to be an integral part of the organization's financial and business policies and procedures. The reason for that is to give a reasonable assurance that the business objectives stated to the stakeholders will be achieved. This is only possible if the company has reliable financial statements, procedures and policies that are compliant with all legal and company requirements and if the overall performance of the company is measured and continuously analyzed for truthfulness. To have effective internal controls implemented in the company doesn't only mean that there are many restrictions defined to avoid potential fraudulent activities. The necessity is also to motivate all the people in the organization to focus on the accomplishment of the defined targets that are important for the achievement of the company objectives. Last but not least fact to be considered within the implementation of the processes in the company is to compare the costs arising from the additional controls with the benefits coming through adherence of these internal controls.

The main goal of this thesis is to analyze and evaluate the internal control systems having impact on the financial results. These controls, tested on the selected American company, will be then evaluated and action plan will be defined for processes that don't comply with the Sarbanes Oxley Act.

The first part of the thesis will describe the importance of the internal controls and risk management that is a component of effective corporate governance. It will focus on the overview of the system of the internal controls in the USA because the practical part will analyze the internal controls in an U.S. listed company.

The major part of this thesis will be focused on the internal controls in the U.S. company Lear Corporation, concretely Lear Corporation Czech Republic, s.r.o. – plant Tachov. The concern Lear Corporation is listed on the US stock exchange and has to meet

the requirements of the Sarbanes Oxley Act. The compliance with the requirements of this law will be tested in the analytical part of this thesis and after that the internal controls will be evaluated and action plans determined for processes that are running deficient in the plant. The sample size for testing will be the fourth quarter of the year 2011 and the first quarter of the year 2012 with the plan to define corrective actions for the first half of the year 2012 to be after that fully SOX compliant in all mandatory aspects of the internal controls.

1. Characteristic of the internal control systems

1.1 Internal control system

“Internal control is broadly defined as a process, effected by the entity’s board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

1. Effectiveness and efficiency of operations.
2. Reliability of financial reporting.
3. Compliance with applicable laws and regulations.” [2]

Internal control system contains systematically formed organizational actions and controls in the company to keep the regulations and to avoid damages caused by employees or other parties. Effective internal control is for the company an assurance but not a guarantee that all defined business objectives will be achieved. The reasonable assurance comprises a high degree of assurance together with the comparison of costs and benefits of establishing the control procedures.

To have effective internal control in the company, the whole process needs to be supported by the senior management. To bring senior management to feel that strong internal controls are the priority for the long-term welfare of the corporation, the benefits and the negative consequences of failure needs to be clearly highlighted.

The benefits of effective internal controls:

- Activities of the company are in line with the given objectives.
- Protection of the company against fraud and dishonesty.
- Company’s assets are used effectively and efficiently.
- Satisfying work for company employees.

- Stakeholder's and shareholder's confidence and growing value of the company.

1.2 Enterprise Risk management (ERM)

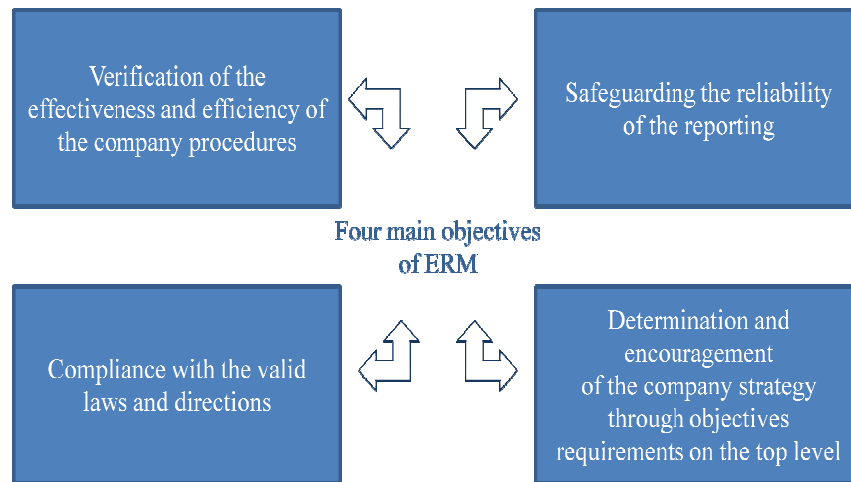
“Risk can be defined as real or potential events which reduce the likelihood of achieving business objectives. Or, put another way, uncertainty as to the benefits. The term includes both the potential for gain and exposure to loss.” [8]

Many scandals all over the world were the impulse to establish new control environment. Global attempts to improve the constitution of the controls for the company management and company monitoring, called corporate governance, have a strong impact on risk management of the company. Companies need to take measures to be attractive for the capital market, to reach higher added value and to minimize loss risk to regain the trust of the investors.

Internal control is one of the main tools by which risk is managed. Important is to know and be aware that internal controls shouldn't eliminate risk but manage risk. Risk management is a way how to maximize business opportunities and reduce potential losses from undesirable events.

Because the current business environment is constantly changing, companies need to change constantly their objectives (preferably quicker than the competitors) and internal controls have to be adjusted and have to react to such changes.

Picture Nr. 1: Main objectives of ERM



Source: Compiled by author, according to [1], 2012

1.1.1 Components of the ERM

The ERM consist of eight functionally essential components:

- Internal environment:
 - affects the definition of the company strategy and objectives, company process flows and process of risk identification and risk management;
 - is affected by the company culture and company history.

Very important factor within the internal environment of the company is the risk identification process. It is a process of identifying and describing the risks that the company is exposed to.

Object definition

- Object definition is the assumption for the event identification, risk assessment and risk management.

- Objectives are defined on strategic level and are then split into lower operational targets.
- Event identification:
 - Events with potential to have negative/positive impact on the company are defined as risk/opportunity.
 - Management of the company needs to consider both external and internal factors.
 - The combinations of the events could be better understandable through considering the events horizontally within the company level and vertically within the individual operational units.
- Risk assessment:
 - enables to assess the impact of potential events on the achievement of the targets;
 - consists of both qualitative and quantitative methods.
- Risk management:
 - means to define measures how to manage the discovered risk;
 - measures are risk avoidance, risk reduction and risk acceptance with respect to the cost/benefit approach.
- Control activities:
 - ensure that the measures are fulfilled correctly and exist within the whole company.
- Information and communication:
 - To enable all employees and management to fulfill their responsibilities, all relevant information needs to be documented and properly communicated within the company.
- Monitoring system
 - The ERM system needs to be tested and adjusted constantly if applicable.
 - The monitoring could be implemented through regular assessments (on management level) or through combination of regular and separate

assessments (depends on the risk assessment and efficiency of the regular assessments).

1.1.2 COSO (Committee of Sponsoring Organizations of the Treadway Commission)

The vision of COSO is “to be recognized thought leader in the global marketplace on the development of guidance in the areas of risk and control which enable good organizational governance and reduction of fraud. “ [3]

COSO was established in the United States and is a voluntary private-sector organization that should improve company’s performance through recommendations and guidance in critical aspects of the company to reduce the extent of fraud. This aspects incorporate business ethics, internal controls, risk management and financial reporting. The three main topics, where guidances are worked out, are enterprise risk management, internal controls and fraud deterrence.

“The COSO framework defines internal control as a process, affected by an entity’s board of directors, management and other personnel, designed to provide "reasonable assurance" regarding the achievement of objectives in the following categories:

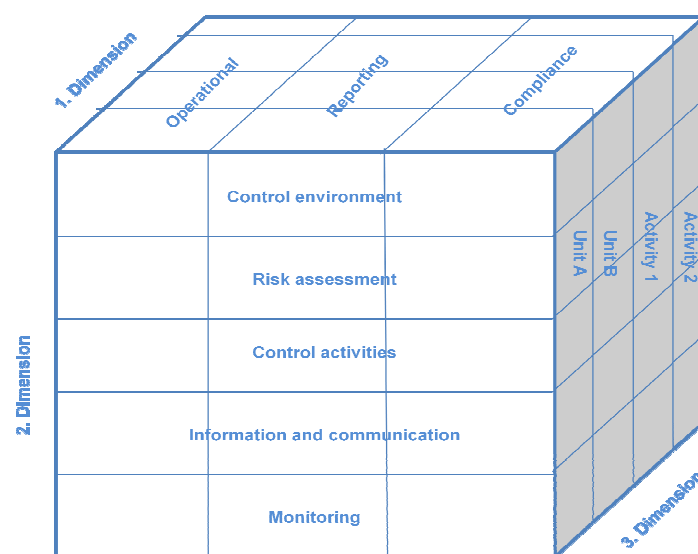
- effectiveness and efficiency of operations;
- reliability of financial reporting;
- compliance with applicable laws and regulations. “ [11]

Internal control systems consist of five components:

- Control environment
- Risk assessment
- Control activities
- Information and communication
- Monitoring

Internal control systems according COSO is a three-dimensional model where the target categories are the first dimension and the five components the second dimension. These dimensions are directly disproportionate. The third dimension is the fact that this internal control system is adequate to the whole company as well for the specific department.

Picture Nr. 2: Enterprise Risk Management Framework



Source: Compiled by author, according to [1], 2012

Control environment

The control environment is a basis for other components of the internal control system. It describes the conditions to establish the principles, procedures and measures.

The employees and is 1 factors that influence the control environment are:

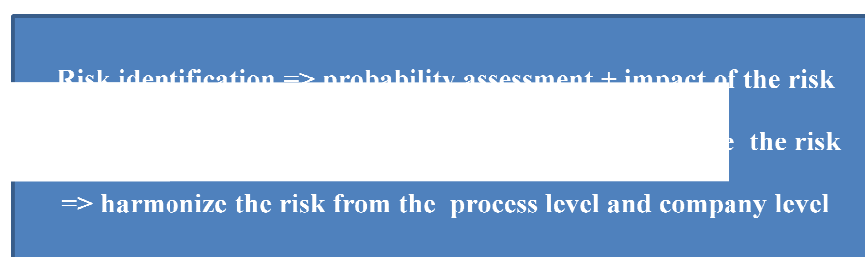
- awareness of ethical values and integrity in the company;
(= ethical and behavior code of the company)

- functional authority awareness
(= job description, performance evaluation, development plan etc.);
- control institution activities
(= regular external audit, risk evaluation control, management independence etc.);
- business behavior of the management
(= influence and determination of the limits for the company employees);
- structure of the organization
(= centralized/decentralized communication, escalation policy, key positions of the company and their responsibility awareness, capability of the organization to have sufficient level of segregation of duties etc.);
- personnel policy principles
(= guidelines for further education, evaluation and clear rules for management bonus payment);
- accountability
(= distribution of the responsibilities to achieve defined targets, responsibility matrix etc.).

Risk assessment

The company is a subject of many risks that endanger the achievement of the defined targets.

Picture Nr.3: **Risk assessment process**



Source: Compiled by author, 2012

To achieve a correct risk assessment, the company needs to have clearly and correctly defined targets on the operational level, reporting level and the company standards compliance level.

Picture Nr.4: **Pre-conditions of the risk assessment**



Source: Compiled by author, according to [1], 2012

Control activities

Control activities are principles and procedures that ensure the compliance with the management decisions. These activities help to take measures to confront the risks of the company. The process is starting with guideline for establishment of the target status and then the control activities should reflect the target status. Control activities should be the mechanism for the control of the target achievement. The quality of the control activities depends on the method of how the controls are performed. The more the process is manually demanding the less the control activity is efficient and credible.

Following control activities exist and have its specific role and effect:

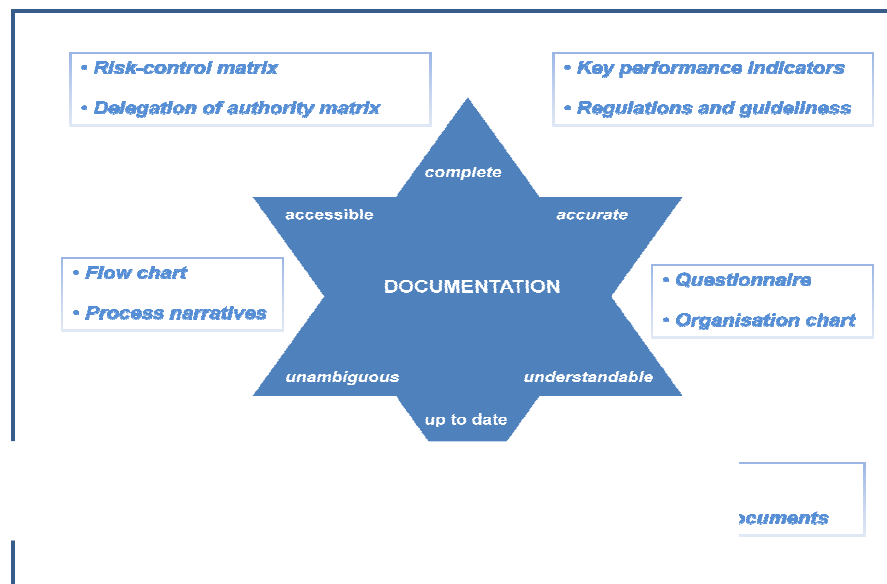
- Manual control activities:
 - activities performed by the company employees;
 - the quality of these controls is determined by the reliability of the process of manual control activities.
- Automatic control activities:
 - activities supported by the IT systems ensuring that forbidden activities can't be performed or can be performed only through proper approval and ensuing system execution.
- Feedforward control activities:
 - activities aimed to avoid the error occurrence;
 - used for processes with high-risk potential.
- Exposed control activities:
 - activities performed to discover the errors in time before they have impact on the financial statements.
- Primary control activities:
 - controls to minimize essentially the risk;
 - participate in the added value of the organization.
- Secondary control activities:
 - supporting activities that are essential for efficient primary control activities;
 - activities that haven't direct customer value.
- Routine process control activities:
 - manual and automatic activities done on daily or monthly basis.
- Non routine process control activities:
 - adjustment activities done to the year end;
 - these transactions are susceptible to manipulation.
- Company control activities:
 - the basis for the assessment of the internal control processes;

- they are not directly oriented to the company processes but to the activities of the management.
- Process control activities

1.3 Documentation requirements

The documentation requirements are different and depend on the business of the company, materiality and company processes. Generally the documentation has to fulfill some basic rules to prove that the internal control processes in the company exists and are functional and efficient. The documentation should ensure that the controls correspond with the company targets and prevent from material losses and fraud. Each process in the company needs to be properly documented and the documents need to be available for a given period.

Picture Nr. 5: **Basic documentation requirements**



Source: Compiled by author, according to [1], 2012

1.3.1 Process narratives

The process narratives describe step by step the whole process in detail. The main principle is to separate the description of the process flow and the description of the process controls. This document should help to understand the process, controls, responsibilities and key roles in the company. While creating the narratives, it is necessary to involve and discuss with individuals at various levels of responsibilities the detailed steps of the process.

The process narratives are the baseline for the analysis of risks, testing of controls and improvement suggestions. The auditors are then in the role to evaluate the processes and recommend improvements. They should focus on the key controls of the process, proper segregation of duties and output of the process.

1.3.2 Process flow chart

The process flow chart describes graphically the sequence of the process activities. It helps to identify the bottlenecks in the company processes. In contrast to process narratives, where the processes are only described in a detail, the process flow chart helps to identify unnecessary delays and make the operations more efficient.

The process steps could be represented either in a vertical form or in a horizontal form. To make the chart understandable, the process flow direction is visible through lines or arrows. The decision of the next step is represented by the status with „yes“ or „no“. The lines and arrows are also used for the transition into other sections of the process.

The flow chart also distinguishes primary processes, support processes and overseeing processes. It depicts the correlation between the particular steps of the process. The process of creating a flow chart needs to consider the following points:

- Aim of the process flow chart.
- Object of the flow chart.
- Description of the process.
- Identification of bottlenecks.
- Improvement assessment and evaluation.
- Summarize the conclusion to assure all the defined aims are incorporated in the process flow chart.

1.3.3 Risk-control-matrix

The risk-control-matrix is one of the main and most important documents of the internal control. The purpose of the matrix is to allocate the individual risks to the company objectives and after that, the internal controls to the defined risks. The frequency of the control activities than needs to be defined.

1.3.4 Segregation of duties

Proper segregation of duties is critical to effective internal controls. To minimize the error probability and avoid conflict of interest, the effective segregation needs to be implemented in each department. This means that different persons in the company are involved into the process or into the transactions to achieve the proper level of independent controls in the firm. The principles of this segregation should prevent from fraud, error and risk misstatement.

There is one optional approach to be implemented and observed – “the four eyes principle”. This rule, also called „the two man rule”, is a mechanism to reach a high level of security through participation of two people, who approve transactions or actions.

The following functions in the company should be preferably separated among different persons:

- Custody of assets = company assets assurance.
- Authorization = transaction approval.
- Recording = collection and booking of the transactions.
- Control activity = transaction review.

1.3.5 Action plan

After regular testing of the internal controls, the action plan with all identified weaknesses in the control activities should be worked out. This ensures the tracking of the process development, current status, process owner and the steps to achieve the compliance with the required process controls. An action plan should also include the assessment of the risk of the individual process weaknesses and thus define the priorities. After proper process control implementation, the testing of the functioning process should take adequate time to ensure the proper testing quality. This adequate time is defined within the SOX rules as burning period.

This thesis will be focused on the internal control regulations in the USA because the company Lear Corporation is US listed company and therefore is obliged to fulfill the requirements of the US legislation and regulations.

2. Description of the internal control systems

The internal control is a main part of the Foreign Corrupt Practices Act (FCPA) and the Sarbanes Oxley Act (SOX). These regulations are obligatory for public companies in the United States.

2.1 FCPA – Foreign Corrupt Practices Act

The Foreign Corrupt Practices Act is a federal law of USA since 1977 and is important due to accounting transparency requirement and provision regarding bribery of foreign officials. It is also one of the main aims of this Act - to eliminate bribes.

„The Act’s aim is to stop companies and individuals from making an offer of payment or an actual payment to a foreign official, foreign political party, or candidate for political office, for the purpose of influencing any act of that foreign official, or to secure any improper advantage in order to obtain or retain business.”[5]

This Act was a result of investigations of the U.S. Securities and Exchange Commission. In 1970s, this Commission discovered over 400 companies that made illegal or doubtful payments to government officials, political parties or politicians. The Act was signed on December 19, 1977 and became an U.S. law. This Act was amended later in 1988, and since this amendment is applicable, also the foreign companies and persons are obliged to keep this law within the territory of the United States. Additionally also all firms, whose securities are listed in the United States, have to meet all accounting arrangements of this Act. These accounting provisions require corporations to keep books and records accurately. They should fairly reflect the transactions of the corporation and to maintain an adequate system of internal accounting controls.

The establishment of the Foreign Corrupt Practices Act resulted in many penalties and many employees or officers of the firms have gone to jail. This was an impulse for implementation of internal procedures that prevent and discover questionable payments in the company.

2.2 Sarbanes Oxley Act

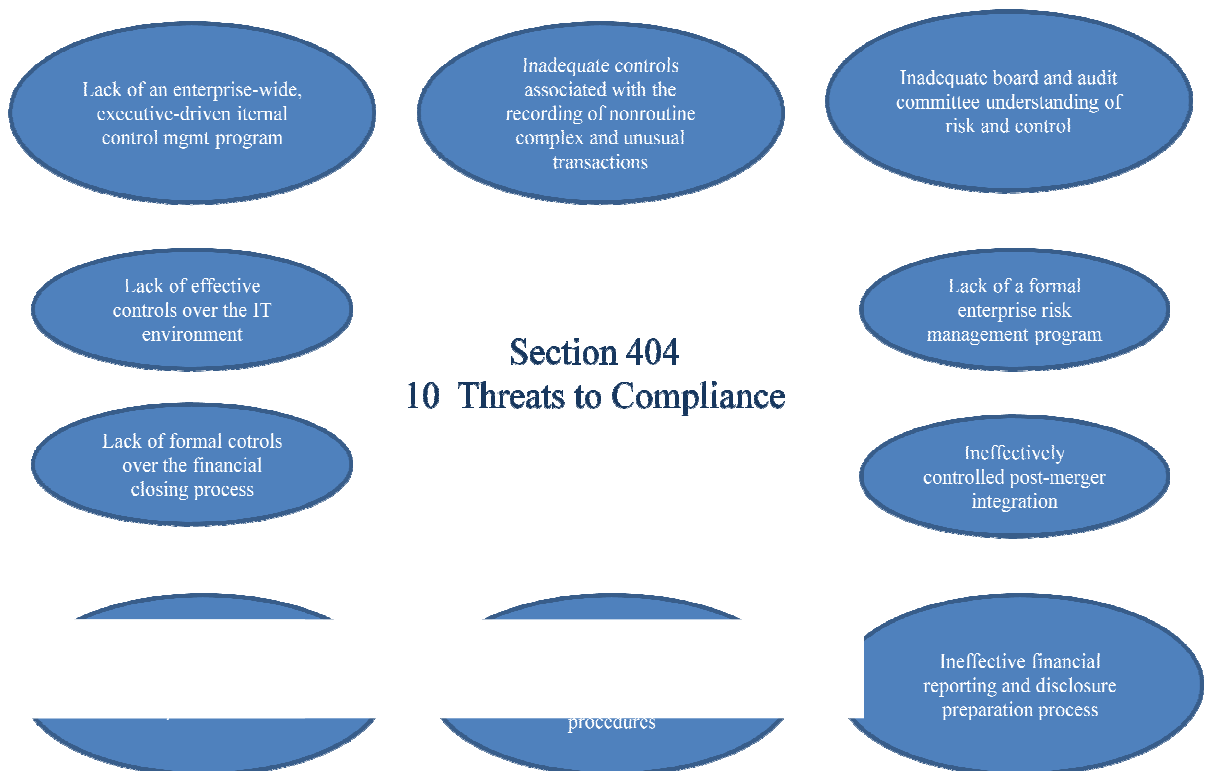
The widely publicized financial accounting scandals, impacting several major U.S. corporations, prompted the U.S. Congress to enact a law which changed how companies must conduct business. This US federal law, referred to as the Sarbanes-Oxley Act of 2002, impacts the Board of Directors and Audit Committee activities, the role of external auditors and the responsibility and accountability of management in publicly-held companies. The Act was named after Senator Paul Sarbanes and Representative Michael G. Oxley.

The issue of Enron and WorldCom highlighted weaknesses in how companies establish controls over authorizing and processing business transactions. These scandals completely damaged the confidence in financial markets of the USA. The system of checks and balances, known as the internal controls environment, has been an area of focus of this law. The Act is arranged into eleven titles where six sections of this are the most important:

- Section 302 – Corporate Responsibility for Financial Reports.
- Section 401 – Disclosure in Periodic Reports.
- Section 404 – Management assessment of Internal Controls.
- Section 802 – Criminal Penalties for Altering Documents.
- Section 906 – Corporate responsibility for Financial Reports.

