Internal Financial Controls

Refresher Course on Internal Audit

19th September 2020

CA Sivaram Subramoniam

The views discussed are presenter's personal view and not related to his current/previous organisations
What IS IFC

**Policies & Procedures** adopted by the Company

for ensuring the **orderly and efficient conduct of its business**, including

adherence to Company’s policies,

the **safeguarding of its assets**, the **prevention and detection of frauds and errors**, the **accuracy and completeness of the accounting records** and the **timely preparation of reliable financial information**.

*Explanation to Sec 134 (5) (e) of Companies Act 2013*
What IS IFC

**Policies & Procedures** adopted by the Company for ensuring the **orderly and efficient conduct of its business**, including adherence to Company’s policies, the **safeguarding of its assets**, the **prevention and detection of frauds and errors**, the **accuracy and completeness of the accounting records** and the **timely preparation of reliable financial information**.

*Explanation to Sec 134 (5) (e) of Companies Act 2013*
Key Guiding Sources

- Section 134 143 149(8) / Sch IV 177 Rule 8(5)
- Regulation 4(f)(ii)(7) 18
- Audit of IFC Over Financial Reporting SA 315
Certify **effectiveness** of internal control systems pertaining to **financial reporting**.

**CEO**

**AUDITOR**

State in their report whether the company **has adequate internal financial control system in place** and the **operating effectiveness** of such controls.

**BOD**

Directors Responsibility Statement to state that the **Directors had laid down internal financial controls and the same were adequate and operating effectively**

Board of Directors’ Report to state the details in respect of **adequacy of internal financial controls with reference to the financial statements**.

**Audit Committee**

to **evaluate internal financial controls and risk management systems**

call for **comments of the auditors on internal control systems, scope of audit, their observations on internal control systems and financial statements** before submission of the same to the board.
CONSTITUENTS

Entity Level Controls

Process Level Controls

ITGC
Entity Level Controls

- Control Environment
- Risk Assessment
- Control Activities
- Information & Communication
- Monitoring Activities
Entity Level Controls

Control Environment
- Orgn – Commitment to Integrity
- Board – Independence
- Mgmt – Oversight, Structure, Roles & Responsibilities
- Orgn – Talent Focus
- Orgn – Holds Accountable for Internal Control Responsibilities

Risk Assessment
- Clear Objectives to facilitate risk identification and assessment
- Identifies and Analyses the Risks
- Fraud Risks considered
- Identifies and Assesses Changes

Control Activities
- Select Control Activities that Mitigate the Risk
- Selects General Control Activity over Technology
- Deploys Control Activities through policies and procedures

Information & Communication
- Generates and Uses Relevant and Quality Information
- Internally Communicates information including objectives and responsibilities for Internal Audit
- Communicates with External Parties

Monitoring Activities
- Performs ongoing activities to ascertain internal controls are working
- Informs and Communicates Internal Control Deficiency in a timely manner
Process Level Controls

- Identify Processes Relevant to your Business
- Ensure Proper Bifurcation

PROCESS SHORTLISTING

RISK IDENTIFICATION

CONTROL DEFINITIONS

RISK & CONTROL PARAMETERS

Instructions:
Shopping with Baby

DO

DON'T
Process Level Controls

- Engage with Various Stakeholders to identify various risks
- Keep in mind the bifurcation of risks and ensure only relevant (for IFC) are included
• Discussions with various stakeholders to identify controls incorporated to address the risk
• Ensure that the Control addresses the risk
• Ensure that the control is defined properly to facilitate proper testing/evaluation
Ensure all contents of the Risk and Control Parameters are fully recorded. Such as:

- Key / Non Key
- Operating/Financial / Compliance
- Preventive/Detective
- Manual Automated
- Assertions
Process Level Controls

- Identify Processes Relevant to your Business
- Ensure Proper Bifurcation

- Engage with Various Stakeholders to identify various risks
- Keep in mind the bifurcation of risks and ensure only relevant (for IFC) are included

- Discussions with various stakeholders to identify controls incorporated to address the risk
- Ensure that the Control addresses the risk
- Ensure that the control is defined properly to facilitate proper testing/evaluation

Ensure all contents of the Risk and Control Parameters are fully recorded. Such as
- Key / Non Key
- Operating/Financial / Compliance
- Preventive/Detective
- Manual Automated
- Assertions
Information Technology General Controls

WRITE YOUR SUBTITLE HERE

User Access

Change Management

Data Centre / Back Up Policies

IT/ Cyber Security
Key Challenges

- Testing Period & Sample Apportionment
  - Testing at end of year – Sample Across the year

- Roles and Responsibilities
  - Who is owner of the testing and who is owner of results

- Revisions and Responses
  - Failures responded more with changes in control definition than changes in Control

- Form Vs Substance
  - Risk of Management Override of Controls
Certify **effectiveness** of internal control systems pertaining to **financial reporting**.

Directors Responsibility Statement to state that the **Directors had laid down internal financial controls and the same were adequate and operating effectively**

Board of Directors’ Report to state the details in respect of **adequacy of internal financial controls with reference to the financial statements**.

State in their report whether the company **has adequate internal financial control system in place** and the **operating effectiveness** of such controls
to **evaluate internal financial controls and risk management systems**
call for **comments of the auditors on internal control systems, scope of audit, their observations on internal control systems and financial statements** before submission of the same to the board
<table>
<thead>
<tr>
<th>RESPONSIBILITIES</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Certify</strong></td>
</tr>
<tr>
<td>Board</td>
</tr>
<tr>
<td>Audit Committee</td>
</tr>
<tr>
<td>Management</td>
</tr>
<tr>
<td>CEO/CXO</td>
</tr>
<tr>
<td>Finance</td>
</tr>
<tr>
<td>Statutory Audit</td>
</tr>
<tr>
<td>Internal Audit</td>
</tr>
</tbody>
</table>
Leveraging IFC and Internal Audit

**IFC**
- Audit Universe
- Annual Audit Plans
- Audit Scope and Approach

**Planning**

**IFC**

**Upgrade and Support**

**Internal Audit**
- RCM Updates
- Management Testing
- Supporting Statutory Auditor
IFC support to Internal Audit

1. **Universe**
   - Mapping of Audit Universe with RCMs etc to evaluate completeness and appropriateness thereof

2. **Plan**
   - Review of Audit Plans basis IFC Scores and Results to facilitate prioritization of Risk Areas

3. **Scope**
   - Focus on the Audit Scope to see both areas of specific thrust as well as areas which can be eliminated

4. **Approach**
   - Focus to be made on the tests to be performed, manual & automated checks etc.
RCM Update

Audit Results and discussions will facilitate whether the IFC RCMs need to be amended.

Mgt Testing

Testing of IFC Controls in line with Test Scripts along with IA will help save time and repetitions.

Stat Audit

Statutory Auditors can bank upon on IA Reports which cover IFC Testing and accordingly plan their audits / testing.

AC Reporting

Periodic and Specific Reporting to Audit Committees on IFC Failures (instead of year end) facilitates timely review by AC.