



INSIGHTS ON INTERNAL FINANCIAL CONTROLS ON FINANCIAL REPORTING

A woman with dark, curly hair is shown from the chest up, wearing a grey, textured knit sweater. She has a shocked or distressed expression, with wide, staring eyes and an open mouth. Her hands are pressed against her temples. In the upper right corner, there is a white thought bubble with a scalloped edge, containing the text 'ICFR!' in a bold, orange, sans-serif font. The background is a solid, dark teal color.

ICFR!

R C JAIN & ASSOCIATES



**INTERNAL FINANCIAL
CONTROLS
OVER
FINANCIAL REPORTING**

R C JAIN & ASSOCIATES

APPLICABLE SINCE

Voluntarily

Compulsorily

1st April 2014

1st April 2015

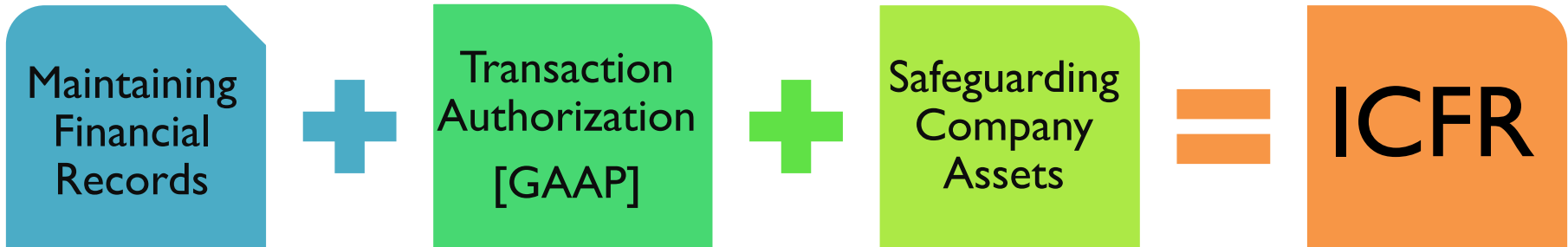


Scope of
Reporting on IFCR

All
Companies

Small
Company

One
Person
Company





Sales
Realization
correctly
recorded in
books

Shop Floor
Management

Discounts as
per DOA

Access
Control

Unauthorized
change in
price master

Scope

- ICFR + Policies/Procedures + Fraud + Asset Safeguarding

Framework

- Components of Internal Control as per **SA 315**

Guidance

- ICAI Guidance Note [Nov 14]

Control Assessment

- Yes – CEO, CFO, Board

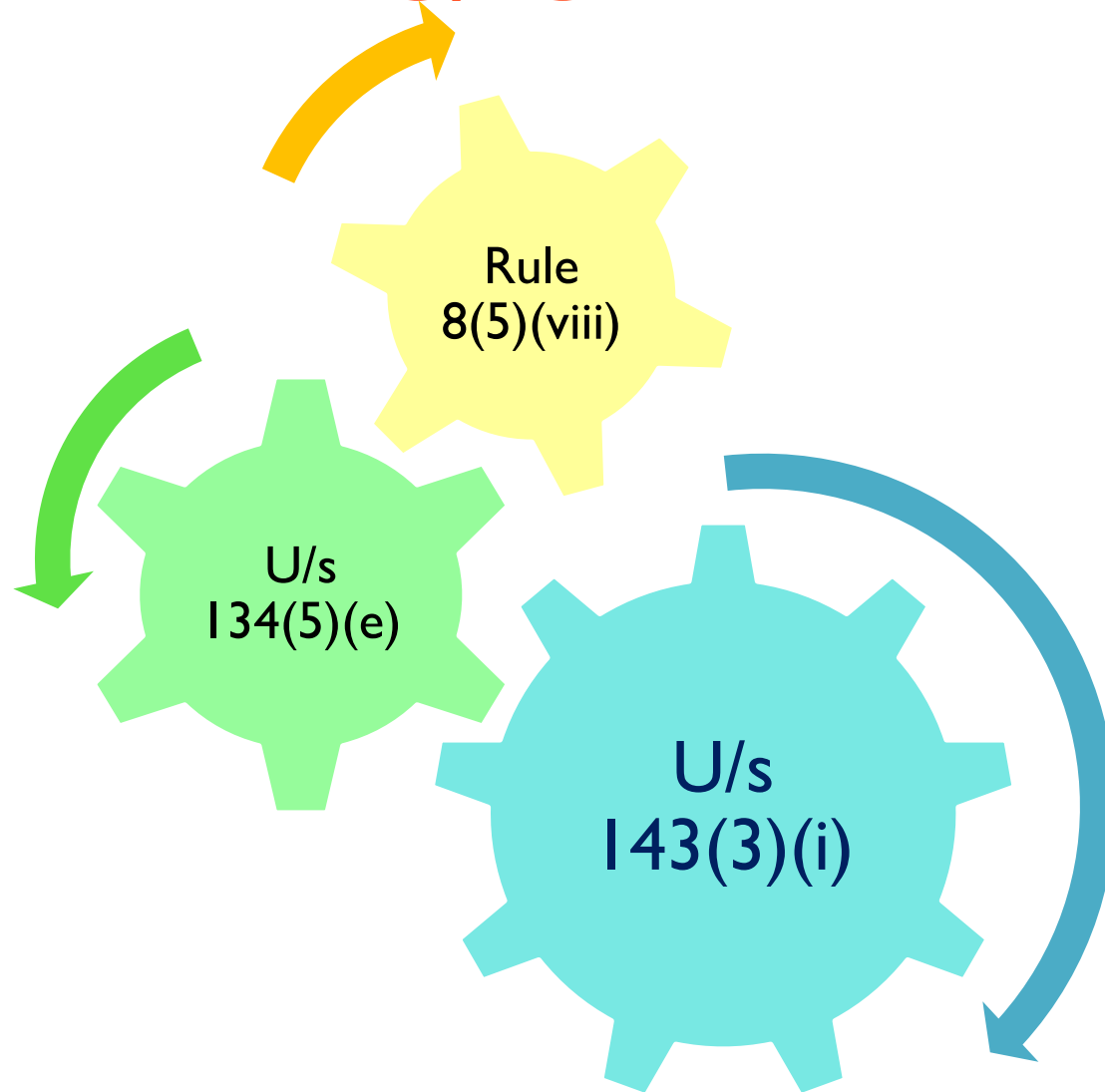
Auditor Attestation

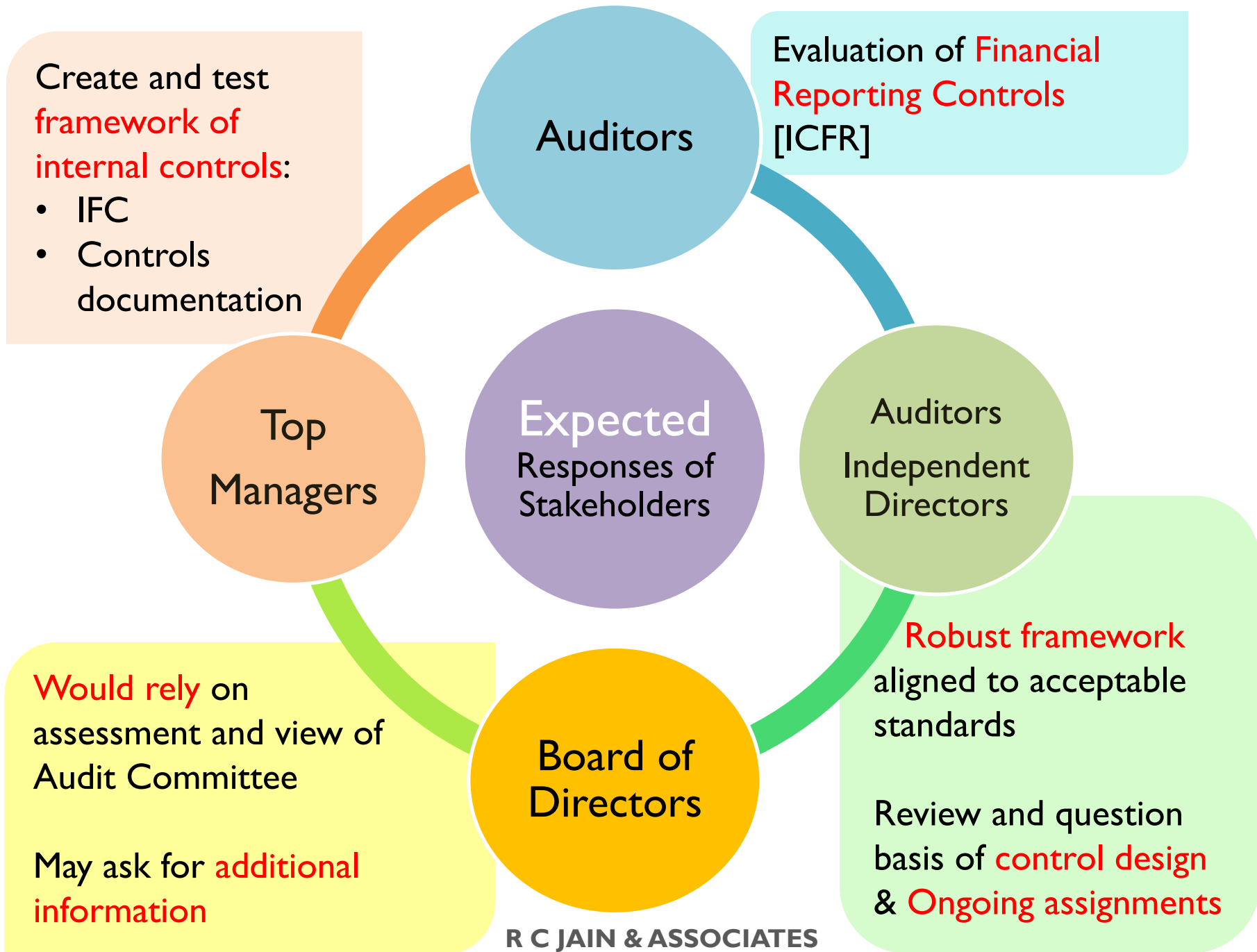
- Yes - ICFR

Rigour Of Implementation

- Past precedent – **LOW**
- Now expected to be **HIGH**

SCOPE OF REPORTING ON IFC/ICFR





CARO VS ICFR

CARO
Narrow Scope

ICFR
Wide Scope

APPLICABILITY

Applicable to:

Year End
Statements

u/s 143

NOT

Applicable to:

Interim
Statements

[unless otherwise
required]