Section 302 states that CEO and CFO must personally certify that they are responsible for disclosure controls and procedures. These controls have to be evaluated on quarterly basis. According to the section 404, they also have to assess internal controls annually. They have to certify that the company reviewed his financial statements which are fair, accurate and complete. Additionally that the internal control environment is working as intended. A certification must be included in the Annual Report. The external auditors of the company are then required to agree or disagree with the assessment of the statement of the company. The internal control report states management's responsibility for establishing and maintaining an adequate internal control structure and procedures for financial reporting. The internal accounting controls have to be sufficient to provide reasonable assurance that transactions are executed in accordance with management's authorization.

Picture Nr. 6: **10 Threats to Compliance SOX - Section 404**



Source: Compiled by author, according to [4], 2012

Through this act, control environment has profoundly changed. The current environment demands more effort and accountability. This environment promotes a better understanding of internal controls within the organization. Sarbanes Oxley act includes issues such as corporate governance, independence of auditors, necessity to assess internal controls, corporate tax and fraud or conflicts of interest of the analysts.

2.2.1 Public Company Accounting Oversight Board

Sarbanes Oxley Act established a new public agency PCAOB (Public Company Accounting Oversight Board) which is responsible for the registration, regulation, inspection, overseeing and disciplining of companies that perform audits of public companies. Consulting services from the auditors to the issuers of the financial statements are prohibited to maintain independence of the external auditors. SOX also doesn't allow top financial management of the audited company to work for the audit company during the past year.

2.2.2 Materiality

The determination of materiality is different and should consider quantitative and qualitative factors. Qualitative factors are e.g. significant fluctuations from period to period or incorrect mapping of significant account. Assessment of the materiality should be done with assistance of the external auditors and should be a result of what would effect investor's decisions. Management determines where an error could occur and to which amount. Significant accounts are determined according to the probability of material errors. SOX suggests management to identify reporting risks of material misstatement and key controls required to minimize this risks. Section 404 advises that "the maximum amount that an account balance or total of transactions can be overstated is generally the recorded amount, while understatements could be larger." [10]

There are many questions arising from experts whether SOX is a useful legislation. The fact is that it has helped in US capital markets to restore the public confidence and was impulse for companies to establish and strengthen corporate accounting controls.

2.3 Other internal control regulations

Legislation or regulation similar to Sarbanes–Oxley has been introduced also in other states worldwide (Canada, Japan, Australia, South Africa, France, Germany, etc.). Also the EU legislation has been changed towards to strengthen the internal control regulation. Particular parts of the SOX rules were implemented through 4., 7. and 8. EU direction.

United Kingdom - the nonstatutory Combined Code of Corporate Governance:

- is monitored by the Financial Services Authority;
- is similar to Sarbox but has a lighter touch.

China – Basic Standard for Enterprise Internal Control (since July 2009):

- should be obligatory for listed companies and is encouraged by other large and medium size unlisted companies;
- launched by the Chinese Ministry of Finance, the National Audit Office, China Securities Regulatory Commission, the China Banking Regulatory Commission, and the China Insurance Regulatory Commission.

The next part of the diploma thesis will be focused on description of the internal control system in the company Lear Corporation and on the analysis and evaluation of the internal controls in the plant Lear Corporation Czech Republic, s.r.o, - plant Ostrov U Stribra (in the company called plant Tachov).

3. SOX Monitoring Process in Lear Corporation

3.1 Lear Corporation Czech Republic, s.r.o.

“Lear Corporation Czech Republic, s.r.o. is part of an US concern Lear Corporation with the headquarters located in Southfield, Michigan. This whole concern is a leading supplier of automotive seating and electrical power management systems“. [9] Lear Corporation has his locations all over the world in 35 countries and employs about 100,000 employees. As Lear is traded on the New York Stock Exchange, the SOX Act is obligatory to be fulfilled for all locations within the Lear concern.

Lear Corporation Czech Republic, s.r.o. has currently four locations within the whole Czech Republic – in Kolin, Vyskov, Ostrov U Stribra and the latest one in Brno. The first three locations are production locations and the last one in Brno is SSC (Shared Service Center). The location in Kolin belongs together with the plant Ostrov U Stribra to division SSD (Seating System Division) and produces seats for TPCA, s.r.o. (Toyota, Peugeot, Citroen Automobile). The plant Ostrov U Stribra produces seats for BMW AG and the plant in Vyskov belongs to division Electrical and produces connectors.

The whole practical part of this thesis will be focused on one Lear plant in Czech Republic located near Pilsen in Ostrov U Stribra. This plant has been located here since 2008 producing seats for automobile industry. Currently three projects are running in Tachov and all projects are for the customer BMW AG.

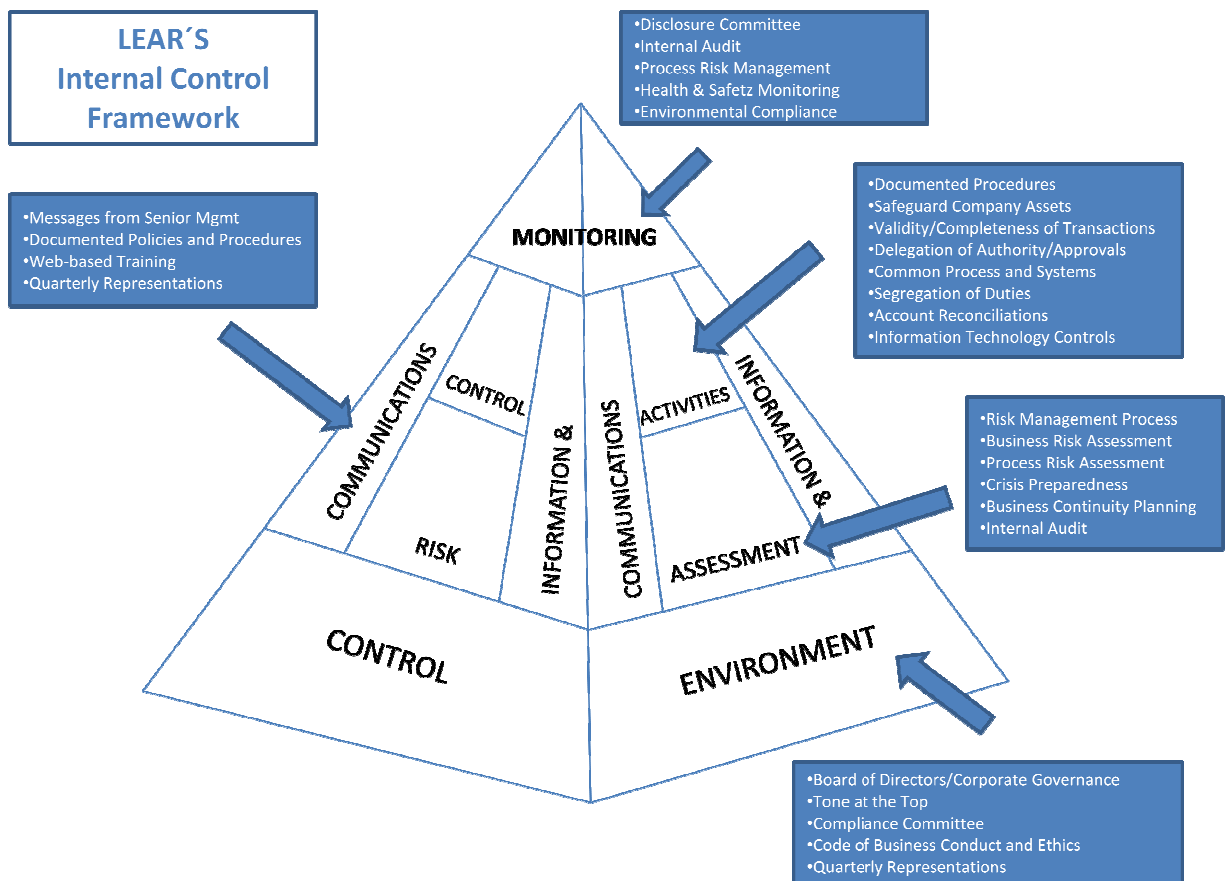
3.2 Overall SOX Monitoring Process

To comply with the Sarbanes-Oxley Act, Lear has developed SOX Monitoring process as mandatory throughout the entire organization. This process should help and assist Lear management in ensuring that SOX rules are held.

The Monitoring process uses a three-pronged approach to ensure the integrity of Lear internal controls over financial reporting and IT general controls:

1. Self assessment and certification – done by all Lear plants, Divisions and Corporate Headquarters.
2. Internal process monitoring and auditing – done by LAS (Lear Audit Service).
3. External auditing – done by an independent audit company Ernst&Young.

Picture Nr. 7: Lear's Internal Control Framework



Source: Compiled by author, according to [6], 2012

Certification

The above mentioned responsibility of the CEO and CFO, to certify in annual and quarterly report that Lear's processes and financial statements are in compliance with the Act, are implemented through internal certification process. The certification is done by division president, CFO, IT director and is rolled down to plant controllers, plant managers and IT managers.

All the responsible people states through this certification that:

- They have reviewed the annual/quarterly report.
- There is no material untrue statement.
- Internal controls have been designed and maintained to ensure material information is made known to management.
- They have evaluated and reported on effectiveness of internal controls annually.
- They have disclosed to auditors and audit committee all significant deficiencies.

3.3 Requirements

Internal control monitoring process is implemented throughout the whole company and has different requirements on location/division/corporate level.

3.3.1 Location controllers/management

Location controllers maintain process narratives, which describe and document processes, changes in business risks and systems. The location controllers together with the plant management are obliged to perform a self-assessment every quarter using the Internal Control Questionnaire. They have to ensure that the required sample testing is adequately performed and documented. At the end of every quarter, location prepares and submit a SOX certification form to the Division champion. By doing so, location

management attests that all self assessments were completed as required, all control deficiencies were reported and the financial reports contain no significant misstatements. Locations are reviewed by the SOX division champion periodically to test the design and operating effectiveness of existing controls. These results are then documented in „trip report“ and submitted to the Global Financial Controls group.

Deficiency report

After completed quarterly testing, deficiency report needs to be done. This report summarizes all deficient processes discovered through the self assessment. The Summary of Control Deficiencies Template compares self-assessment results with Audit Services and E&Y Financial and SOX audit results. The location has to ensure that corrective actions in the deficiency report will be implemented on a timely basis. Before corrective actions are running properly, compensating controls need to be properly documented, reviewed and approved by the SOX Division Champion and the Global Financial Controls group.

3.3.2 SOX division champion

Locations can contact division champion for guidance, advice and training. Champions need to ensure that all deficiencies are reported and the status and remediation activities are properly tracked. SOX champions also attend plan closing meetings to ensure that the audit results are accurate and reflect the control environment. They collect quarterly summary of control deficiencies from all locations and consolidate them into one excel workbook. SOX certification form is also prepared and submitted by the champion to the Global Financial Controls group after the quarter end. All SOX champions communicate and exchange common control issues and solutions with Division locations and other SOX champions. They also update the Risk Assessment for all locations within the Division on at least a quarterly basis.

3.3.3 Division finance

One of the most important roles of division finance is to perform a semi-annual Balance Sheet review at all locations. This review is necessary to ensure proper reconciliation and documentation for each balance account contained within Hyperion (Lear financial reporting system). Within this review, direct evidence exists that internal controls over financial reporting are operating on a continual basis, and remain appropriate also if changes in business systems or activities are identified. The results of the Balance sheet review have to be documented in a summary report, signed by reviewer, plant controller and plant manager and properly maintained on plant and division level. The Balance sheet review is also part of one SOX monitoring question and is also reviewed by internal and external auditors. If deficiencies are identified during the BS review, appropriate corrective actions need to be done and progress of the actions has to be monitored to ensure timely completion. Each location is obliged to complete Quarterly Attest and send to division finance for review. Division finance then consolidates it into one document and submit it to Corporate Accounting.

3.3.4 LAS – Lear Audit service

The role of Lear Audit Service is to review location documentation and obtain direct evidence of internal controls over financial reporting. This reviews include an assessment of the latest Quarterly Attest prepared by plants and divisions, as well as the ICQ and Summary of Control Defficiencies Report. LAS needs to perform annual SOX testing on behalf of management through FOA Audit (Financial/Operational Audit) or Monitoring Plan type audits.

3.3.5 Corporate finance

Corporate finance includes Accounting, Payroll, Shared Services and Tax. Their role is to maintain process narratives for changes in business risks, processes and systems. They have to ensure that corrective action mitigates control deficiencies identified in self-assessments and Audit Services or Ernst&Young audits. These corrections have to be completed timely. They also have to prepare and submit a SOX certification form to the Global Financial Controls group after the quarter end.

3.3.6 Global financial controls

The corporate SOX group develop and update SOX tools as ICQ, Process Narrative, Control Matrices and Deficiency Report template and ensure that LEAR is SOX compliant. They provide guidance to Division Champions and others as necessary and provide training through presentations. Their role is also to review and approve compensating controls and remediation strategies and prepare reports to management and the Audit Committee on the internal control environment.

3.3.7 CEO/CFO

The role of CEO/CFO is to provide annually certification that the internal controls over financial report are effective and appropriately designed. Any issues that could have a material impact on the Corporation needs to be disclosed and appropriately reported to the CFO.

3.3.8 Disclosure committee

The role of the committee is to discuss regularly business risks and financial statement impacts. The members of the committee review results of periodic evaluations of the internal control structure.

3.3.9 Controller's Office

The Controller's Office monitors periodically judgmental reserves and ensures that all adjustments to judgmental reserves are properly documented and approved by management. All significant reserves are reviewed with the Audit Committee of the Board of Directors. The office also updates LEAP (Lear Accounting Practices) policies and procedures and Information Systems Procedure Manual with the latest changes in business risks, systems and US GAAP rules.

3.3.10 Legal department

The legal department has to ensure that all key employees understand the importance and compliance with Lear's Code of Conduct and that all conflicts are investigated and documented appropriately. These results should be then reported to the Audit Committee of the Board of Directors.

3.3.11 Audit Committee of the Board of Directors

This Committee reviews summarized results of internal control audits, conducted by management and internal and external auditors and assesses the significance of the material impact on financial statements. The members together review the integrity

of the financial reporting process and associated controls with management and both internal and external audits. The disclosures, made by the CEO and CFO during the certification process, regarding significant deficiencies or material weaknesses are also reviewed by the committee. The other function of this committee is to investigate and document complaints registered within the Ethics/Fraud communication process and provide appropriate resolution.

3.4 Testing Principles

To start with the testing, it is important to know the principles of the testing. The principles are important to fulfill all requirements of testing. The SOX package includes the following:

- ICQs = Internal Control Questionnaire.
- Process Narratives = description of the flow of activities.
- Control Matrix = minimum controls in six operating cycles.
- Deficiency reports = summary of gaps with corrective actions.

Each plant of Lear Corporation is obliged to test processes described in ICQs and report this testing in the testing database. The Internal Control Questionnaire is divided into 6 different cycles:

- Production cycle – e.g. inventory, cost of sales, scrap, fixed assets etc.
- Expenditure cycle – purchasing, goods received, AP, payroll, petty cash.
- Accounting and reporting cycle – accounting principles, yearly close.
- Revenue cycle – customer contracts, customer invoicing, pricing, AR, shipping, received payments, long-term agreements.
- IT cycle – information technology controls.
- Treasury cycle – debt issuance, recording and monitoring.

The treasury cycle is tested centrally and therefore isn't relevant for the plant testing. The revenue cycle is only partly relevant for the plant because of the fact that the plant has an intercompany manufacturing agreement with Lear Corporation GmbH and invoices all monthly costs with a mark-up to this plant. The seats are then sold to the customer by the German plant. The testing will therefore only include several controls to be tested for this purpose.

The ICQs contains testing of following control areas:

- Authorization – should ensure that the responsible personnel has all events approved before performed.
- Completeness – should ensure that all business transactions are complete and in the correct period.
- Accuracy – should ensure that all legal transactions are recorded on the correct account and with the correct amount. Typical control activities are:
 - processing control;
 - plausibility check;
 - unambiguity check.
- Validity - should ensure that all transactions are recorded according to rules, reported and are according to all legal requirements and management authority.
- Physical Safeguards and Security – should ensure that the access to the material assets and IT systems are controlled and limited through only authorized persons.
- Segregation of Duties – should ensure that one person can't have access to successive processes (e.g. input and authorization of payments).
- Error Resolution – should ensure that all identified errors have immediately corrective actions and significant errors are reported to management accordingly.

The testing is reported by plants through Lear SOX database. The answers of the Internal Control Questions can be:

- YES = controls are operating in the described form or through mitigation or alternative controls.
- NO = controls are not working as described or have compensating controls.
- N/A = controls are not applicable.

The frequency of the processes described in the ICQ's could be:

- daily – testing sample size means 10 examples;
- weekly – testing sample size means 5 examples;
- monthly – testing sample size means 2 examples;
- quarterly;
- semi-annually – review is required each half of a year;
- yearly – means process review should be done once a year.

Compensating controls are controls that ensure fulfillment of the required controls but in another way than described in the ICQs. Mitigation controls are controls that cover the same control process as described in the ICQ but through another method. These controls need to be approved by SOX Champion who has to decide whether it is compensation control or mitigation control.

Each cycle is tested once a year. The testing cycle for the particular quarter is defined by the central departments and is the same for all Lear plants. Testing for this thesis will be done for the first four cycles, which are in the responsibility of finance department of the Lear plants. It is very important to involve all departments of the plant into the testing. This is because individual departments are responsible for their processes. Plant Controller's responsibility is to participate on implementing business processes to advice department managers and ensure compliance with all Lear regulations and directions. All processes should be according to the latest business conditions.

4. Analysis of the internal control systems in selective areas of the corporate activities

This section of the thesis will analyze the particular testing cycles in detail to evaluate, if the processes are currently running in accordance with the SOX Act. The individual controls are tested including following points:

- description of the control that has to be observed;
- description of risk to be prevented through the control;
- type of document + testing sample to be used for testing the control;
- description of the real process in the location;
- testing result.

4.1 Production cycle

The production cycle is together with the expenditure cycle the most demanding cycle for testing. The reason is that Lear Corporation is a company focusing on production activities, and the major part of its property is in fixed assets and inventory. These two main areas are part of this testing cycle.

4.1.1 Fixed assets

Control description:

The fixed asset application has an appropriate level of application controls including edit checks and reasonableness checks.

Risks:

This control should ensure that:

- fictitious or duplicate capital expenditures are not recorded;
- capital expenditures are posted to the correct account at the correct amount;
- depreciation is calculated using the appropriate cost.

Required document:

This control should be tested with sample tests in the system for fixed assets and documented with application control screen shots.

Testing description:

Application control screen shots were done during the testing. Samples tested:

- Negative depreciation – the system doesn't allow to book negative depreciation.
- Booking entry into closed period – the system doesn't allow to book into closed period (whether depreciation, whether asset additions or disposals).
- Duplicate depreciation – the system doesn't allow to book depreciation in the same period twice or more times.
- Duplicate asset additions – the system doesn't allow to book more than once an asset addition for one invoice number of one supplier.

Testing result: YES

Control description:

Capital expenditures above the threshold defined in the LEAP manual are not made without a completed and formally approved project appropriation request (PAR). PARs are approved by the Capital Committee when required as defined in the LEAP manual.

Risks:

This control should ensure that:

- fictitious or duplicate capital expenditures are not recorded;
- capital expenditures are only made after proper approval is obtained.

Required document:

This control should be tested with a testing sample of 10 fixed asset vendor purchase orders

Testing description:

Generally the LEAP manual states that:

“Project Appropriation Request (“PAR”) is the means by which Lear management formally approves the initiation of capital spending. The PAR is an updated presentation of a program’s financial projections and details, including sales / profit impacts, detailed investment requirements, investment returns, key commercial issues, and the business/commercial rationale for the project.” [6]

PARs are required to be completed for investments greater than 5,000 USD. The required approval authority level is determined by the following total PAR amount:

Table Nr. 1: **PAR approvals**

<u>Amount of PAR (all amounts in US dollars)</u>	<u>Required Approval</u>
Under \$5,000	No PAR Required
Between \$5,000 and \$150,000	Division-specific schedule of approval authority as delegated by the Division President and Division CFO
Between \$150,000 and \$500,000 –specifically included in capital spending details for the annual financial plan	Division-specific schedule of approval authority as delegated by the Division President
Between \$150,000 and \$500,000 – not specifically included in capital spending details for the annual financial plan	Corporate
Over \$500,000	Corporate

Source: Compiled by author, according to [6], 2012

Corporate approval requires sign-offs by the Chief Financial Officer and the Chief Executive Officer. Additional functional area management may be asked to review specific PARs, at the discretion of the Chief Financial Officer, depending on the individual PAR's investment requirements. A revised (supplemental) PAR is to be submitted for approval when it becomes evident that a previously approved project will change significantly in scope or cost. If the cost of the project is expected to overrun the initial estimate by more than 10% or \$10,000, whichever is greater, than a supplemental PAR should be submitted for approval. The supplemental PAR is prepared by adding all cost overruns to the previously approved PAR, and providing detailed explanations as to the causes for the overspending. The revised total amount of the PAR (original plus overspending) will determine the required approval authority for the supplemental PAR.

This control was reported as deficient since 2010. The reason for that was that during the start of the project F12/F13/F06, capital expenditures were done without fully approved PAR or alternatively pre-spend. For clarification, the pre-spend is an alternative, how to get the planned investment approved if the PAR isn't completed or isn't still approved due to open topics to be discussed. Generally the process of approving the purchase order for investment is the same like approval of purchase orders for non-production material or service. The only difference is that the exhibitor has to input the PAR number into the purchase order. In the second half of the year 2011, no purchases without approved PAR were done. The PAR for F12/F13/F06 was fully approved in June 2011. Even though the total investment amount for the CAPEX was higher than the approved investment amount, the deficiency can be closed because it was within the 10% written in Leap Manual. The tracking of the investment is done in the PSR (Project Status Report) – a system used for reporting of all investment expenditures.

Testing result: YES

Control description:

Additions to the fixed asset register are reviewed and approved quarterly. The review verifies that the value entered is adequately supported by invoices (or other relevant documentation) and that useful lives and depreciation assumptions are recorded in accordance with the LEAP manual. Depreciation begins in the month after the asset is ready for its intended use and is correctly calculated by the fixed asset application or by other verifiable alternative means and is recorded in the general ledger. The asset is not depreciated below zero.

Risks:

This control should ensure that:

- depreciation expense is recorded at the correct amount;
- depreciation is calculated using the appropriate cost;
- depreciation is recorded for all assets placed in service.

Required document:

This control should be tested through testing sample of 10 fixed asset additions. Additionally monthly depreciation journal voucher is reviewed.

