

Practical Approach to Internal Financial Controls over Financial Reporting

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Chinnamy Ganesan
FCA DISA(ICA)

IFC – Roles and Responsibilities

- Under 134 (5) (e) directors to make an assertion in Directors Responsibility Statement that they have laid down internal financial controls, such IFCs are adequate and operating effectively
- Under Section 177(4)(vii), Audit Committee to evaluate internal financial controls and to the board
- Under Schedule IV of The Companies Act 2013 independent directors shall satisfy themselves that financial controls are robust and defensible
- Under Section 143(3)(i), Statutory Auditors are required to report on the adequacy and operating effectiveness of Internal Financial Controls over financial reporting

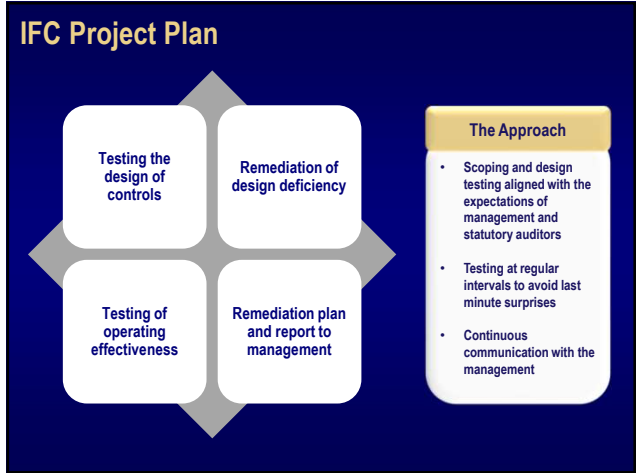
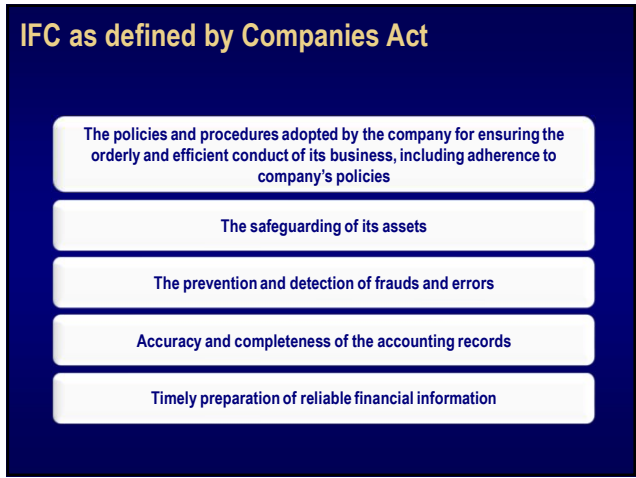
Exemption from reporting on IFC

- Small company and one person company fully exempted
- Other private companies with certain conditions
- Turnover as per last audited balance sheet shall be less than Rs.50 Crores
- Aggregate borrowings at any time shall be less than Rs.25 Crores
- Preferable to include a para in the auditors' report

The 4 Focus areas

- Entity Level Controls
- Process Level Controls
- IT Controls
- Fraud Controls

Existence + Adequacy + Effectiveness



6 Step approach for identifying & evaluating control deficiency

Identifying the Internal Control Deficiency	<ol style="list-style-type: none"> Determine whether a control deficiency exists Identify the deficient control by performing a root cause analysis. Determine whether the control deficiency is indicative of other deficiencies
Evaluating the Internal Control Deficiency	<ol style="list-style-type: none"> Evaluate the severity of the deficiency by considering magnitude and likelihood of the potential misstatement. Identify relevant compensating controls and conclude on the severity. Aggregate similar deficiencies and evaluate the aggregated deficiencies for severity.

How can we identify control deficiency?

Walkthroughs and/or Test of Design & Implementation, and/or Test of Operating Effectiveness

Performing substantive audit test work

Through management review

Internal audit or other internal sources

Reviewing external sources (e.g. regulatory reports, service organization auditor's reports, etc)

As a result of a non-GAAP policies and procedures

Reporting in IFCOFR

Auditors to Report in Internal Financial Controls over Financial Reporting

Whether the qualifications in the main audit report has any bearing on IFCOFR?

Whether the qualifications in IFCOFR has any bearing on the main audit report?



How it is linked to FS audit?

Deficiencies in controls designed to prevent or detect fraud during the audit of IFCOFR



To develop response to risks of material misstatement during the financial statement audit

Deficiencies identified in Entity Level Controls and Process Level Controls



To Determine the impact of the deficiencies on the audit approach, procedures

Deficiencies in ITGC and the Company's application controls



To assess impact on the nature, timing and extent of the substantive audit procedures performed

Basic requirement from Management

Document and test entity level controls. Also remediate key deficiencies noted

Review internal audit open issues and ensure all key issues / gaps especially IFCOFR deficiencies are remediated

Review existing policies and procedures – identify key gaps and define key policies (especially financial policies)

Review existing delegation of authority including implementation compliance levels

Identify top 10 -15 key controls per process; Perform test the design of identified key controls and remediate deficiencies, if any

Perform test of operating effectiveness of identified key controls and remediate deficiencies, if any

Penalty for non compliance

Failure to give the disclosure will lead to penalty up to INR 25 Lakhs on the company

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3 years and/ or up to INR 5 lakh on the "Officers in default"



Thank you



ganesanca@yahoo.com / 0 99401 30403