BASIC RESPONSIBILITY

All Solely
Management's
Responsibility

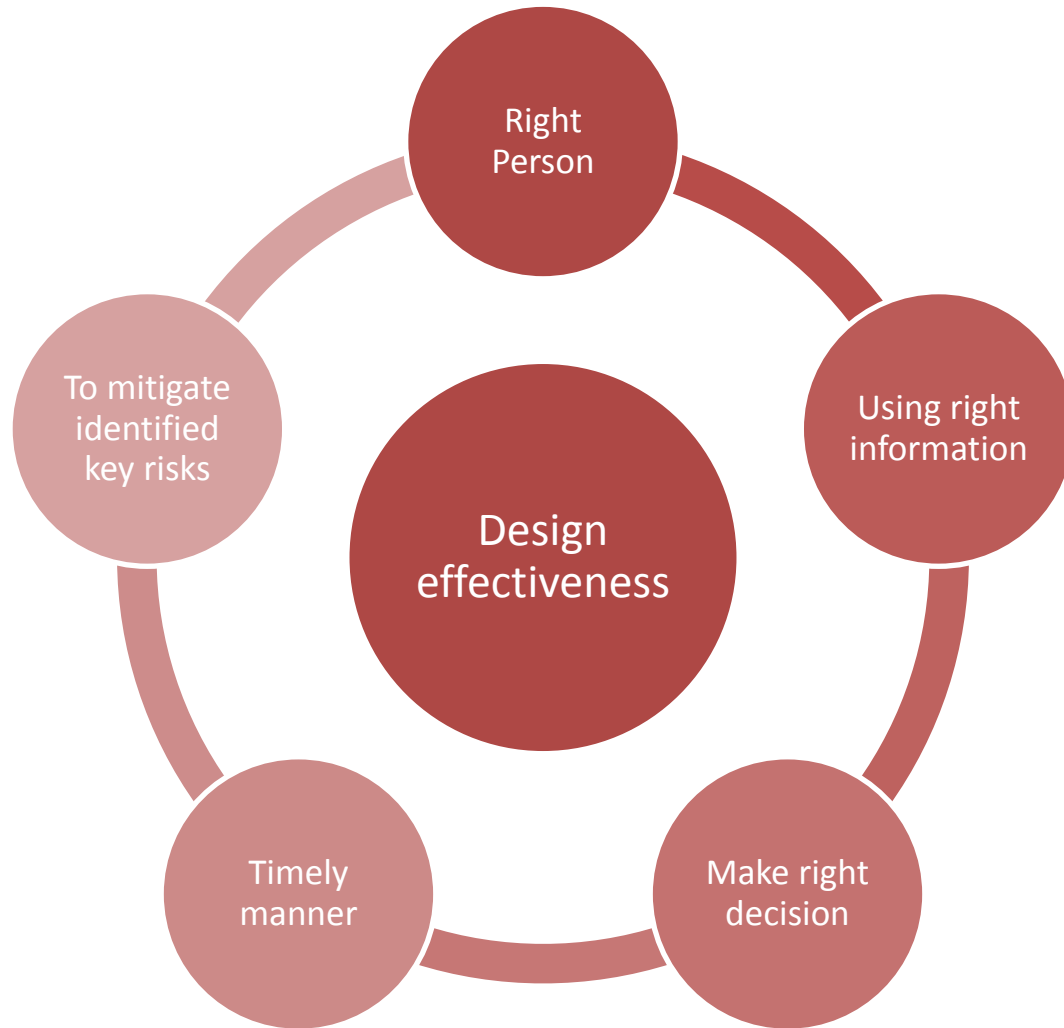
Design,
Implementation &
Maintenance

Team

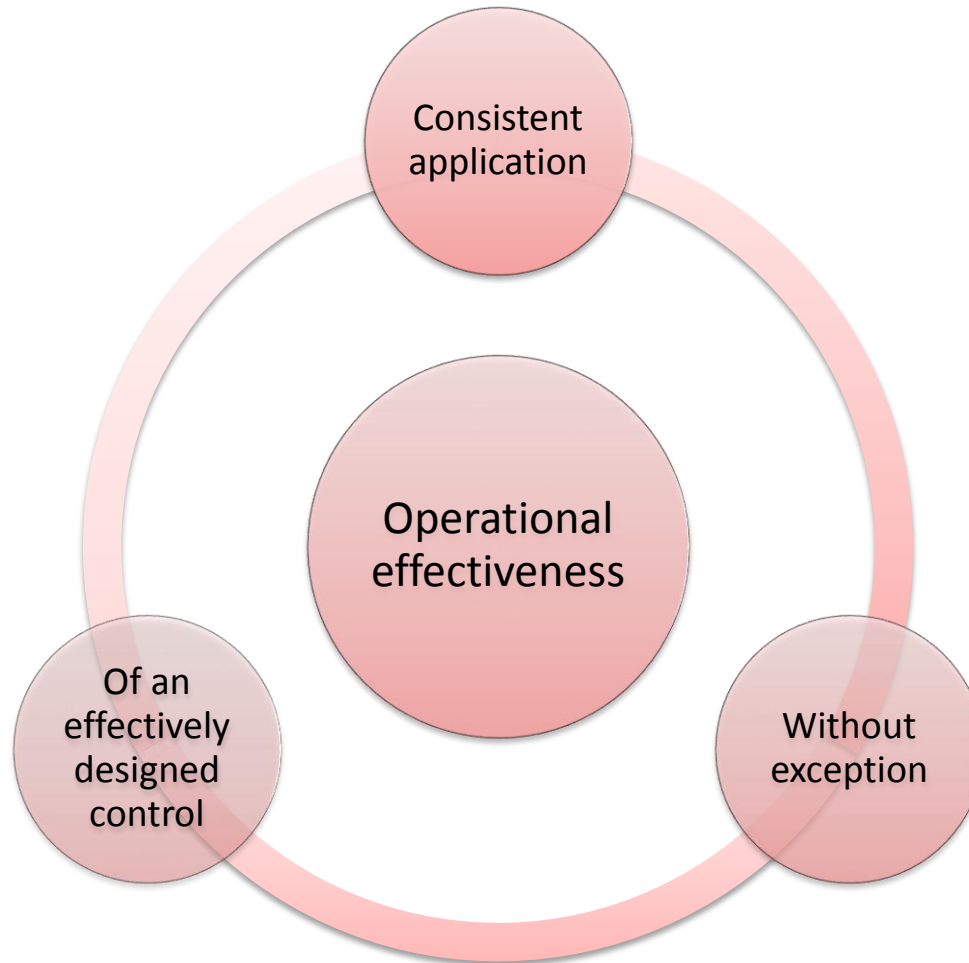
In-house
Team

Consultant

Key of ICFR Pillars



Key Pillars of ICFR



The approach of new Companies Act is of

self-governance

&

in case of **non-governance**,

stringent penalties are provided

AUDITOR'S RESPONSIBILITY

Financial Statements are prepared

As per applicable financial reporting framework

No assurance of
Future viability,
Efficiency or
Effectiveness
of Management



When is ICFR audit done?

Generally along with audit of FS

OBTAIN REASONABLE ASSURANCE

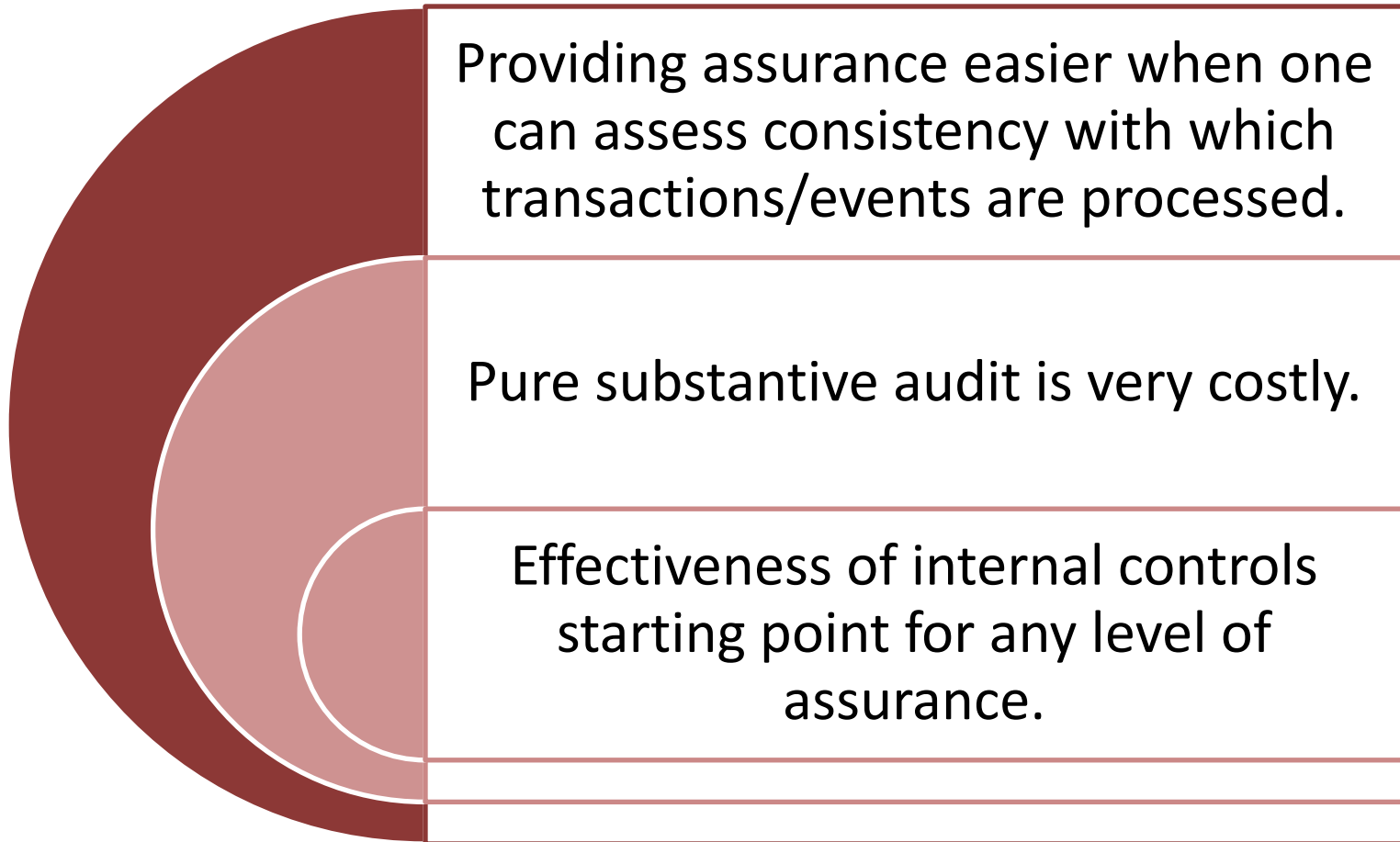
✓ Adequacy of **internal financial controls** system