Testing description:

According to LEAP Manual, depreciation should be over the estimated economic useful life of the asset and using the straight-line method. The beginning of the depreciation should be in the month after the asset is ready for its intended use. The estimated economic useful life of the asset should be following:

- Building and improvements - 20 to 25 years
- Machinery and equipment:
 - Fixed machinery – 5-15 years
 - Lear-owned tools over the program life (not to exceed 5 years)

- Lear-owned returnable containers/pallets over the program life (not to exceed 3 years)
- Computer hardware 3 to 5 years
- Computer software 3 years

There is a report called “Fixed asset additions” (Attachment A) printed on a monthly basis from the CS7 system and is reviewed for accuracy. This report will be together with the investment invoices used for testing. Additionally the plant has to fulfill the Czech national law.

Within the testing 10 samples were used. Test of software, hardware and one machinery fixed asset will be described.

- Computer hardware
 - As a sample for testing was chosen one production scanner for purchasing price 44.051,02 CZK (7000132) from the company B&M that was transferred from location Wackersdorf to location Tachov. This asset was transferred as a new property; it was only purchased by the German location in Wackersdorf.
 - According to Czech law, this computer hardware is depreciated 4 years and this is also within the US GAAP rule written in the Leap Manual (3-5 years).
 - The depreciation start is October 2010.
 - monthly depreciation:
 - $44.051,02 / 48 = 917,73$ CZK
 - the residual value at the end of the prior years:
 - 2010: 41.297,83 CZK
 - 2011: 30.285,08 CZK
- Software:
 - As a sample for testing was chosen software for fixed asset called CS7 (7000048) for purchasing price 199.766,77 CZK.

- According to Czech law, this software is depreciated 3 years and this is also within the US GAAP rule written in Leap Manual (3 years).
- The depreciation start is January 2009.
- monthly depreciation:
 - $199.766,77 / 36 = 5.549,08$ CZK
- the residual value at the end of the prior years:
 - 2009: 133.177,85 CZK
 - 2010: 66.588,93 CZK
 - 2011: 0
- Machinery:
 - As a sample for testing was chosen Quality Tester for project F12/F13 (7000174) for purchasing price 608.750,00 CZK
 - According to Czech law, this machinery is depreciated 8 years and this is also within the US GAAP rule (5-15 years)
 - The depreciation start is October 2011
 - monthly depreciation:
 - $608.750 / 96 = 6.341,15$ CZK
 - the residual value at the end of the prior years:
 - 2011: 589.726,56 CZK

Testing result: YES

Control description:

Construction in Progress (CIP) balances are reviewed monthly. Projects are capitalized when assets are ready for intended use.

Risks:

This control should ensure that capital expenditures are posted to the correct account at the correct amount.

Required document:

The appropriate document for this testing is monthly CIP account detail report.

Testing description:

Each month, a report called “Construction in progress” (Attachment B) is printed from the system and is reviewed by Finance Controller and Industrial Engineering to ensure that all fixed assets are correctly on this account and cannot be still capitalized. There are two types of CIP:

- CIP with received invoice – this invoice is booked in CS7 and has its own CIP number.
- CIP without received invoice – this investment has been already received and is in testing phase. However the invoice wasn’t received, therefore the report from the purchase order system is used for manual journal booking in GL (General ledger) where all receipts are tracked.

Testing result: YES

Control description:

Identified idle asset adjustments are reviewed and if significant, approved by division management.

Risks:

This control should ensure that all factors affecting the impairment estimate are identified.

Required document:

For this testing idle asset adjustments needs to be reviewed in detail.

Testing description:

Industrial Engineering is asked regularly within the testing if there are idle assets in place. Currently no idle assets are in Tachov plant.

Testing result: YES

Control description:

Fixed asset details (asset register) are recorded to the general ledger on a monthly basis and any differences are investigated prior to the end of the current quarter. These differences are resolved by the following quarter end.

Risks:

This control should ensure that:

- disposed fixed assets are properly removed from the fixed assets detail and general ledger;
- depreciation is recorded for all assets placed in service;
- depreciation is recorded for all assets placed in service.

Required document:

Monthly fixed asset reconciliation should be reviewed and tested within this control.

Testing description:

Monthly fixed asset reconciliations are in place. One for the purpose of the local Czech law the other one for the US GAAP purpose. There are all necessary adjustments done.

The only difference to be explained in the reconciliation was the account for construction in progress. On this account, one booking was done directly into general ledger. This is accrual for fixed assets where the company hasn't still received the invoice

but the delivery was done in the period. This information came from the purchase order system.

Table Nr.2: **Fixed assets reconciliation (all amounts in CZK)**

Reconciliation CS7 - General Ledger in CZK (LOCAL)							
CS7							
Account	Depreciation in years	Opening balance	Additions	Decreases	Closing balance	Total depreciation	
1360	3	427.837,10			427.837,10	424.332,77	
4200	5	0			0	0	
4290	5	28.373.622,68	3.108.679,70	2.087.306,51	33.569.608,89	12.086.813,04	
6500	3	0	219.466,84		219.466,84	45.249,94	
6510	3	3.195.128,07	276.557,95	173.196,93	3.644.882,95	2.761.138,07	
7800	0	4.443,03	2.776.145,41	-2.260.503,44	520.085,00	0	
TOTAL		32.001.030,88	6.380.849,90	0	38.381.880,78	15.317.533,82	
FDR							Difference
Account	Depreciation in years	Opening balance	Changes	Changes	Closing balance	Total depreciation	CS7 x FDR
1360	3	427.837,10			427.837,10		0
4200	5				0		0
4290	5	28.418.029,61	5.151.579,28		33.569.608,89		0
6500	3		219.466,84		219.466,84		0
6510	3	3.195.128,07	449.754,88		3.644.882,95		0
7800	0	605.773,08	81.711,94	3.510,00	690.995,02		-170.910,02
TOTAL		32.646.767,86	5.902.512,94	3.510,00	38.552.790,80	15.317.533,82	-170.910,02
Diff. 07801: Accrual CIP 170 910 CZK							

Source: Compiled by author, according to [6], 2012

The supporting documentation for this reconciliation is the fixed assets sub-ledger from the CS7 system and the monthly balance sheet from the BPCS system.

Testing result: YES

4.1.2 Inventory

Control description:

Access privileges granted to users are reviewed semi-annually to ensure that only authorized individuals are granted access to the inventory and fixed asset applications, and that user's access rights („read only“, „update“, or „approved“) are appropriate for their job function.

Risks:

This control should ensure that:

- fictitious or duplicate purchases are not recorded in the accounts payable subsidiary ledger and duplicate or fictitious disbursements are not recorded;
- only authorized purchases are received;
- only authorized disbursements are made.

Required document:

The appropriate document of this control is access rights review of all actively used systems.

Testing description:

For the purpose of the testing of the Tachov plant, only fixed assets application access rights review is relevant. Into the fixed assets application called CS7 only two persons (accountants) have the access rights. They are booking all fixed asset additions, disposals, preparing all fixed asset reconciliations and the controller is reviewing it before the upload of the currently monthly close is done.

Testing result: YES

Control description:

Actual physical inventory counts (including inventory at consignment warehouses and in transit) are made twice per year in accordance with the LEAP Manual.

Risks:

This control should ensure that:

- cost of sales are recorded when a sale occurs;
- production activity (raw to work in process to finished goods) is properly recorded;
- book to physical adjustment is calculated and recorded correctly.

Required document:

The testing should contain check of the wall-to-wall inventory count procedure in detail.

Testing description:

The testing of this control is fulfilled with semi-annually physical inventory count as stated in the LEAP. The wall-to-wall inventory count takes place in Tachov and the local finance departments together with the logistics department participate on the organization of the count. However as the material owner of the production material is plant Lear Corporation GmbH Wackersdorf, this control is for the purpose of the plant Tachov testing not applicable. Within the SOX testing of the plant Wackersdorf, this control was tested as sufficient and no deficient process controls were identified.

Testing result: N/A

Control description:

All inventory adjustments (including physical) are reviewed and approved by appropriate personnel including root cause analysis with future corrective actions and are recorded in the general ledger on a timely basis.

Risks:

This control should ensure that:

- the book-to-physical adjustment is calculated and recorded correctly;
- cut-off information is generated and used for customer shipments and purchases;
- accurate inventory counts, compilations and descriptions are made.

Required document:

The testing sample of 10 inventory adjustments should be reviewed and evaluated if they are sufficient.

Testing description:

Even though the material owner of the production material is Lear Wackersdorf as stated above, the local logistics department is responsible for the whole procedure of the cycle count.

Objective of the cycle count procedure according to the LEAP Manual is:

“Cycle count procedures are required to be performed at all Lear inventory locations (including off-site storage, warehouse, etc.) to maintain effective asset management and customer satisfaction. Cycle counts of inventory quantities, along with root cause analysis for discrepancies, should effectively monitor and improve related processes. Key objectives of the cycle count procedures include:

- ensuring that the locations books and records are accurate;
- determining that recorded quantities are accurate to avoid production shortages and inaccurate ordering and;
- identifying root causes for discrepancies and implementing corrective actions to avoid future occurrences”.[6]

The cycle count procedure is in place in Tachov but the booking entries of the cycle count aren't properly approved and root cause analysis isn't in place.

Testing result: NO

4.2 Expenditure cycle

As already mentioned, the expenditure cycle is one of the most demanding cycle and includes testing of accounts payable processes, payment processes, payroll, purchasing, petty cash and process of goods received. There are many ICQs within this cycle which had to be tested in the past years in the company within the regular testing. Currently only the most significant ones are to be tested and reported in the internal SOX database. These selected processes have a substantial impact on the corporate reporting and fulfillment of the SOX act.

Each cycle requires semi-annually review of access rights for all applications used within the processes. In this cycle purchasing, receiving, accounts payable, disbursement and human resources applications. This review should than be consistent with the segregation of duties that will be completed and evaluated at the end of the cycle testing. The plant is using following systems:

- XPPS system for purchasing and goods receiving
- BPCS for accounts payable
- Citi direct online banking for disbursements
- ADS system = HR time and attendance system
- Nugget system for payroll

4.2.1 Vendor master file changes

Control description:

Changes to the location vendor master file (including adding new vendors) are properly approved and documented prior to changes, and approved documentation is retained.

Risks:

Control should ensure that fictitious or duplicate purchases are not recorded in the accounts payable subsidiary ledger.

Required documentation:

The testing requires monthly vendor masterfile change summary report

Testing description:

There is an approval process for new vendors in place, where the accountant has to fill in a request for adding new vendor into the system. This form is approved by Plant controller. After this approval assistant controller (who hasn't access to book invoices) put the new vendor into the system with all necessary information. Each new vendor has his own unique number and the system doesn't allow to put more than one vendor with the same vendor number. After that the accountant can start booking invoices of this vendor into the system. The same process is running for change of the vendor information. To assure that all vendors were properly approved, report called „vendor master file changes“ is generated from the system each end of the month and is approved by plant controller. All new entries and changes in the vendor masterfile are included in this report.

Testing result: YES

4.2.2 Application controls:

Control description:

Access to the purchasing and accounts payable applications are limited, and such applications have an appropriate level of application controls including edit checks, range tests and reasonableness checks (i.e. supplier number, general ledger account code etc.)

Risks:

The control should ensure:

- errors don't occur in posting receipt totals to the general ledger or the accounts payable subsidiary ledger;
- fictitious or duplicate purchases are not recorded in the accounts payable subsidiary ledger;
- that purchases are properly valued;
- invoices are booked in proper period.

Required documentation:

The testing requires application control screen shot of the tested application checks.

Testing description:

Both systems XPPS and BPCS were tested and the system has following checks:

- The invoice with particular invoice number can be booked only once.
- The invoice amount should equal the total of the booking amount.
- The invoice can't be booked into the closed old or next period.
- The goods received can be matched only with one the particular invoice.

Testing result: YES

4.2.3 Goods and services received

Control description:

Approved purchase orders or approved alternatives (contract, check requisition or purchasing card) are required for the purchase of all goods and services

Risks:

The controls should ensure that fictitious or duplicate purchases are not recorded in the accounts payable subsidiary ledger and that only authorized purchases are received.

Required document:

The testing requires supplier purchase orders for testing of this control.

Testing description:

There are two types of purchases:

- Production material – purchase orders are generated automatically by the system according to the current quantity on the stock. The central purchasing department is responsible for the proper prices that were negotiated with the suppliers. The receiving of the goods is in the responsibility of the plant and is done by the logistics department. The department puts the proper delivery note and received amount into the XPPS system and matches it with the purchase order generated through the system. After receiving the invoice, the finance department matches the invoices with the proper delivery note. The invoice isn't paid without proper delivery note because it can't be matched together. This matching process of the invoices and delivery note is also done by the accountants of the finance department in Germany because the plant is the owner of the production material, not the Czech plant. However the plant Ostrov U Stribra is responsible for all the processes and controls running in the logistics department and goods received because they are

responsible for the material disposition of the projects running in the plant Ostrov U Stribra.

- Non-production material – this material is ordered through the approval of purchase order manually created in the system called “Purchase Order Database”. This database has application control that allows only either to create the purchase order or approve the purchase order or to put the delivery information into the system. Each department has his representative(s) for creating the purchase order. The department manager then approves the purchase order of his department together with the supervisor of the purchase order creator, the finance department and finally the plant manager. The approval is running automatically by the system and the purchase order can be then printed or send to the supplier only when all these three or eventually four levels of approvals are complete. The process of receiving goods is again in the responsibility of the logistics department that puts all the necessary information (delivery note, delivery date, delivered amount) into the system. Regarding execution of the services, each department has his representative (other than the creator of the purchase order) who puts the information about the delivery into the system.

Testing result: YES

Control description:

All goods and services received during the period have been recorded in the general ledger in the proper period, including all expenses incurred that have not yet been invoices. Specific inquiries are made of department heads regarding known incurred expenses that have not been invoiced.

Risks:

This control should ensure all purchases are entered into the accounts payable application.

Required documentation:

This control requires confirmations from all department managers on purchase order status.

Testing description:

This control should include both production material and non-production material.

- Production material – as already mentioned the matching process of all invoices and goods received is in place. At the month end, GRNI (goods received but not invoiced) report from XPPS is generated and proper accrual is booked into general ledger. Additionally the internal LEAP (Lear Accounting Practices) specifies that 80% of all accounts payable or the major 8 suppliers have to be reconciled within „vendor reconciliation procedure“to compare and validate the balance of the supplier open invoices and Lear balance. This procedure is again in the responsibility of the German plant, therefore no testing will be performed within plant Ostrov U Stribra. However the process of goods reception for the production material located and received in Tachov is under the responsibility of the Tachov plant. Within 2011, there were many missing information in the XPPS system about the reception of the goods. This missing information was discovered within the vendor reconciliation, matching process and big differences in the wall-to-wall inventory count.
- Non-production material – after receiving the invoice, the accountant needs to match the invoice with the purchase order in the Purchase Order System. This is only possible when the supplier adds the purchase order number to the invoice. This is not always the case and therefore the invoices are going to the particular department to find out the necessary purchase order. Within the matching process, following possibilities can occur:
 - The purchase order matches with the entered goods/service reception and the purchase order is properly approved by the approval chain before ordering the purchase order items. Than the invoice is booked by the accountant into the subsidiary ledger and paid to the supplier.

- The purchase order matches with the entered goods/service reception and the purchase order is properly approved by the approval chain but after the ordering the purchase order items. Then the invoice needs to be additionally approved by the whole approval chain of the purchase order before booking into the subsidiary ledger and payment.
- The purchase order doesn't match with the entered goods/service reception and the purchase order is properly approved by the approval chain before ordering the purchase order items. Then the invoice goes to the responsible department for verifying why the invoice amount doesn't match with the received amount. The reasons for the difference could be following:
 - the responsible department entered wrong information about the reception of the goods/services and has to correct it;
 - the invoice amount is wrong and has to be send to the supplier for correction.

Testing result: NO

Deficiency description:

During the testing, many invoices without proper approved purchase order have occurred. These invoices are properly approved by all responsible persons that should approve the purchase orders before payment is made. However this doesn't avoid the fact that some employees order goods/services without approved purchase orders and therefore the controlling together with the plant management are not able to manage and influence fully the cash flow and all expenses. Additionally the proper accrual at the end of the period is not done, because the finance department gets the invoice after the delivery period and if the proper purchase order is not issued, the accrual for this delivery is not done in the correct period.

To summarize the process of goods/services received, the correctness of all steps of this process is very important for the following reasons:

- Accounting and reporting purposes – goods received booked in the proper period and in the proper amount.
- Disbursement purposes – only received goods or executed services are paid.
- Tax purposes – the received goods and services are taxable in the proper period with the proper tax amount.
- Materiality purposes – the goods are not received duplicate.
- Management purposes – to have correct information about the current stock status to optimize and reduce the stock value.

Control description:

When goods are received manually (i.e. outside of the receiving module of the ERP system), a receiving log is completed containing all information relevant to receipt (purchase, order, date, nature and quantities of goods received).

Risks:

This control should ensure that:

- fictitious/duplicate purchases are not recorded in the accounts payable subsidiary ledger;
- amounts are recorded in the proper period;
- all purchases are entered into the accounts payable application;
- receiving documents are generated for all goods received.

Required document:

This control requires testing sample of ten receiving logs for the manually received goods.

Testing description:

The logistics department is responsible for receiving all goods. For this purpose, goods receiving area is defined where the responsible person from the logistics department is checking all delivered goods. For non-production material, a Purchase Order System is in place, where all necessary information about the receipt are completed (delivery date, quantity and type of good received). It is very important to know from the supplier the number of the purchase order to which the delivery is assigned. If the purchase amount in the later received invoice corresponds to that in the system but the price on the invoice is different, the invoice is passed on to the responsible department who is investigating the reason of the difference. If the price on that invoice isn't correct the supplier is required to change it. If the purchase order's price isn't according to the latest price list of the supplier the invoice is accepted, but needs to be additionally approved by all approvers of the original purchase order.

Ten random chosen invoices were checked with the information in the purchase order system and no discrepancies were found. One example of the tested invoice together with the purchase order and the delivery note are Attachment C, D, E at the end of the thesis.

Testing result: YES

4.2.4 Accounts payable

Control description:

Accounts payable subsidiary ledgers are reviewed and are reconciled to the general ledger control account on a monthly basis. Efforts to resolve open, significant or unusual items, including debit balances are initiated prior to the end of the current quarter. These open items are resolved by the following quarter end.

Risks:

This control should ensure that:

- errors don't occur in posting receipt totals to the general ledger or the accounts payable subsidiary ledger;
- amounts are recorded in the proper period;
- all purchases are entered into the accounts payable application;
- cash disbursements get posted to the correct vendor account;
- disbursement are properly posted to the accounts payable subsidiary ledger and are not fictitious or duplicate.

Required document:

This control requires accounts payable subsidiary ledger reconciliation.

Testing description:

The reconciliation of the accounts payable compares the sub-ledger and general ledger. There is a monthly report of all suppliers with open invoices from the accounting system BPCS. The suppliers are divided into groups according to the type of vendor. Manually input of the balances is done into the sub-ledger column. The general ledger column is automatically filled with data from the accounting system. The reconciliation is prepared by the financial accountant and approved by financial controller. The reconciliation of the monthly accrual will be tested and reviewed in the next control.

Within the testing, all differences between the GL and sub-ledger were properly commented.

Table Nr.3: AP reconciliation (all amounts in CZK)

Reconciliation Accounts Payable Plant Tachov						
Account	Vend./Cust. Description	Vend./Cust. Type	Subledger ACP 230B	Adjustments	General Ledger	Comments
33350	Suppliers – domestic	LULI	-1.766.282,68		-1.766.282,68	
33350	Suppliers – domestic	LULI	-1.766.282,68	0,00	-1.766.282,68	
33355	Suppliers abroad	LULA	0,00			
33355	Suppliers Europe	LULE	-193.334,67		-193.334,67	
SB-Total			-193.334,67	0,00	-193.334,67	
	Kolin Plant CZ	262A	-412.497,30		-412.497,30	
	Vyskov Plant CZ	609	-26.500,00	0,00	-26.500,00	
34210	IC Suppliers domestic	LIKG	-438.997,30	0,00	-438.997,30	
	Lear Austria	LEIC	-123,27		-123,27	
	Lear Wackersdorf	LEIC	-39.291,11		-39.291,11	
	Lear Trnava	LEIC	-31.517,83		-31.517,83	
	Lear Sweden	LEIC	-257.788,99		-257.788,99	
34220	IC Suppliers abroad	LEIC	-328.721,20	0,00	-328.721,20	
			-34.103,13			booked to account accrued wages
33010	Expense reports	LOHN	-34.103,13	-34.103,13	0,00	
Sum up			-2.761.438,98	-34.103,13	-2.727.335,85	
30830	Accrual				-3.312.601,23	
33365	Clearing					
Grand Total			-2.761.438,98	-34.103,13	-6.039.937,08	

Source: Compiled by author, according to [6], 2012

Testing result: YES

Control description:

Accrual for goods received not invoiced is reviewed monthly for any significant items and are resolved timely.

Risks:

This control should ensure that duplicate/fictitious purchases are not recorded in the accounts payable subsidiary ledger and that the purchases are properly valued and posted to the correct account.

Required document:

This control requires testing of the report „Detail of accounts payable sub-ledger”.

Testing description:

The account reconciliation for the accruals is done on monthly basis. The report is prepared by the financial accountant and reviewed by the financial controller. The accrual is made based on either report from the purchase order system where all goods/services received during the period are tracked, or within daily tracking of all regular invoices based on the signed contract. This account contains also accrual for investment purchases without received invoice. If the actual is in foreign currency, it is either booked in foreign currency or recalculated with the current exchange rate of the Czech National Bank. The booking system allows to book the event either manually or reversal. Reversal means that the event is automatically canceled in the next period. Most of the accruals are booked reversal. Only monthly accrual for events occurred once per year (e.g. audit costs) are booked manually and the whole amount is then cancelled after receiving the proper yearly invoice.

Table Nr.4 : Reconciliation accrual for open invoices (all amounts in CZK)

<i>Account Analysis 30830</i>			
GL account:	30830		
GL account description:	Accrual for open invoices		
Hyperion account:	AP.1200		
Lear Month	Opening	Jan	Balance
Status	Balance	Act	YTD
Opening Balance	(3.312.601,23)		
Acc. Fixed Assets Tachov	(170.910,00)	(3.240,00)	(174.150,00)
	(170.910,00)	(3.240,00)	(174.150,00)
<i>Freight accrual</i>			
open invoices – freight	(54.857,30)	(25.954,86)	(80.812,16)
	(54.857,30)	(25.954,86)	(80.812,16)
<i>Miscellaneous Accruals</i>			
			0,00
open invoices - purchase orders	(858.419,71)	(1.536.154,70)	(2.394.574,41)
open invoices – contracts			
ABC	(305.000,00)	83.800,00	(221.200,00)
Bartošová	(12.000,00)	12.000,00	0,00
Fontana Watercoolers	(35.000,00)	35.000,00	0,00
Pojištění Kooperativa	(85.000,00)	85.000,00	0,00
D5 Logistikpark	(914.231,95)	(2.965.796,74)	(3.880.028,69)
Eko-separ	(25.000,00)	0,00	(25.000,00)
E&Y Audit	(358.485,40)	479.107,82	120.622,42
O2	(56.019,25)	663,91	(55.355,34)
P&N	(71.200,00)	(40.000,00)	(111.200,00)
Salesianer Miettex	(35.000,00)	0,00	(35.000,00)
T-mobile	(50.128,33)	20.922,08	(29.206,25)
Toyota Financial Services	(11.773,19)	(226,81)	(12.000,00)
zezulka	(4.200,00)	0,00	(4.200,00)
Atlas Copco	(59.369,07)	40.345,96	(19.023,11)
open invoices – other	0,00	(292.704,50)	(292.704,50)
open invoices - production material	(206.007,03)	(32.532,41)	(238.539,44)
	(3.086.833,93)	(4.110.575,38)	(7.197.409,31)
Ending Balance	(3.312.601,23)	(4.139.770,24)	(7.452.371,47)
Add. / (Disp.)	(3.312.601,23)	(827.169,01)	(4.139.770,24)

Source: Compiled by author, according to [6], 2012

Testing result: YES

4.2.5 Payments and bank accounts

Control description:

Bank accounts are reconciled between the general ledger and the bank statement on a monthly basis. Efforts to resolve open items are initiated prior to the end of the current quarter. These open items are resolved by the following quarter end.

Risks:

This control should ensure that:

- duplicate/fictitious disbursements are not recorded;
- borrowings and repayments are recorded.

Required document:

Testing of this control requires two monthly bank reconciliations.

Testing description:

Table Nr. 5: Bank reconciliation (all amounts in CZK)

Cash 1000 + 1200						Dez 11
CASH.1000						
account GL	Description	balance	subledger information	balance	Variance	comments:
18046	CZK account CITIBANK	255.975,66	bank statement	255.975,66	0,00	
18047	EUR account CITIBANK	-0,06	bank statement	0,00	-0,06	
18646	KOMERCNI BANK	101.480,10	bank statement	101.480,10	0,00	
		357.455,70		357.455,76	-0,06	
CASH.1200						
account GL	Description	balance	subledger information	balance	Variance	comments:
16046	PETTY CASH	11.586,87	reconciliation attached	11.586,87	0,00	
		11.586,87		11.586,87	0,00	

Source: Compiled by author, according to [6], 2012

Two months November and December 2011 were reviewed within the testing of this control. December bank reconciliation is on the Table Nr. 5. The blue marked fields are to be filled manually according to the bank statements and according to the detail of all petty cash transactions. All this reports are the supporting documentation for this reconciliation. There aren't any issues that need to be analyzed and resolved after the close period. The euro bank account balance is zero due to the pooling principle. This account is balanced to zero after each end of the day. The money is automatically transferred to the central treasury bank account. The balance with treasury that consists of this daily account balances is booked as intercompany loan. There are interests paid on this loan according to the revolving intercompany contract. Regarding petty cash transactions, there is one petty cash amount that consists of CZK petty cash and EUR petty cash. The foreign currencies petty cash amounts are recalculated monthly with the current monthly exchange rate. The difference is booked into fx rate gain or loss.

Testing result: YES

Control description:

All invoices for services rendered are approved by appropriate individuals prior to payment to ensure that such services were provided, were acceptable and properly priced.

Risks:

This control should ensure that:

- fictitious or duplicate disbursements are not made;
- only authorized disbursements are made.

Required document:

Expected documentation for testing of this control is testing sample of 10 supplier invoices.

Testing description:

Before ordering a service, a purchase order needs to be properly approved according to the approval chain as already described. After invoice receipt, the finance accountant matches the invoice with the purchase order in the system. If the service receipt is properly entered in the system by the department responsible person of the cost center, the invoice is stamped as service “receipt” and can be paid. If the service is ordered based on a signed contract, the invoice is hand over to the responsible department manager who is checking the invoice. The invoice is approved by signing and dating from the department manager. The payment order input into the internet banking is done by the financial accountant and approved by two persons who have the right to approve payments in the Citibank system. After these two approvals, the payment goes out and the invoice is stamped „paid“and signed by the approver of the invoice. The approver is checking the payment amount, bank details with the information on the invoice and additionally checks if the invoice isn’t already paid. If the invoice would be paid the stamp „paid“ would be already on the invoice. The risk could be then only that the same invoice would be printed or received twice. In that case the booking system doesn’t allow to book the same invoice number twice and the finance accountant couldn’t book it into the system. An example of invoice that was checked within this testing is mentioned at the end of the thesis (Attachment C)

Testing result: YES

Control description:

All payments are properly authorized and have two signatures. The list of approved signatories is documented in the entity’s approval matrix.

Risks:

This control should ensure that fictitious/duplicate disbursements are not made.

Required document:

Manual/emergency payments are expected for testing this control.

Testing description:

As already described in the previous control, if the invoice is approved and planned for payment the financial accountant is entering the payment order into the bank system. The list of all payments is printed out and handed over to the approvers. Two approvers need to authorize the payment in the system, sign the checked invoices and at the end sign the payment summary from the Citibank system. This payment summary is in the binder “Payment run”.

Testing result: YES

4.2.6 Payroll

Control description:

Records of hours worked and/or exception reports are reviewed and approved by a supervisor prior to submission for payment (i.e. non-exempt hourly or contract labor)

Risks:

This control should ensure that:

- duplicate/fictitious payroll disbursements are not made;
- timecards correctly summarize time worked.

Required document:

Testing of this control requires exception report for non-standard hours as proper document.

Testing description:

Time is recorded using automated clocking system. The clocking is done automatically using a magnetic card or chip. The clocking module in the time and attendance system ADS generates entries in the system. If an entry is missing (e.g. forgetting to clock, holiday) the employee has to forward the information immediately to his supervisor. Each department has their responsible representatives who are keying in the information into the system. Nobody is allowed to change his own data in the clocking system. This is the first from three levels of the approval of the data in the system. The second level is the review from the HR department and the last the approval from the HR manager. These three columns are seen in the system. Without these approvals, the payroll can't be started and time and attendance information can't be exported into the payroll system Nugget by the Payroll specialist.

Testing result: YES

Control description:

Changes to all Human Resources master files (employee master, payroll master etc.) are approved by Human Resources and other location management as applicable.

Risks:

This control should ensure that duplicate or fictitious payroll disbursements are not made.

Required document:

Testing of this control is documented by proper payroll masterfile amendment report.

Testing description:

There is a monthly report printed from the payroll system Nugget. This report is prepared by the Payroll specialist and approved by HR manager and Finance controller prior to payroll disbursement. This report is summarizing all changes in the employee

database within the particular month and shows information before change and after change. Example of this report is in Attachment Nr. G. This report is reviewed monthly by HR manager and Financial Controller.

Testing result: YES

Control description:

Payroll bank accounts are reconciled to the general ledger on a monthly basis, and efforts to resolve open items are initiated prior to the end of the current quarter. These open items are resolved by the following quarter end.

Risks:

This control should ensure that duplicate or fictitious disbursements are not made.

Required document:

Testing of this control should be documented by bank reconciliation.

Testing description:

The total amount of the payroll on the bank account is reconciled with the reports from the HR department. This reconciliation is done on monthly basis, before the payroll is processed through Citibank internet banking.

This first part of the payroll reconciliation includes the net wage calculated by the Payroll specialist together with the payment orders to the employees and other payment orders related to the deductions from the net wages.

Table Nr.6 : Payroll reconciliation – part I. (all amounts in CZK)

Payroll for the period DEZEMBER			
NET WAGES:	CZK	Description	Report
Payment order - net wages:	4.209.907		Report "Spoření"
Paid in cash:	0		
Totally paid - net wages:	4.209.907		
Net wages per payroll summary:	4.411.827	ČM	Report "Mzdové složky pro zaúčtování"
Add:	9.559	Tax bonus	Report "Mzdové složky pro zaúčtování"
Add:	0	Annual Tax calculation	Report "Mzdové složky pro zaúčtování"
Less:	0	Advances	Report "Mzdové složky pro zaúčtování"
Less:	150.935	Execution	Report "Mzdové složky pro zaúčtování"
Less:	6.300	Infant's maintenance	Report "Mzdové složky pro zaúčtování"
Less:	55.280	Meal vouchers paid by employees	Report "Mzdové složky pro zaúčtování"
Less:	-300	Other deductions	Report "Mzdové složky pro zaúčtování"
Less:	344	Private fuel	Report "Mzdové složky pro zaúčtování"
Less:	1.080		Report "Mzdové složky pro zaúčtování"
Less:	0	Car + fuel paid by Lear (tax reasons)	Report "Mzdové složky pro zaúčtování"
Net wages to be paid:	4.209.907		
Difference:	0		

Source: Compiled by author, according to [6], 2012

The second part of the payroll reconciliation includes the reconciliation of the social and health insurance. The total amounts in the payment order are compared with the employee and employer portion to be paid according to the Czech law. Additionally the executions are also reconciled because there are two types of execution:

- a portion to be paid directly to the executor – this part came into force;
- a portion to be deducted from the employee's net wage but not paid to the executor – this part didn't come into force and for this part a proper accrual needs to be booked.

Table Nr.7 : Payroll reconciliation – part II. (all amounts in CZK)

OTHER PAYROLL:	Per payroll summary	Per payment order	Report needed
Gross wages:	5.697.471	N/A	Report "Mzdové složky pro zaúčtování"
Social insurance - employee:	373.358		Report "Mzdové složky pro zaúčtování"
Social insurance - employer:	1.435.614		Report "Mzdové složky pro zaúčtování"
	1.808.972		
Less:	0	ND	
	0	OČR	
	0	PPM	
Social insurance to be paid:	1.808.972	1.808.972	Report "Sumarizace příkazu"
Health insurance - employee:	259.875		
Health insurance - employer:	516.954		
Health insurance to be paid:	776.829	776.829	Report "Mzdové složky pro zaúčtování"
Advances for income tax:	666.908		
Annual Tax Calculation:	0		
Tax advances to be paid:	666.908	666.908	Report "Mzdové složky pro zaúčtování"
Withholding tax paid:	0	0	Report "Mzdové složky pro zaúčtování"
Other deduction from wages:			
Hold execution:	37.229		Report "Mzdové složky pro zaúčtování"
Execution from the current month:	150.935		Report "Mzdové složky pro zaúčtování"
Execution from the current month paid :	113.706	113.706	Report "Přednostní a nepředpostní pohledávky"
Infant's allowance paid from bank:	5.650	5.650	Report "Sumarizace příkazu"
TOTAL OTHER PAYROLL:	3.372.065		

Source: Compiled by author, according to [6], 2012

The last table is only the comparison of the whole amount reconciled above and the payment order that was exported into the internetbanking.

Table Nr.8: Payroll reconciliation – part III. (all amounts in CZK)

TOTAL PAYROLL:	7.581.972		
Paid executions hold in the prev. months:	39.927		
Health insurance paid by LEAR	1.812	due to employees' absenteesm	
TO BE PAID by bank (KB):	7.682.434		
Paid as per payment order:	7.682.434	incl. hold execution from prev.months	Bank statement
Difference:	0		

Source: Compiled by author, according to [6], 2012

Testing result: YES

Control description:

Individuals who are independent of the payroll function reconcile the payroll accruals to the general ledger each month, and efforts to resolve open items are initiated prior to the end of the current quarter. These open items are resolved by the following quarter end.

Risks:

This control should ensure that:

- duplicate or fictitious payroll disbursements are not made;
- payroll expenses has been calculated using actual pay rates;
- expenses, including deductions, are correctly computed.

Required document:

As a testing document of this control, semi-annually access rights review should be performed and assessed.

Testing description:

Access rights review is done semi-annually for the HR systems Nugget (payroll system) and ADS (time & attendance system). The Payroll Specialist has the right to change data in the Nugget system and HR Consultant has only the right to review the data. For ADS system following access rights are in place:

- Input rights – department responsible employees who are maintaining the data.
- Review rights - HR Consultant and HR Trainee review the input from the department responsible employees.
- Input rights - HR Consultant for department responsible employees.

- Input rights - HR Trainee for HR Consultant.
- Approval right – HR manager.

These three levels of processing the attendance are visible in the system with green, yellow and red colour. The attendances of all employees can't be exported into the payroll system without these three levels of processing. Print screens from the ADS system are done semi-annually and are reviewed by the HR manager and Controller as an evidence of this control.

Testing result: YES

Control description:

Human resources and information technology personnel are notified immediately of changes in employment status (i.e. terminated employees) and system checks are in place to ensure that paychecks are not generated for terminated employees.

Risks:

This control should ensure that:

- duplicate or fictitious payroll disbursements are not made;
- payroll expenses has been calculated using actual pay rates;
- expenses, including deductions, are correctly computed.

Required document:

This control should be also documented by the latest access rights review performed semi-annually.

Testing description:

Access rights review was described above. The report of all changes in employment status is prepared monthly by Payroll Specialist and reviewed by HR manager and Finance Controller (Attachment G).

Testing result: YES

Control description:

Procedures are in place to ensure that entries are posted to the general ledger in a timely manner.

Risks:

This control should ensure that:

- payroll expense is recorded in the period in which work was performed;
- payroll report totals are posted to the general ledger.

Required document:

This control should be tested by regular Payroll summaries and journals.

Testing description:

Due to the fact that payroll is calculated after the month where the labor costs were performed, the proper accrual has to be calculated to fulfill the accrual principle. This accrual is booked at the end of the month by finance accountant and is based on the calculation from HR department. This report is called “Salary forecast” and consists of all payroll components (base wage, bonus, meal and travel contribution) and is split into three groups (direct labor, indirect labor and salaries) and into particular cost centers. After the month end, HR department is processing the payroll. All reports from HR department for payment of salaries and wages are reviewed by finance controller who prepares also the payroll reconciliation. This reconciliation is a check before all

payments are approved in the Citibank system and are sent to employees and other obligatory offices. The report from HR department called “Mzdové složky podle středisek“ is also a base for the booking entry.

Testing result: YES

Control description:

The duties of payroll processing and maintenance of the payroll master file, including updating employee records and input of new employees are adequately segregated within the Payroll application. If the Payroll application does not allow this segregation, a Payroll master file change report must be printed, reviewed, and signed by the Controller and Human Resource Manager every week.

Risks:

This control should ensure that:

- duplicate or fictitious payroll disbursements are not made;
- payroll expense has been calculated using actual pay rates.

Required document:

This control should be tested using the current Segregation of Duties worksheet that should be prepared and reviewed semi-annually.

Testing description:

The payroll process was described in the previous controls. The segregation of duties template for payroll is in the following table.

Table Nr. 9: SOD payroll process

Action	Process	System	Menu / option in system (Optional)	Authorization	Custody of assets	Recording	Control activity
Maintains personnel files	Payroll	T&A system ADS, Nugget	Employee masterfile	X	X	X	HR Consultant, HR Trainee, Payroll specialist
Approves access to personnel master files	Payroll	T&A system ADS, Nugget	system access report	HR Manager	X	X	X
Approves wage and salary increases, hirings, and terminations	Payroll	N/A	N/A	Plant Manager, HR Manager	X	X	X
Controls timekeeping	Payroll	T&A system ADS	Modul "dochazky"	X	X	X	HR Consultant, HR Trainee
Maintains payroll journal	Payroll	Nugget	Payroll menu	X	X	Payroll specialist	X
Prepares payroll checks	Payroll	N/A	N/A	X	X	N/A	X
Approves the payroll	Payroll	Nugget	Payroll reports	HR Manager, Plant Controller	X	X	X
Signs checks/Approves use of signature plate	Payroll	N/A	N/A	N/A	X	X	X
Distributes checks	Payroll	N/A	N/A	X	N/A	X	X
Controls unclaimed payroll checks	Payroll	N/A	N/A	X	N/A	X	X
Reconciles payroll bank accounts	Payroll	BPCS	Reports from Nugget system	X	X	X	Assistant Controller
Controls the accuracy, completeness of, and access to payroll programs and data files	Payroll	Nugget	User access review	X	X	X	HR manager

Source: Compiled by author, according to [6], 2012

Testing result: YES

4.3 Accounting and reporting cycle

4.3.1 Accounting

Control description:

Application security controls limit access to the accounting applications.

Risks:

This control should ensure that the standard costing method is properly applied, updated and computed.

Required document:

The basis for testing this control is the access rights review of the accounting system.

Testing description:

Accounting system used in the plant is BPCS. Access rights review is done semi-annually in Q2 and Q4. For the access rights review, excel report was implemented in 2011 and is subsequently used for the creation of segregation of duties. There are two main groups that have different access rights – accounting group and controlling group. The separation of the access rights is depicted in the Segregation of duties template that is in the following Table Nr.10.

The access rights review for BPCS is part of the permanent binder and isn't described in this thesis in detail because it is very large document. However it was tested within the testing for this diploma thesis and changed according to the latest business situation.

Table Nr.10: SOD for AR processes

Action	Process	System	Menu / option in system (Optional)	Authorization	Custody of assets	Recording	Control activity
Reconciles accounts receivable records to the general ledger	Sales	BPCS	Menu ACR 410	X	X	X	Accountant
Reviews and approves monthly aged accounts receivable trial balance	Sales	N/A	N/A	X	X	X	Plant Controller, Assistant Controller
Handles cash receipts from customers	Sales	N/A	N/A	X	Accountant	X	X
Maintains cash receipts journal	Cash receipts	BPCS	N/A	X	X	Assistant Controller	X
Maintains accounts receivable records	Cash receipts	BPCS	ACR Menu	X	X	Accountants	X
Reconciles bank accounts	Cash receipts	N/A	N/A	X	X	X	Accountant
Reconciles accounts receivable records to the general ledger	Cash receipts	N/A	N/A	X	X	X	Assistant Controller
Controls the accuracy, completeness of, and access to cash receipts programs and data files	Cash receipts	N/A	N/A	X	X	X	Plant Controller, IT

Source: Compiled by author, according to [6], 2012

Even if the accountants are in more sections of the Segregation of duties, there is not any risk arising in these processes because:

- Accountants - the bank reconciliation is only prepared by the accountant but the final review and approval comes from the plant controller.
- Assistant controller – the reconciliation of the AR records to the GL is also prepared by the assistant controller and finally reviewed by the plant controller.

Table Nr. 11: SOD for Fixed Assets

Action	Process	System	Menu / option in system (Optional)	Authorization	Custody of assets	Recording	Control activity
Approves invoices/construction work orders	PP&E	CS7, BPCS	paper invoice signed	Department manager	X	X	X
Approves asset acquisitions, transfers, retirements, and disposals	PP&E	CS7	approval in paper form	Plant Controller, Plant Manager	X	X	X
Records asset acquisitions, transfers, retirements, and disposals	PP&E	CS7	invoice booking entry, transfer or disposal protocol	X	X	Accountants	X
Maintains custody of property, plant, and equipment	PP&E	CS7	Asset register, CIP	X	IE Manager for production equipment, IT for IT equipment	X	X
Maintains property ledger	PP&E	CS7	FA detail menu	X	X	Accountant	X
Supervises physical (cycle) inventory of property, plant, and equipment	PP&E	CS7	Fixed asset register	X	X	X	Plant Controller, Assistant Controller
Reconciles physical (cycle) inventory of property, plant, and equipment to property ledger	PP&E	CS7	FA detail menu	X	X	X	Accountant
Reconciles property ledger to the general ledger	PP&E	CS7, BPCS, excel	FA register, Excel sheet - FA recon	X	X	X	Accountant
Controls the accuracy, completeness of, and access to property, plant, and equipment programs and data files	PP&E	CS7	approval sent to IT Gustavsburg	X	X	X	Plant Controller

Source: Compiled by author, according to [6], 2012

This section of the SOD includes also work positions that occur in more than one column. After investigation, there are not any risks of potential conflicting duties because the reconciliations are also only prepared by the accountant and finally reviewed by the plant controller or assistant controller.

Table Nr. 12: SOD for Cash disbursements

Action	Process	System	Menu / option in system (Optional)	Authorization	Custody of assets	Recording	Control activity
Maintains cash disbursements journal	Cash disbursement	BPCS	N/A	X	X	Accountants	X
Initiates wire transfers	Cash disbursement	Bank SW	N/A	X	Accountant	X	X
Approves wire transfers	Cash disbursement	Bank SW	N/A	Plant Controller, Assistant Controller, Plant Manager	X	X	X
Reconciles bank accounts	Cash disbursement	Excel	N/A	X	X	X	Assistant Controller, Accountant
Matches invoices to purchase orders and receiving reports	Cash disbursement	BPCS	ACP - 2, Sessionmanager MJ for petty cash	X	X	X	Accountants
Approves voucher packages for payment	Cash disbursement	Bank SW	paper printout	Plant Controller, Assistant Controller, Plant Manager	X	X	X
Maintains purchases journal	Cash disbursement	BPCS	ACP - 2, Sessionmanager MJ for petty cash	X	X	Accountants	X
Maintains accounts payable records	Cash disbursement	BPCS	ACP - 2, Sessionmanager MJ for petty cash	X	X	Accountants	X
Controls the accuracy, completeness of, and access to cash disbursements programs and data files	Cash disbursement	BPCS	approval by paper form or email, added by IT	X	X	X	Plant Controller

Source: Compiled by author, according to [6], 2012

Because the wire transfers have to be approved by at least two persons who have only access to approve payments there is not any potential risk in conflicting duties. The matching process of all invoices is done by the accountants but they are not approving the invoices and the purchase orders. Additionally the invoices are reviewed during the payment approval process by the controller and therefore no risk in conflicting duties.

Table Nr. 13: SOD for purchases

Action	Process	System	Menu / option in system (Optional)	Authorization	Custody of assets	Recording	Control activity
Issues purchase requisitions	Purchases	PO Database	Issue purchase order	X	X	everybody except approvers and goods receipt area	X
Approves purchase requisitions	Purchases	PO Database	Approve purchase order	dpt.manager for OH, finance, plant manager	X	X	X
Issues purchase orders	Purchases	PO Database	Issue purchase order	X	X	everybody except approvers and goods receipt area	X
Approves access to vendor master files	Purchases	BPCS	BPCS - KRE100; ACP 02	Plant Controller	X	X	X
Approves purchase orders	Purchases	PO Database	Approve purchase order	dpt.manager, finance, plant manager	X	X	X
Approves access to purchase-related data files	Purchases	PO Database	approval added by IT	Plant Controller	X	X	X
Prepares/issues debit memos to vendors	Purchases	BPCS	excel sheet - invoice	X	X	Accountants	X
Prepares/issues receiving reports	Purchases	N/A	N/A	X	Goods receipt area	X	X
Receives goods from vendors	Purchases	PO Database	Goods receipt menu	X	Goods receipt area	X	X
Matches invoices to purchase orders and receiving reports	Purchases	BPCS	ACP - 2	X	X	X	Accountant
Assigns account distribution of vendor invoices	Purchases	N/A	N/A	X	X	Accountants	X
Approves voucher packages for payment	Purchases	Citi	paper printout	Plant Controller, Assistant Controller, Plant Manager	X	X	X
Maintains purchases journal	Purchases	BPCS	ACP - 2	X	X	Accountants	X
Maintains accounts payable records	Purchases	BPCS	ACP - 2	X	X	Accountants	X
Reconciles accounts payable records (or total of unpaid vouchers) to the general ledger	Purchases	BPCS	ACP 210 - AP ageing	X	X	X	Accountant
Controls the accuracy, completeness, and access to purchases and accounts payable programs and data files	Purchases	N/A	N/A	X	X	X	Plant Controller

Source: Compiled by author, according to [6], 2012

Testing result: YES

Control description:

Access privileges granted to users are reviewed semi-annually to ensure that only authorized individuals are granted access to the accounting application, and that users access rights („Read only“, „Update“ or „Approval“) are appropriate for their job function.