✓ Whether **operating** effectively

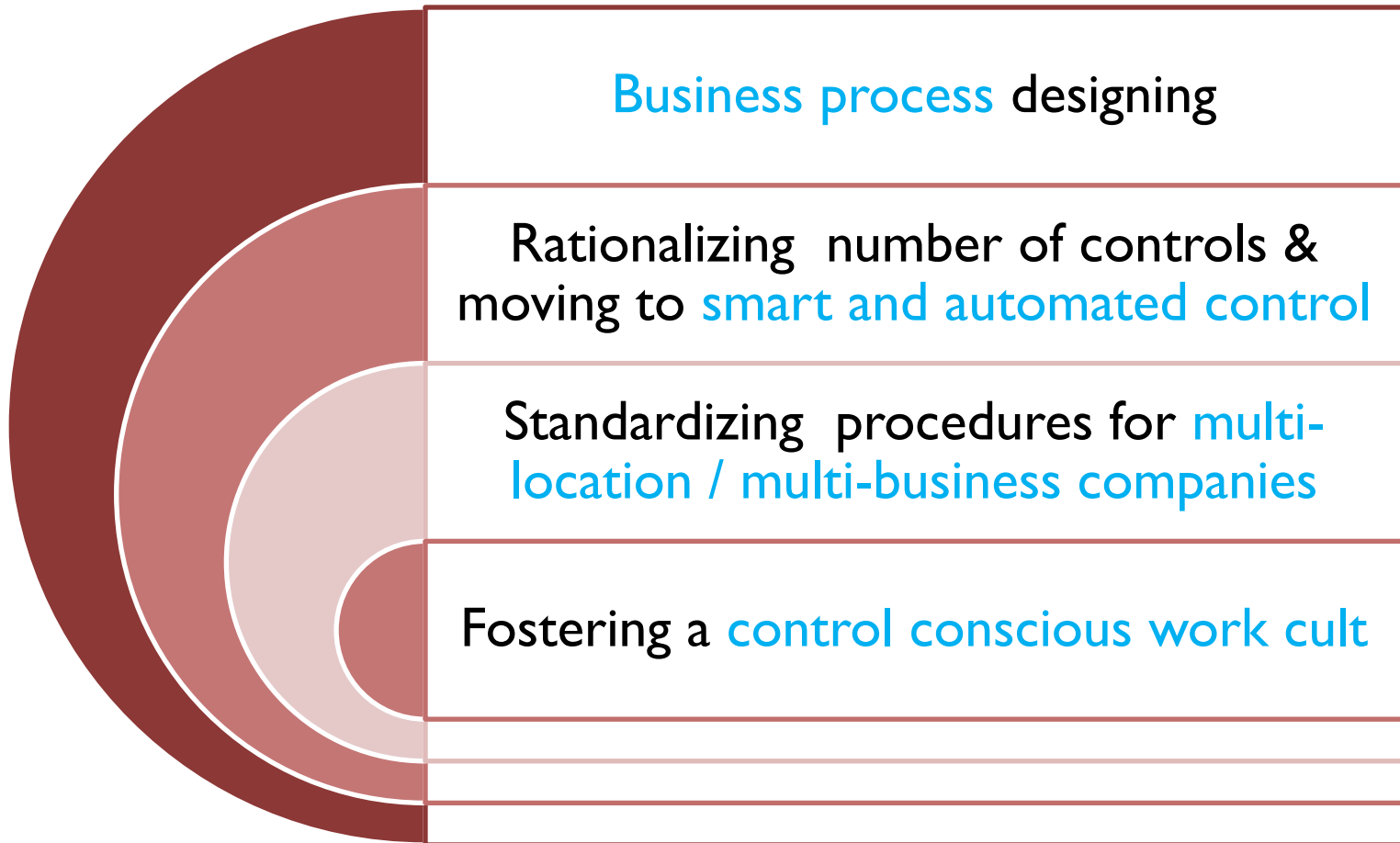
✓ For **financial reporting** only



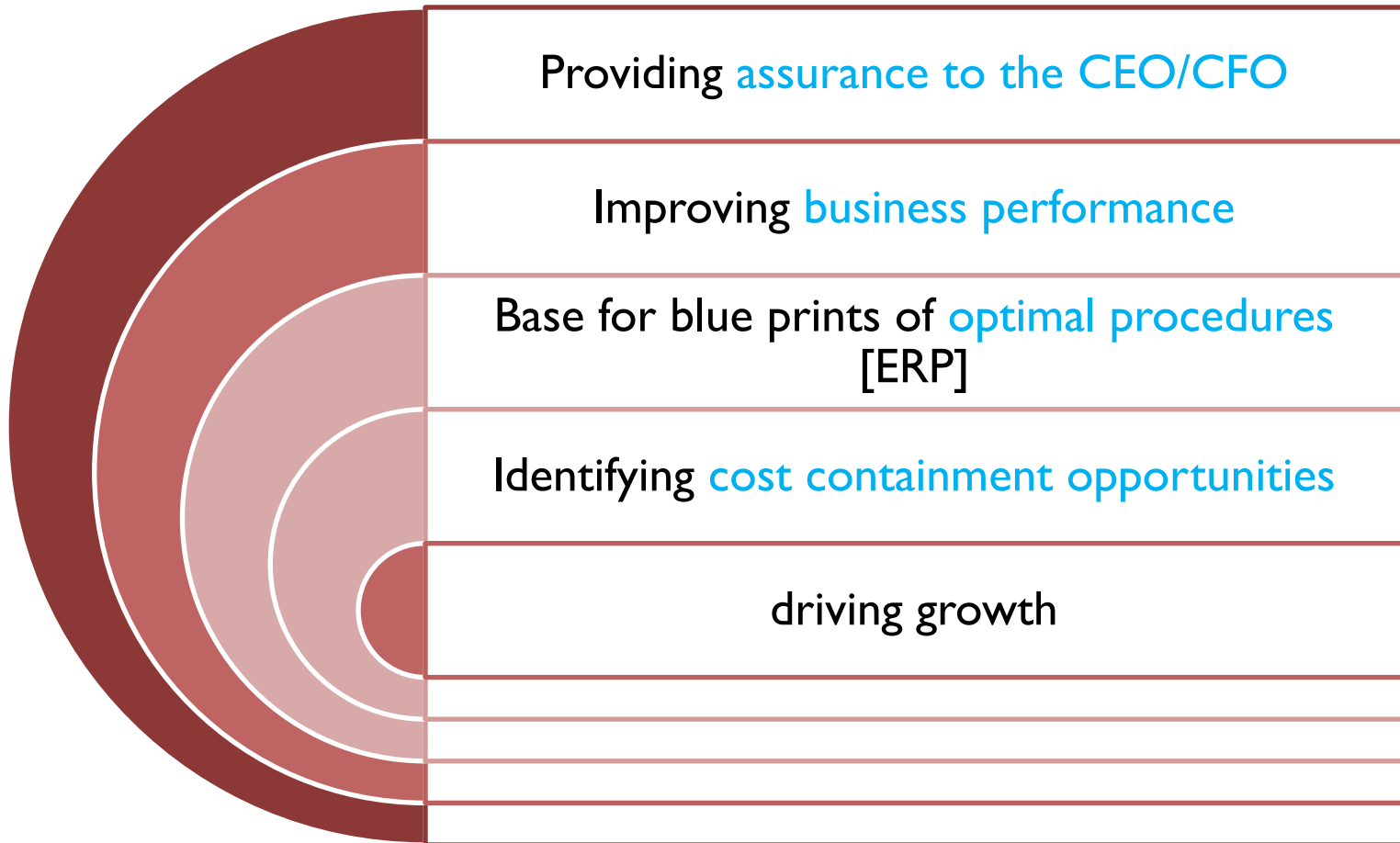
Direct benefits to auditor



Direct benefits to the Management



Direct benefits to the Management



Direct benefits to reader of FS

- An assurance that



- FS fairly reflect ALL financial transactions

- All transactions recorded in accordance with applicable policies, directives and standards

- Transactions in accordance with delegated authorities

- Financial resources safeguarded

EXPRESSING AN OPINION ON INTERNAL CONTROLS – HOW WILL YOU DO IT

[Click Here](#)



Well defined term.

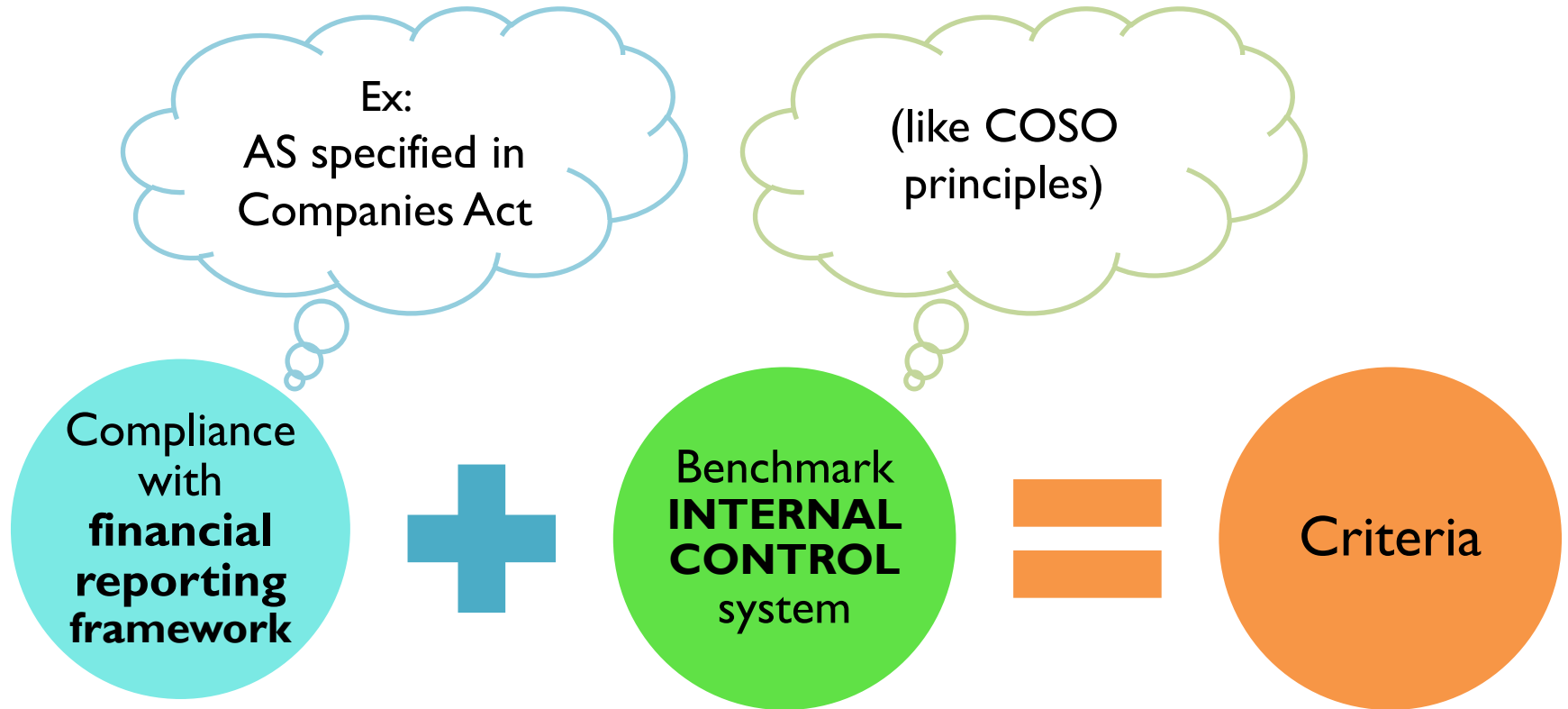
Internal Controls Over Financial Reporting

Means of efficiently testing sample pieces of data to conclude on entire population

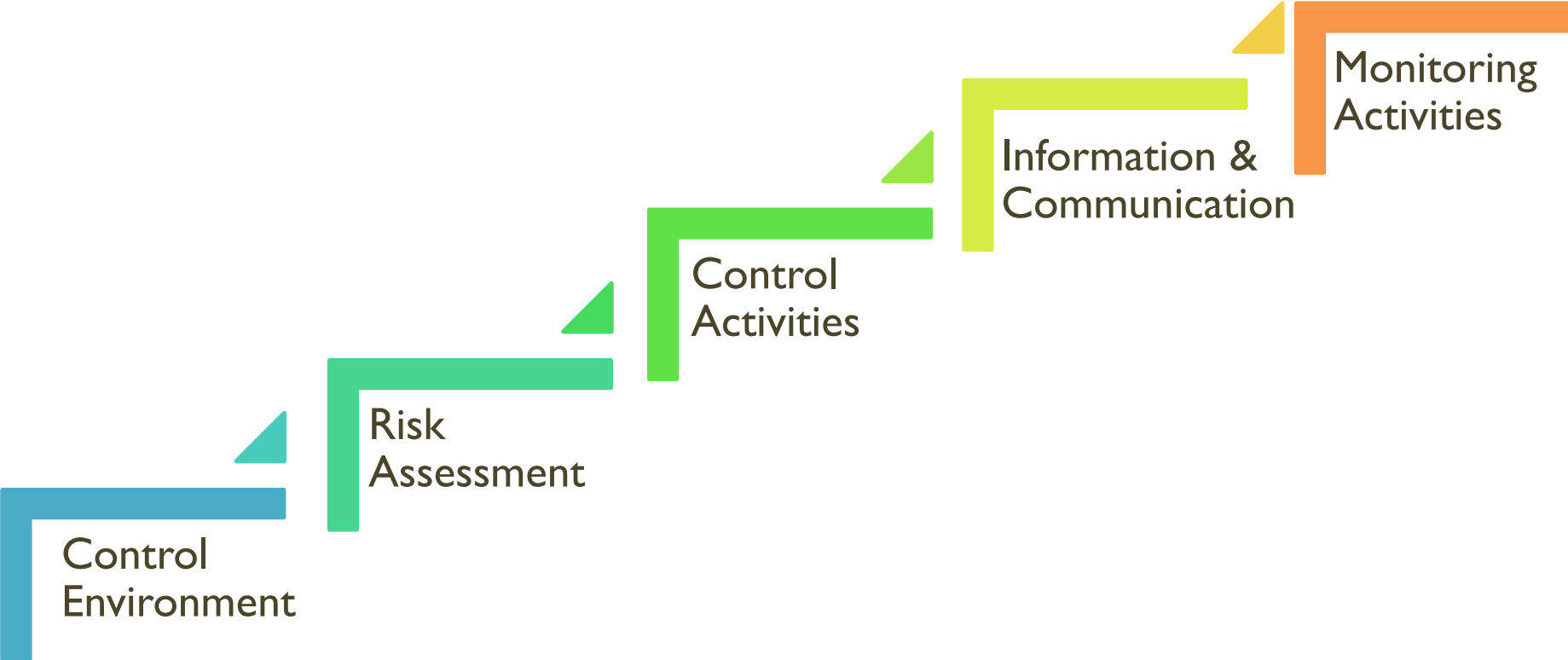
True value and basis of evaluation not well understood.

Internal Control Evaluation
=
Behavioral evaluation

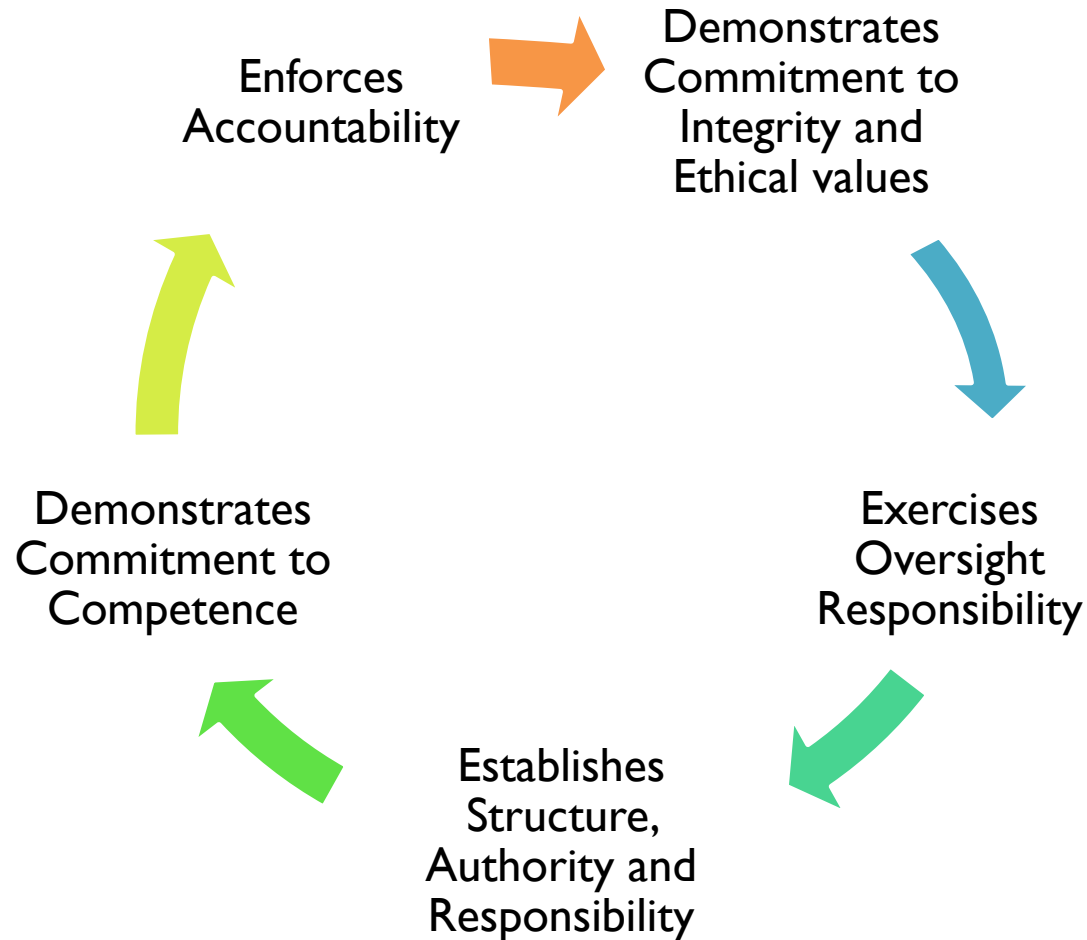
CRITERIA FOR IFCFR



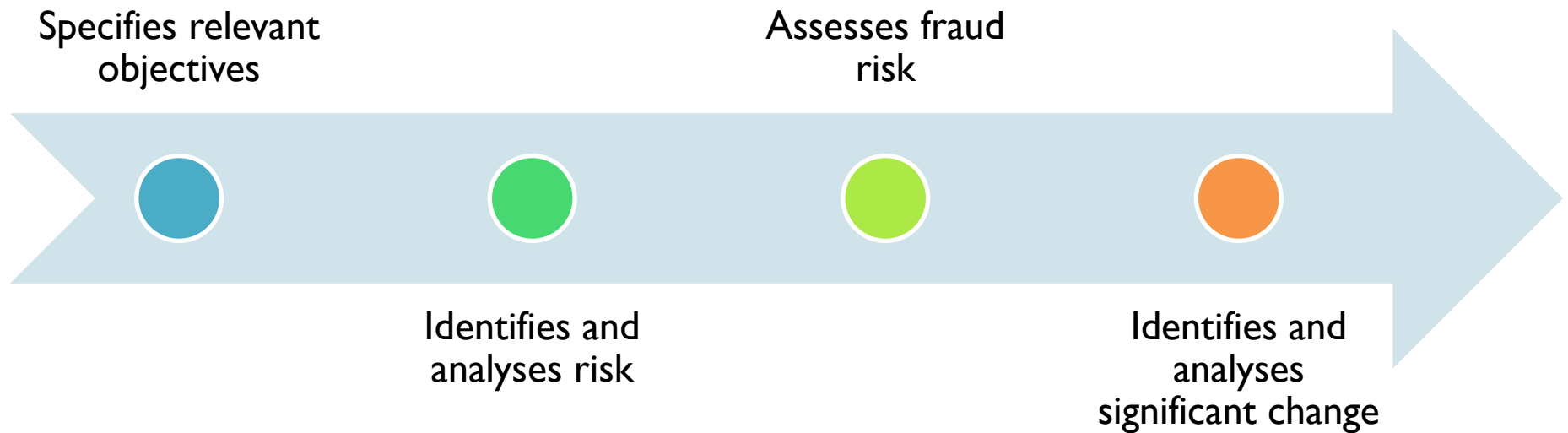
COSO PRINCIPLES



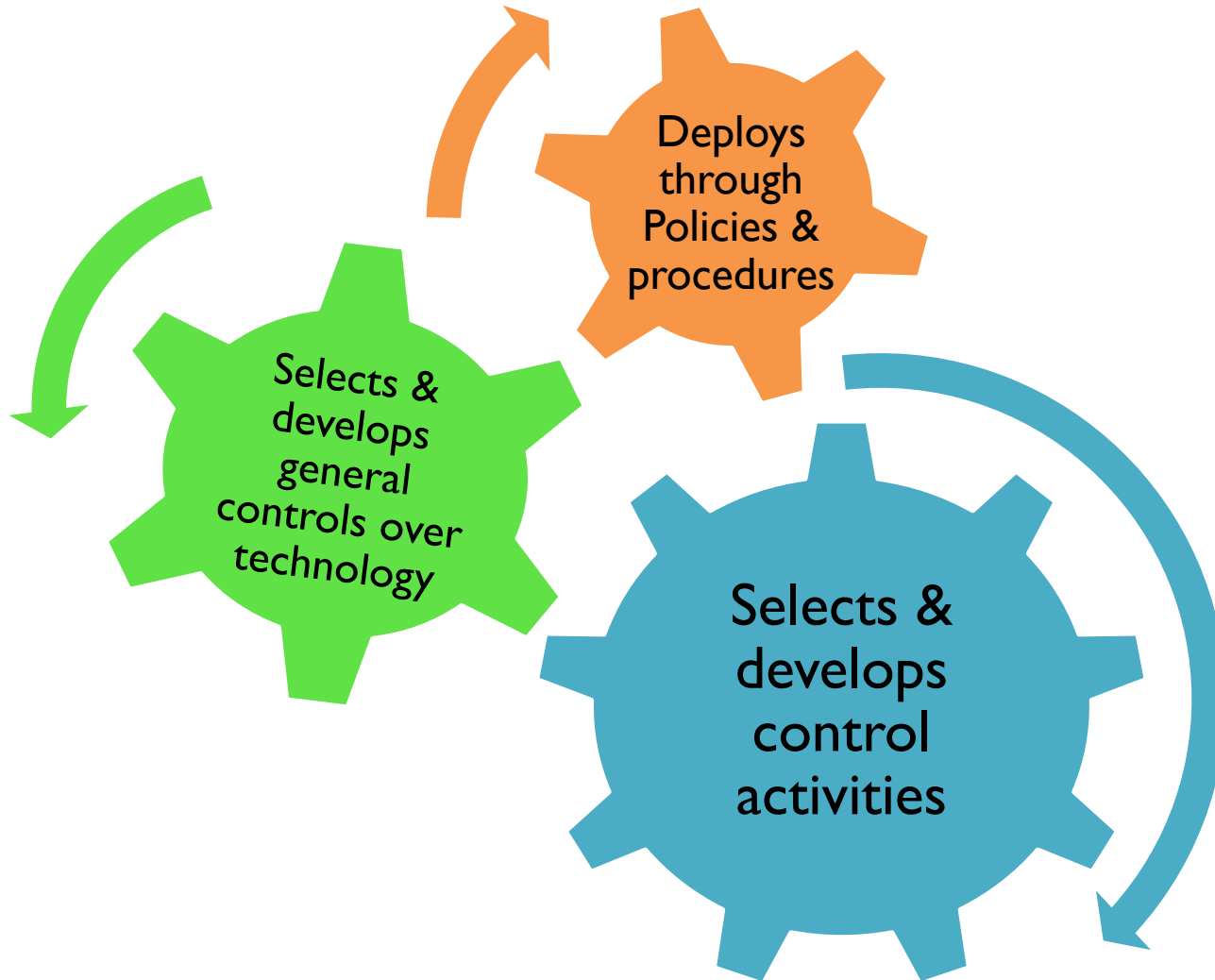
COSO – Control Environment



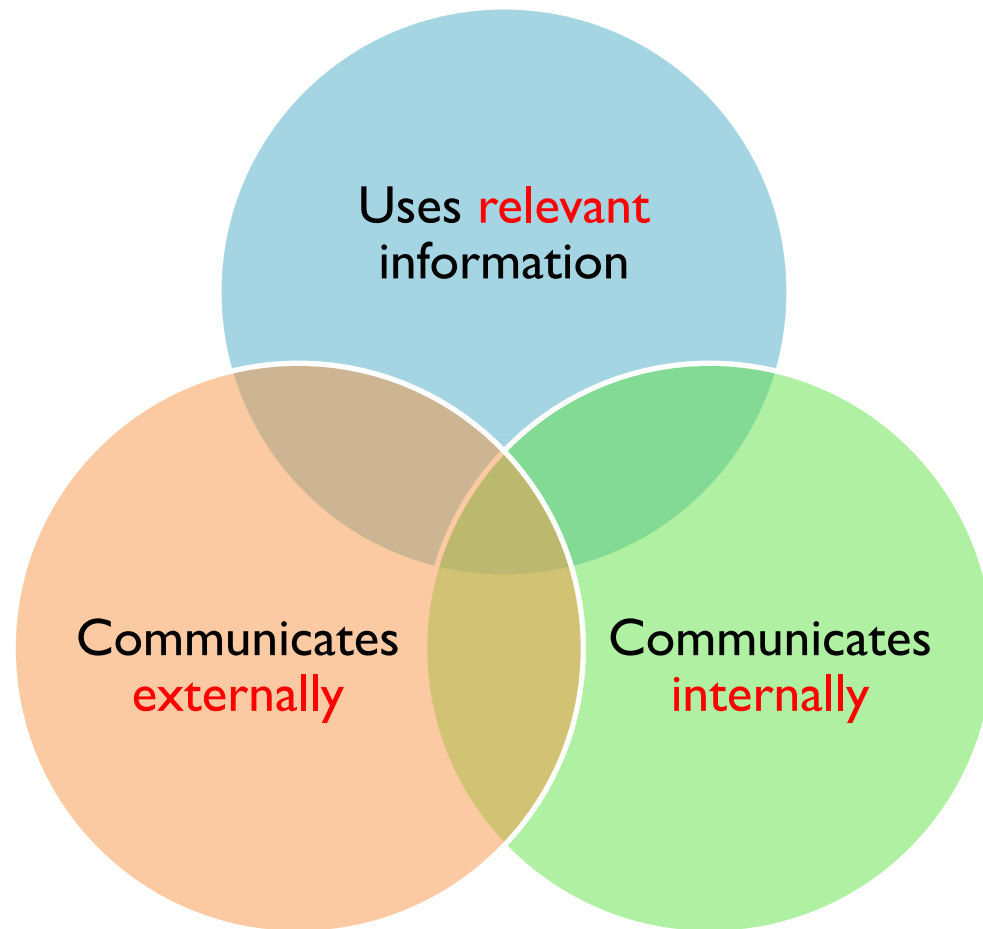
COSO – Risk Assessment



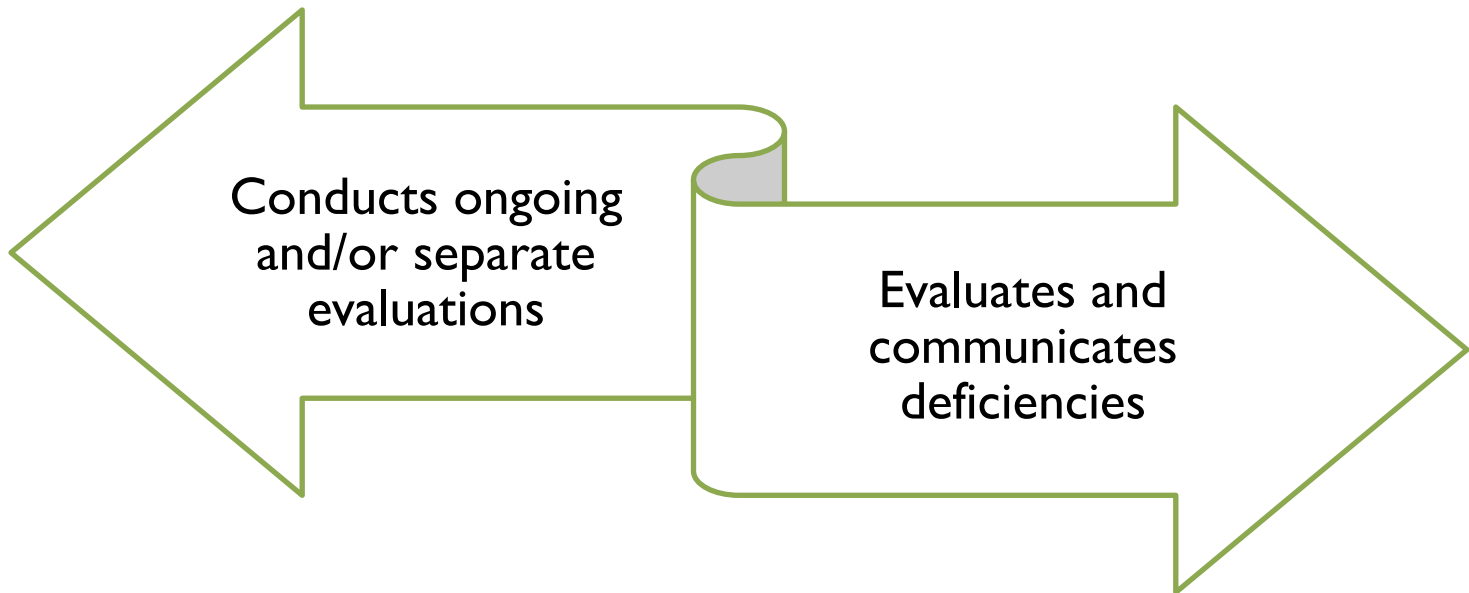
COSO – Control Activities



COSO – Information & Communication



COSO – Monitoring activities



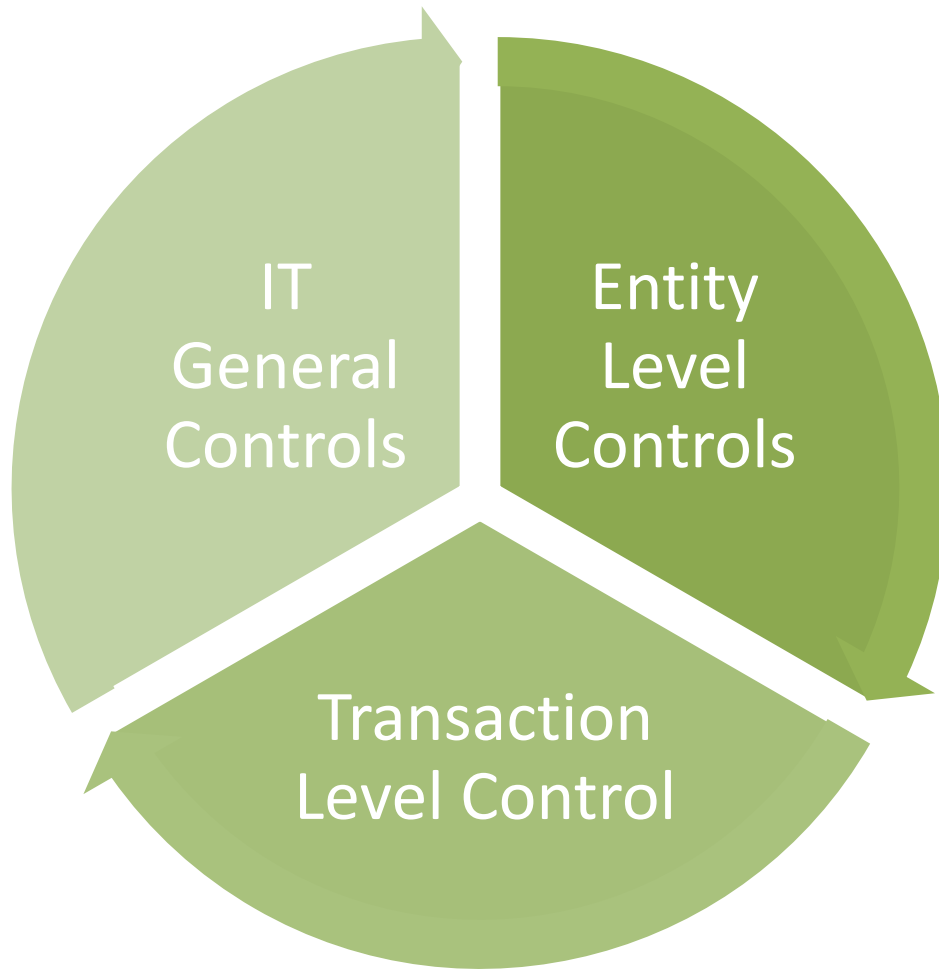
WHY Top down, risk-based approach?

Effective and efficient means of auditing the FS