Risks:

This control should ensure that:

- fictitious or duplicate purchases are not recorded in the accounts payable subsidiary ledger;
- only authorized purchases are received;
- fictitious or duplicate disbursements are not recorded;
- only authorized disbursements are made.

Required document:

The testing document for this control is again Access rights review prepared semi-annually according to the latest business conditions.

Testing description:

Access rights review for the accounting application is done semi-annually. For Tachov two accounting systems are relevant – BPCS and CS7 (already described above). For BPCS excel upload is done from the system and detailed review for all application in the system is done. There are three main access types:

- administrator rights – this rights have IT employees in Lear Gustavsburg who are responsible for the IT data maintenance
- Accountant group

- Controlling group
- Plant Controller – plant controller is the manager of the finance department and has only access to view transactions in the accounting application because he is reviewing all financial statements and approving all booking entries.

Testing result: YES

Control description:

Authorized personnel must approve all standard and non-standard journal entries prior to recording the entries into the general ledger (or supporting sub-ledgers). Approval must be independent of journal initiation and preparation.

Risks:

This control should ensure that:

- valid journal entries are posted timely;
- only valid journal entries are posted.

Required document:

This control should be tested with random journal voucher selection – testing sample of 10 journal vouchers is sufficient.

Testing description:

Each general ledger input is supported by Journal entry in paper form that is signed by preparer and reviewer prior to export of the monthly close into the Hyperion system. For sub-ledger input, a monthly report of a AP/AR balance is printed from the system, reconciliation is prepared and reviewed by other person than the preparer. A list of all

journal entries is printed on monthly basis and is reviewed by plant controller who hasn't the right to initiate booking entries.

Testing result: YES

4.3.2 Reporting

Control description:

Financial results are reviewed for reasonableness by the controller, plant manager and functional managers as necessary, on a monthly basis prior to submission in Hyperion. This review should assess whether amounts are properly classified in the Hyperion financial statements.

Risks:

This control should ensure that:

- general ledger accounts are rolled up into the correct financial statement accounts;
- the local general ledger financial statements are clerically accurate;
- journal entries are not posted more than once;
- valid journal entries are posted timely;
- the trial balance and local general ledger financial statements are in balance;
- only valid journal entries are posted.

Required document:

This control should be performed through proper Hyperion financial reports.

Testing description:

After the end of each monthly close, finance presentation for plant manager and all functional managers is in place. This presentation contains the performance in the previous

month (variance walk and comments template from Hyperion, checkbook and PSR) and the forecast for the rest of the year. Variance walk analyses the actual month with the prior forecast numbers. Checkbook is report with all overhead costs divided into particular cost centers of the plant. The last one is PSR containing the investment plan for the current year. This report has to correspond with the statistics in the Hyperion system therefore it is important to go through it with the department managers.

Testing result: YES

Control description:

All assets and liability accounts with balances greater than 50.000 USD are reconciled to supporting detail records according to the timing stated in the LEAP manual. All account reconciliations are completed within 10 business days after the monthly close date.

Risks:

This control should ensure that valid journal entries are posted timely.

Required document:

The testing of this control should be performed through review of the closing binder and weblink reports from the Hyperion reporting system.

Testing description:

According to LEAP: “Formal account reconciliations are required to be performed for all significant account balances (i.e., account balances > \$50,000) for all remaining months. The reconciliation should include a detailed analysis of the current account balance, including the following:

- Breakdown of all amounts included in the account balance.

- Detailed description of each amount (supporting documentation to be attached quarterly).
- Description and timeline for resolution of reconciling items.

If a subsidiary ledger exists for the account balance (i.e., A/R, A/P and inventory), the subsidiary ledger must be reconciled to the general ledger and the reconciling items must be investigated as noted above. Each reconciliation must be signed and dated by the preparer and approver of the reconciliation.” [6]

During the monthly closing finance department is preparing reconciliations of all balance accounts to ensure that all transactions are correctly booked. These reconciliations are prepared by finance accountant and reviewed by the finance controller. All the documentation is maintained in the ACCANA (Account analysis) binder. All reconciliations are sorted according to the account mapping in Hyperion.

Testing result: YES

Control description:

All intercompany balances are reconciled and analyzed on a monthly basis. Suspense items are handled as required by the LEAP Manual. Efforts to resolve discrepancies are initiated prior to the end of the current quarter. These discrepancies are resolved by the following quarter end.

Risks:

This control should ensure that:

- intercompany accounts are properly eliminated;
- discrepancies in intercompany assets and liabilities between other locations are resolved on a timely basis.

Required document:

Intercompany matching reports and supporting documentation should ensure that this control is fulfilled.

Testing description:

Intercompany balances are balances between two particular Lear plants. The plants agree their AP/AR balances during the monthly closing time. When the plant load the close into the Hyperion system the Intercompany matching report shows automatically the balance of both plants.

The Intercompany matching report shows us differences with two locations. The differences are:

- Location Wackersdorf (IC) – the exchange rate difference between the actual and previous month exchange rate. The location Tachov is issuing one monthly invoice for assembly charge in CZK, that invoice is booked in Wackersdorf in CZK and recalculated automatically with the exchange rate of the previous month. Additionally the system is using one exchange rate for the particular month (balance sheet) and Lear is using two different ones (balance sheet and income statement) therefore monthly revaluation has to be done. As Tachov agreed the balance 10.085.186 USD, the difference 4960 USD has to be corrected by the Wackersdorf location in the next period.
- Location Lear Treasury (303) – the small difference 62 USD is exchange rate difference between Lear fx rate and fx rate of the Czech National Bank. According to the LEAP Manual, „disputed items should be resolved in the subsequent period and adjustments recorded by both locations when resolution is reached. In no event should a disputed item be temporarily recorded in an accrual or asset account”. [6] This exchange rate difference was solved in the next period therefore no breach of the company rules.

Table Nr.14: Intercompany Matching Report – part I. (all amounts in USD)

Matching report- All IC Accounts					
Scenario: Act		Entity: 732		Date: 3/13/2012	
Year: 2011		Partner: USDBase		Time: 7:58:01 AM	
Period: Dec		Suppress Matches: No		User: MStenglova@CORPLEAR	
View: YTD		Matching Tolerance:		Plug Account:	
Value: USD		Matching Tolerance (Percent)		Scale Factor: 0	
Entity	Partner	Account	Entity Amount	Partner Amount	Difference
E4	732	IC_AR	-13,196	0	
732	E4	IC_AP	0	13,196	
<u>E4</u>	732		-13,196	13,196	0
732	IC	IC_AR	-881,151	0	
732	IC	IC_OPER_INC	-10,085,186	0	
IC	732	IC_AP	0	881,151	
IC	732	IC_OPER_EXP	0	10,480,322	
<u>732</u>	IC		9,204,035	-9,599,170	-395,136
IC	732	IC_AR	-19,372	0	
IC	732	IC_OPER_INC	82	0	
732	IC	IC_AP	0	19,372	
732	IC	IC_OPER_EXP	0	-390,258	
<u>IC</u>	732		-19,454	409,63	390,176
732	G41	IC_AP	0	6	
<u>G41</u>	732		0	6	6
732	212	IC_AR	-442	0	
212	732	IC_AP	0	442	
<u>732</u>	212		-442	442	0

Source: Compiled by author, according to [6], 2012

Table Nr. 15: Intercompany Matching Report – part II. (all amounts in USD)

Matching report- All IC Accounts					
Entity	Partner	Account	Entity Amount	Partner Amount	Difference
262AEUR	732	IC_AR	-20,894	0	
732	262A EUR	IC_AP	0	20,894	
<u>262AEUR</u>	732		-20,894	20,894	0
273	732	IC_AP	0	-1,613	
<u>732</u>	273		0	-1,613	-1,613
732	273	IC_AP	0	1,613	
<u>273</u>	732		0	1,613	1,613
732	213	IC_AR	-55,35	0	
213	732	IC_AP	0	55,35	
<u>732</u>	213		-55,35	55,35	0
732	SSD_EH Q	IC_AR	-1,719	0	
SSD_EHQ	732	IC_AP	0	1,719	
<u>732</u>	SSD_EH Q		-1,719	1,719	0
732	609EUR	IC_AR	-101,638	0	
609EUR	732	IC_AP	0	101,638	
<u>732</u>	609EUR		-101,638	101,638	0
609EUR	732	IC_AR	-1,342	0	
732	609EUR	IC_AP	0	1,342	
<u>609EUR</u>	732		-1,342	1,342	0
N1	732	IC_AR	-1,307	0	
732	N1	IC_AP	0	1,307	
<u>N1</u>	732		-1,307	1,307	0
303	732	IC_ACCRD_INT_AP	0	0	
303	732	IC_INTEREST_EXP	0	-391	
<u>732</u>	303		0	391	391
303	732	IC_ACCRD_INT_A R	-93	0	
303	732	IC_LOANS_AR	-151,999	0	
303	732	IC_INTEREST_INC	-14,762	0	
732	303	IC_ACCRD_INT_AP	0	92	
732	303	IC_LOANS_AP	0	151,999	
732	303	IC_INTEREST_EXP	0	15,089	
<u>303</u>	732		-137,331	137,002	-329
Grand Total					-4,892

Source: Compiled by author, according to [6], 2012

Testing result: YES

Control description:

All judgemental reserves are properly accounted for and are included within the judgemental reserve schedule, including proper classification of account balances and account activity within the schedule.

Required document:

This control is tested with the quarterly reserve schedule to be completed in Hyperion.

Testing description:

The reserve schedule should be completed quarterly and should be submitted in conjunction with the quarterly earnings release information according to LEAP Manual.

The reserve schedule for Tachov contains only two positions:

- Other Accrued Current Liabilities – this position contains short term portion of the rent accrual. This rent accrual is booked based on the rental agreement between Lear Corporation Czech Republic, s.r.o. and the landlord of the building where the plant Tachov is located. The rental agreement provided to the tenant free rental months. This whole amount related to the free months is accrued during the first free rental months as rental costs and then for the rest of the duration of the rental contract, the rental expenses are monthly reduced.
- Other Long Term Liabilities – this position is the same as the current liability explained above but it is the long-term portion (longer than year).

Table Nr 16.: Reserve Schedule (all amounts in '000 CZK)

Reserve schedule Q4 2011										
<i>Local CCY, in thousands</i>										
Plant	Description (insert as many rows as necessary)	HFM Account	CCY	Q4 balance	(income)	Expense	(cash)	other	adj.	reclass
732	Other Accrued Current Liabilities-Misc – Other	OCL_MISC_2400	CZK	3 671		3 671				
732	Other Long Term Liabilities-Misc – Other	OLL_MISC_1700	CZK	11 013		11 013				
732	Current (< 30 days)	AP_1200	CZK	3 313						
732	1 - 3 Months	AP_1200	CZK	0						
732	4 - 6 Months	AP_1200	CZK	0						
732	7 - 12 Months	AP_1200	CZK	0						
732	13 - 24 Months	AP_1200	CZK	0						
732	+ 25 Months	AP_1200	CZK	0						

Source: Compiled by author, according to [6], 2012

Testing result: YES***Control description:***

An inventory of spreadsheet used to support journal entries is maintained and updated once per quarter. Spreadsheets that are both complex and supporting journal entries/account balances above 500.000 USD are reviewed quarterly. This includes review of formulas, performance of reasonableness checks, and reconciliation to source files (where applicable). The Spreadsheet Control Questionnaire is completed for all this spreadsheets above 500.000 USD.

Risks:

This control should ensure that:

- all major calculations are properly updated and reviewed for accuracy

Required document:

This process should be performed using the spreadsheet inventory and update quarterly at minimum.

Testing description:

There is currently only one journal booked in Tachov that is above 500.000 USD. This is the assembly charge. There wasn't any Spreadsheet Control Questionnaire used in 2011 for this calculation.

Testing result: NO

4.4 Revenue cycle

Control description:

Access privileges granted to users are reviewed semi-annually to ensure that only authorized individuals are granted access to the sales and accounts receivable applications, and that users' access rights („Read only“, „Update“or „Approval“) are appropriate for their job function.

Risks:

This control should ensure that:

- fictitious or duplicate purchases are not recorded in the accounts payable subsidiary ledger;

- only authorized purchases are received;
- fictitious or duplicate disbursements are not recorded and that only authorized disbursements are made.

Required document:

Access rights review of all systems that are used in the plant has to be performed semi-annually. The status before changes and after changes has to be visible.

Testing description:

As already described above, there are different groups defined for access rights into the accounting application. These groups are defined to fulfill the proper segregation of duties.

Testing result: YES

Control description:

Product margins (materials, labor, and overhead) are reviewed monthly to ensure cost of sales is recorded for each sale.

Risks:

This control should ensure that:

- cost of sales are recorded when a sale occurs;
- perpetual records properly reflect quantity and cost.

Required document:

Product margin analysed on weekly basis should be performed and reviewed within this testing of ICQ.

Testing description:

Tachov is running under Toll manufacturing agreement, that means to create monthly invoice with all plant costs plus 5,1% mark up. Therefore the margin is permanently the same. In the following table the year 2011 was tested, if the 5,1% mark up was correctly calculated.

Table Nr. 17: **Margin calculation (all amounts in CZK)**

Margin calculation 2011	
Total Assembly charge 2011	184.900.517,77
thereof 5,1% mark up	-8.972.337,21
Intercompany interests	263.216,54
YTD Profit	-8.709.120,67
Actual Profit 2011	-8.709.120,67
Difference	0

Source: Compiled by author, 2012

Testing result: YES

Control description:

Credit memos / discrepancy credits are matched with quality department authorization documents prior to recording non-cash reduction to accounts receivable in the general ledger.

Risks:

This control should ensure that all discrepancy credits/ debits from the customer are reviewed by the quality department for correctness to ensure that the customer correctly deducts quality issue debit notes.

Required document:

This control is tested with sample size of 10 debit notes from BMW that should be reviewed by Quality department for accuracy.

Testing description:

The debit notes from BMW including mainly quality issues are automatically deducted by the customer BMW. These customer complaints are available in the BMW portal called B2B portal and the debit notes/credit notes are sent by the customer to the finance department and are automatically deducted in the next payment. However these complaints are not reviewed by the quality department in Tachov and therefore this control is deficient.

Testing result: NO

Control description:

Receivable accounts (billed and unbilled) are aged monthly and reviewed by authorized personnel.

Risks:

This control should ensure that:

- cash received is posted to the correct customer in the accounts receivable aged trial balance;
- duplicate postings of cash receipts are not made to the general ledger.

Required document:

Monthly aging analysis should be tested.

Testing description:

As already mentioned Tachov is running under Toll manufacturing agreement with the intercompany customer Lear Corporation GmbH – plant Wackersdorf. The monthly costs with the 5,1% mark up is called Assembly charge and this is the main revenue that the plant generates. Additionally there are only invoices issued to other plants (only re-invoicing of particular costs that don't belongs to the Tachov plant). In the following table there is the monthly AR Aging from December 2011. This aging is reconciled with the report from BPCS system (Attachment Nr. H). The colored cells need to be filled according to the sub-ledger system report and the amount in the last cell is automatically exported from the general ledger. Both the last lines, the automatically calculated and manually input, have to correspond. The Aging from December is without any differences to be commented and solved immediately.

Table Nr. 18: AR Aging December 2011 (all amounts in CZK)

<u>AR - Aging 2011</u>			all figures in CZK					
			Current	30	60	90	over 90	Total
Commercial Customer								
12210	KSSC		N/A					0
12230	KSSC		N/A					0
12210	KULI		N/A					0
			0	0	0	0	0	0
IC Customer								
12720	KEIC	Lear Wackersdorf	0	0	0	0	0	0
12720	KEIC	Lear Gustavsburg	0	0	0	0	0	0
12720	KEIC	Lear Munich	1.070.825,69					1.070.825,69
12720	KEIC	Lear SSD_EHQ	33.287,01					33.287,01
			1.104.112,70	0	0	0	0	1.104.112,70
Total AR			1.104.112,70	0	0	0	0	1.104.112,70

Source: Compiled by author, according to [6], 2012

Testing result: YES

Control description:

Accounts receivable subsidiary ledgers are reviewed monthly for proper aging and for any significant or unusual items, including credit balances and unapplied cash. General ledger accounts are balanced with the accounts receivable subsidiary ledger at each month.

Risks:

This control should ensure that:

- sales invoices, sales journal and accounts receivable detail, reflect accurate unit prices and quantities;
- sales transactions are recorded to the correct customer account;
- fictitious or duplicate sales are not recorded;
- cash receipt journal is correctly posted to the general ledger;
- cash deposits are recorded in the cash account and in the accounts receivable detail in the period received.

Required document:

This control should be tested with monthly accounts receivable sub-ledger reconciliation.

Testing description:

Accounts receivable reconciliation is done on a monthly basis. For Tachov only intercompany balances are relevant. This reconciliation is prepared by Accountant and reviewed by Controller. As a supporting documentation for this reconciliation, monthly report of all open accounts receivables positions from BPCS is printed. This report is in line with the reconciliation. If there are differences between general ledger and sub-ledger these differences would be clarified in the reconciliation.

Table Nr. 19: AR reconciliation (all amounts in CZK)

Trade Accounts Receivable Reconciliation of Trial Balance to the General Ledger:		
<u>Division/Facility:</u>	Tachov	<u>General Ledger:</u> BPCS
		<u>GL Account Number:</u> AR.1000
<u>Department Responsible:</u>	Finance	<u>GL Account Name:</u> Accounts Receivables
<u>Closing Date:</u>	31.12.2011	<u>Type of Account:</u>
<u>Description of Account:</u>	Accounts Receivable	<u>Source Documents:</u> Trial Balance & HYP 500
<u>DR (CR)</u>		<u>Tachov</u>
Balance per Detailed A/R Subledger @ Closing Date		1.104.112,70
14600	In-transit Deposits	0,00
14610	Cash in transit SSC	0,00
	Total increases to Subledger	0,00
12240	Accrued Trade receivables	0,00
14650	Factoring	0,00
12215	Accrued Trade Receivables	0,00
12210	Cash in transit SSC	0,00
	Total reductions to Subledger	0,00
	Less: Intercompany Amounts (**)	
	details see on separate page ("Aging")	(1.104.112,70)
	Net Intercompany Balances in Subledger	(1.104.112,70)
	Balance per General Ledger	0,00
		0,00
**	-Intercompany Amounts- In this section, list the other Lear entities that are included on the trial balance and reclassified to Due to/From other Plants.	

Source: Compiled by author, according to [6], 2012

Testing result: YES

Control description:

Foreign currency conversion rates obtained directly from the Lear Intranet are used to value cash receipts.

Risks:

This control should ensure that cash receipts received in foreign currencies are correctly valued.

Required document:

The current Lear FX rates have to be compared with the journal entries used for booking of cash receipts.

Testing description:

According to the Czech law, the exchange rate of the Czech National Bank has to be used. Lear is using a monthly exchange rate that is announced the last day of the previous month. Additionally for the US GAAP reporting, that has it's separate accounting books, adjustments are done using the Lear exchange rate. Main adjustments regarding the exchange rates are intercompany adjustments of the AP/AR ending balances between Lear plants. The Intercompany matching report, used for balance agreement, were described and tested within the accounting cycle.

Testing result: YES

Control description:

All bank accounts are reconciled monthly, and efforts to resolved open items are initiated prior to the end of the current quarter. These open items are resolved by the following quarter end.

Risks:

This control should ensure that:

- cash deposits are recorded in the cash account and in the accounts receivable detail in the period received;
- cash received is deposited;
- duplicate postings of cash receipts are not made to the general ledger.

Testing description:

As Tachov plant has only intercompany sales, all cash receipts are running through netting. Netting is a form of obligation settlement between Lear plants. This settlement is performed once per month (the second Monday of the Lear month). To specify it exactly – Lear’s operating calendar is different from the calendar month. The economic year is the same like the calendar year but there are monthly differences. The principle of the operating calendar is to have 4 or 5 weeks month and the closing day is always Saturday. The second Monday of the Lear month, netting input has to be done into the citi direct internet banking system. The deadline for this is 5pm and after that time the system is closed. Each Lear location is obliged to input all payments that are due for the current month. These transactions are then submitted and the netting protocol printed from the system is signed for approval from two approvers (the same approvers like for payments in citi direct online banking). The Lear plants that have negative balance in the netting (meaning difference between payables and receivables) have to send the money to the treasury bank account. At the end of the week, the payments are going out from the treasury department to all Lear plants. There is only one big amount coming to the bank account of each plant. The finance department thereafter has to identify all amounts that are behind this payment to input the disbursement or receipt into the accounting system. Example of the netting protocol that was tested for completeness is in the Attachment Nr. J.

Testing result: YES

5. Evaluation of the internal control systems in the company

The analytical part of the thesis was focused on testing of all main processes that are affecting the financial results of the plant. The plant Tachov exists since September 2008 and is still in progress. As there are still new projects coming to the plant resulting in more business, it is very important to be SOX compliant to eliminate the risk of intentional or unintentional misstatements and potential fraudulent transactions or actions.

5.1 Key Findings

During the regular testing of the prescribed SOX processes within the internal self-testing process in the second half of 2011, the finance department focused on involving all department managers into the testing of the processes. The reason was that in the past, the whole testing was done by the controlling part of the finance department and each department was only asked for necessary testing samples of documentation. The result was that the particular department didn't feel the responsibility for their own processes and didn't properly work on the process implementation and improvement. Therefore SOX Champion for Czech Republic visited regularly the plants and together with the local finance department worked on the change of thinking of all department managers about the requirements of the company on the internal controls defined by the Sarbanes Oxley Act. Due to the poor knowledge of the department managers about Sarbanes Oxley Act (they were relatively briefly in Lear and hadn't many experience in an American company listed on the stock exchange) a training of all department managers was necessary. The key message to all managers was that SOX is not only finance process but is a part of a quality process of the company, and that the controls should work everyday and not only when regular testing of this control is done or when Internal Audit is planned in the plant.