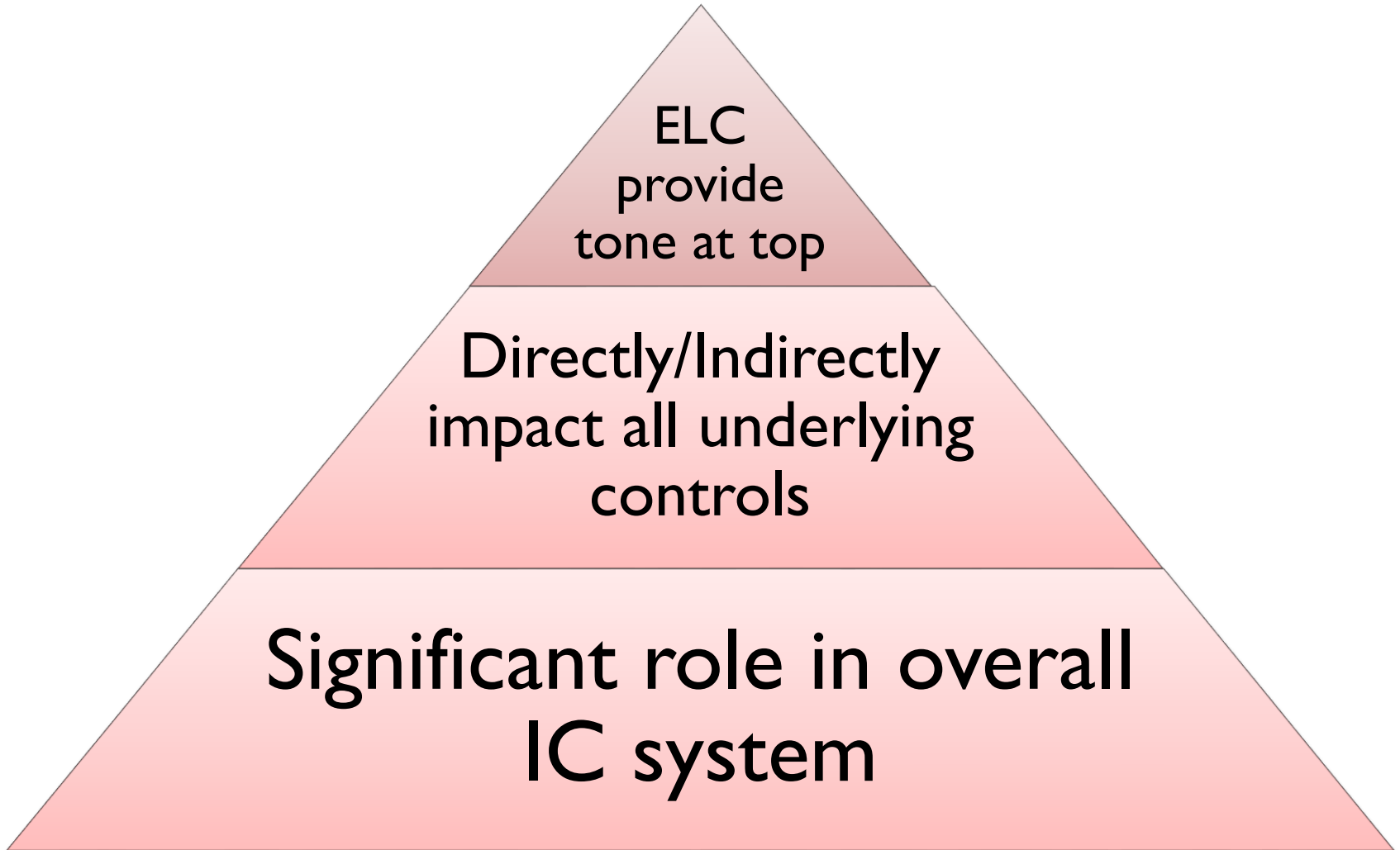
Efficiency and effectiveness of IC and Risk Identification Strategy

Over Identification – Common pitfalls

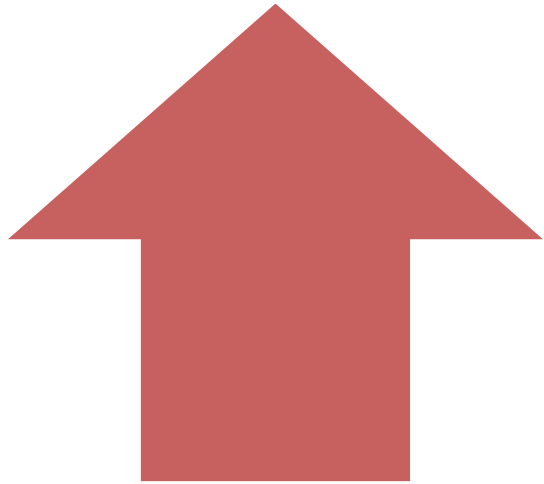
Control Categorization



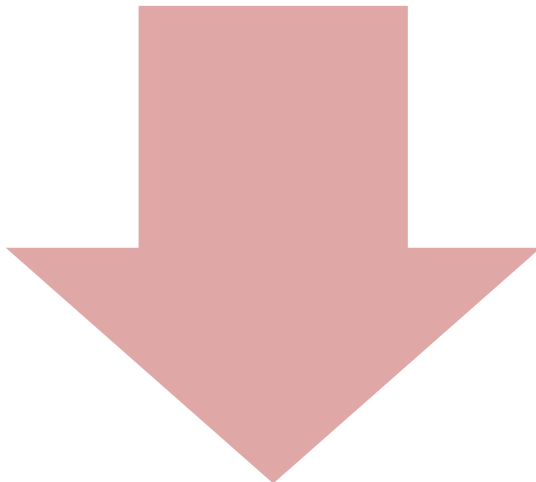
Entity Level Controls(ELC)



Entity Level Controls(ELC)

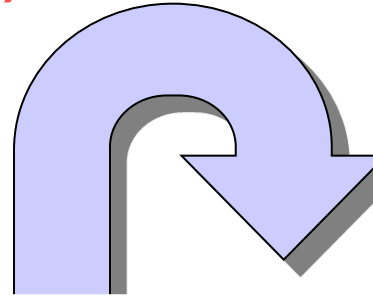
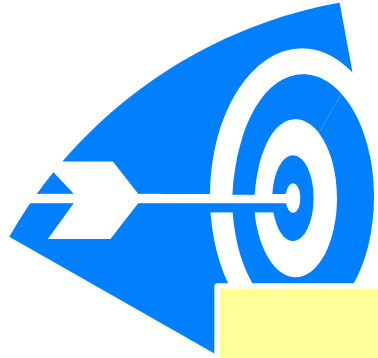


Ineffective ELC –
disaster for all
underlying controls



Effective ELC –
reduced testing at
lower levels

Entity Level Controls(ELC)



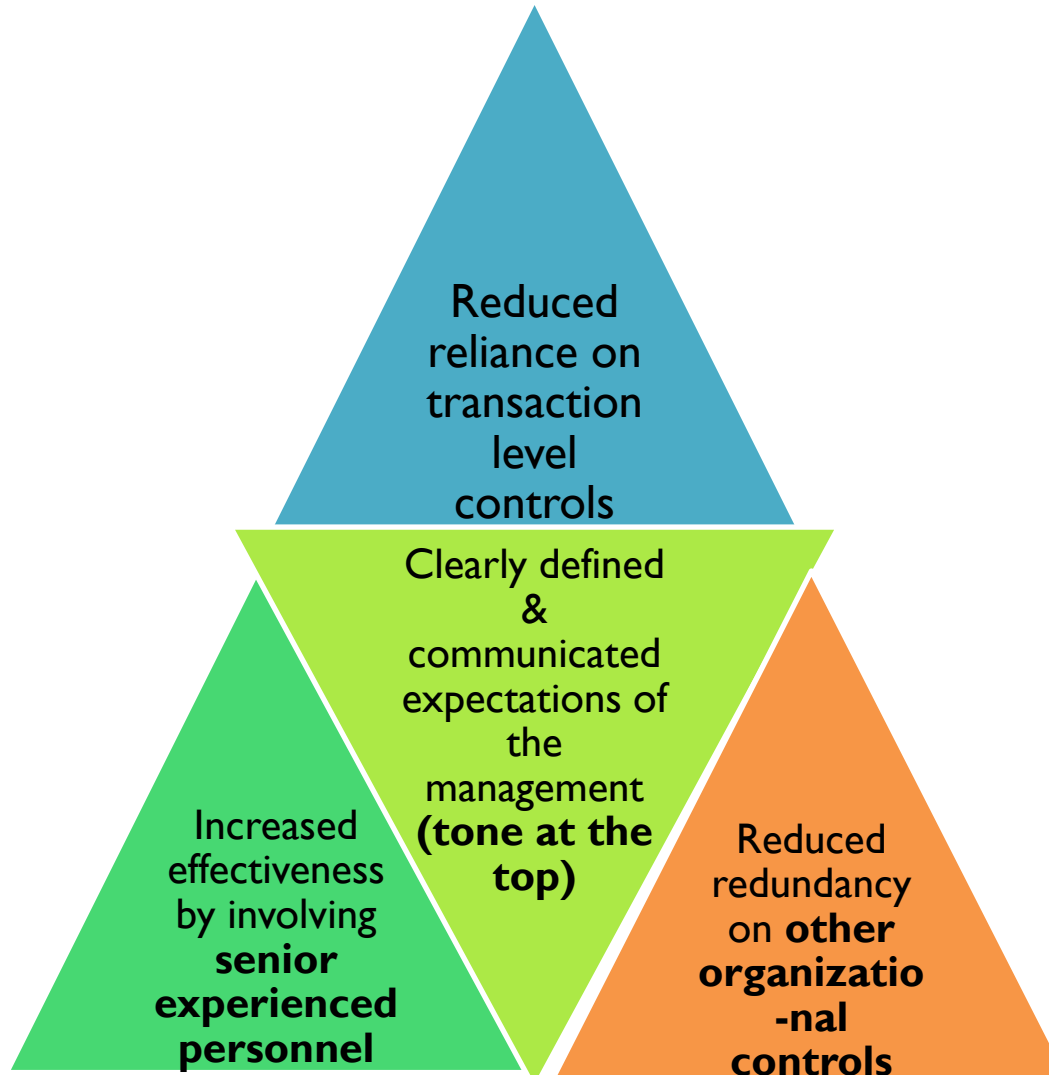
Direct –

Direct monitoring of MIS
Periodical FS
Related disclosures

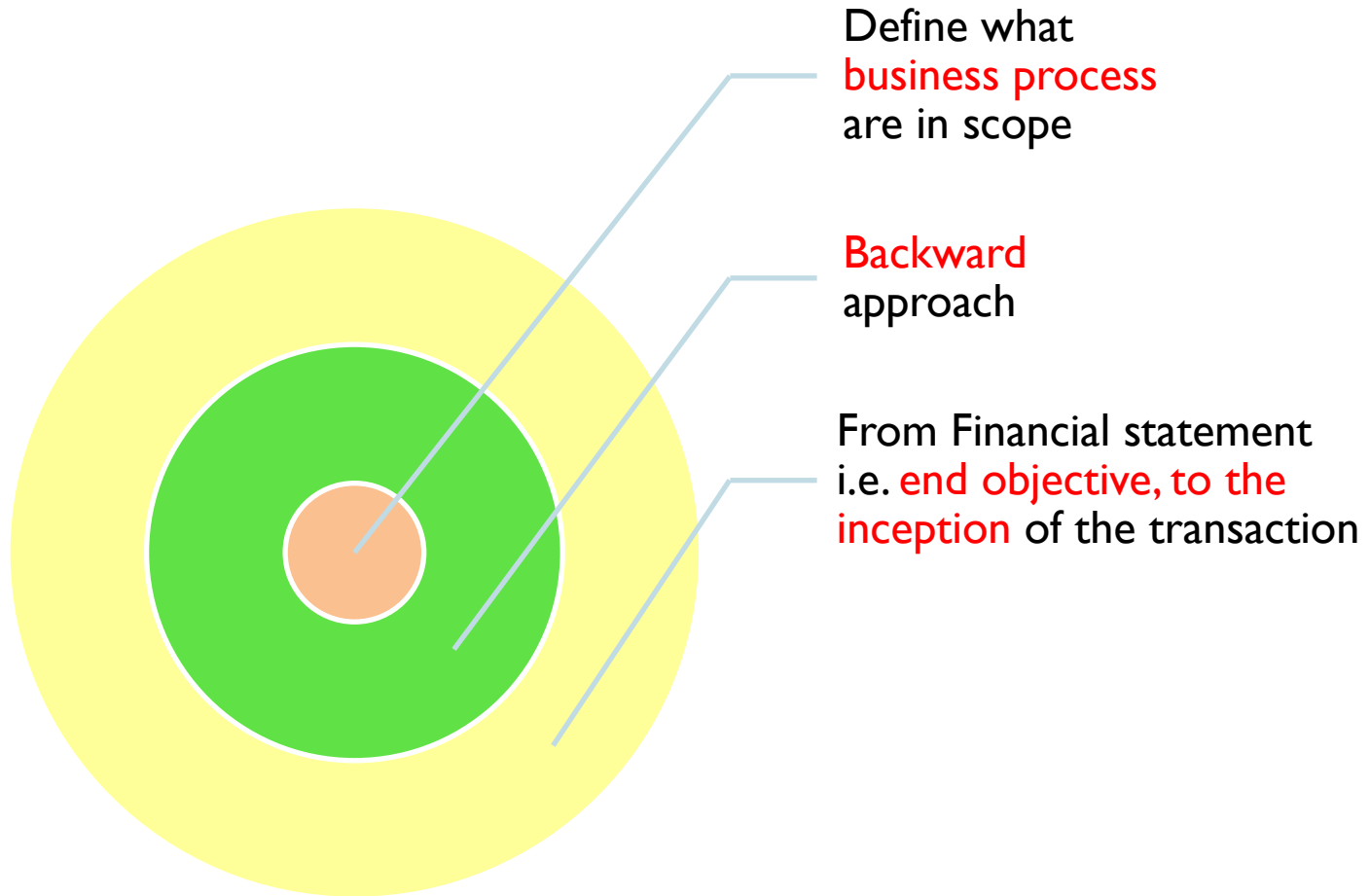
Indirect –

Publicizing overall code of conduct
Discipline

Entity Level Controls(ELC)



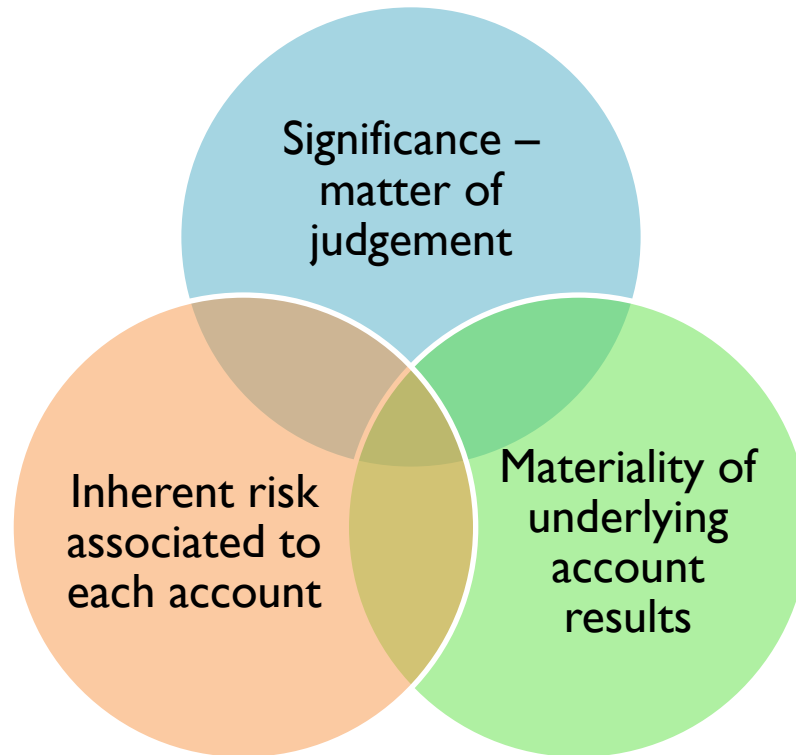
Transaction Level Controls (TLC)



Transaction Level Controls (TLC)

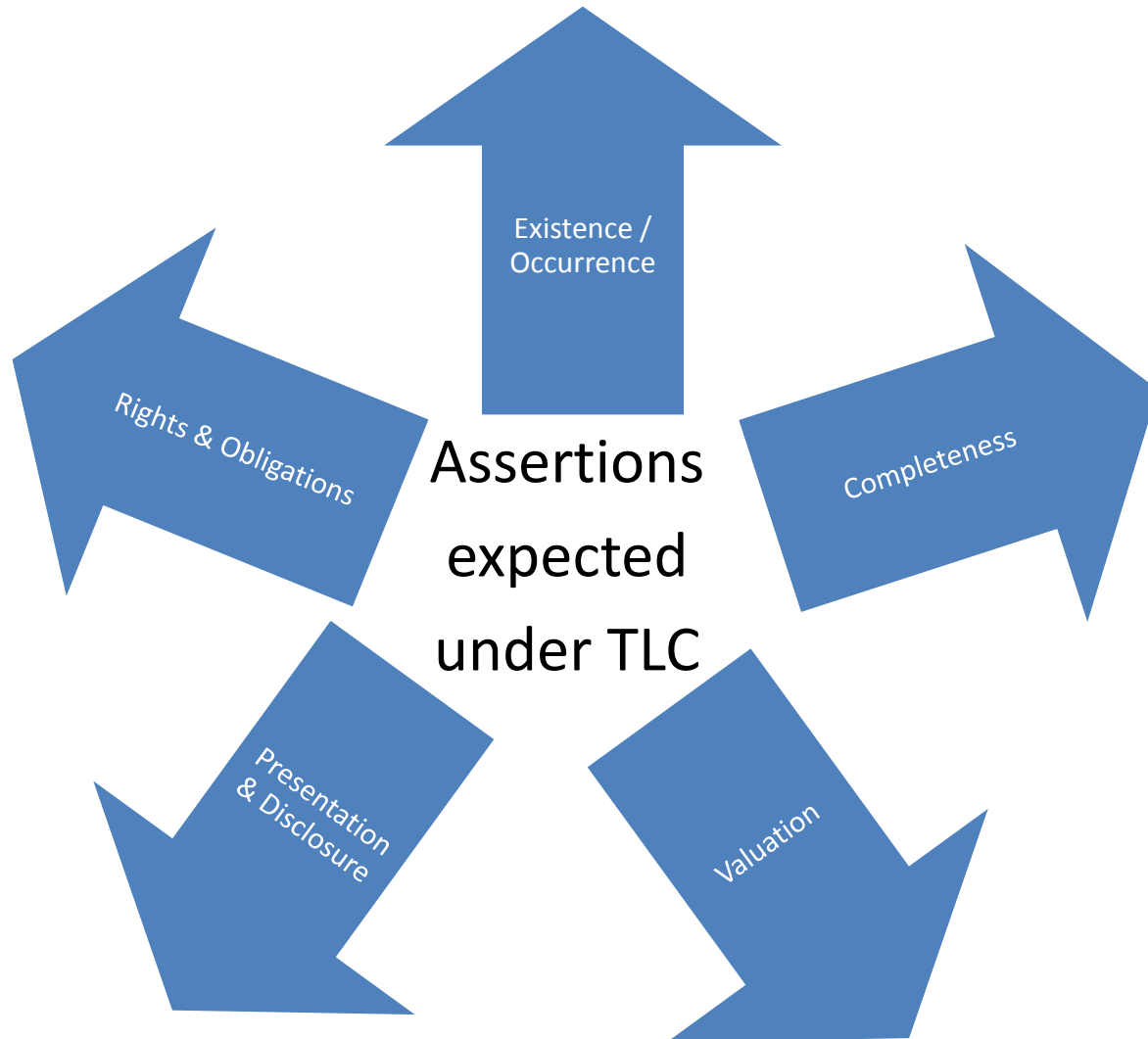


Transaction Level Controls (TLC)



Combination of above and ELC key to risk assessment and opinion

Transaction Level Controls (TLC)



Transaction Level Controls (TLC)

Value of account associated to specific set of business process(es)



One process



One Account



more than one account

Transaction Level Controls (TLC)

Effectiveness
and efficiency of
risk assessment

- screening of entire process (initiation to recording)

Key objective =
focus on key
risks related to
FR

If focus change
– identification
process goes
wrong and thus
scope of ICFR

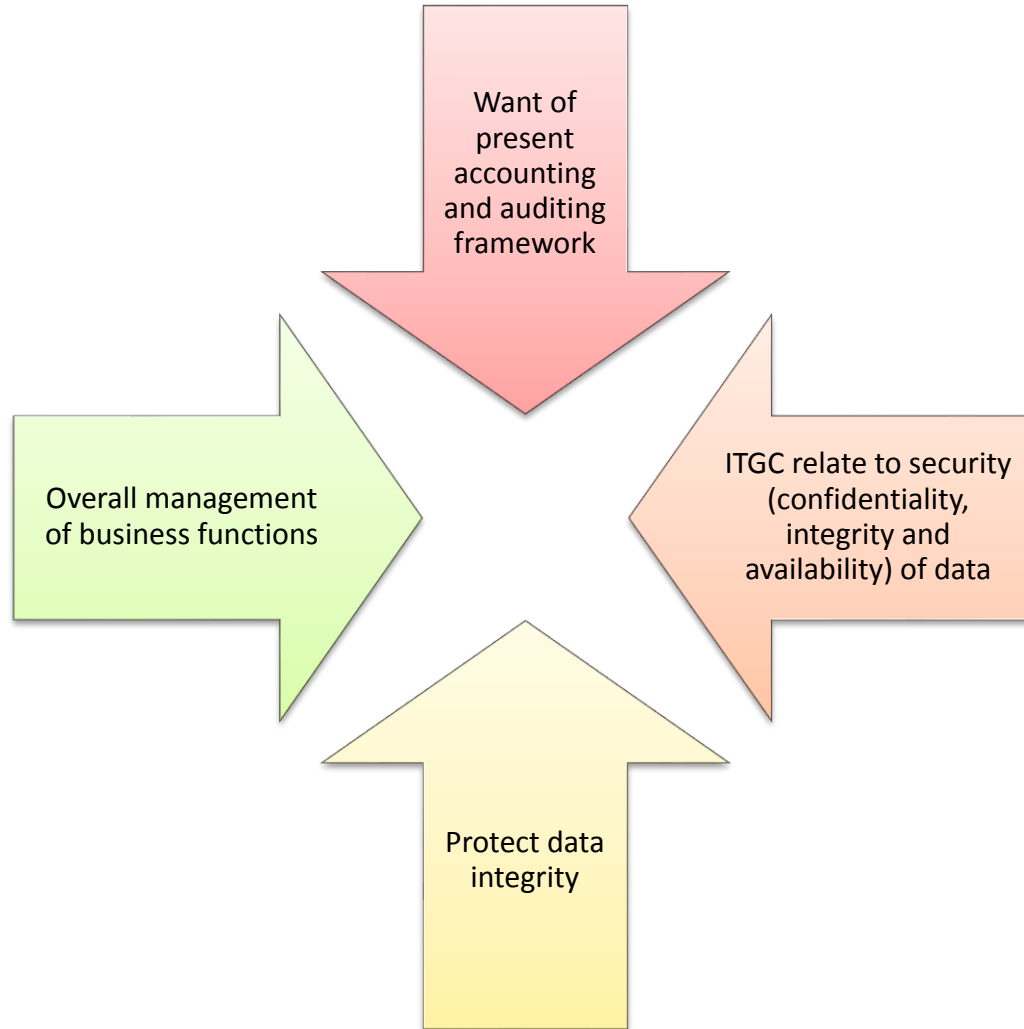
Transaction Level Controls (TLC)

What could go wrong
specific to
account/assertion/process?