5.2 Deficiency report

To summarize the identified process deficiencies and work out an action plan with exact timing, short-term mitigating controls and long term solutions, deficiency report is created. The deficiency report should contain following aspects to be considered:

- Control matrix reference
- ICQ reference number:
 - populates automatically based on Control matrix reference.
- Deficiency type:
 - is selected from a drop-down list if it is design (not part of the narrative) or operating (not performing as documented).
- Control type:
 - is selected from a drop-down list if it is transactional (used by most locations) or ITGC (IT general controls – limited use) or entity (corporate controls).
- Deficiency source:
 - Self-identified – identified during the quarterly regular testing.
 - E&Y – identified during the annual external audit.
 - Audit services – identified during the internal audit from the Lear Audit Service.
- Division:
 - automatically based on location name.
- Date identified
- Deficiency control:
 - populates automatically according to the Control matrix reference and is the description of the control that is running deficient.
- Description of deficiency
- Action plan:
 - describes the action taken to remediate the deficiency.

- Responsible person:
 - defines person responsible for implementing the action plan.
- Completion date:
 - date the action plan was implemented.
- If remediation plan is a compensating control:
 - if the action plan is not a compensating control than it is “NO”.
- If compensating control has been approved
- Burn in date:
 - the burn-in period is required to ensure that the remediation plan / compensating control is effective and sustainable;
 - a deficiency will not be closed until after the burn in date has passed and the remediation is proven effective;
 - there is a following guidance for completion date in place according to the frequency / type of transaction:
 - daily => 30 days after Completion Date;
 - weekly => 30 days after Completion Date;
 - monthly => 60 days after Completion Date;
 - quarterly => 2 occurrences after Completion Date;
 - semi-annually => 2 occurrences after Completion Date;
 - annually => 1 occurrence after Completion Date;
 - application access / security => same day as Completion Date.
- Date when remediation is effective:
 - remediation is effective if the remediation plan has been proven to correct the deficiency.
- Cycle type
- Deficiency status:
 - the item can only be closed if the remediation is effective and the burn in date has passed.

5.2.1 Deficiency Nr. 1 – Inventory Adjustments

Control matrix reference: PI1, INV 10

ICQ reference number: P23.6

Deficiency type: Operating

Control type: Transactional

Deficiency source: Self-Identified

Division: SSD

Date identified: 28.3.2012 (extension of the deficiency)

Deficiency control:

All inventory adjustments (including physical) are reviewed and approved by appropriate personnel including root cause analysis with future corrective actions and are recorded in the general ledger on a timely basis.

Description of deficiency:

Incorrect value in the stock status report occurred due to missing manual adjustments in XPPS. Additionally inventory adjustments were done in the XPPS system without proper approval and root cause analysis.

Remediation plan:

XPPS error message box should be investigated on weekly basis by logistics. Signed documentation will be reviewed by logistics manager and plant manager.

Responsible person: Operations manager of the plant

Completion date: 28.4.2012

Burn in date: 28.5.2012

Deficiency status: Open

Cycle type: Production

5.2.2 Deficiency Nr. 2 – Discrepancy credits/debits

ICQ reference number: R13.1

Deficiency type: Operating

Control type: Transactional

Deficiency source: Self-Identified

Division: SSD

Date identified: 28.3.2012

Deficiency control:

Credit memos / discrepancy credits are matched with quality department authorization documents prior to recording non-cash reduction to accounts receivable in the general ledger.

Description of deficiency:

The authorization of the debit memos from the quality department is not in place. The debit memos are automatically deducted by the customer.

Remediation plan:

Debit memos will be authorized in a timely manner prior to monthly close when the deduction is recorded in the AR ledger.

Responsible person: Quality manager of the plant

Completion date: 28.4.2012

Burn in date: 28.5.2012

Deficiency status: Open

Cycle type: Revenue

5.2.3 Deficiency Nr. 3 – Inventory of Spreadsheet

ICQ reference number: A7.10

Deficiency type: Operating

Control type: Transactional

Deficiency source: Self-Identified

Division: SSD

Date identified: 15.3.2012

Deficiency control:

An inventory of spreadsheet used to support journal entries is maintained and updated once per quarter. Spreadsheets that are both complex and supporting journal entries/account balances above 500.000 USD are reviewed quarterly. This includes review of formulas, performance of reasonableness checks, and reconciliation to source files (where applicable). The Spreadsheet Control Questionnaire is completed for all this spreadsheets above 500.000 USD.

Description of deficiency:

Inventory spreadsheet isn't in place as this control was reported as N/A. However there is one booking above 500.000 USD for monthly assembly charge. For this calculation, a spreadsheet has to be implemented.

Remediation plan:

Spreadsheet control questionnaire together with the spreadsheet inventory has to be implemented by the assistant controller and reviewed by the plant controller.

Responsible person: Plant Controller of the plant

Completion date: 28.4.2012

Burn in date: 28.9.2012

Deficiency status: Open

Cycle type: Accounting & Reporting

5.2.4 Deficiency Nr. 3 – Goods/ Services reception

ICQ reference number: E5.1.

Deficiency type: Operating

Control type: Transactional

Deficiency source: Self-Identified

Division: SSD

Date identified: 30.6.2011

Deficiency control:

All goods and services received during the period have been recorded in the general ledger in the proper period, including all expenses incurred that have not yet been invoices. Specific inquiries are made of department heads regarding known incurred expenses that have not been invoiced.

Description of deficiency:

Incoming goods are not recorded in the system correctly. For production material the goods are received without proper entry into the system and therefore the stock status isn't correct in the financial statements. For non-production material the goods/ services are received without proper approval of the purchase order.

Remediation plan:

Regarding the production material, training of the whole goods entry team in Tachov plant will be implemented. Regular testing of the progress in the control process is done by the financial controller.

Regarding the non-production material, training of the whole team in Tachov plant will be done about the process of ordering and receipt of all goods and services. Direct communication with the responsible person will be done immediately after the identified error.

Responsible person: Logistics manager / Plant Controller

Completion date: 28.3.2012

Burn in date: 28.4.2012

Deficiency status: Open

Cycle type: Expenditure

5.3 Action plan

The above shortly described action plan was worked out in detail and implemented together with the department managers, who are responsible for the process that is running deficient. This action plan is part of the whole action plan of the plant called “Tachov Get Well” and is reviewed through regular weekly conference call together with the responsible persons from the central departments of Lear Corporation and with SOX Champion for Europe. This action plan isn’t part of the deficiency report, because the deficiency report is a formal report for the whole concern Lear Corporation and therefore all actions in detail worked out by the local management together with the SOX Champion for Czech Republic don’t need to be described.

5.3.1 Deficiency Nr. 1 – Inventory Adjustments

Description of deficiency:

Incorrect value in the stock status report occurred due to missing manual adjustments in XPPS. Additionally inventory adjustments done in the XPPS system without proper approval and root cause analysis.

Action plan:

As there are two big problems in this control, two different action plans were worked out. The older deficiency is related to the missing documentation and root cause analysis for inventory adjustments. There was communicated following action plan with the logistics department:

- Local guideline for cycle count will be prepared by the logistics manager
- The guideline will be reviewed by the financial controller and SOX Champion for Czech Republic for accuracy and completeness
- The approved guideline will be communicated to the whole plant (department managers + whole logistics department)
- All inventory adjustments greater than +/- 10% or higher than 1000 EUR have to be reviewed and approved by two from three managers (logistics manager, plant manager, plant controller) where the logistics manager has to approve always and detailed root cause analysis has to be worked out
- One indirect person from the logistics department will be defined for performing daily cycle counts

Second part of this deficiency is the incorrect value in the stock status report arising within the March monthly closing in 2012. The daily review and potential manual adjustments are not done in XPPS. If the system can't properly write off material due to low stock status of the particular part number or some other system problem,

the whole booking is going into the error message box. This box wasn't reviewed and adjusted and therefore the inventory value at the end of the month was higher than in the reality. The action plan for this process is following:

- The whole logistics department will be trained by the IT department how to adjust and review the error message box.
- The logistics manager will review the error message box at the end of every day to ensure that no transaction remained in the error box.
- All manual adjustments done due to the error message box will be corrected by the material analyst and reviewed and approved by the logistics manager and the whole documentation will be placed in the logistics department.

5.3.2 Deficiency Nr. 2 – Discrepancy credits/debits

Description of Deficiency:

The authorization of the debit memos from the quality department is not on place. The debit memos are automatically deducted by the customer.

Action plan:

The debit memos will be scanned by the finance department in Wackersdorf and send to the quality department in Tachov on a daily basis. The responsible person in the quality department – Senior Quality Assurance – will review this debit notes on a daily basis together with the quality complaints from the B2B portal. These two documents need to be consistent. Additionally the quality complaint from the customer has to correspond with the reality. Potential differences between the customer information and our available information and documents have to be contradicted and negotiated with the customer. These approved debit notes or quality complaints should be than handed over to the finance department for processing.

5.3.3 Deficiency Nr. 3 – Inventory of Spreadsheet

Description of Deficiency:

Inventory spreadsheet isn't on place as this control was reported as N/A. However there is one booking above 500.000 USD for monthly assembly charge. For this calculation a spreadsheet has to be implemented.

Action plan:

The Spreadsheet Control Questionnaire will be worked out by the financial controller. The calculation of the assembly charge will be reviewed for accuracy on a quarterly basis and will be saved so that only responsible persons could make changes. This Control Questionnaire will then be reviewed by the plant controller of the plant. After that the Inventory spreadsheet will include this Control Questionnaire. All this documents will be downloaded from the Lear Corporation SOX portal to ensure that the latest forms are used.

5.3.4 Deficiency Nr. 3 – Goods/ Services reception

Description of Deficiency:

Incoming goods are not recorded in the system correctly. For production material the goods are received without proper entry into the system and therefore the stock status isn't correct in the financial statements. For non-production material the goods/ services are received without proper approval of the purchase order.

Action plan:

As there are two deficient processes once again – for production material area and non-production material area – two different action plans were worked out.

For production material, as already mentioned the goods receipt area together with the whole logistics department was trained. Nobody is allowed to receipt goods from the carrier except the goods receipt area. The goods receipt area is clearly defined and two persons (one per shift) are responsible for the reception of the goods. These responsible persons have to require a delivery note from the carrier always and put the information about the receipt into the XPPS system on a daily basis. This whole process is additionally described in a local guideline that was worked out by the logistics manager.

For non-production material, also the defined persons from the goods receipt area are responsible for it and the process is the same except the system used for this process (PO System is used, not XPPS system). For services, each department has his own responsible person who will put the information about the realization of the service into the PO System. Regarding the process of goods/service ordering, the whole staff in Tachov plant was trained and the importance of the correct process flow was pointed out. As already mentioned in the deficiency report direct communication with the responsible person is done immediately after the identified error and the status of this process is also communicated to the plant manager and department managers regularly on the morning meeting. Also this whole process of goods/service order and receipt is described in a local guideline worked out by the financial controller.

Conclusion

The currently business environment with a constant changes and stress on a business complexity forces the senior management of the companies to focus on internal audit. This should include both an assurance about the real status in the company and a consulting service. This means not only analyze the particular processes in the company but also to focus on the communication with the individual managers and give recommendations about how to improve the performace of the whole company or particular business. The internal audit should present a reasonable assessment in risk management, internal controls and also in corporate governance. It could be also called a „true face of the company“.

As already mentioned, one of the primary responsibilities of the internal auditor is to evaluate the internal controls in the company and this was the subject of this thesis. The first part characterized an internal control system, risk management and a proper documentation of the internal controls. Subsequently the thesis refered to the internal controls with the focus on the internal controls in the U.S., mainly the Sarbanes Oxley Act of 2002, a federal law in the United States. This act contains requirements for financial reporting that is obligatory for all companies listed on the U.S. stock exchange.

The practical part of the thesis was concentrated on the internal control system in the company Lear Corporation, a global supplier of automotive seating and electrical power management systems traded on the New York Stock Exchange. The internal control system in this company is established to fulfill all requirements of the Sarbanes Oxley Act.

The whole analytical part was focused on the testing of the internal controls in the company Lear Corporation Czech Republic, s.r.o., plant Ostrov U Stribra. The thesis was focused on the main controls that have a major impact and potential risk of misstatements in the financial statements. The testing was described with description of the control, potential risk to be minimized through this control and description of the control in the plant and result of the testing.

The last part evaluated the whole analytical part through key findings, preparation of the deficiency report, that is a formal tool how to summarize the result of the testing within the Lear corporation, and to define remediation plan for all deficient controls.

The testing of the controls in the plant Tachov resulted in four deficient controls. From this controls, the major potential risk of material misstatement are two controls related to the inventory adjustments and goods/service reception. The wrong process related to inventory adjustments cause firstly wrong stock status and therefore potential risk of customer missjobs. The plant is a JIT plant and if material is not available for the production in time, the delivery to the customer will be threatened. Secondly this problem causes a wrong stock status and therefore big risk of misstatement of the financial reports that can negatively influence all external parties using the financial results for their decisions (management, potential investors, shareholders, legal parties, customer, suppliers etc.).

The second deficient control related to inventory is the process of goods/service reception in the plant. This process is the elementary and essential process in a manufacturing company. If this process shows up as a non-functional, than the other processes in the company are affected and the plant can't be fully functional and trustworthy. This was also an impulse to start immediately with actions to implement process and control system how to handle the whole material flow in the company. Firstly it is each employee involved in this process, who should exactly know what is his role in the company, and secondly IT systems has to help people in the company to fulfill all placed requirements. As there isn't exact warehouse management system implemented in the plant, this element of supporting IT systems isn't absolutely fulfilled. This is one problem that can't be solved on a short-term basis but it has to be taken into consideration in the plans for the future of the company.

The third deficiency that can't be disregarded is the missing quality approval of all customer debit notes that came out to have a significant impact on the financial results of the plant due to a many customer issues related to a one particular project. The lack of control from the site of the quality department means no assurance that the customer is

debiting the correct amount to the Lear company. If the customer hasn't any response or potential complaints about the debit notes than it can be also an impulse for the customer that the processes in the company Lear are not running properly and that it can be also the same case in other corporate activities.

All the above mentioned deficient controls were communicated to the whole local management and were also communicated through the reporting SOX portal to the whole corporation including detailed action plan immediately worked out. The target is to fulfill all requirements of the SOX requirements in this aspects till the end of the second quarter of the year 2012. This is due to the significant potential risk of the financial misstatement. Additionally there is also a big probability that the internal LAS audit will take place in the next year and to achieve a positive result, it is one of the main priorities for this year to implement all defined actions to be SOX compliant.

List of Tables:

- [1] PAR approvals
- [2] Fixed Assets Reconciliation (all amounts in CZK)
- [3] AP reconciliation (all amounts in CZK)
- [4] Reconciliation accrual for open invoices (all amounts in CZK)
- [5] Bank reconciliation (all amounts in CZK)
- [6] Payroll reconciliation – part I. (all amounts in CZK)
- [7] Payroll reconciliation – part II. (all amounts in CZK)
- [8] Payroll reconciliation – part III. (all amounts in CZK)
- [9] SOD payroll process
- [10] SOD for AR processes
- [11] SOD for Fixed Assets
- [12] SOD for Cash disbursements
- [13] SOD for purchases
- [14] Intercompany Matching Report – part I. (all amounts in USD)
- [15] Intercompany Matching Report – part II. (all amounts in USD)
- [16] Reserve Schedule (all amounts in CZK)
- [17] Margin calculation (all amounts in CZK)
- [18] AR Aging December 2011 (all amounts in CZK)
- [19] AR reconciliation (all amounts in CZK)

List of Pictures:

- [1] Main objectives of ERM
- [2] Enterprise Risk Management Framework
- [3] Risk assessment process
- [4] Pre-conditions of the risk assessment
- [5] Basic documentation requirements
- [6] 10 Threats to Compliance SOX - Section 404
- [7] Lear's Internal Control Framework

List of Acronyms:

SOX	Sarbanes Oxley Act
SOD	Segregation of Duties
LEAP	Lear Accounting Practices
ERM	Enterprise Risk Management
COSO	Committee of Sponsoring Organizations of the Treadway Commission
FCPA	Foreign Corrupt Practices Act
CEO	Chief Executive Officer
CFO	Chief Financial Officer
PCAOB	Public Company Accounting Oversight Board
SSD	Seating System Division
SSC	Shared Service Center
US	United States
EU	European Union
BS	Balance Sheet
ICQ	Internal Control Questionnaire
AP	Accounts Payable
AR	Accounts Receivables
PAR	Project Appropriation Request

CAPEX	Capital Expenditure
US GAAP	Generally Accepted Accounting Practices in US
CIP	Construction in Progress
GL	General Leger
SL	Sub-Ledger
GRNI	Goods Received Not Invoiced
PO	Purchase Order
HR	Human Resources
PSR	Project Status Report
ACCANA	Account Analysis
N/A	Not Applicable
ITGC	IT general controls
YTD	Year - to - date
JIT	Just In Time
FX rate	Foreign Exchange Rate
IC	Intercompany
ACCRD	Accrued
IC_AP	Intercompany Accounts Payable
IC_AR	Intercompany Accounts Receivables
IC_ACCRD_INT_AP	Intercompany Accrued Interests (Accounts Payable)

List of References:

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List of Attachments:

Attachment A: Fixed asset additions report

Attachment B: Constuction in progress

Attachment C: Invoice

Attachment D: Purchase order

Attachment E: Delivery note

Attachment F: Payroll masterfile change report

Attachment G: Employee change status

Attachment H: Balance sheet

Attachment I: Income statement

Attachment J: Netting protokol

Attachment A: Fixed asset additions report

70 LEAR Taschen	Anlagenbuchhaltung		CS99109 29.11.11		
	Zugangliste		7.41 17:29:50		
			Barbara Zakova, P	Seite: 1	

Bewertungsbereich: 30 Handelsrecht			Geschäftsjahr: 2011				
Anlagenr. Pos.	Kostenstelle	GVU	APR-Art	Anschaffungsdatum	Normal-WFA	Reinbuchwert	KZ Abj.
		RND	APR-Regim	Inbetriebnahmedatum			
			Buch. Per.	Vorgangsart	Befrei. Nr.	Belegdatum	Zugang A. H. K

Konto	04290	AB Sonst technische Anlagen				
7000118	70100	96 LEAR	01.12.2010	2.654.194,19	328.244,31	2.325.949,88
Montagevoerrich	Produktion	95	2010 12 01.12.2010			
		11 2011 12	Nachaktivierung	31.173,60		
Summe Konto	04290	AB Sonst technische Anlagen		2.654.194,19	328.244,31	2.325.949,88
				31.173,60		
Gesamtsumme				2.654.194,19	328.244,31	2.325.949,88
				31.173,60		

Attachment B: Construction in progress

70 IEAR Tischechien		Anlagenbuchhaltung		Per /Gesch.Jahr: 12 2011	
Anlagenpiegel - Brutto		Anlagenpiegel - Brutto		Anlagenpiegel - Brutto	
Bewertungsbereich: 30 Handelsrecht		Bewertungsbereich: 30 Handelsrecht		Bewertungsbereich: 30 Handelsrecht	
Anlagenr/Pos	Herstell.kst.	Zugänge	Abgänge	Umbuchungen	Zuschreibungen
Anschaffungs/		Sonder-AFA		Normal-AFA	
Herstell.kst.		kumuliert		kumuliert	
Restbuchwert		Restbuchwert		Restbuchwert	
Bilanzposition	0700	Cel. Anzähl.	& Anlagen im Bau		
Konto	07800	AB	Anzahl Techn Anl/Maschine		
7000103	4443,03	0,00	4443,03-	0,00	0,00
ASC					
7000141	0,00	173196,93	173196,93-	0,00	0,00
Intermek CK3					
7000142	0,00	250600,00	250600,00-	0,00	0,00
Telefonverkabe					
7000144	0,00	50800,00	50800,00-	0,00	0,00
Zaun für Trim-					
7000146	0,00	1128835,00	608750,00-	0,00	520085,00
Tester / elekt					
7000147	0,00	242160,75	242160,75-	0,00	0,00
Testersteuerun					
7000150	0,00	221218,53	221218,53-	0,00	0,00
Telefonverkabe					
7000155	0,00	605250,00	605250,00-	0,00	0,00
Montagerahmen					
7000158	0,00	52734,20	52734,20-	0,00	0,00
IT Datenkabel					
7000159	0,00	51350,00	51350,00-	0,00	0,00
Zaun fuer MT					
Summe Konto:	4443,03	2776145,41	2260503,44-	0,00	520085,00
Summe B. Pos:	4443,03	2776145,41	2260503,44-	0,00	520085,00
Gesamtsumme:	4443,03	2776145,41	2260503,44-	0,00	520085,00

Handwritten notes:
 Anlagen im Bau +
 + Abgrenzung
 PO Num 140.910 22K
 Summe = 690.995 22K
 02/01/12
 Ref

Attachment C: Invoice

FAKTURA - DAŇOVÝ DOKLAD

č. 11106790

TECHNOLOGY s.r.o. Maroldova 6/1147 140 00 Praha 4 Provozovna: Skály 25, 389 11 Protivín Tel: +420 382 252 985 DIČ: CZ47783206 IČO: 47783206		Variabilní symbol : 11106790 Konstantní symbol : 008 Vaše objednávka číslo : T2011-2599 Naše objednávka číslo : 1116003472	
Bankovní spojení : Komerční banka a.s., Liberec Číslo účtu: 43-3130250247/0100 IBAN : CZ 75 0100 0000 4331 3025 0247 SWIFT : KOMB CZ PP		Odběratel : IČO : 25225227 DIČ : CZ25225227 LEAR CORPORATION CZECH REPUBLIC s.r.o. Továrni 735/10 349 01 Ostrov u Stříbra	
Bankovní spojení : ČSOB a.s., Praha Číslo účtu: 677022703/0300 IBAN : CZ 13 0300 0000 0006 7702 2703 SWIFT : CEKO CZ PP		Konečný příjemce : LEAR CORPORATION CZECH REPUBLIC s.r.o. Továrni 735/10 349 01 Ostrov u Stříbra	
Způsob úhrady : Převodním příkazem (14dňů) Datum vystavení : 15-12-11 Datum splatnosti : 29-12-11 Den uskutečnění zdanitelného plnění : 15-12-11		Způsob dopravy : Odvoz vozidlem Technology	

Označení dodávky	Množství	Cena/MJ	Sleva %	Cena po slevě	DPH %	DPH	CELKEM
.42	72,00 kusy	9,600		9,600	20	138,24	691,200
48x99mm OPP-FM HAVANA lepicí páska ruční							
9201	5,00 role	320,000		320,000	20	320,00	1600,000
bublínková fólie 50my "L" 1000-50/100m							
DPH				Základ DPH		DPH	Celkem
		20,00 %		2291,200		458,240	2749,44
DPH celkem							458,240
Celkem bez DPH							2291,200
Zaokrouhlení							0,440

Částka k úhradě 2749,000 CZK

Při nedodržení termínu splatnosti Vám budeme účtovat penále ve výši 0,07 % z fakturované částky za každý den prodlení. Až do úplného zaplacení zboží zůstává majetkem Technology s.r.o. Děkujeme za Vaši včasnou platbu.