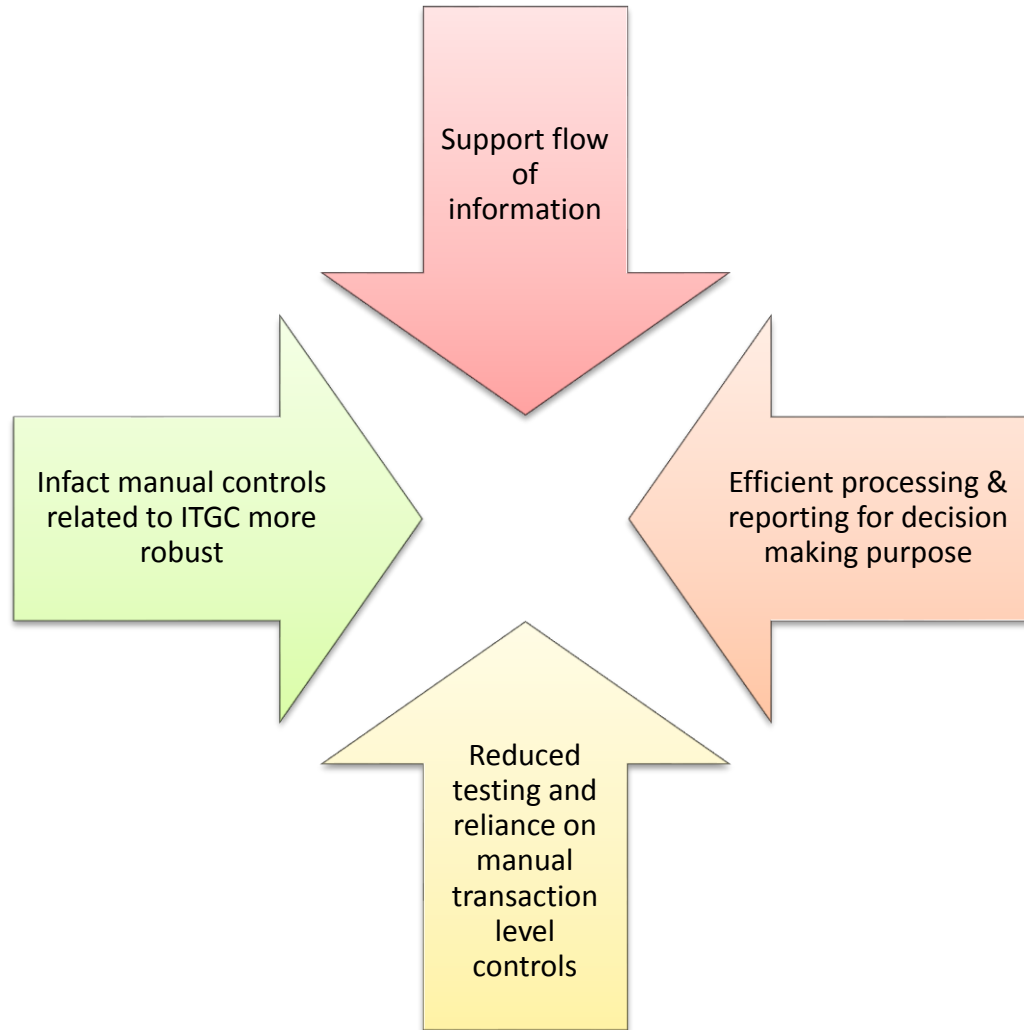
Answer to above = Risk

Risk not mitigated by control
– chances of material error
to FS

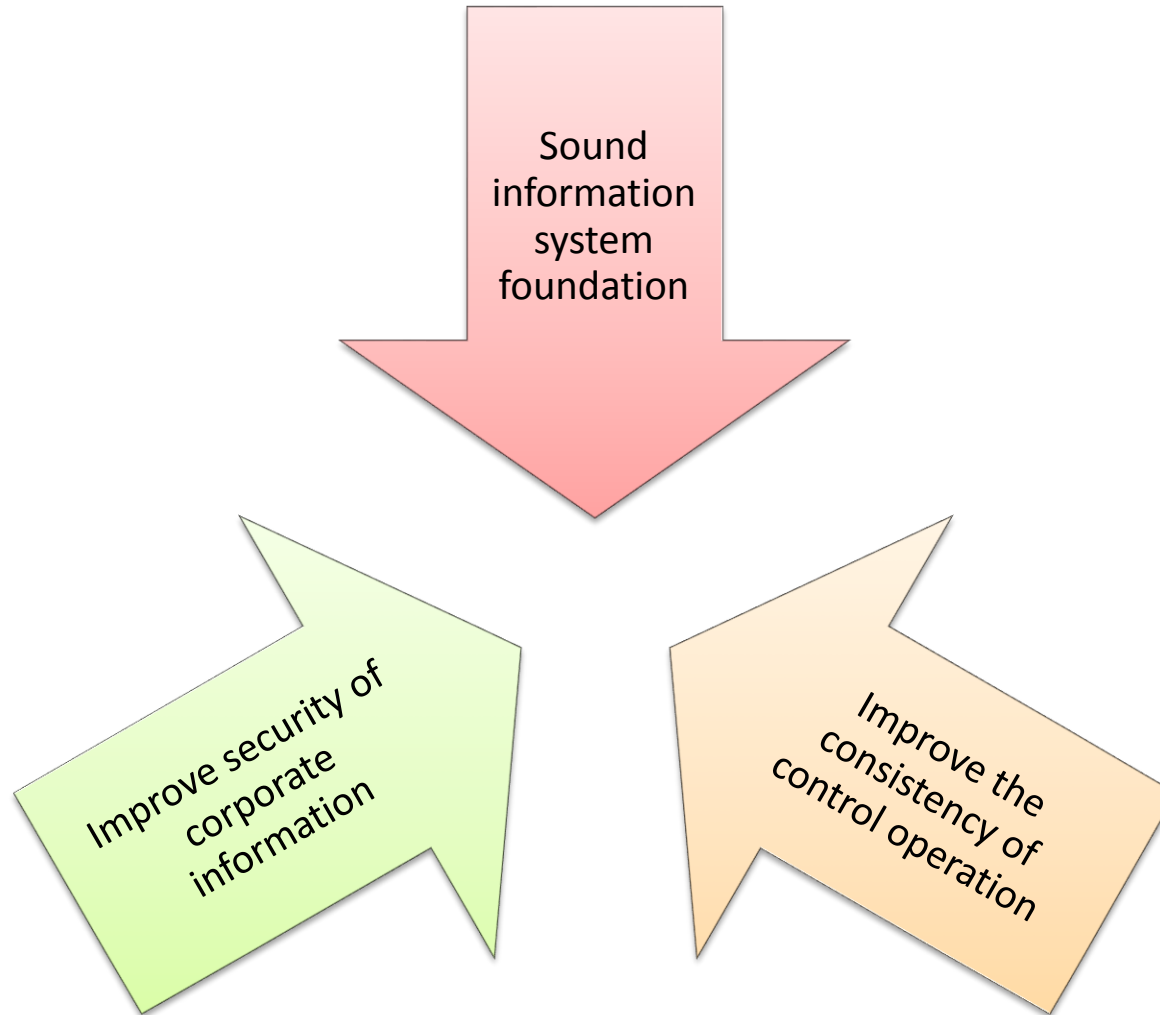
IT General Controls (ITGC)



IT General Controls (ITGC)



IT General Controls (ITGC)



IT General Controls (ITGC)

All in all
Increased
Effectiveness, Efficiency
&
Reduced Cost
of
Internal Control System

ITGC-Areas of focus



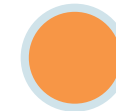
Only authorized persons have **access**



Segregation of **duties**

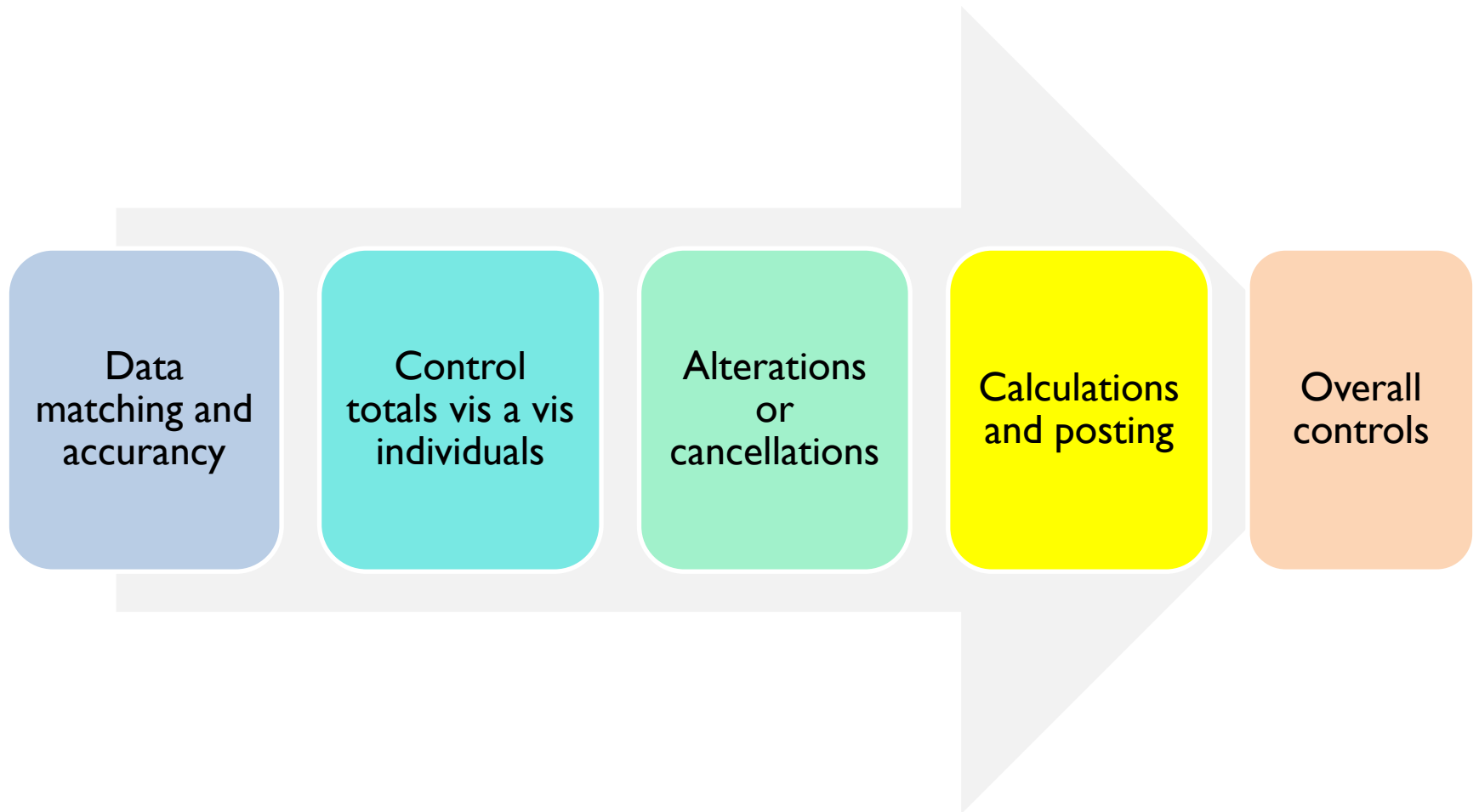


Only authorized persons can override **controls**



Decisions can be traced and tracked

ITGC-Areas of focus



IT takes care of everything – but if design wrong then blunders

ITGC remain the same life long – once checked no need to check again

**ITGC –
General Myths**

Passwords are updated regularly – so no risk

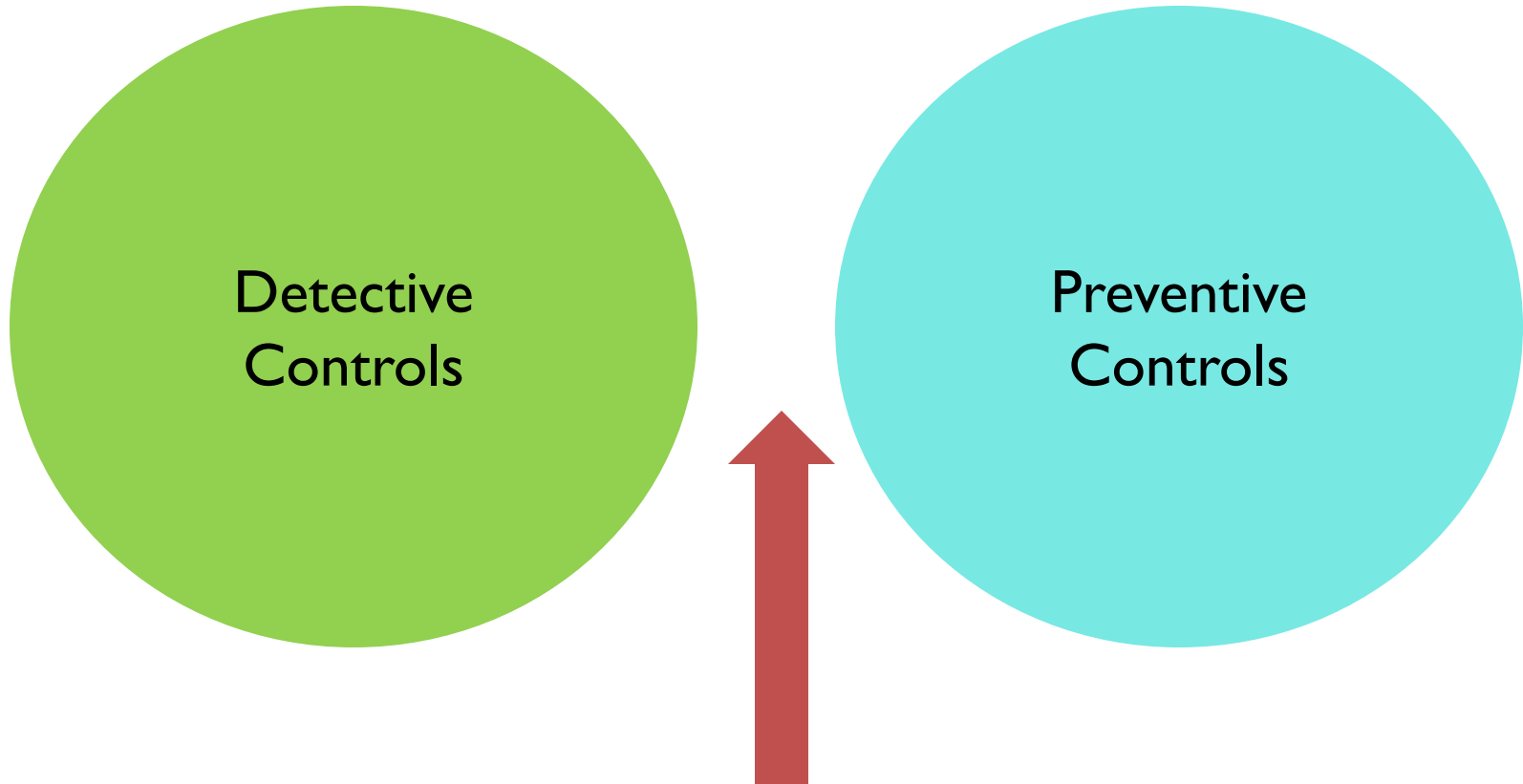
Organization is small so ITGC not important

ITGC require no change with change in atmosphere, integrity level, hierarchy level, user termination etc

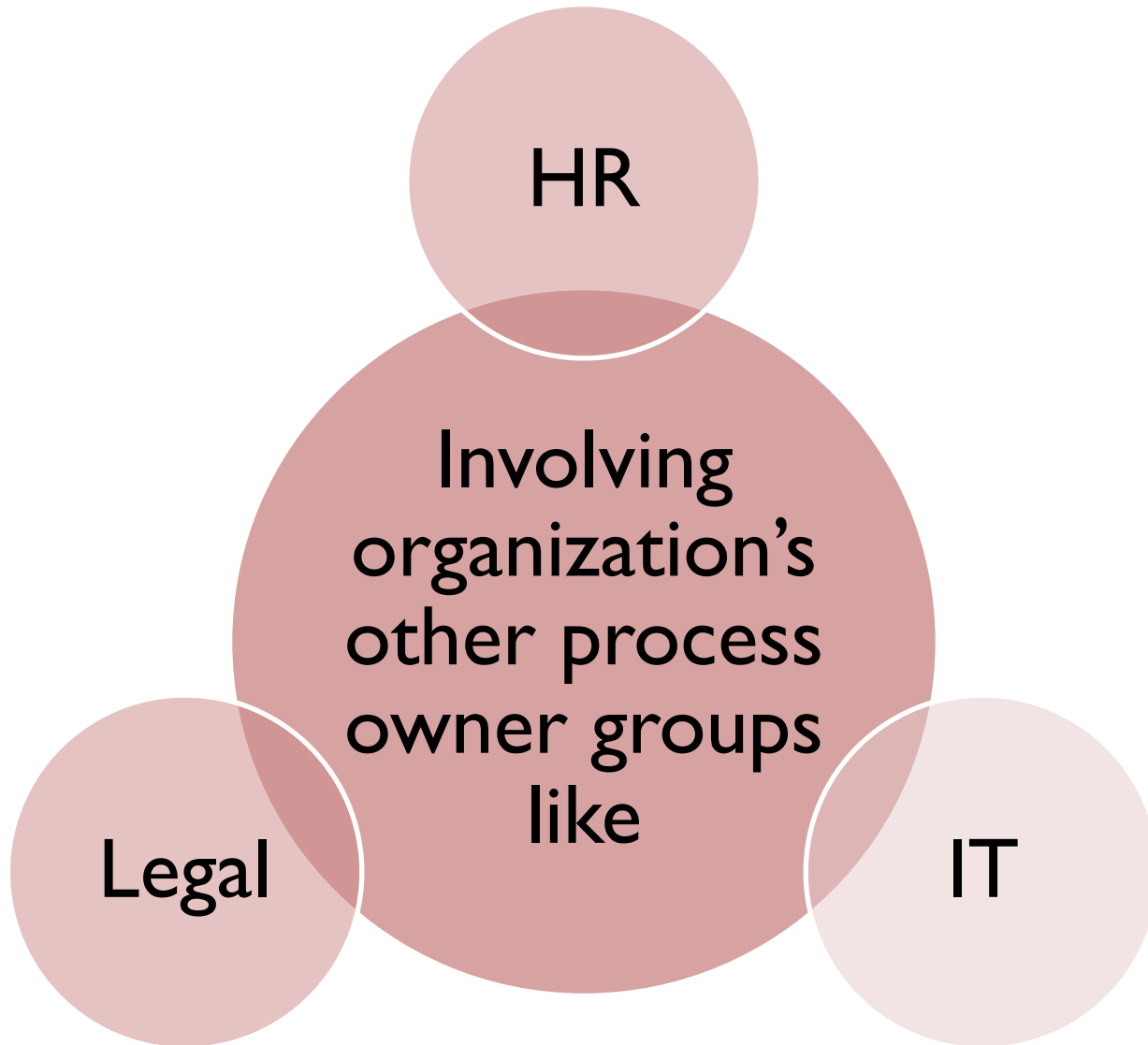
ITGC – General Myths

Segregation of duties and access level not important, i.e. access of all to all

Controls – Further classification




Combination = Best
Form of controls



Sampling

Frequency of performance (daily, weekly, monthly, quarterly, annually)



Selection not always based on materiality



Can/should exceptions exist?

Sample selection table

Frequency of control activity	Minimum Sample Size Risk of failre	
	Lower	Higher
Annual	1	1
Quarterly (including period-end, i.e. +1)	1 + 1	1 + 1
Monthly	2	3
Weekly	5	8
Daily	15	25
Recurring manual control (multiple times per day)	25	40

Findings and Reporting

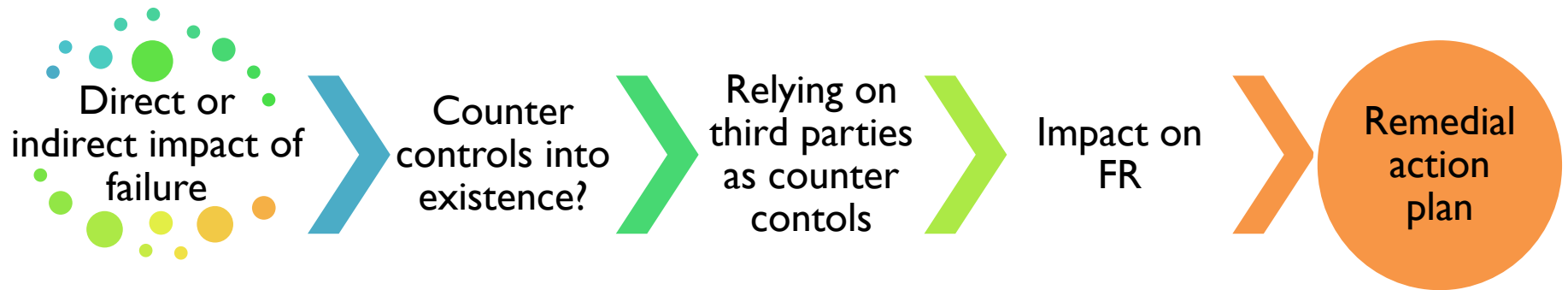
Findings from sample decide decision or further requirement of testing

Understanding reason of failure

- Poor design
- Poor implementation

Risk involved in failure of control

Findings and Reporting



Findings and Reporting

When is reporting required?

Only if

- Risk is high,
- Not corrected before preparation of financial statements
- Corrected in figure to present true and fair picture, but controls still not reliable

Then reporting required

Matter of judgement

INHERENT LIMITATIONS

in an IFCFR Audit

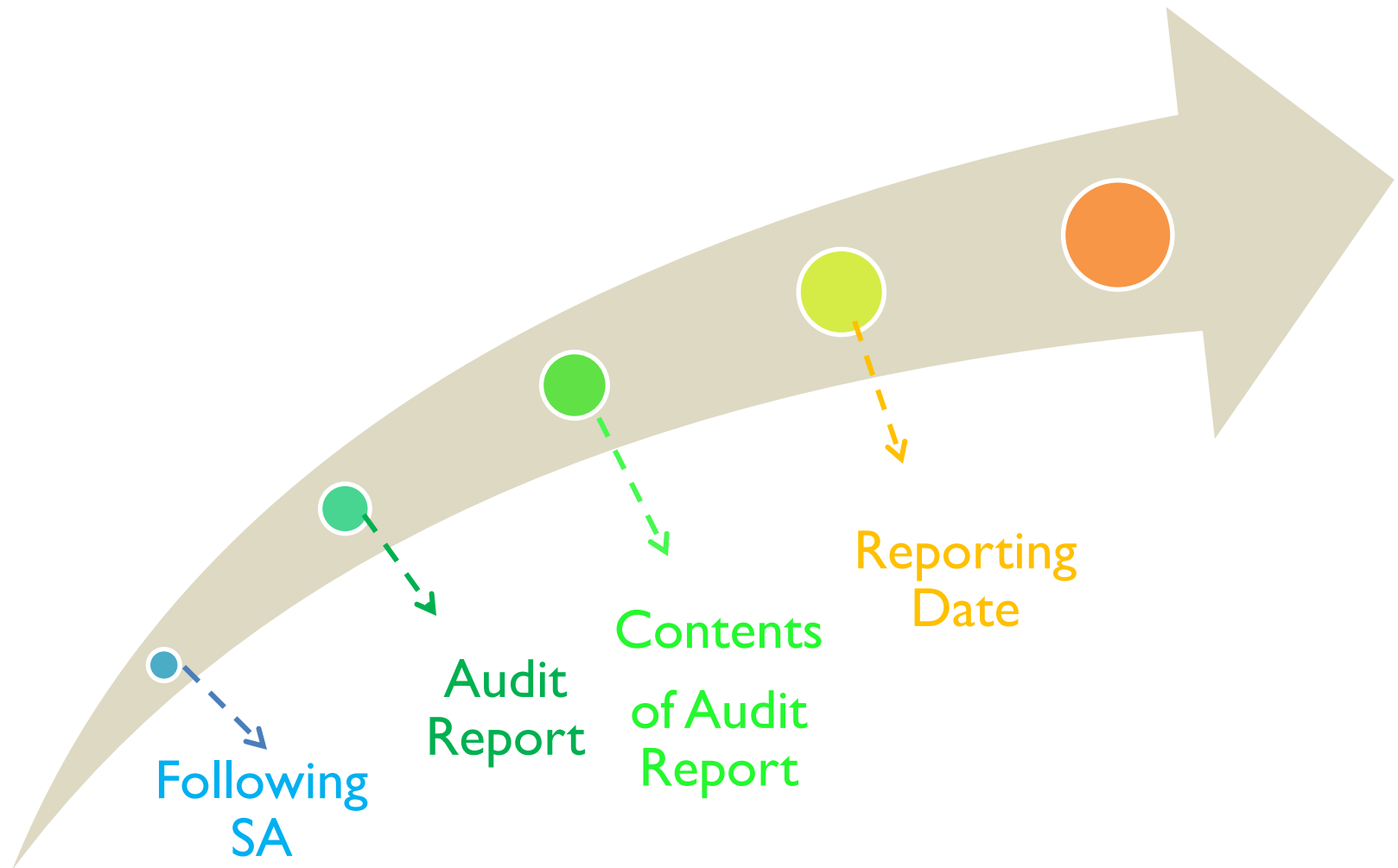
IFCFR Reporting
for

CONSOLIDATED FINANCIAL STATEMENTS



R C JAIN & ASSOCIATES

How to Audit & Report



CONSEQUENCES

Qualified Opinion

Under Sec. 143(3)(f) of the Act

Existence of Fraud

Financial Statements would lack credibility

Negative Credit Rating

Negotiation Power with borrowers is affected

WAY AHEAD:

Re-visit existing internal
controls

&

Strengthen them

To ensure
whenever tested
they don't fail





R C JAIN & ASSOCIATES

THANK YOU

R C JAIN & ASSOCIATES