TECHNOLOGY s.r.o.
 Maroldova 6/1147, 140 00 Praha 4
 Provozovna: Skály 25, 389 11 Protivín-SKÁLY
 Tel/Fax: +420 382 251 321, 382 252 985
 DIČ: CZ47783206 IČO: 47783206

70260 11106790 2749,00
 29/12/11
 20250 72000 2291,200
 2000 63000 (0,440)
 2749,000

DORUČENO DNE:
 16-12-2011

stavil (a) : Marie Viktorová +420 382 252 985 Skaly@technology.cz Strana č. 9 z 10
Technology s.r.o. - Baticí stroje a linky Tel/Fax : +420 483 360 121 email : info@technology.cz
 Maroldova 6/1147 - Obalové materiály Tel/Fax : +420 483 360 145 www : www.technology.cz
 140 00 Praha 4 - Kompresory Tel/Fax : +420 483 360 145 Servis : +420 483 360 151
 Společnost Technology s.r.o. je zapsána v obchodním rejstříku vedeném u Městského soudu v Praze, oddíl C, vložka 70171
 Tisk (e) :



Attachment D: Purchase Order



Bestellung / Purchase Order

+0042 517 577711
+420 374 / 6108 27

Datum 14.12.2011		Objednávka č. / PO-N T2011-2599		Neu		Non Production		PAR-Nr. (if investment)			
Důvody / Reason Materiál pro F12/F13				MÍSTO DODÁNÍ / Delivery address LEAR CORPORATION Czech Republic Abteilung: Materials D5 Logistics Park CZ-34901 Ostrov u Stribra			Fakturu na adresu / Invoice address LEAR CORPORATION Czech Republic Abteilung: Materials D5 Logistics Park CZ-34901 Ostrov u Stribra				
DODAVATEL / Vendor (name and address) 70262 TECHNOLOGY s.r.o. Maroldova 6/1147 14000 Praha 4 Tel.: 00420382251321 Fax:				Upozornění! Na fakturu prosím uveďte číslo objednávky.			Ausführende Abt. / Requisition Dep. No. 70250 - Materials Tachov			Zu belastende Abt. / Destinated Dep. No. 70250 - Materials Tachov	
PO	číslo položky Item number	popis položek Item description		množství PO-quantity	ME UOM	cena za jednotku price UOM (net)	celková cena complete (net)	dodací lhůta due date			
1	1	Lepicí páska "HAVANA"		72,00	Rollen	9,600 CZK	691,20 CZK	21.12.2011			
2	2	Bublinková fólie na balení		5,00	Rollen	327,000 CZK	1635,00 CZK	21.12.2011			
3	3	šíře 1m, návin 100m									
Vystavovatel / requestor: ASusterova Datum: 16.12.2011				Zúčtovat na / Charge to: CELKEM bez			2326,20 CZK		Cena uvedena bez DPH		
Approval 1: Manager(Vorgesetzter) Kucera, Pavel Datum: 14.12.2011		Approval 2: Manager(Belastete KST) Kucera, Pavel Datum: 14.12.2011		Approval 3: Plant Controller: Stenglova, Monika Datum: 14.12.2011		Approval 4: Plant Manager: Kucera, Pavel Datum: 15.12.2011					
<p>Alleinige Geschäftsbedingungen Deutschland / Purchase Order Terms and Conditions: Diese Bestellung liegt ausschließlich unter unseren Allgemeinen Geschäftsbedingungen und Werkzeugbedingungen und ist im Internet unter www.lear.com >Supplier Information>Purchase Order Terms and Conditions Europe> Allgemeine Geschäftsbedingungen Deutschland) und >Supplier Information>Lear Tooling Guidelines) abrufbar. Käufer schriftlich darüber zu informieren, wenn Organmitglieder oder Angestellte des Lieferanten oder Organmitglieder oder Angestellte einer juristischen Person welche mit mehr als 5 % am Lieferanten Organmitgliedern vom Käufer oder von mit dem Käufer verbundenen Unternehmen stellen.</p>											

LEAR CORPORATION Czech Republic s.r.o.
Commercial register by Regional Court in Brno, Section C, File No. 39946
Managing director: Robert C. Hooper
Seat: Vyskov, Předměstí, Tovarní 735/10, CZ-68201
Our VAT-registration-no.: CZ25775227 Umsatzsteuer-Nr. 252 26 227

Attachment E: Delivery note

DODACÍ LIST K OBJEDNÁVCE

č. 1116003472

Dodavatel : TECHNOLOGY s.r.o. Skály 25 398 11 Protivín Tel : +420 382 252 985 DIČ : CZ47783206 IČO : 47783206	Datum : 15-12-11 Naše značka : Marie Viktorová Naše objednávka : 1116003472-2 Vaše značka : Zuzana Kočárková Vaše objednávka : T2011-2599
Platební podmínky : Převodním příkazem (14dní) Podmínky dodávky : --- Způsob dodávky : Odvoz vozidlem Technology Datum vyskladnění : 15-12-11	Odběratel : IČO : 25225227 DIČ : CZ25225227 LEAR CORPORATION CZECH REPUBLIC s.r.o. Tovární 735/10 349 01 Ostrov u Stříbra
Konečný příjemce : LEAR CORPORATION CZECH REPUBLIC Tovární 735/10 349 01 Ostrov u Stříbra	

Označení dodávky	Množství	Cena/MJ	Sleva %	Cena po slevě	DPH %	DPH	CELKEM
11342 1x66m OPP-FM HAVANA lepicí páska ruční	72 00 kusy	9 600		9 600		138,20	691,200
9201 bublínková fólie 50my "L" 1000-50/100m	5,00 role	320 000		320 000		320,00	1600,000
		DPH		Základ DPH		DPH	Celkem
		20,00 %		2281,200		458,240	2 749,000
		DPH celkem					458,240
		Celkem bez DPH					2291,200
		Zaokrouhlení					0,440

Celková částka včetně DPH : 2749,000 CZK

Počet balení :	77	KS
Čistá hmotnost :	34,800	KG
Hrubá hmotnost :	34,800	KG
Objem :	0,00	M3



PŘEVZAL (A) : *15.12.2011 13:50*
 R. Fichtlová

Marie Viktorová
TECHNOLOGY s.r.o.
 Skály 25, 398 11 PROTIVÍN
 STŘEDISKO PROTIVÍN-SKÁLY
 tel/fax: +420 382 251 321, 382 252 985
 tel: 477 83 206 DIČ: CZ47783206

DORUČENO DNE:
 16 -12- 2011

Vystavil (a) : Marie Viktorová +420 382 252 985 Skaly@technology.cz Strana č. 1 z 1



Technology s.r.o.
 Maroldova 6/1147
 140 00 Praha 4

- Balicí stroje a linky
 - Obalové materiály
 - Servis

Tel/Fax : +420 483 360 121
 Tel/Fax : +420 483 360 148
 Tel/Fax : +420 483 360 151

email : info@technology.cz
 www : www.technology.cz

Společnost Technology s.r.o. je zapsána v obchodním rejstříku vedeném u Městského soudu v Praze oddíl C,ložka 70171

Attachment F: Payroll masterfile change report

Základní
Zpracováno dne: 11. 12. 2012

OS	OS-Číslo	ALL	OS	OS-Číslo	ALL	Datum	Čís	Stav	Režim
MFKRNOVA	L7007	L584				11/04/2012	12:54:25	A	
			60070	0	07/2012	11/04/2012	12:00:15	A	
			80014	0	07/2012	11/04/2012	12:00:15	A	
			80015	0	07/2012	11/04/2012	12:00:15	A	
			80024	0	07/2012	11/04/2012	12:00:15	A	
			80025	0	07/2012	11/04/2012	12:00:15	A	
			80026	0	07/2012	11/04/2012	12:00:15	A	
			80027	0	07/2012	11/04/2012	12:00:15	A	
			80028	0	07/2012	11/04/2012	12:00:15	A	
			80029	0	07/2012	11/04/2012	12:00:15	A	
			80030	0	07/2012	11/04/2012	12:00:15	A	
			80031	0	07/2012	11/04/2012	12:00:15	A	
			80032	0	07/2012	11/04/2012	12:00:15	A	
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			80037	0	07/2012	11/04/2012	12:00:15	A	
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			80039	0	07/2012	11/04/2012	12:00:15	A	
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			80096	0	07/2012	11/04/2012	12:00:15	A	
			80097	0	07/2012	11/04/2012	12:00:15	A	
			80098	0	07/2012	11/04/2012	12:00:15	A	
			80099	0	07/2012	11/04/2012	12:00:15	A	
			80100	0	07/2012	11/04/2012	12:00:15	A	

M. Pečárková
(Signature)
 11/04/2012
 Pavel Kučera
(Signature)
 11-04-2012
(Signature)

- Různé sestavy -

Attachment G: Employee change status

Podnik : Lear Corporation Czech Republ.
 Město : MPEKEROVA
 Období : 3/2012
 Strana : 1
 Pracovní den : 11. 4. 2012

 P222 - MĚSTY KRAJSTAVIČŮ

OS, ČIS. PP	STÁŘENSKO	NÁZEV STÁŘENSKA	JMÉNO	KATEG.	DATUM KAE.	MĚSTUP	VÝSTUP	DŮVOD VZHURU PP	GRUP PP
500303	0	9000 Rechatař	Clifová Barbora Ing.	41	10/13/82	1/03/12	30/06/12	pracovní poměr na dobu neurči	
500302	0	1300 Production INV - 70210	Nováková Lucie	41	14/12/85	5/03/12	30/06/12	pracovní poměr na dobu neurči	
500304	0	1050 Operations INV - 70050	Nečasová Lucie Bc.	41	15/03/86	12/03/12		pracovní poměr na dobu neurči	

CELKEM 4 ZVĚŠTRANCI

M. Pečárková
 11/04/2012

Barbora Nováková
 11/4/12

Pavel Kučera
 11-04-2012

Barbora Nečasová
 12/04/12

Attachment H: Balance sheet

HYP900		Wirtsch.Jahr: 2011		Hauptbuch, LEGERE70 Buch . . . ACTUALS		4.01.12		Seite: 1	
For H Finanz-Perioden bis: December		Periode 012		LEAR CORPORATION TACH.		Anw. MSTRNGLO		19.06.23	
BPCS 96.1.GA * Lear Corporation Tachov *LIVEI.* **		8SID HYP900CI							
Konto	Bezeichnung	Eröffnungsbilanz		Frühere Perioden		Aktuelle Periode		Wirtschj. Bilanz	
18046	Citibank PRAG CZK	363.477,19		176.151,30-		68.649,77		258.975,66	
18047	Citibank PRAG Euro	0,03		0,03		0,00-		0,00-	
18646	Komerční Bank Střebro	48.896,06		21.555,88-		74.139,92		101.480,10	
100 A	CASH.1000	412.373,28		197.707,25-		142.789,67		357.455,70	
16046	Petty Cash TACHOV	10.018,26		2.063,66		495,05-		11.586,87	
100 C	CASH.1200	10.018,26		2.063,66		495,05-		11.586,87	
100	Cash & Cash Equivalents	422.391,54		195.643,59-		142.294,62		369.042,57	
19000	Aktiver Bsp Kfr	80.045,03		1.087.305,17		1.095.149,49-		72.280,71	
142 A	OTH_CUR_ASSET.MISC.1000	80.045,03		1.087.305,17		1.095.149,49-		72.280,71	
13045	Other Receivables	70.000,00		70.000,00-		0,00		0,00	
13420	Rec.Employees for mobile	0,00		0,00		0,30		0,30	
13510	Security deposit Housing	6.275.067,00		6.275.067,00-		0,00		0,00	
142 E	OTH_CUR_ASSET.MISC.1250	6.345.067,00		6.345.067,00-		0,30		0,30	
142	Miscellaneous Current Assets	6.425.112,03		5.257.761,83-		1.095.149,19-		72.201,01	
140 A - 143 E	Other current assets	6.425.112,03		5.257.761,83-		1.095.149,19-		72.201,01	
100 A - 143 E	Total current Assets	6.847.503,57		5.453.405,42-		952.854,57-		441.243,58	
01360	BB Standard Software	312.497,83		0,00		0,00		312.497,83	
04290	BB Other Technical Equipm	13.916.938,74		11.960.083,66		0,00		25.877.022,40	
06510	BB Office Equipment	1.819.473,56		765.000,81		0,00		2.584.474,37	
07800	BB Down Paym. For Machine	0,00		605.773,06		0,00		605.773,06	
156 A	MACH_PURCH.1000	16.048.910,13		13.330.857,53		0,00		29.379.767,66	
04291	AD Other Technical Equipm	11.960.083,66		6.377.254,38-		0,00		4.982.829,28	
06901	AD Office Furniture	0,00		219.466,84		0,00		219.466,84	
06511	AD Office Equipment	900.487,81		266.438,83-		0,00		634.048,98	
07801	AD Down Paym. For Machine	14.530.844,56		11.579.879,18-		2.865.743,44-		85.221,94	
07802	RT Down Paym. made f.Machinery	13.925.071,50-		11.055.818,06		2.869.253,44		0,00	
156 B	MACH_PURCH.1100	13.466.344,53		7.548.287,49-		3.510,00		5.921.567,04	
06512	RT Office Equipment	135.487,00-		135.487,00		0,00		0,00	
156 C	MACH_PURCH.1200	135.487,00-		135.487,00		0,00		0,00	
156	Machinery & Equipment-Purchase	29.379.767,66		5.918.057,04		3.510,00		35.301.334,70	
156 A - 158 F	Total Machinery & Equipment	29.379.767,66		5.918.057,04		3.510,00		35.301.334,70	
150 A - 158 F	Gross Fixed Assets	29.379.767,66		5.918.057,04		3.510,00		35.301.334,70	

Konto	Bezeichnung	Eröffnungsbilanz	Frühere Perioden	Aktuelle Periode	Wirtschj. Bilanz
06999	BB Accu Depr Other Equipm	708.600,32-	4.773.075,57-	0,00	5.481.675,89-
164 A	MACH_DEPR.1000	708.600,32-	4.773.075,57-	0,00	5.481.675,89-
07005	AD Accu Depr Other Equipm	4.773.075,57-	1.153.720,54-	586.290,80-	6.513.086,91-
164 B	MACH_DEPR.1100	4.773.075,57-	1.153.720,54-	586.290,80-	6.513.086,91-
164	Acc. Depr. - Machinery and Equipment	5.481.675,89-	5.926.796,11-	586.290,80-	11.994.762,80-
164 A - 166 F	Total Acc Depr and Cap Lease Amort - Machinery and	5.481.675,89-	5.926.796,11-	586.290,80-	11.994.762,80-
150 A - 166 F	Net Fixed Assets	23.898.091,77	8.739,07-	582.780,80-	23.306.571,90
13400	Other IT Assets	0,00	6.264.067,00	198.952,99	6.463.019,99
205 D	OTH_IT_ASSET-MISC.1300	0,00	6.264.067,00	198.952,99	6.463.019,99
200 A - 206 E	Other Longy Term Assets	0,00	6.264.067,00	198.952,99	6.463.019,99
150 A - 206 E	Total Non-Current Assets	23.898.091,77	6.255.327,93	383.827,81-	29.769.591,89
100 A - 206 E	Total Assets	30.745.595,14	801.922,51	1.336.682,38-	30.210.835,47

Konto	Bezeichnung	Eröffnungsbilanz	Frühere Perioden	Aktuelle Periode	Wirtschaftsj. Bilanz
33350	Trade Payables-domestic				
33355	Trade Payables-EEC/Non-EE	705.954,68-	6.207.197,49-	5.146.869,45	1.766.282,68-
33365	Outstanding Cheques Payab	15.380,80-	705.453,62-	527.499,65	193.334,67-
		0,00	20.759,84	20.759,84-	0,00
310 A	AP.1000	721.335,48-	6.991.891,17-	5.653.609,30-	1.959.617,35-
30830	PROV. F. UNVOUCHERED PAYABLES	4.186.029,63-	1.264.302,70-	2.137.731,10	3.312.601,23-
310 C	AP.1200	4.186.029,63-	1.264.302,70-	2.137.731,10-	3.312.601,23-
310	Accounts Payable	4.907.365,11-	8.156.193,87-	7.791.340,40-	5.272.218,58-
30700	Accr Salaries and Wages	154.685,00-	3.492.394,69-	803.205,40	2.813.874,18-
37200	Salary and Wage Payables	2.837.015,00-	3.075.966,49-	317.146,36	5.595.835,13-
37410	Accr Liab Social Benefits	953.832,00-	893.072,00-	74.973,00-	1.921.877,00-
37610	Garnishment Withholdings	0,00	166.800,00-	51.888,00-	218.688,00-
320 A	ACCR_SALARIES.1000	3.915.532,00-	7.628.233,07-	993.490,76-	10.550.274,31-
30760	Provision for Vacation no	1.714.770,72-	2.160.077,98-	2.018.798,06	1.856.050,64-
30765	PROV Vacation not taken	237.102,35-	733.286,39-	227.626,33	742.759,41-
320 B	ACCR_SALARIES.1100	1.951.873,07-	2.893.361,37-	2.246.424,33-	2.598.810,05-
320	Accrued Salaries & Wages	5.867.405,07-	10.521.594,44-	3.239.915,15-	13.149.084,36-
14009	VAT Receivable red. 10% CZ	1.340,19	780,75-	3.872,64	4.432,08
14019	Vat Rec 19%	2.372,53	2.372,53	0,00	0,00
14021	VAT Receivables 20% CZ	1.012.937,94	1.003.986,94	102.427,53-	1.914.097,35
14029	Anr VST i.g. Erwerb CZ 20%	141.970,77	261.359,73-	141.810,57	22.421,61
14051	VORSTEUER 13B EU-MITGLIEDER	0,00	399.338,34	228.021,59-	171.316,75
38029	Anr VST i.g. Erwerb CZ 20%	141.970,77-	261.359,73	141.810,57-	22.421,61-
38051	UMSATZSTEUER 13B EU-MITGLIED	0,00	399.338,34	228.021,58	171.316,76-
330 D	ACCR_NOMINC_TAX.1100	1.016.650,66-	1.000.433,66-	98.554,90-	1.918.529,42-
30710	Provision for Management	144.900,00-	77.850,00-	229.033,12-	451.783,12-
350 A	OTH_CUR_LIAB_BENEFITS.1000	144.900,00-	77.850,00-	229.033,12-	451.783,12-
39000	Deferred Charges	11.799.875,05-	8.049.435,54	79.452,87	3.670.986,64-
355 R	OTH_CUR_LIAB_MISC.2400	11.799.875,05-	8.049.435,54-	79.452,87-	3.670.986,64-
320 A - 357 A	Total accrued liabilities	16.795.529,46-	1.549.575,24-	2.991.780,00-	15.353.324,70-
300 A - 376 F	Total Current Liabilities	21.702.894,57-	9.705.769,11-	10.783.120,40-	20.625.543,28-
30902	Accrued Rent Tangente	0,00	10.804.555,61-	208.404,28-	11.012.959,89-
395 J	OTH_LT_LIAB_MISC.1700	0,00-	10.804.555,61-	208.404,28-	11.012.959,89-
390 A - 396 E	Other long term Liabilities	0,00	10.804.555,61-	208.404,28-	11.012.959,89-

Konto	Bezeichnung	Kröftnungsbilanz	Frühere Perioden	Aktuelle Periode	Wirtschj. Bilanz
12710	Trade Receivables from Aff	242.971,08	1.249.419,26	514.197,11	2.006.587,45
609	LCEE VYSKOV-PREMESTI	242.971,08	1.249.419,26	514.197,11	2.006.587,45
12720	Trade Rec-Affiliate Compa	8.285.013,23	7.660.580,23	624.433,00	0,00
IC	WACKERSDORF	0,00	14.427,15	18.859,86	33.287,01
SSD	European Headquarters	0,00	647.985,81	422.839,88	1.070.825,69
213	CSC Allershausen	8.285.013,23	6.998.167,27	182.733,26	1.104.112,70
12720	Trade Rec-Affiliate Compa	8.285.013,23	6.998.167,27	182.733,26	1.104.112,70
12725	Accrued Trade Receivables	1.743.538,58	1.743.538,58	0,00	0,00
AA	EISENACH	0,00	21.236.312,25	3.840.132,51	17.396.179,74
IC	WACKERSDORF	0,00	397,65	260,84	658,49
SSD	European Headquarters	0,00	180.404,10	0,00	0,00
124	AUNMAY	0,00	0,00	8.716,93	8.716,93
212	VALDEMORO SSD	0,00	17.860,24	4.071,89	21.932,13
213	CSC Allershausen	1.743.538,58	19.330.627,46	3.827.082,85	17.427.487,29
12725	Accrued Trade Receivables	1.743.538,58	19.330.627,46	3.827.082,85	17.427.487,29
34210	Verb LuL gegen KG	202.872,70	150.675,37	58.949,23	412.497,30
262A	Kulih PlauL CZ	1.010,71	1.010,71	26.500,00	26.500,00
609	LCEE VYSKOV-PREMESTI	203.883,41	149.664,66	85.449,23	438.977,30
34210	Verb LuL gegen KG	203.883,41	149.664,66	85.449,23	438.977,30
34220	Trade Payables to Affilia	0,00	48.385,54	209.403,45	257.788,99
E4	TROLLHÄTTAN	123,27	0,00	0,00	123,27
G41	Koeflach, Austria KG	118.668,98	111.928,33	32.550,46	39.291,11
IC	WACKERSDORF	0,00	0,00	31.517,83	31.517,83
273	TENAVA	118.792,25	61.542,79	273.471,74	328.721,20
34220	Trade Payables to Affilia	118.792,25	61.542,79	273.471,74	328.721,20
34225	Accrued Trade Payables to	0,00	77.755,97	75.023,85	2.732,12
E4	TROLLHÄTTAN	0,00	185,79	342.983,98	343.169,77
IC	WACKERSDORF	0,00	23.249,78	1.140,82	25.803,63
N1	SOUTHFIELD	1.412,93	102.368,33	0,00	0,00
N84	EUROPEAN HEADQUATERS	74.118,37	74.118,37	0,00	0,00
253	Tech Center Allershausen	10.831,16	10.831,16	334,03	334,03
273	TENAVA	188.730,79	86.126,32	269.434,98	372.039,15
34225	Accrued Trade Payables to	188.730,79	86.126,32	269.434,98	372.039,15
410 A	IC_AP_AR	9.940.520,54	11.581.883,90	4.123.974,95	19.398.429,49
12620	Loan Receivables from Aff	0,00	1.431.571,34	1.431.571,34	0,00
303	LEAR FINANCIAL SERVICES NETHER	0,00	1.431.571,34	1.431.571,34	0,00
12620	Loan Receivables from Aff	0,00	1.431.571,34	1.431.571,34	0,00
34020	Loan Payables to Affiliat	12.706.652,39	12.706.652,39	3.000.839,69	3.000.839,69
303	LEAR FINANCIAL SERVICES NETHER	12.706.652,39	12.706.652,39	3.000.839,69	3.000.839,69
34020	Loan Payables to Affiliat	12.706.652,39	12.706.652,39	3.000.839,69	3.000.839,69

HYP500 Wirtsch.Jahr: 2011 Hauptbuch, LEDGER70 Buch . . . ACTUALS		BFC5 V6.1.GA * Lear Corporation Tachov * LIVE!< ***		WSID HYP500CI		4.01.12		Seite: 5	
Foz H Finanz-Perioden bis: December Periode 012 LEAR CORPORATION TACHOV						Am: MSFENGL0		19.06.23	
Konto	Bezeichnung	Eröffnungsbilanz	Frühere Perioden	Aktuelle Periode	Wirtschj - Bilanz				
420 A	IC_LOANS	12.706.652,39-	14.138.223,73	4.432.411,03-	3.000.839,69-				
34040	Zinsverbindl verb Untern								
303	LEAR FINANCIAL SERVICES RETHER	30.416,56-	16.443,50	12.153,82	1.819,24-				
34040	Zinsverbindl verb Untern	30.416,56-	16.443,50	12.153,82	1.819,24-				
430 A	IC_ACCRO_INT	30.416,56-	16.443,50	12.153,82	1.819,24-				
380 A - 460 A	Total Long Term Liabilities	2.796.548,41-	16.931.995,52	8.752.636,44-	5.382.810,67				
300 A - 460 A	Total Liabilities	24.499.442,98-	7.226.226,41	2.030.483,96	15.242.732,61-				
29700	Ret Earn Brought Forward	6.246.152,36-	0,00	0,00	6.246.152,36-				
480 A	RE.1000	6.246.152,36-	0,00	0,00	6.246.152,36-				
470 A - 494 D	Total Equity	6.246.152,36-	0,00	0,00	6.246.152,36-				
YTD INCOME (/LOSS)		0,00	8.028.148,92-	693.801,58-	8.721.950,50-				
300 A - 494 D	Total Liabilities & Equity	30.745.595,34-	801.922,51-	1.336.682,38	30.210.835,47-				

Attachment I: Income statement

Wirtschaftsjahr: 2011 Hauptbuch. LEDGER70 Buch . . . ACTUALS		BPCS 16.1.GA * Lear Corporation Tachov * LIVE: < ***		WSTD HY7500CI 4.01.12 Seite: 6	
Finanz-Perioden bis: December Periode 012 LEAR CORPORATION TACHOV		ARW. MSTERGL0 19.46.23			
Bezeichnung	Eröffnungsbilanz	Frühere Perioden	Aktuelle Periode	Wirtschaftsj.	
				Bilanz	
Packaging Material	0,00	87.852,13	0,00	87.852,13	
Raw Materials Purchased	0,00	16,70	0,00	16,70	
Commodities Purchased	0,00	20.294,95	0,13	20.294,82	
510 A MATERIAL.DIRECT.1000	0,00	108.163,78	0,13	108.163,65	
Eingangsfrachten	0,00	802.612,56	0,06	802.612,62	
514 A MATERIAL.FREIGHT.1000	0,00	802.612,56	0,06	802.612,62	
Premium on Freight over P	0,00	1.366.964,44	69.125,76	1.436.090,20	
514 B MATERIAL.FREIGHT.1100	0,00	1.366.964,44	69.125,76	1.436.090,20	
514 Direct Material Freight	0,00	2.169.577,00	69.125,82	2.238.702,82	
510 A - 516 C Material	0,00	2.277.740,78	69.125,69	2.346.866,47	
Direct Labour (Base tax-r	0,00	23.574.862,86	3.347.678,14	26.922.541,00	
overtime salary/diLabour	0,00	631.349,60	794.894,20	163.544,60	
Temporaries employed at P	0,00	17.257.480,51	875.789,33	18.133.269,84	
520 A LABOUR.DIRECT.1000	0,00	41.463.692,97	3.428.573,27	44.892.266,24	
*Computed Social Benefits	0,00	1.029.473,25	622.238,25	406.215,00	
Computed Social Benefits	0,00	8.064.623,67	1.233.939,33	9.298.563,00	
520 D LABOUR.DIRECT.1100	0,00	9.094.096,92	610.681,08	9.704.778,00	
520 Direct Labor	0,00	50.557.789,89	4.039.254,35	54.597.044,24	
520 A - 525 B Labor	0,00	50.557.789,89	4.039.254,35	54.597.044,24	
500 A - 525 B Direct variable profit	0,00	52.835.530,67	4.106.380,04	56.943.910,71	
Salaries (German Nation.)	0,00	8.055.589,72	1.618.120,28	9.673.710,00	
600 A OVERHEAD.SALARIED.1000	0,00	8.055.589,72	1.618.120,28	9.673.710,00	
Computed Social Benefits	0,00	733.293,39	227.626,33	505.657,06	
Computed Social Benefits	0,00	2.653.285,44	610.801,56	3.264.087,00	
Emoluments of German Expa	0,00	2.141.219,75	208.317,53	2.349.537,28	
600 D OVERHEAD.SALARIED.1100	0,00	5.527.789,58	591.492,76	6.119.281,34	
600 Overhead Salariated Labor	0,00	13.583.379,30	2.209.613,04	15.792.991,34	
Indirect Labour	0,00	13.046.256,86	2.438.172,14	15.484.429,00	
overtime salary indlabo	0,00	281.562,13	586.347,31	304.785,18	
Temporaries employed at P	0,00	6.619.375,35	318.782,28	6.938.167,63	
604 B OVERHEAD.MOEXLY.1100	0,00	19.947.194,34	2.170.617,11	22.117.811,45	

Konto	Bezeichnung	Erföffnungsbilanz	Frühere Perioden	Aktuelle Periode	Wirtschj. Bilanz
601910	Computed Social Benefits-	0,00	689.830,59	486.439,89	203.394,70
601930	Computed Social Benefits	0,00	4.586.335,83	829.311,17	5.426.247,00
604 G	OVERHEAD.HOURLY.1600	0,00	5.286.166,42	343.475,28	5.629.641,70
604	Overhead Indirect Hourly Labor	0,00	25.233.360,76	2.514.092,39	27.747.453,15
602700	Management Bonus	0,00	222.750,00	229.033,12	451.783,12
608 C	OVERHEAD.BENEFITS.1200	0,00	222.750,00	229.033,12	451.783,12
612040	Medical/Dental/Life/Disability	0,00	417.042,95	61.289,50	478.332,45
612110	Safety Equipment/Uniforms	0,00	466.920,35	35.336,21	502.256,56
608 M	OVERHEAD.BENEFITS.2200	0,00	883.963,30	96.625,71	980.589,01
608	Overhead Unallocated Employee Benefits	0,00	1.106.713,30	325.658,83	1.432.372,13
646000	Tooling and Material For	0,00	1.025.392,72	70.724,19	1.096.116,91
647000	Tooling and Material For	0,00	1.219.446,60	28.692,62	1.190.753,98
612 A	OVERHEAD.SUPPLIES.1000	0,00	2.244.839,32	42.031,57	2.286.870,89
681500	Office Supplies	0,00	664.870,13	39.947,70	704.817,83
612 B	OVERHEAD.SUPPLIES.1100	0,00	664.870,13	39.947,70	704.817,83
622450	Other Equip (LowValueItem	0,00	598.319,36	0,00	598.319,36
622470	LVI f 150 up to 1000 EUR	0,00	6.095.018,20	269.030,61	6.364.048,81
612 D	OVERHEAD.SUPPLIES.1300	0,00	6.693.337,56	269.030,61	6.962.368,17
612	Overhead Indirect Material & Supplies	0,00	9.603.047,01	351.009,88	9.954.056,89
506300	Utilities: Gas, Electrici	0,00	4.941.580,18	445.113,75	5.386.693,93
616 B	OVERHEAD.UTILITIES.1100	0,00	4.941.580,18	445.113,75	5.386.693,93
653500	Petrol	0,00	220.976,34	65.907,66	286.884,00
616 D	OVERHEAD.UTILITIES.1300	0,00	220.976,34	65.907,66	286.884,00
631100	Other Utilities for Housi	0,00	4.668.585,00	456.381,00	5.094.966,00
616 E	OVERHEAD.UTILITIES.1400	0,00	4.668.585,00	456.381,00	5.094.966,00
616	Overhead Utilities	0,00	9.831.141,52	937.402,41	10.768.543,93
622400	Depr Other Equipment	0,00	5.926.796,11	586.290,80	6.513.086,91
620 A	OVERHEAD.DEPR.1000	0,00	5.926.796,11	586.290,80	6.513.086,91
590100	Rep/Mainten-TechEquip/Mach	0,00	1.749.712,01	109.946,69	1.859.658,70
590200	Rep/Mainten Other Equipme	0,00	843.240,29	237.625,14	1.080.865,43
653000	Car Maintenance	0,00	7.750,73	721,50	8.472,23

Konto	Bezeichnung	Eröffnungsbilanz	Frühere Perioden	Aktuelle Periode	Wirtschj. Bilanz
624 A	OVERHEAD_OUTSIDE_SERV_1000	0,00	2.600.703,03	348.293,33	2.948.996,36
682500	Legal Fees	0,00	2.925.697,74	52.482,44	2.978.180,18
624 B	OVERHEAD_OUTSIDE_SERV_1100	0,00	2.925.697,74	46.493,98	2.972.191,72
682700	Audit Fees	0,00	459.708,05	0,00	459.708,05
682800	Tax Consulting Fees Regul	0,00	75.000,00	0,00	75.000,00
624 C	OVERHEAD_OUTSIDE_SERV_1200	0,00	534.708,05	46.493,98	581.202,03
683200	Hiring Cost	0,00	2.278.836,00	20.686,00	2.299.522,00
624 D	OVERHEAD_OUTSIDE_SERV_1300	0,00	2.278.836,00	20.686,00	2.299.522,00
683000	Seminars and Education	0,00	230.940,22	115.414,49	346.354,71
624 E	OVERHEAD_OUTSIDE_SERV_1400	0,00	230.940,22	115.414,49	346.354,71
603500	Temporaries employed	0,00	1.033.893,85	213.616,00	1.247.509,85
624 G	OVERHEAD_OUTSIDE_SERV_1600	0,00	1.033.893,85	213.616,00	1.247.509,85
594000	Other Outside Services	0,00	1.175.657,33	476.289,82	1.651.947,15
633000	Cleansing Supplies	0,00	803.272,03	159.446,34	962.718,37
624 H	OVERHEAD_OUTSIDE_SERV_1700	0,00	1.978.929,36	635.736,16	2.614.665,52
624	Overhead Outside Services	0,00	11.583.708,25	1.298.362,44	12.882.070,69
640000	Insurances	0,00	40.000,00	8.000,00	48.000,00
628 E	OVERHEAD_TAXES_INSUR_1400	0,00	40.000,00	8.000,00	48.000,00
631200	Rental for Technical Equi	0,00	1.391.316,00	159.939,78	1.551.255,78
632 A	OVERHEAD_LEASES_RENT_1000	0,00	1.391.316,00	159.939,78	1.551.255,78
631000	Lease Off-/Produ Building	0,00	30.012.531,32	2.888.106,39	32.900.637,71
631050	Lease of Housing	0,00	55.000,00	0,00	55.000,00
632 B	OVERHEAD_LEASES_RENT_1100	0,00	30.067.531,32	2.888.106,39	32.955.637,71
684100	Lease of Vehicles	0,00	311.325,40	16.991,40	328.316,80
632 C	OVERHEAD_LEASES_RENT_1200	0,00	311.325,40	16.991,40	328.316,80
632	Overhead Leases and Rent	0,00	31.770.172,72	3.065.037,57	34.835.210,29
674000	Freight over Sales	0,00	490.481,13	46.759,00	537.240,13
640 B	OVERHEAD_FREIGHT_1100	0,00	490.481,13	46.759,00	537.240,13
664000	Inhouse Entertain Employee	0,00	812.077,02	238.195,88	1.050.272,90
664300	Tips	0,00	200,00	41,00	241,00
664350	ENTERTAINMENT NOT DEDUCTABLE	0,00	1.188.192,14	167.731,75	1.355.923,89

Konto	Bezeichnung	Eröffnungsbilanz	Frühere Perioden	Aktuelle Periode	Wirtschj. Bilanz
664510	not deduct Entert 16\$	0,00	2.271,00	0,00	2.271,00
665000	Travel Day Cost	0,00	404.965,72	152.385,80	557.351,52
		0,00	2.407.705,88	558.354,43	2.966.060,31
644 A	OVERHEAD.TRAVEL.1000				
666500	Expenses: Hotel Cost	0,00	57.357,64	6.600,00	63.957,64
666510	Exp: Hotel Cost foreign	0,00	195.484,88	22.744,51	218.229,39
666520	Charge in trav. expenses	0,00	446.943,03	499.447,76	946.390,79
644 B	OVERHEAD.TRAVEL.1100				
665200	Travel/Scheduled Flights	0,00	699.785,55	528.792,27	1.228.577,82
644 C	OVERHEAD.TRAVEL.1200				
665300	Car Rental	0,00	5.718,00	250,00	5.968,00
644 D	OVERHEAD.TRAVEL.1300				
665000	Expenses: Mileage Refunds	0,00	444.719,69	124.500,00	569.219,69
644 E	OVERHEAD.TRAVEL.1400				
665000	Expenses: Mileage Refunds	0,00	160.316,87	20.948,86	181.265,73
644	Overhead Travel & Entertainment	0,00	1.718.245,99	1.232.845,56	2.951.091,55
680500	House Telephone (regular)	0,00	577.810,70	60.182,90	637.993,60
680550	Cellular	0,00	150.610,44	38.143,16	188.753,60
648 C	OVERHEAD.MISC.1200				
684400	Aufwend Lizenzen	0,00	728.421,14	98.326,06	826.747,20
648 D	OVERHEAD.MISC.1300				
680000	Postage	0,00	49.035,23	0,00	49.035,23
648 E	OVERHEAD.MISC.1400				
642000	Membership Fees	0,00	12.511,66	1.546,36	14.058,02
682000	Subscriptions and Books	0,00	12.511,66	1.546,36	14.058,02
648 J	OVERHEAD.MISC.1900				
663500	Meetings	0,00	368.084,55	1.300,00	369.384,55
648 K	OVERHEAD.MISC.2000				
483000	Other Operating Income un	0,00	1.529,11	0,00	1.529,11
483150	Other Operating Income un	0,00	1.529,11	0,00	1.529,11
620050	Intangibles (Low Value It	0,00	9.423.857,83-	598.864,85-	10.022.722,68-
630000	Other Operating Expenses	0,00	362.970,81-	21.542,81-	384.513,62-
630050	Adjustments of Operating	0,00	79.911,79	0,00	79.911,79
662450	Geschenke bis Euro 35,00 netto	0,00	7.650,63	1,99	7.652,62
685000	Other Consumables	0,00	116.598,55	275.888,96-	159.290,41-
685900	Rubble and Waste Disposal	0,00	5.890,00	0,00	5.890,00
648 Q	OVERHEAD.MISC.2400				
		0,00	308.462,45	20.820,00	329.282,45
		0,00	240.212,82	96.862,93	337.075,75
		0,00	9.028.102,40-	778.611,70-	9.806.714,10-

Konto	Bezeichnung	Eröffnungsbilanz		Wirtschj. Bilanz	
		Frühere Perioden	Aktuelle Periode	Frühere Perioden	Aktuelle Periode
648	Overhead Miscellaneous & Other	7.868.520,71	677.439,28		8.545.959,99
600 A - 560 I	Overhead and other Cost of Sales	105.018.524,38	11.897.632,64		116.916.157,02
600 A - 886 I	Total OH_SCA_END	105.018.524,38	11.897.632,64		116.916.157,02
9110	IC Operating Entlastung	0,00		17.396.178,84	184.942.868,49
	IC WACKERSDORF	0,00		17.396.178,84	184.942.868,49
91110	IC Operating Entlastung	0,00		17.396.178,84	184.942.868,49
890 A	IC OPRR	167.546.689,65	17.396.178,84		184.942.868,49
500 A - 890 A	Operating Income	9.692.634,60	1.390.166,16		11.082.800,76
73190	Pooling interest exp.v.u.	261.225,18	1.991,36		263.216,54
303	LEAR FINANCIAL SERVICES NETHER	261.225,18	1.991,36		263.216,54
73190	Pooling interest exp.v.u.	261.225,18	1.991,36		263.216,54
906 A	INTEREST.IC	261.225,18	1.991,36		263.216,54
906 A - 906 A	Net Interest (Income)/Expense	261.225,18	1.991,36		263.216,54
48400	FX Gain-realized	2.201.699,16	48.552,06		2.250.251,22
68800	FX Loss-realized	3.674.217,41	466.737,24		4.140.954,65
930 A	OTH_INC_EXP.FXN_EXCH.1000	1.472.518,25	419.185,18		1.890.703,43
48410	FX Gain-unrealized	35.469,95	186.166,08		221.635,03
68810	FX Loss-unrealized	80.298,82	447.724,50		367.425,68
930 B	OTH_INC_EXP.FXN_EXCH.1100	115.767,77	261.559,42		377.327,19
930	Foreign Exchange	1.356.750,48	679.743,60		2.036.494,08
68550	BANK FEES	46.510,02	14.629,62		61.139,64
934 I	BANK FEES	46.510,02	14.629,62		61.139,64
910 A - 939 E	Other (Income)/Expense	1.403.260,50	694.373,22		2.097.633,72
500 A - 946 A	Profit before Taxes	8.028.148,92	693.801,56		8.721.950,50
500 A - 980 D	YTD INCOME/(LOSS)	8.028.148,92	693.801,56		8.721.950,50
	FIRMEN - SUMME:	0,00	0,00		0,00

Attachment J: Netting protokol

KONSOLIDOVANÝ REPORT NETTINGU - KONEČNÝ

ID REPORTU : 131/09F
 SPUŠTĚNÍ :D1764 138604
 OBDOBÍ: 12/20/2011 - 01/12/2012
 ORGANIZAC E : 732 732-LEAR CORP. CZECH REPUBLIC SRO
 DATUM : 01/11/2012
 ČAS : 08:18 AM CET
 ZÁKLADNÍ MĚNA : EUR

ÚČASTNÍK ID / JMÉNO	Měna	ČÁSTKA FAKTURY	EUR AMOUNT
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POHLEDÁVKY - DOŠLÉ

213*	213-CFD ALLERSHAUSEN	EUR	20,138.96	# 1354099	20,138.96
609	609-LEAR CORP ELECT. & ELEC. SRO	EUR	76,747.58	# 1354090	76,747.58
SSD*	SSD-EUROPEAN HQ	EUR	1,326.60	# 1354012	1,326.60
CELKEM VSTUPNÍCH TOKŮ					98,213.14

Handwritten notes: 26505 (LHC) #7003, 2/11/12, 2/11/12, #1354099, #1354090, #1354012, #1354099

ZÁVAZKY - ODCHOZÍ

202	262A-LEAR CORP CZECH s.r.o. KOLIN	EUR	-15,988.27	# 70072	-15,988.27
273	273-LEAR CORP SEATING SLOVAKIA SRO	EUR	-1,244.78	# 70088	-1,244.78
303	303-LEAR FINANCIAL SRVCS.(NETH) BV	EUR	-71.87	# 70092	-71.87
E4	E4-TROLLHATTAN	EUR	-10,181.24	# 70087	-10,181.24
IC	IC-WACKERSDORF	EUR	-14,403.08	# 70093	-14,403.08
N1	N1-SOUTHFIELD HQ	USD	-1,307.00	# 70082	-1,022.69
CELKEM VÝSTUPNÍ TOKY					-42,911.93

Handwritten notes: 2/11/12, #70072, #70088, #70092, #70087, #70093, #70082

ČISTÁ POZICE

55,301.21

ČISTÁ POZICE VČETNĚ NABÍDEK/D1528POPTÁVEK

55,301.21

OBDRŽÍTE NÁSLEDUJÍCÍ PLATBU

EUR 55,301.21 HODNOT 01/12/2012
 A
 v CITIBANK EUROPE PLC, ORGANIZACNI SL
 PRO LEAR CORPORATION CZECH REPUBLIC SRO
 :lo účtu 0204389039

POUŽITÉ DEVIZOVÉ KURZY

USD 0.7824726

KONEC REPORTU

Abstrakt

ŠTENGLOVÁ, M. Interní kontrolní systémy v podniku. Diplomová práce. Plzeň: Fakulta ekonomická ZČU v Plzni, 122 s., 2012

Klíčová slova: interní kontrolní systém, risk management, Sarbanes Oxley Act, interní kontrolní činnosti, LEAP Manuál

Diplomová práce se v první části zaměřuje na interní kontrolní systémy obecně. Důraz je kladen na interní kontrolní předpisy v USA, protože praktická část práce analyzuje interní kontrolní systémy v americké společnosti. Následně práce popisuje interní kontrolní systém ve společnosti Lear Corporation, jejíž akcie jsou obchodovatelné na americké burze. Systém interních kontrol je založen na americkém zákoně zvaném Sarbanes Oxley Act z roku 2002. Práce popisuje detailně proces testování těchto předepsaných kontrol ve společnosti. Praktická část, týkající se analýzy, obsahuje testování kontrol, které mají největší vliv na finanční výsledky společnosti. Tyto kontroly jsou popsány společně s riziky, které mají být touto kontrolou eliminovány. Následně je provedeno testování procesů ve společnosti a jeho výsledek. V poslední části diplomové práce je zhodnocena analytická část a je vypracováno shrnutí všech procesních nedostatků. Pro tyto kontroly je vypracován detailní akční plán společně se stanovenými termíny, během kterých by měl být proces nastaven tak, aby splňoval požadavky Sarbanes Oxley Act.

Abstract

ŠTENGLOVÁ, M. Internal Control Systems in the company. Diploma thesis. Pilsen: Faculty of Economics, University of West Bohemia, 122 p., 2012

Key words: internal control system, risk management, Sarbanes Oxley Act, internal control activity, LEAP Manual

The presented thesis focuses firstly on the internal control system generally. The focus is on the internal control regulations in the USA because the practical part is analyzing an U.S. company. Thereafter it switches to the internal control system in an U.S. listed company Lear Corporation. The system is based on a United States federal law called Sarbanes Oxley Act of 2002. The SOX monitoring process within the whole concern is described in detail and subsequently the main analytical part contains the testing of the controls with the main impact on the financial results of the company. These controls together with risks that should be eliminated are described, after that the testing is performed and the final result is determined. The last part of the thesis evaluates the whole analytical part and a detailed deficiency report is worked out. For these controls, that don't comply with the prescribed rules, action plan is prepared with detailed timing for achieving the compliance with the Sarbanes Oxley Act.